

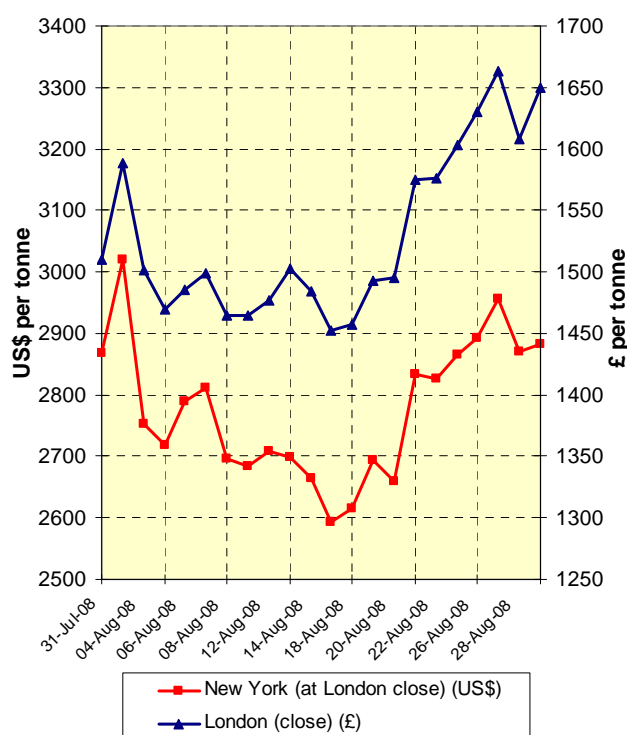


## MONTHLY REVIEW OF THE COCOA MARKET SITUATION

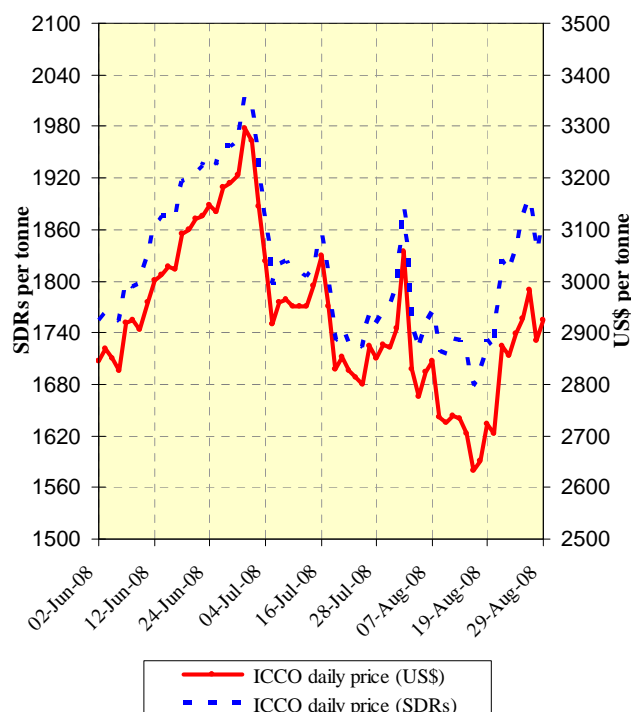
### AUGUST 2008

The current review of the cocoa market situation reports on price movements on the international markets during the month of August 2008. **Chart I** illustrates price movements on the London (LIFFE) and New York (ICE Futures U.S.) markets in August. **Chart II** shows the evolution of the ICCO daily prices denominated in U.S. dollars and SDRs for the period from June to August 2008. **Chart III** depicts the link between the ICCO daily prices and the *Dow Jones* commodity index. **Chart IV** presents recent changes related to cocoa price volatility.

**Chart I: Cocoa bean prices on the London (LIFFE) and New York (ICE) futures markets August 2008**



**Chart II: ICCO daily prices June – August 2008**



**Note:** The ICCO daily price for cocoa beans is the average of the quotations of the nearest three active futures trading months on LIFFE and ICE Futures U.S. at the time of London close, converted into US\$ and SDRs using the appropriate exchange rates.

