

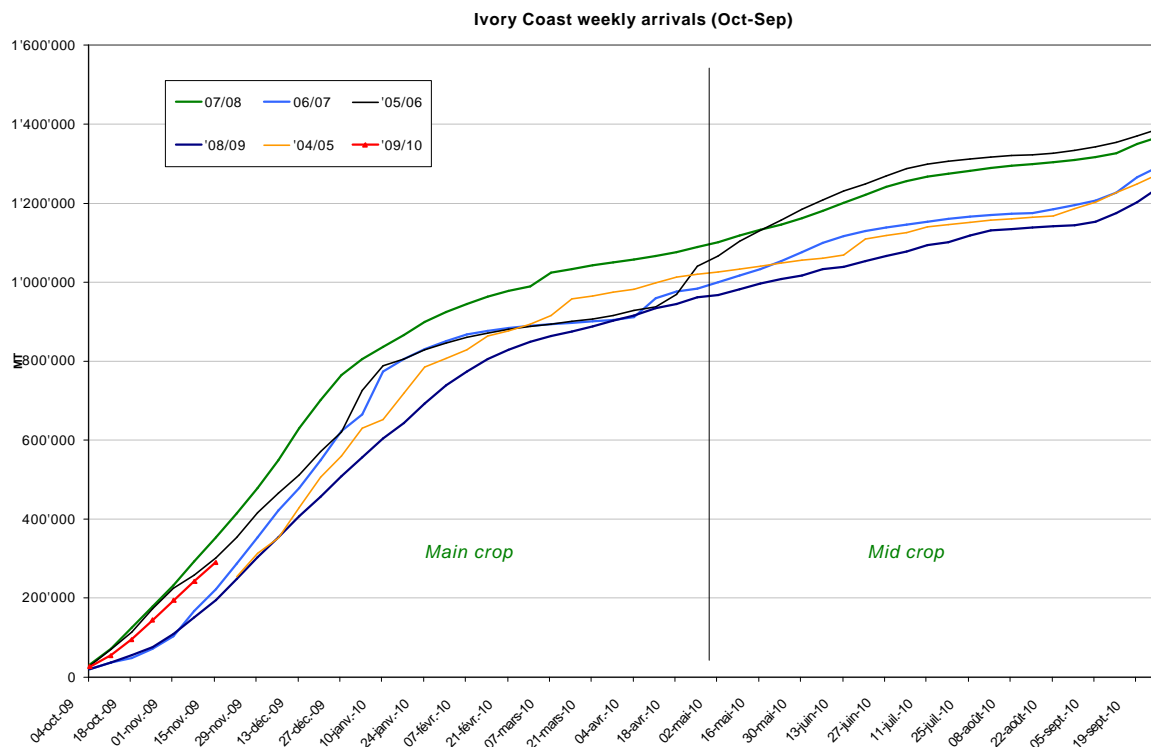


# COCOA MARKET REPORT

NOVEMBER 2009

**IVORY COAST** – Rainfalls have finally returned over cocoa regions of Ivory Coast, following 3 months of acute dryness. Alas, these precipitations probably came too late to improve the main crop potential, but only stabilized it. They also come a bit too early to prefigure of a bumper mid crop. There should be an acceleration of the pod setting in the next four weeks, but ultimately, the materialization of the mid crop potential won't occur before Feb/Mar 2010, i.e. only once we have exited the dry season of Dec/Jan. We would need regular (if modest) rains, and above all a not too strong Harmattan wind, to secure a normal mid crop potential.

The 2009/10 main crop is unfolding about on line with expectations, with weekly arrivals remaining around 50,000mt since the end of October. Consequently, the declared crop flow has been so far much stronger than last season, however part of it is explained by an intense smuggling activity from Ghana since the start of the new crop (we estimate that 30,000mt of Ghana main crop beans have already been smuggled to Ivory Coast since October). There are yet again discrepancies in the precise level of arrivals, with the BCC, Reuters and Dow Jones all publishing slightly different figures. Still, it can be estimated that at least 280,000mt main crop reached Abidjan and San Pedro up to Nov. 15<sup>th</sup>, compared with about 186,000mt at this time last year.

