COCOA MARKET REPORT

Tendency and news from the cocoamarket during the period 29th October — 30th November 2007

Price development has been very quiet this month; on basis of second position March the high was GBP 993 and the low GBP 945, while on balance values are GBP 20 higher. Nevertheless, a few interesting features could be noticed, in particular in the structure of both the London and New York market.

At the beginning of the month continuous non-commercial buying led to strength, but the rally was again short lived. The higher levels encouraged aggressive origin selling, since the levels were the highest of the just started 2007/8 season, and coincidentally the weaker EUR/GBP of that moment made the prices more attractive for the francophone sellers. The hedging also encouraged fund liquidation, as a result of which prices declined quickly. Since then, prices remained in a narrow range, except for 2 days.

The structure trading in New York, in particular on the nearby positions, was very volatile. The Dec/Mch switch shortly recovered to a premium of US$ 40, but the long holders considered this backwardation as a gift and it attracted strong selling, leading to a quick evaporation into a discount of around US$ 30. The last few days this switch again recovered slightly, but the open position has declined to only 1372 lots. In the London market the switches were under pressure, with the Dec07/Dec08 widening from GBP 60 to GBP 80, which rise we consider as large in a market with prices trading in a narrow range. It is also very remarkable to see to open position growing by about 40.000 lots to 224.893 lots. Furthermore, the speculative long position in New York increased to 52.383 lots, measured on 20th November, compared with 39.541 lots on 23th October. These impressive figures are possibly related to a recently started commodity fund, led by a group known for aggressive activities on the cocoa market.

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As far as figures are concerned the African crops have started well. Arrivals keep strong and are far ahead of previous crop. The quality of Ivory Coast is improving, greatly due to the drier weather of recent weeks, but the deteriorated infra-structure is causing serious problems to the transport from the interior to the ports and thus affecting quality. The stronger than ever presence of the major converters leads to a very intense competition on the ground and the boosting of the local farmer price, finally resulting in higher differentials in the international market.

In the product market the demand for nearby cocoa butter continues to exceed supply and consequently the ratio has increased strongly. The capacity of the pressing industry, in particular in origin, has risen substantially during the last few years, but a combination of economical factors and scarce supply of beans, has strongly reduced the utilization of the capacity . In Europe the stocks have been dried up and consequently the growing demand is hard to satisfy. Also the ratio's for next years' deliveries have increased substantially.

The support area around GBP 950 has kept intact, despite the strong arrivals. It has to be taken into account that a large part of the Ivory Coast stocks has still not been hedged, since many local sellers prefer to speculate on higher levels. For the time being this overhanging selling potential limits the risk of a substantial rise. On the supply side analysts still show uncertainty about the development of the Indonesian crop, leading to a reduction of the forecasted surplus. Under those circumstances, a continuation of the current price pattern is very well possible.

To be continued…………...