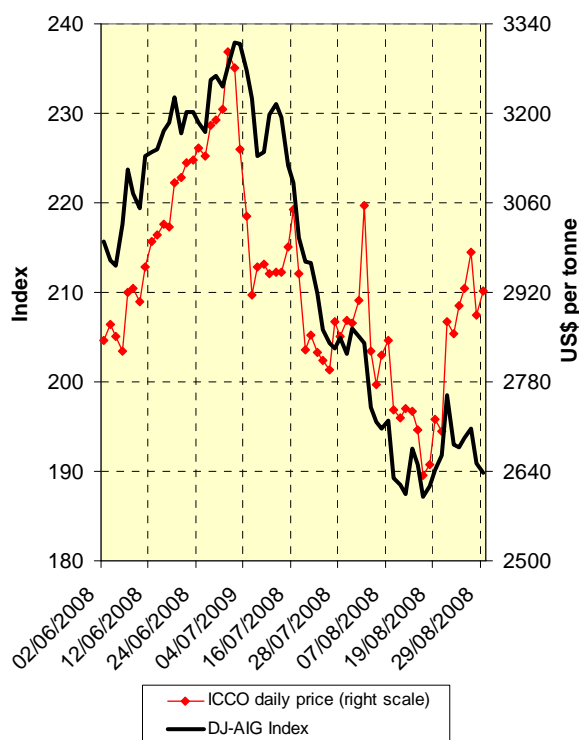
#### Price movements

In August, the cocoa market experienced a second consecutive month of lower monthly prices. The ICCO daily price averaged US\$2,810 per tonne, down by US\$144 compared to the average price recorded in the previous month (US\$2,954), with a range of between US\$2,633 and US\$3,057.

After a downward price movement initiated in the previous month, cocoa futures prices corrected in the first trading session of August, surging by over five per cent, and reaching £1,588 per tonne in London and US\$3,019 per tonne in New York.

This recovery was short-lived and, subsequently, futures prices declined steadily until the middle of the month, to £1,452 in London and to US\$2,594 in New York. With very little fundamental news to move prices, the markets were weighed down by continuous fund liquidation and by the strengthening U.S. dollar against other major currencies (plus six per cent against the Pound Sterling and the Euro in two weeks). Fund liquidation in the cocoa market was reflected by data released by the CFTC which indicated that non-commercial net long positions dropped significantly and reached their lowest level since November 2006. The currency development was a major factor attributed to the decline in price of most commodities. This situation

**Chart III: ICCO daily prices and Dow Jones-AIG commodity index (US\$ terms)**



was reflected by the drop in the Dow Jones commodity-AIG index (cf. *Chart III*) by over eight per cent in the first two weeks of August.

However, the markets subsequently found some fresh impetus which allowed futures prices to reach £1,650 in London and US\$2,882 at the end of the month. The recovery in the second part of August affected most commodities but the upward price move was sharper in the cocoa market. This reflected the concern of market participants that the cocoa market may experience a third consecutive production deficit in the next season.

The strong price movements recorded in August were reflected by the high daily price volatility of cocoa, as shown by *Chart IV*. Except in June, this has been a main feature of the cocoa market since March 2008.

### Supply & demand situation

In August, the ICCO Secretariat released its revised forecasts for the 2007/08 season in the *Quarterly Bulletin of Cocoa Statistics*. The supply deficit has been revised upwards to 88,000 tonnes, arising mainly from the downward adjustment to the production figure of Indonesia to 480,000 tonnes in 2007/08. The country has been enduring the spread of the devastating Vascular-Streak Dieback (VSD) disease in Sulawesi. The combination of a large number of mature cocoa trees and excessive rainfall due to the *La Niña*-related weather conditions provided favourable ground for the disease to develop.

According to data published by news agencies, cocoa bean arrivals to ports in Côte d'Ivoire reached 1.310 million tonnes at the end of August, provisionally bringing the total for the mid crop (April-September) to 243,000 tonnes. In Ghana, cocoa purchases declared by the *Ghana Cocoa Board* reached 678,000 tonnes at the end of August. Partly as a consequence of the smuggling of beans to Côte d'Ivoire, the volume of light crop purchased was relatively low, at 16,195 tonnes until the end of August. Hence the *Ghana Cocoa Board* decided to close the 2007/08 season earlier than usual and to open the new season on 12 September with a fixed price of Gh¢1,632 per tonne paid to farmers, a level 36% higher than at the end of the 2007/08 season.

**Chart IV: Cocoa and coffee price volatility (values expressed in annual terms)**

