

# FRIEDBERG'S

## FOCUS ON FUTURES

Volume 19, No. 2B, March 10, 2016

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### **Dry weather in West Africa challenges the cocoa bear**

Dry weather in West Africa halted the slide in cocoa prices (Chart 1). Can we expect the market to rally back to the highs?

The main crops in the Ivory Coast and Ghana – the world's largest and second-largest producers – are drawing to a close. News reports have focused on concern about the fallout from the dry Harmattan winds that plagued crop development. Some exporters say that bean quality is poor. The exportable standard is 100 beans per 100 grams, but some shipments have been as high as 125 beans per 100 grams.

Current conditions have improved, though. Just a few weeks ago exporters reported that 2015-16 Ivorian arrivals had fallen behind the previous season's pace by as much as 45,000 tonnes, or about 4%. With the grim weather forecasts it seemed that the gap would widen. But it has not. The most recent statistics show that since mid-February, weekly arrivals have now exceeded last year's numbers. Total arrivals have almost

caught up and stand at 1.194 million tonnes, only 1.1% behind 2014-15.

Several weeks ago The International Cocoa Organization (ICCO) said that drought conditions would reduce the mid-crop in Ghana sharply. That would be particularly bullish because Ghana is coming off a crop failure in 2014-15 in which output fell to about 700,000 tonnes from the previous year's bumper production of 850,000 tonnes. One estimate cut output by 25% from 2013-14. This was expected to be a recovery year.

As we've pointed out in the past, data on Ghanaian output is scarce. But we find the bleak outlook for Ghana to be overstated. In mid-January, arrivals had already reached close to 600,000 tonnes. If the ICCO's warning were correct, it would mean that between February and September – which includes the tail end of the main crop and the entire mid-crop – output would be only 100,000 tonnes.

On March 7 the government announced that it

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expects 2015-16 production to reach normal levels of near 850,000 tonnes. True, historically, those official estimates have not been the most reliable. However, with the improvement in weather, we believe that it is premature to declare a crop failure.

On the demand side, the surge in the fourth-quarter grind in Europe and Asia (see *Focus on Futures*, January 25) certainly pumped some life into this market. Product prices have maintained their levels, so it's quite possible that we'll see another strong performance when first-quarter data are released in April.

The result of the ICCO's dire outlook for West African crops and improved global consumption is a forecast for a 113,000-tonne production/consumption deficit. That would draw stocks down to leave 2015-16 ending stocks at 35.4% of global consumption, compared with 38.8% in 2014-15. Quite a substantial drop. However, when you stack that reduced figure up against the carryover for most commodities, it still represents a well-supplied market. We maintain our view that cocoa is an overpriced commodity.

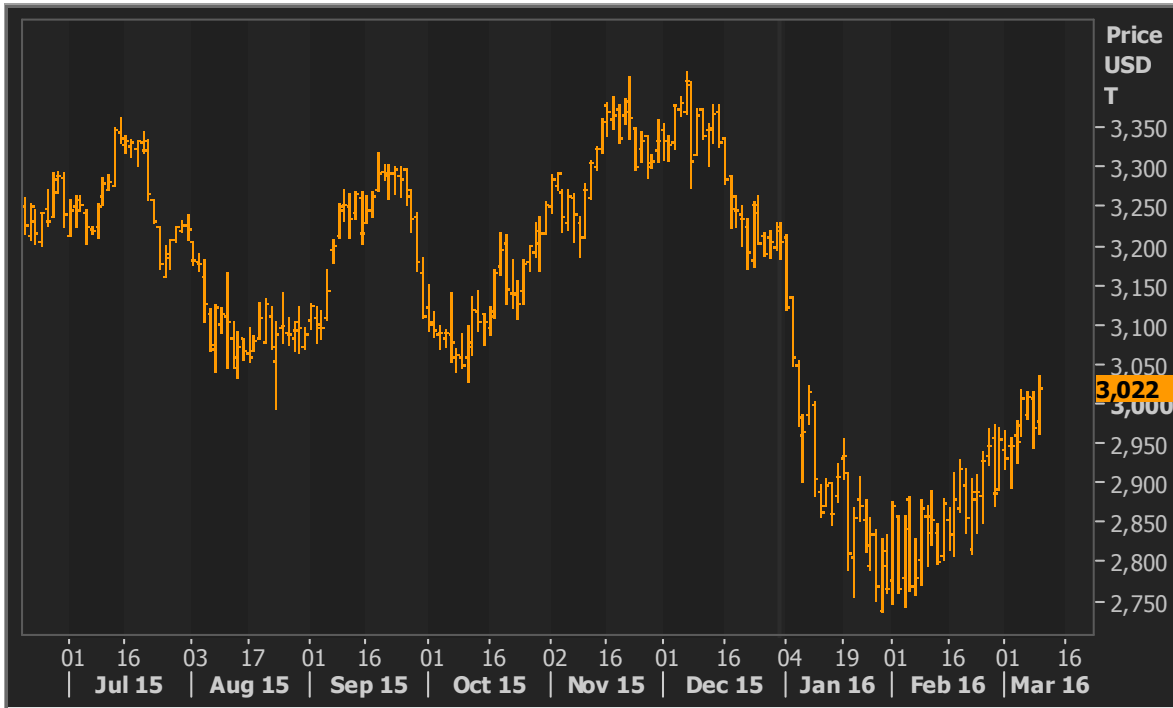
Remain short as per our January 25 recommendation. Keep protective buy stops at \$3,200 per tonne, basis May, close only.

***Sholom Sanik***

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## Chart 1 - May cocoa



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