

# What's Hot: Supply shortages to fuel Cocoa's sweet surge in 2024

Published 5 April 2024

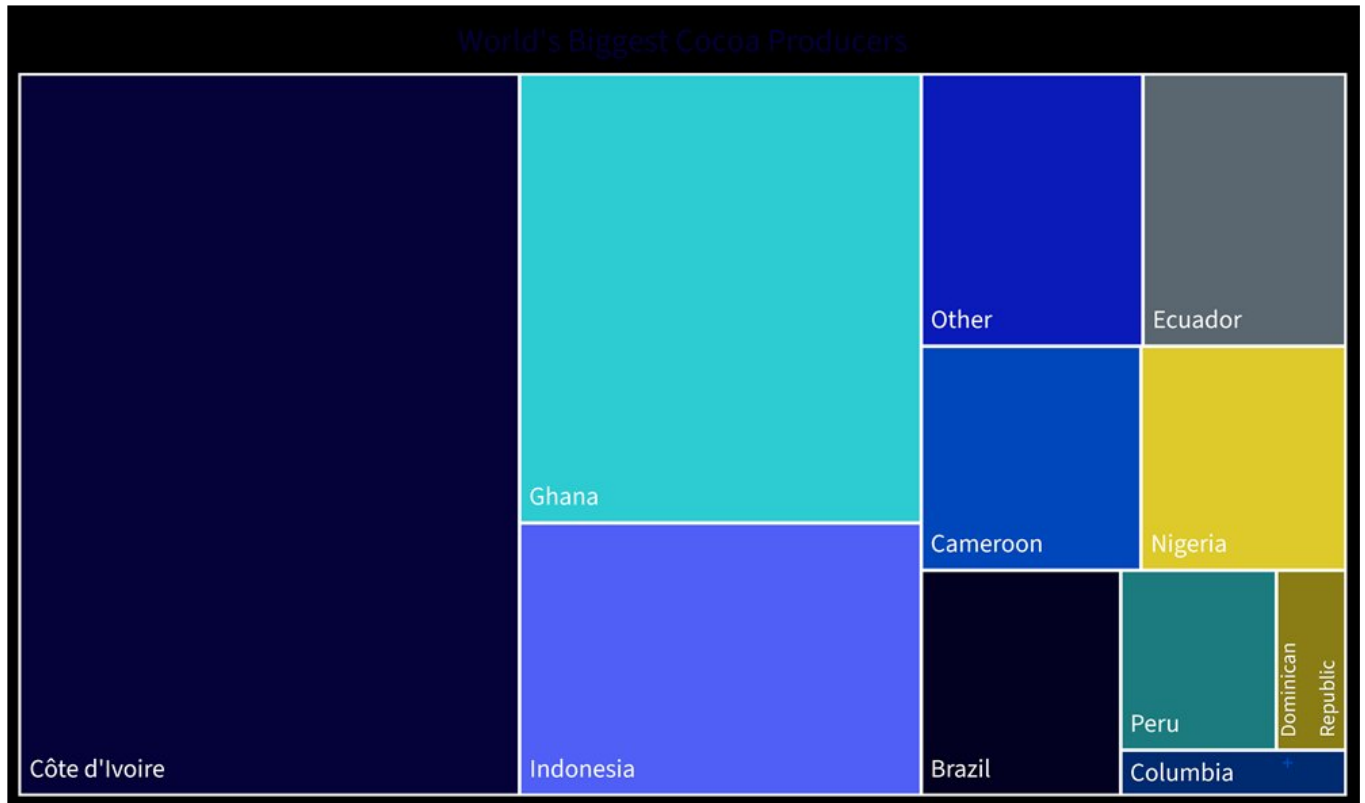
**Aneeka Gupta**

Director, Macroeconomic Research, WisdomTree Europe

## Key Takeaways

- Dry weather brought by the El Niño followed by unseasonal heavy rains towards the end of 2023, escalated concerns about West African production
- Given the already weak main crop, investor's attention will turn towards the mid crop in Cote d'Ivoire
- The rise in farm gate prices is unlikely to arrest cocoa's price rally over the short term
  
- [Related Products WisdomTree Cocoa Find out more](#)

Cocoa's meteoric price rise +132% has trumped both Nvidia (+90%) and Bitcoin's (+65%) price performance in Q1 2024. The cocoa market has been struggling with poor crops in major producing regions in West Africa. Two west African countries, Cote d'Ivoire (Ivory Coast) and Ghana represent about 60% of the world's cocoa production. Dry weather brought by the El Niño followed by unseasonal heavy rains towards the end of 2023, escalated concerns about West African production as discussed [here](#). Additional factors such as extreme heat, ageing cocoa trees and illegal mining have further exacerbated supply shortages.



