

# COCOA MARKET REPORT



*Theobroma*

*Tendency and news from the cocoamarket during the period 3rd to 28th September 2007*

This month the market can be split in 2 parts. During the first 2 weeks prices traded nervously in a range of GBP 50, whilst during the second part prices rallied. On basis of December the high has been GBP 1011 and the low GBP 935 and on balance prices are GBP 34 higher. In New York the strength has been stronger, due to the weakness of the US\$ as well as the tension on the spot month.

After the strong decline of July and August it was not surprising to see a continuation of the consolidation phase, which started during the second part of August. This time however, the latest phase of the long liquidation was strongly countered by fresh speculative buyers. As an illustration, the CFTC reported a decline of the speculative long position of 35313 lots on 21<sup>st</sup> August to 27929 lots on 4<sup>th</sup> September, followed by a rise to 32720 lots on 18<sup>th</sup> September. The renewed speculative interest for cocoa was fully in line with the developments on the commodity markets in general, reflected by a rise of about 10% of the CRB index.

Some analysts are now less optimistic about the estimated crop size of the forthcoming 2007/8 crop than some time ago. Largely this pessimism is due to the black pod disease, being reported to be widely present in the African production areas. To which extent this disease may affect production figures (and quality) is still difficult to judge, but generally it is felt that due to the recent humid weather conditions this disease has more potential for affection than in recent years. Meanwhile harvesting in West Africa has resumed relatively well for the time of the year with current arrival figures being much higher than during previous months. From now onwards harvesting will intensify week by week, thus more hedge pressure will be seen.



The September position in London – for a long time being considered to be squeezable – expired at a discount of GBP 40 against December, but despite this very wide spread 25970 tonnes have been tendered. In New York the situation has been totally different

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with the September expiring at a premium of US\$ 60 and only 439 lots tendered. The structure in both markets has narrowed quite considerably during September. In London the December07/December08 switch narrowed from GBP 58 to GB 45 and in New York the December trades at a strong premium over the March position. As a result, the arbitrage between London and New York has narrowed from GBP 30 to GBP 5 on December.

In the product market, the ratio for cocoa butter has continued to strengthen, both for nearby and forward positions. Also demand for liquor was very good, resulting in a slightly higher ratio. Additionally, due to technical problems in some factories extra demand for nearby liquor led to a strong rise for nearby positions.

During the coming weeks the flow of supply will increase and furthermore, hopefully more information about the development of the black pod disease will become available. This fresh supply is strongly needed by the market and pressure on prices is likely to remain limited for the time being, in particular in an environment of increased non commercial buying interest.

To be continued.....