

COCOA MARKET REPORT



Theobroma

Tendency and news from the cocoamarket during the period April 30th - June 1st 2007

Price fluctuations as well as movements in the spreads have been very strong this month. Cocoa continued to be a spectacular commodity with on the basis of the second position September a high of GBP 1094 and a low of GBP 965 , whilst on balance values are GBP 62 higher.

On the first trading day of the period under review the market continued the weak trend seen during April, as a result of which the switches widened to the highest level of the year, such as the July / December trading at a discount of GBP 29. Most of the pressure was initiated by the Commitment of Traders Report for 24th April, publishing



during the weekend a speculative long position of 52175 lots, thus a much smaller decline than anticipated.

The wave of weakness, however, already stopped the next day after finding support on crucial chart levels, resulting in a close of GBP 40 up from the lows. The major reason for the strength was the extraordinary 6strong activity in July07 options at the strike prices of GBP 1000, 1050 and 1075, as rumoured bought by the group who also control the physical terminal stocks. The sellers of these calls usually cover themselves on a delta basis by buying the terminal and with an impressive turnover of more than 10.000 calls the impact on pricing has been substantial. During the next few days the strength continued, rallying GBP 130 in 7 days to the highest level of the year. A period of consolidation followed, but after failing to break the highs prices fell back strongly during the last week of the month, under the influence of origin selling and weakness in the structure.

Technical squeezes are a regularly returning item for the London terminal market since a long time and also this month the structure predominated most conversations. Firstly, the May expired at an extremely high discount of GBP 45 against the July with only 200 tonnes tendered, which is a record low. Just for

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memory, during half of March the May/July switch still traded at a discount of GBP 10. Secondly, the strength of July and September over the forwards, with the July incidentally trading at a premium of GBP 16 over September and GBP 22 over December. Mainly due to forward rolling and liquidation these switches are now at a discount of GBP 15 resp. 16.

The global stocks are large, we think slightly below 2 million tonnes, of which more than 1 million tonnes in Western Europe. Our figure is in line with the ICCO Stock Committee, but higher than many other analysts use in their models. For the terminal market, however, only 156.000 tonnes are tenderable at the moment, the majority of which being under the control of a very limited number of companies. Additionally about 100.000 tonnes of expired cocoa are still on stock (also assumed to be owned by the same companies) but in case of regrading at least some 20% of this cocoa will become untenderable. Under these circumstances another technical squeeze is theoretically easy to set up, but this time the funds - potentially being the weakest counterpart - are very long and as it looks now the tension on July has lasted only very short. The open position on July in London still amounts 63.600 lots, but this is not so important. In New York the combined speculative long position has increased to 49.310 lots per 29 May.

Weather conditions in West Africa have been relatively good, but most observers foresee now a late start of the new crop with a much higher production than this season. In the meantime the mid crop arrivals are running behind last year, as per forecast.

The butter ratio has continued its strength supported by a very good demand. The smaller users, who use to buy on a price basis, continued to be withdrawn and this group of buyers has reduced their cover considerably now, hoping to buy at lower prices.

To be continued.....

