What's Hot: Easter eggs likely to get expensive as cocoa trades at a 46-year high

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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.

[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

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