

WHAT'S HOT: EASTER EGGS LIKELY TO GET EXPENSIVE AS COCOA TRADES AT A 46-YEAR HIGH

Aneeka Gupta – Director, Macroeconomic Research
09 Feb 2024

Cocoa was the best performing commodity in 2023, recording a price increase of 64%¹. Cocoa prices have continued to rally in 2024 crossing the threshold of US\$5000 Metric Ton (MT) on 2 February 2024. The last time cocoa prices rose to this magnitude was in 1977 when it reached US\$5379MT. A similar situation prevailed back then, adverse weather conditions led to production scarcities in major cocoa production countries including Ghana and Ivory Coast.

Figure 1: Cocoa Front month futures price and trading volume



Source: Bloomberg, WisdomTree as of 7 February 2024.

Historical performance is not an indication of future performance and any investments may go down in value.

Current crop conditions remain unfavourable in key cocoa growing regions

Weather conditions in Africa have been unfavourable particularly in the Ivory coast and Ghana. This matters as the cocoa producing belt of west Africa is responsible for generating over 80% of the total global output. Ghana is the second biggest producer in the world. Moisture levels have been below average, and more trees have been affected by the Swollen Shoot Virus (CSSV). Main crop cocoa arrivals at ports in top grower Ivory Coast had reached 951,710 tonnes by 21 January since the start of the season on 1 October, down 33% from the same period last season. The cocoa harvest is already falling

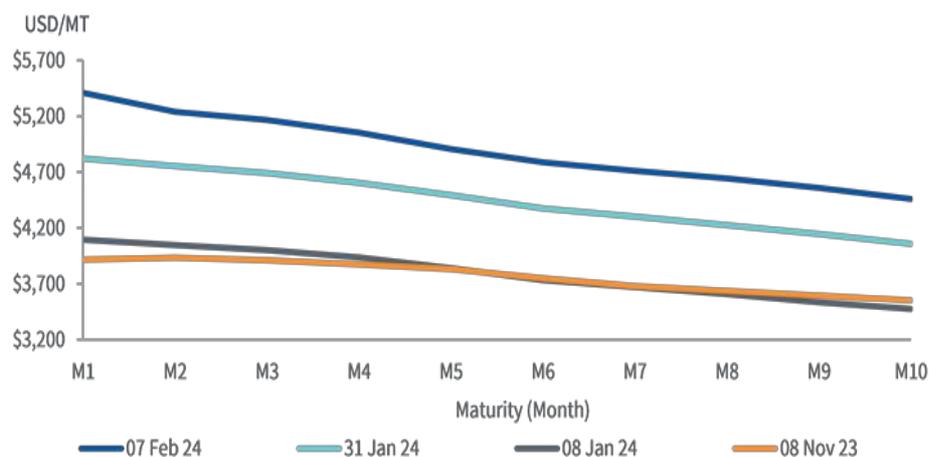
well behind the prior year’s level. Added to that, the key West African Cocoa growing region is facing dry Harmattan winds which could destroy the cocoa pods growing for the Ivory Coast’s mid-crop in April.

Ivory Coast halts forward sales of cocoa

Ivory coast has suspended forward sales of cocoa beans for the 2024/25 season amid uncertainty about the production volumes. The country has seen its cocoa production falling this year due to adverse weather and diseases damaging the crop. Owing to which the country doesn’t want to oversell the 2024/25 crop until the production estimates are available. Buyers typically utilise forward sales to secure longer-term supplies. As Ivory Coast suspends forward sales, the absence of forward buying is likely to spur spot purchases in the near term. Cocoa prices in January itself have risen 13%², on strong buying activity in the physical market.

The front end of cocoa futures curve remains in backwardation, yielding a positive implied roll yield of 3.2% indicating near term tightness in supply.

Figure 2: Backwardation in the front end of the Cocoa Futures Curve



Source: Bloomberg, WisdomTree as of 7 February 2024.

Historical performance is not an indication of future performance and any investments may go down in value.

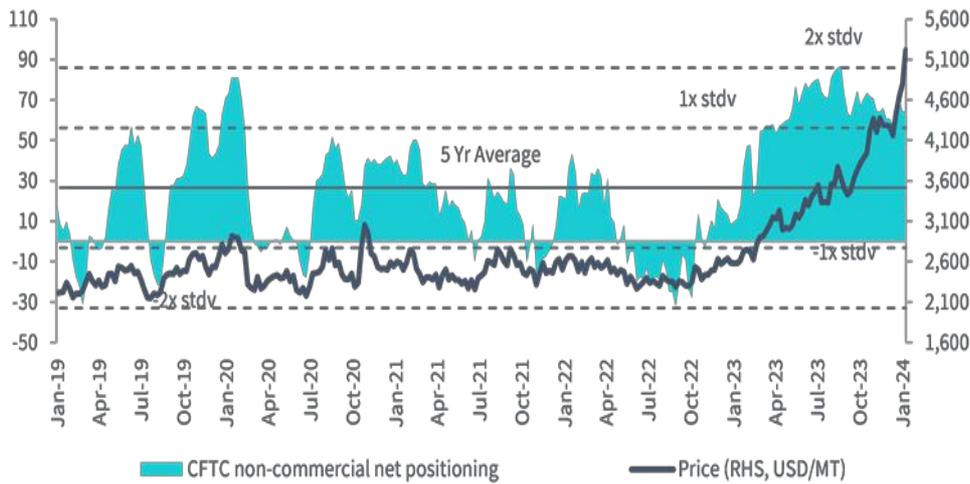
Bearish grinding data fails to arrest cocoa’s price rally

Concerns started to surface that demand growth for cocoa will be impacted by higher cocoa prices. This was confirmed by the Q4 2023 data on cocoa processing which showed the grind number for North America was down 3% yoy to 103,971MT, Europe declined 2.5% yoy to 350,739MT while Asia saw the biggest decline at 8.55% to 211,202MT.³ The lower grind data is likely to have reduced the deficit on the global cocoa market from 350,000MT to 300,000MT for the 2023/24 crop year. However, expectations of lower grinding data was being anticipated by the market owing to higher cocoa prices.

Amidst the current backdrop, the cocoa market is likely to face a supply deficit in the current crop year for the third successive year. The extension of the current price rally remains dependent on development of the mid-crop in Ivory Coast and Ghana and the likely impact of the CSSV. Net speculative positioning in cocoa futures is more than 1-

standard deviation (stdv) above the five-year average underscoring bullish sentiment towards cocoa.

Figure 3: Net Speculative positioning in Cocoa Futures



Source: Commodity Futures Trading Commission, WisdomTree as of 30 January 2024.

Historical performance is not an indication of future performance and any investments may go down in value.

Sources

- ¹ Source: Bloomberg Cocoa Futures price performance from 31 December 2022 to 29 December 2023
- ² Source: Bloomberg Cocoa Futures price performance from 3 January 2024 to 31 January 2024
- ³ Bloomberg as of 31 January 2024

Related blogs

- + [The jury is still out on the impact of El Niño](#)
- + [What does El Niño’s return mean for commodities?](#)

Related Products

- + [WisdomTree Cocoa \(COCO\)](#)
- + [WisdomTree Cocoa 2x Daily Leveraged \(LCOC\)](#)
- + [WisdomTree Softs \(AIGS\)](#)

View the online version of this article [here](#).

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.