

COCOA MARKET REPORT



Theobroma

Tendency and news from the cocoamarket during the period 1st to 26th October 2007

The market was weaker than we anticipated in our last report and as usual, outsider's activity has been the leading factor for the price development. On basis of second position March prices declined GBP 60, while the high has been GBP 1012 and the low GBP 936 (this morning).

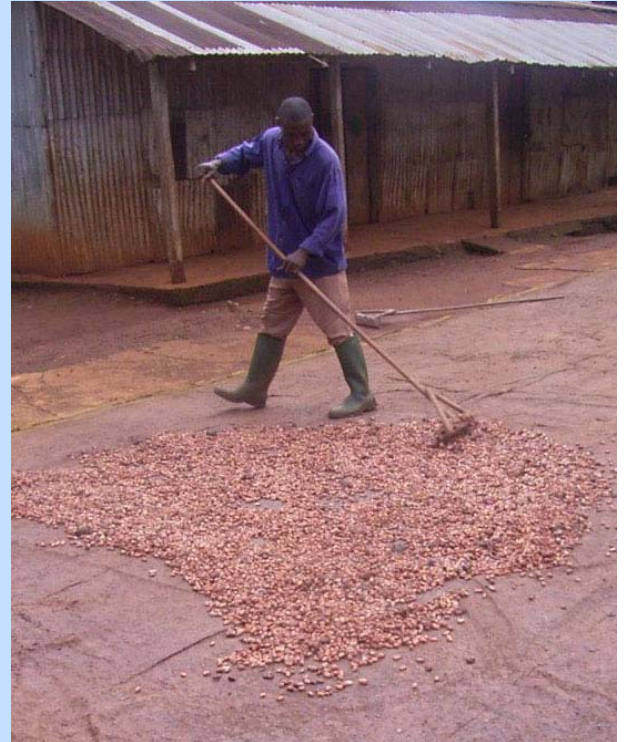
The release of the CFTC figure for 26 September, showing a strong rise of the speculative long position of 12.593 lots to 45.313 lots, fueled the bearish sentiment. This fact, in combination with the overall weaker tone of the commodity markets generally, led to a strong decline at the beginning of the month. The liquidation in New York was even much stronger, since the premium of US\$ 50 for December over March evaporated completely in one day.

After this sell-off prices recovered slightly for a couple of days, but the pressure of strong arrivals in West Africa dampened most buying enthusiasm, finally resulting in another moderate decline. Also contributive to the weakness was the surprisingly strong

increase of the speculative long position to even 52603 lots per 2 October. Under these conditions further weakness could be expected, but all sales were absorbed and to the surprise of many participants, prices held well and finally even recovered slightly. At the end of the month bearish sentiment, however, prevailed again.

Arrivals have been strong in Ivory Coast and most analysts still estimate a large outturn for the main crop. Losses due to the black pod disease are difficult to estimate, given the significant differences per region. This is well reflected in the various reports, which vary from optimistic up to very negative. We, however, believe that tonnage wise the effect will be relatively small, since most suppliers will blend the cocoa, which of course will affect the quality.

The published grinding figures show a continuation of the consumption growth, except for the USA. Strong declines have been reported by the CMA, not only for beans for also for products. It is assumed that the current CMA figures are inaccurate, partly due



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to the fact, that various grinding operations have been altered into using products, often sourced by third parties. The figures are as follows:

	July/September			total		
	2007	2006		2007	2006	
ECA	351.040	324.903	8,04%	1.012.888	961.893	5,30%
USA	94.179	109.115	-13,70%	287.371	318.684	-9,83%

The weaker tone of the market is also reflected in the structure, although in London the spreads have changed less than in New York. December 07/December 08 trades now at GBP 60 compared with GBP 45 a month ago.

Demand for nearby cocoa butter has been extremely well and this demand has resulted in further strength of the ratio. Although a firming ratio is typical for this period, the low stocks as well as good demand has also led to strengthening of forward prices, albeit less strong.

In Ivory Coast President Gbagbo ordered an investigation after allegations of corruption in the cocoa industry. A fact is that during the last few years many organizations have been set up, which in fact are all at the cost of the farmer. Effectively the cost of local institutes is nowadays much higher than during the Caisse period, which of course is not in the interest of the farmer.

For the time being the market is under seasonal pressure, but given the current projection of an outbalanced supply/demand position for the 2007/8 crop the downward potential does not look to be large. However, a massive fund liquidation remains possible, given the excessive speculative long position and this could change the picture completely.

to be continued.....