Source: United Nations (UN) Food and Agriculture Organization (FAO) as of December 2023

News reports and trade publications indicate cocoa bean processing in West Africa is finally being shut-in and running at low utilization throughout March owing to the lack of supply. Cocoa grindings – a good proxy for demand is expected to decline given the fall in supply. We expect to see demand destruction at the user level start to garner momentum over Q2 2024. However, as processing demand only started to meaningfully decline in March 2024 and has held up moderately in both Europe and North America, we do not see increased risk of consumption rolling over.

## Farmgate prices for local cocoa farmers set to increase at top producers

Ghana will raise the fixed farmgate price paid to cocoa farmers by up to 50% in an effort to share profits from rising global prices and deter farmers from bean smuggling<sup>2</sup>. Low pay has hampered farmers' ability to invest in improvements and fend off disease, limiting the yield of cocoa trees. According to Cocobod, 150 thousand tons of cocoa beans were lost in the 2022/23 crop year due to this and illegal gold mining. This crop year (2023/2024), the loss is likely to be larger owing to higher prices. Ivory Coast has already increased farm-gate prices for cocoa farmers by 50% to the equivalent of US\$2470 per ton<sup>3</sup>.

In the short term, it's unlikely to stall cocoa's price rally as it takes around 5 years for a newly planted cocoa tree to develop pods for the first time. However, over the long term, higher farm-gate prices could incentivise farmers in Ivory coast and Ghana to invest more in the maintenance of their cocoa plantations thereby supporting a price dampening effect.

## Mid-crop expectations take centre stage

Cocoa is harvested twice a year. The main crop runs from October to March, while the mid-crop runs from April to August. Investors' attention is likely to turn towards the upcoming mid-crop harvest in West Africa.

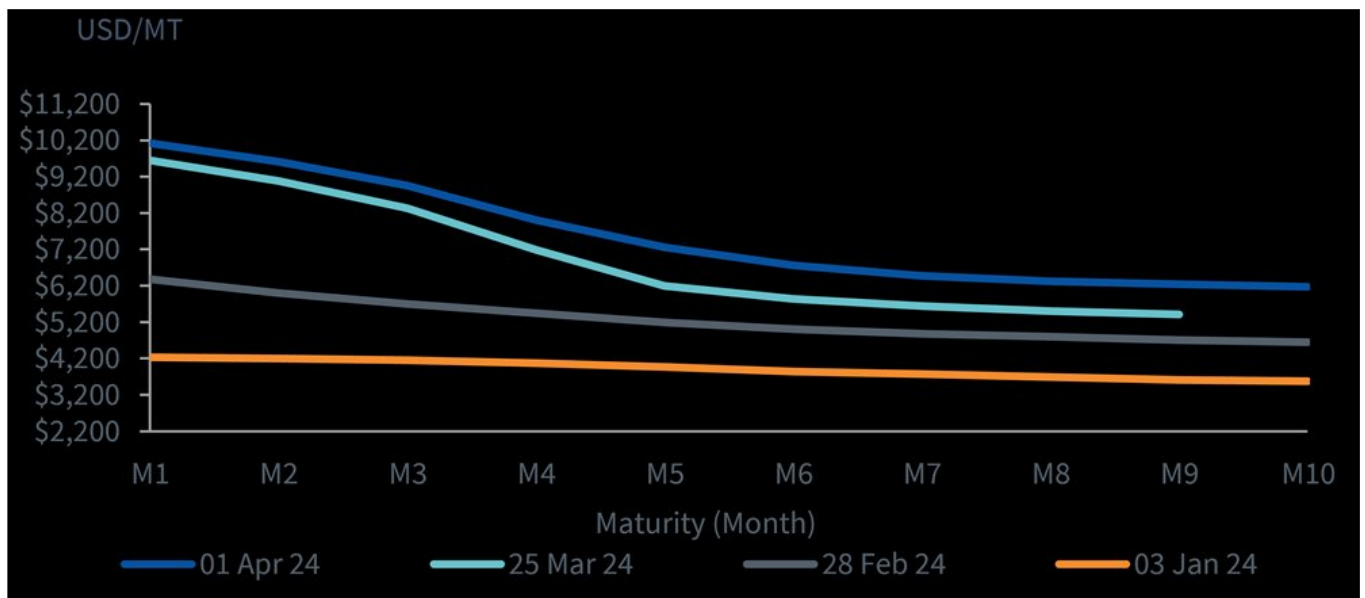
The crop in Cote d'Ivoire, by far the most important producer with a market share of around 40% is expected to be only 400-500 thousand tons, versus 600 thousand tons reported last year. These estimates are based on a survey carried out by the national regulator at the end of February. Normally the mid-crop holds less importance in comparison to main crop owing to its smaller size (in the case of Cote d'Ivoire, around 25% of the total crop). However given the already weak main crop, it is likely to dominate investor attention this time around. If estimates are downgraded further, it could provide another catalyst to cocoa's current price rally.