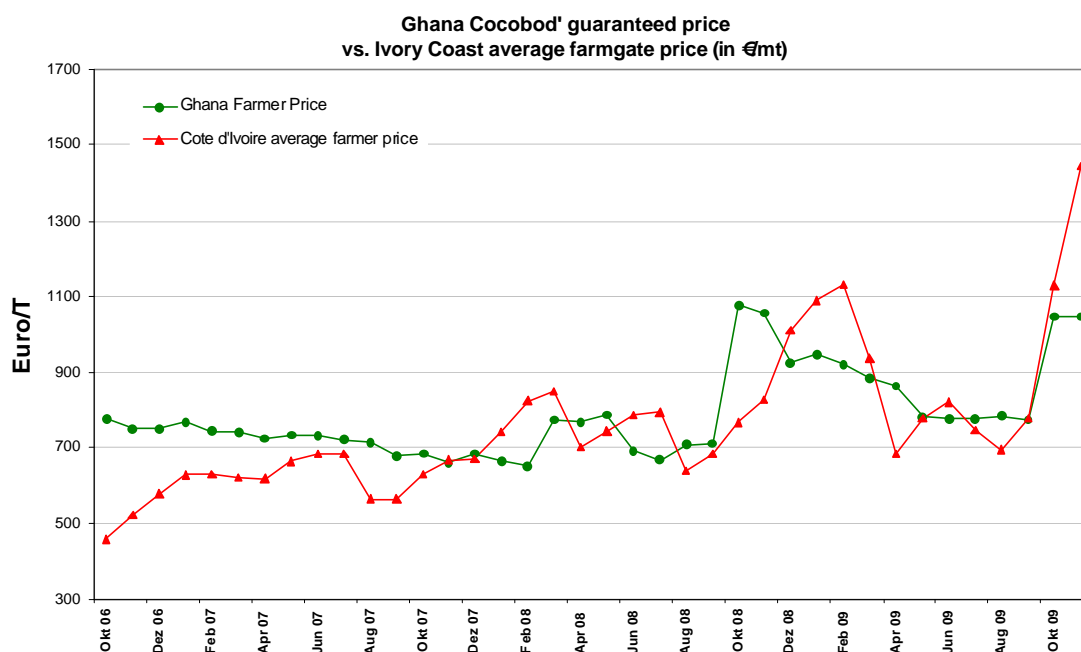


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In spite of a strong start of the season, various local exporters have expressed concerns regarding the second half of the main crop (January onwards), for which expectations have been toned down. While some crop forecasters maintain the view of a main crop around 980-1,000tmt, some others have reportedly raised concerns that the actual figure could materialize significantly below that level, due to the Aug-Oct dry spell.

