

WORLD COCOA

Terminal Market

The market giveth and the market taketh away - while not exactly biblical, this is probably how the funds long of cocoa may have felt while seeing their profits dissipate amidst a retreating futures market prompting heavy long liquidation. All eyes were also on the Ivory Coast elections that have now taken place at the end of October and now appear to be moving towards a seemingly peaceful conclusion; so hopefully this topic does not haunt us in the coming weeks.

Talking about haunting, the Halloween chocolate sales reported as of early October point toward an increase of more than 12% compared to the prior year. The National Confectioners' data shows that since mid-March candy sales are up 4.3; why not indulge while there is more time spent working from home. While not everyone will participate in Halloween this year, the National Retail Federation found people who are spending more money than they did last year. Marie Antoinette's unfortunate comments might have been more apt in today's world where if there is no bread in the home, the customer can order a meal with chocolate cake on Doordash!

With Ivory Coast elections (the Supply Yin) and Halloween (the Demand Yang) out of the way, the market has seemingly found that the path of least resistance is down with funds having a terrible October. In a zero-sum game what is good for the end user must come at the cost of someone else, and in the case of cocoa it was the funds. In the latter half of October, end users have been actively increasing coverage despite uncertainty over demand with increasing cases of Covid-19 around the globe.

Meanwhile, despite the tension around elections, arrivals in Ivory Coast (up 12% for Oct 20 vs Oct 19) were hot and heavy, much like the Colts' offensive line. Forecasts for the month of November are quite strong as well. The Law of Supply in macroeconomics tells us that if Price of goods moves up, companies (and individuals) are willing and able to produce more of those goods. We will see whether theory and practice are aligned over this cocoa season with farmers in Ivory Coast receiving a price higher by more than 20% from the previous year.

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From supply & demand, we move to the reading of tea leaves - aka technical analysis. The futures market is currently trading below short term (20-day) and long term (100/200-day) moving averages and with the last 5 trading days being down days, also is close to oversold levels. The next support level would seem to be around 2,200 vs Mar-21 with major support level another \$100 lower; resistance on the upside seems further away @ 2,500.

While the Battle of Reducing Interest rates continues across global central banks, the dollar has again strengthened over the Euro and pound, with interest also to buy the dollar as a safe(r) haven. Over the month of October, oil plunged, grains and soft commodities turned weaker and commodities with the exception of gold saw outflows leading to also some negative impact on the cocoa market.

As with other factors in 2020, earnings of companies in different segments also seem to be in parallel worlds. On the one hand, there are malls, restaurant chains and companies filing for Chapter 11; on the other hand, in the confectionery and retail world, corporate earnings and sales are setting new records. Chocolate and confectionery demand remains strong supporting butter and bean prices during the seasonal peak periods, cocoa powder demand is moving from good to great. And we cannot leave the report without mentioning the US elections. How does this impact cocoa? Historically, the US GDP has grown in almost a similar fashion whether Democrats or Republicans have been in pow(d)er (although well-paid political pundits would like to say otherwise); ergo, cocoa consumption shall hopefully continue as usual and all the election tension will be much ado about nothing!