## Tight cocoa market driving curve backwardation in 2024

The International Cocoa Organisation (ICCO) also projected the ratio of stockpiles to grindings will fall to the lowest in more than four decades this season. ICCO also expects the existing supply deficit to widen to 374kt this season, versus a deficit of 75kt seen last season.

The front end of the cocoa futures curve remains in backwardation, giving rise to a 5.3% positive roll yields (versus 6.4% last month). The weather is likely to play a crucial role in shaping the market balance for the season.

## Figure 2: Front end of the cocoa futures curve remains in backwardation

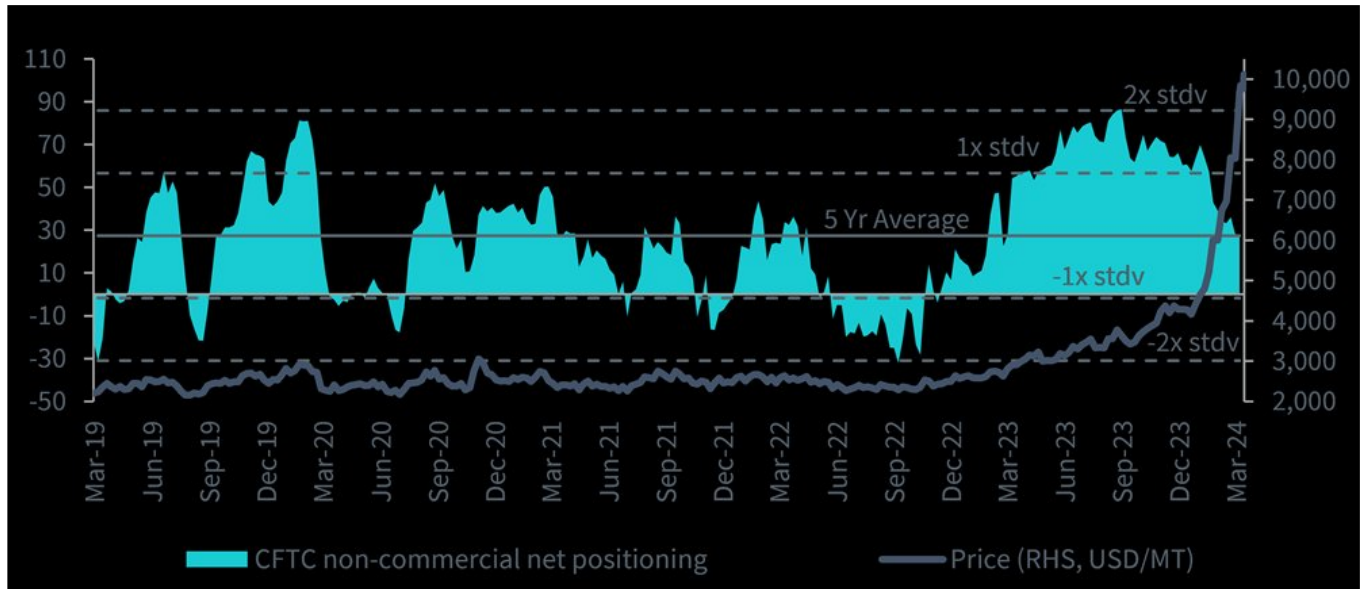


Source Bloomberg, WisdomTree as of 2 April 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Net speculative positioning has declined 21.9% over the prior month (from 27 February 2024 to 26 March 2024) according to Commodity Futures Trading Commission (CFTC). CFTC data shows that investors

remain undecided on extension of cocoa's rally evident from the 27% decline in short positioning alongside a 24% reduction in long positioning.

### Figure 3: Comparison of historical price performance versus net speculative positioning for front- month Cocoa futures



Source: Commodity Futures Trading Commission (CFTC), WisdomTree as of 1 April 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

### Sources

- 1 Source: Bloomberg from 2 January 2024 to 28 March 2024
- 2 State Marketing Authority Cocobod
- 3 The Business Times as of 31 March 2024

## Important Risks Related to this Article

### 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.