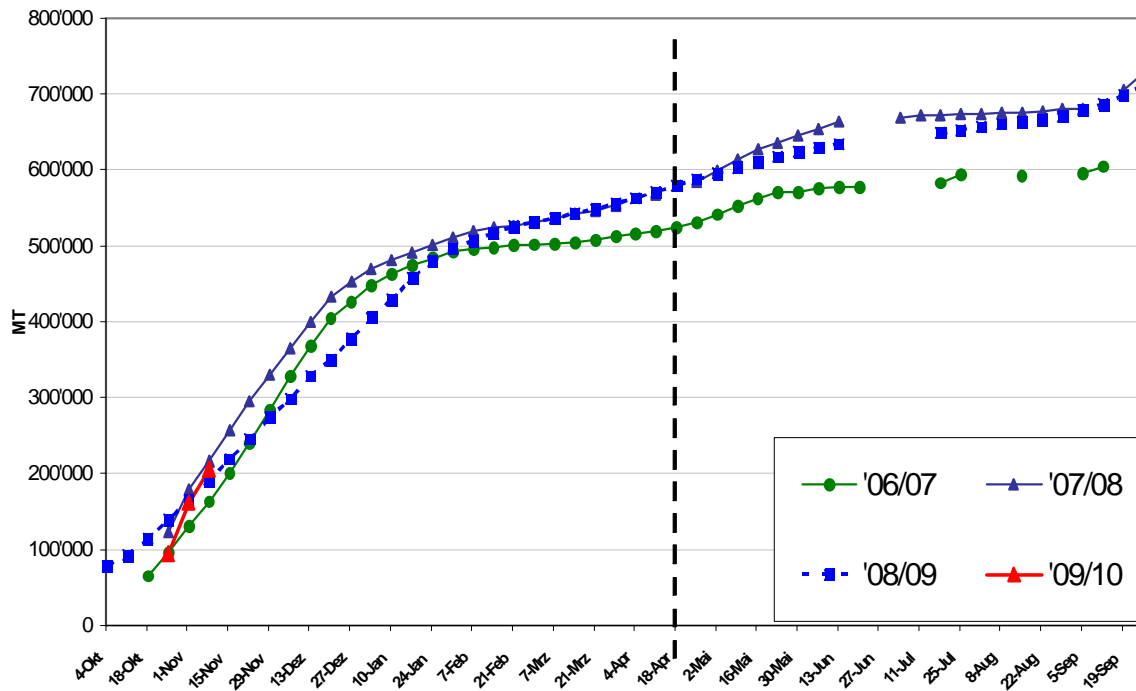
On the political front, the Nov 29<sup>th</sup> elections have now finally been officially postponed, with no news schedule announced yet. However, the provisional voters listing has been issued, and appeals from people rejected from the first list will now be processed by the Ivorian authorities. While this process will likely take a few weeks (or more probably months) to be completed, one can arguably point that an election being finally held in 2010 is a far more realistic probability than it had been for the past 5 years. The concerns remain however that most of the aspirant voters who have been rejected from the provisional list are most probably people of foreign origin, i.e. a large-scale rejection could bring back to the surface some of the ethnic tensions which triggered the whole Ivorian crisis in the first place. While the situation is relatively calm in the country right now, the government remains worried of possible tensions to come, and the army presence has reportedly been scaled up in Abidjan and the main Ivorian cities.

**GHANA** – Ghana’s Cocobod is currently having difficulties to collect as many beans as it was anticipating, due to large-scale smuggling to its neighboring countries. While farmers in Ivory Coast currently enjoy record prices around 900/1,000 CFA/kg, cocoa farmers in Ghana are stuck with the Cocobod’s guaranteed price of 2,208 Cedis/kg, equivalent to 686 CFA/kg as of October. Consequently, unusually large tonnages have probably already escaped the country to neighboring Côte d’Ivoire and Togo. This situation is prompting an emergency review of the farmers’ price from the Cocobod (normally, the price set by the Cocobod for farmers remains unchanged for the totality of the crop year). Still, in light of the large gap between IC and Ghana prices, the high Ghana inflation and the poor state of Ghanaian public finances, we believe the Cocobod will face difficulties to limit significantly the smuggling flow.



In spite of the smuggling, Cocobod's declared purchases have started on a strong tone, with 205,269mt reportedly acquired by licensed buyers up to November 5<sup>th</sup> (compared with 189,318mt last season). Similar to Ivory Coast however, some analysts are worried that the main crop season could end quickly due to the damages done on the crop by the dry spell of the late Summer.

Ghana weekly cumulated purchases (October 1st to September 30th)



**BRAZIL** – Main crop cocoa arrivals are at very low levels so far, especially from Bahia State where they are currently reported at a 50 years low. What is interesting to point at is a progressive structural shift of cocoa production within the country: the crop is falling in disarray in Bahia, which had historically been the core of the local cocoa farming industry. However, farmers in other states, notably Para, appear to be steadily increasing their cocoa output, most likely thanks to higher planted area. This will be a trend to monitor closer in the future, as it could potentially help raising (long term) Brazil cocoa production from the very low levels observed the past 10 years.

## **1 – PRODUCTION**

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<u>In thousands metric tonnes</u>	ICCO 07/08 Estimate	ICCO 08 /09 Forecast	09/10 analysts range
IVORY COAST	1,382	1,210	1,130 – 1,365
GHANA	729	635	670 - 750
NIGERIA	220	230	205 - 230
CAMEROON	185	210	175 - 225
BRAZIL	171	158	160 - 170
ECUADOR	111	112	120 - 135
INDONESIA	485	490	450 - 550
<b>TOTAL WORLD CROP</b>	<b>3,718</b>	<b>3,456</b>	<b>3,290 – 3,700</b>

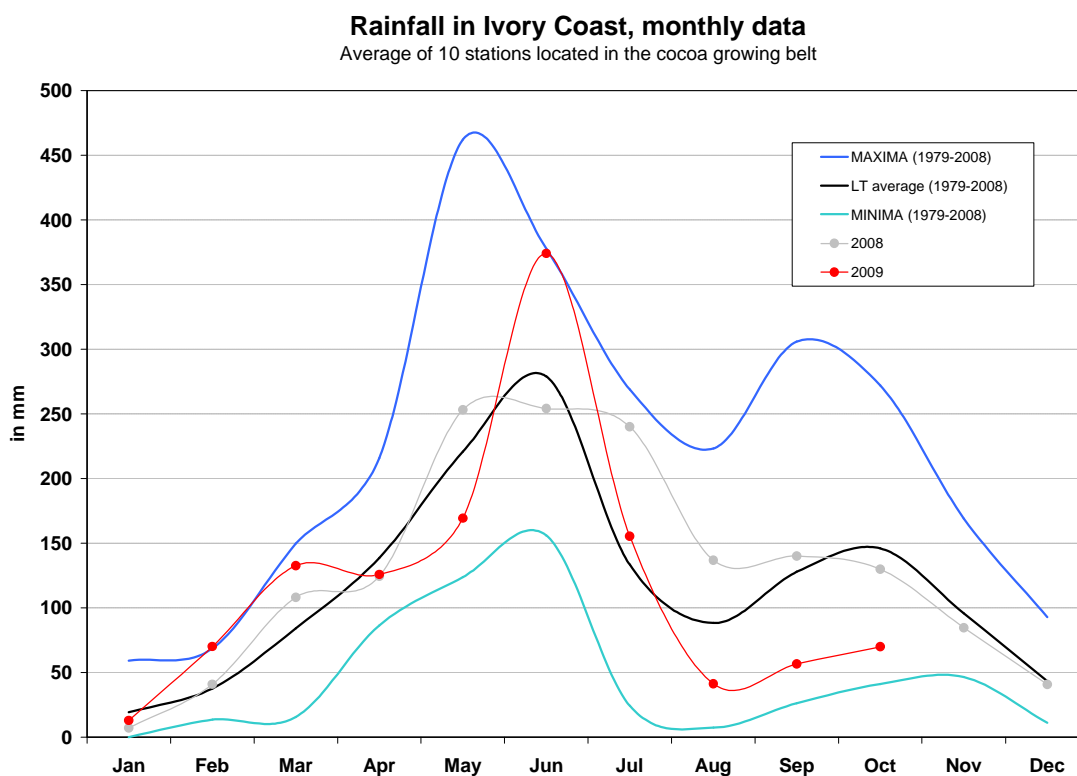
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*Note: ICCO estimates based on Statistical crops*

## NEWS FROM PRODUCING COUNTRIES

IVORY COAST: RAINFALL DURING THE LAST 6 MONTHS (IN MM)  
(average of 10 stations in the cocoa area)

	2009	2008	2007	LONG-TERM AVERAGE 1979-2008
MAY	169	253	124	221
JUNE	374	254	255	279
JULY	155	240	243	133
AUGUST	41	137	103	88
SEPTEMBER	56	140	130	128
OCTOBER	70	130	201	146
<b>CUM. 6 MONTHS</b>	<b>866</b>	<b>1,154</b>	<b>1,055</b>	<b>994</b>



## 2 – CONSUMPTION

### BEAN GRINDINGS

<u>In thousands metric tonnes</u>	ICCO 07/08 Estimate	ICCO 08/09 Forecast	09/10 analysts range
WESTERN EUROPE	1,431	1,330	1,405 – 1,430
EASTERN EUROPE	122	105	80 - 135
AMERICA	819	765	755 - 815
AFRICA	564	641	595 - 660
ASIA & OCEANIA	808	653	630 - 685
<b>WORLD TOTAL</b>	<b>3,742</b>	<b>3,494</b>	<b>3,500 – 3,800</b>
EVOLUTION FROM PREVIOUS YEAR	+2.3%	-6.6%	+2.0% / +5.5%

### 3 – STOCKS EVOLUTION

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<u>In thousands metric tonnes</u>	ICCO 07/08 Estimate	ICCO 08/09 Forecast	09/10 analysts range
SURPLUS / DEFICIT	-62	-73	-245 / +45
END-OF-SEASON STOCKS	1,563	1,490	1,200 – 1,850
STOCKS/GRINDINGS RATIO	42%	43%	30% - 49%

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NB: there are now again important discrepancies among surveyed analysts for 2009/10, from large deficit to moderate surplus

## **4 – MARKET COMMENTARY**

In spite of the strong start of the 09/10 main crop season in West Africa, the cocoa terminal markets remain on the very firm tone which has prevailed since last Summer. Whereas the confectionery sector is hurt by a record low forward price cover, most of the buy side in the recent weeks was to be found in the funds sector, which is betting that prices will remain at current level or above for the months to come.

Indeed, while prices trade at a large premium over their fundamentally-warranted value, the short industry cover is playing in the hands of the bulls. The situation could become even more complicated for the confectionery sector, if some market players start playing with the forward structure once the main crop flow is over, as is already reflected in the inversed May/Jul switch in London.

The one strong mitigating factor, however, is concerning the evolution of demand. It appears demand for chocolate is flagging again this Fall, following a modest recovery in the Summer. This has had a direct toll on butter ratios, which are exhibiting renewed weakness. Even though powder prices have climbed in parallel, it has not prevented the combined ratio to plunge back to levels where it will discourage many convertors to press additional volumes for the time being. Consequently, it looks like 2009/10 could see only a very marginal recovery of cocoa grindings – if any increase at all. If confirmed, this could cast heavy weight on the terminal market prices.

In brief, there are currently strong elements that could influence prices, both on the bull and bear sides of the fence. This is also reflected in our survey of analysts' estimates for 2009/10, ranging from large deficit to small surplus. This absence of a strong consensus should maintain volatile conditions on the cocoa market for the foreseeable future.

### **Bullish factors:**

- Possible deficit in 2009/10
- Declining Liffe inventories
- West African main crop could tail off quickly
- No room for the industry to further reduce cover

### **Bearish factors:**

- Largest world grind decline in 60 years in 2008/09
- Weaker consumer & SFP demand than expected so far in 09/10
- Low combined ratio
- Market overbought / Specs net long coverage
- Prices trading above short-term fundamentals

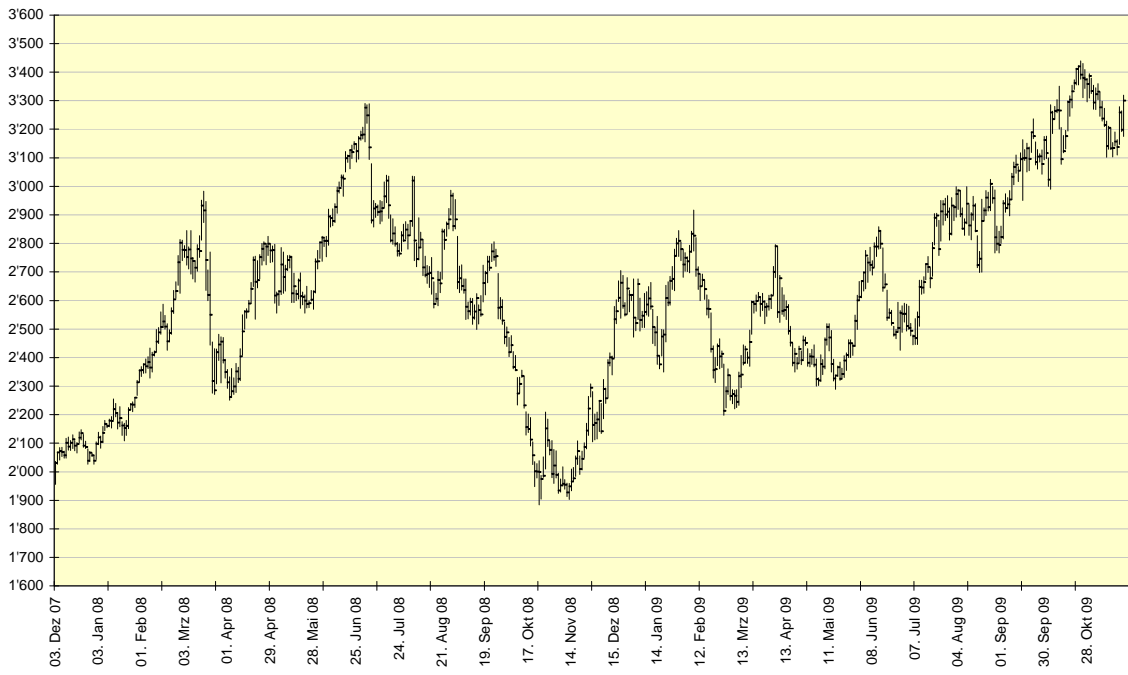




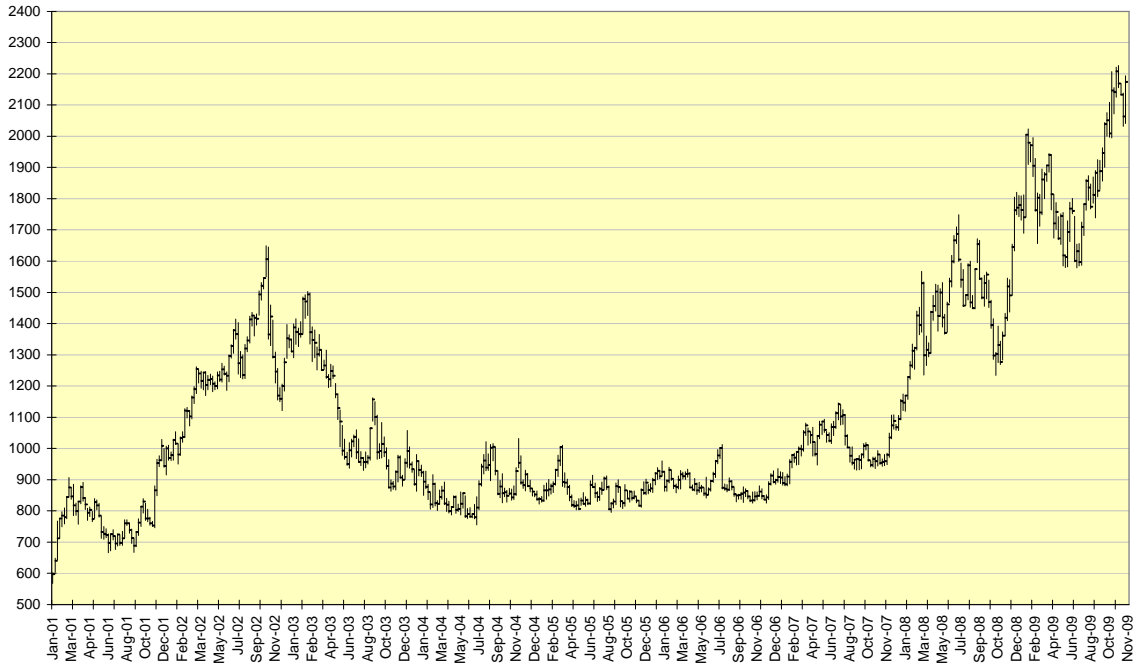
**London Cocoa 2nd Position**  
Daily High, Low, Close (in £/ton)



**New York Cocoa 2nd Position**  
Daily High, Low, Close (in \$/ton)



**London Cocoa 2nd Position**  
Weekly High, Low, Close (in £/ton)



**London Cocoa 2nd Position**  
Monthly High, Low, Close (in £/ton)



