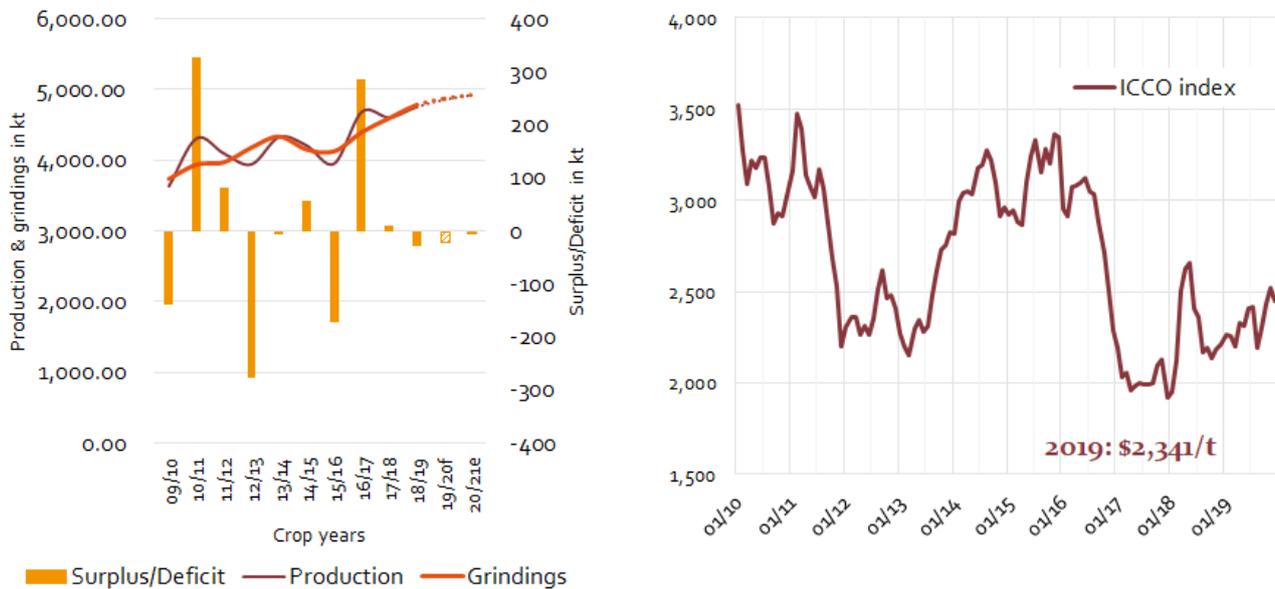




# Unigrains – In Brief

## What will be the price of cocoa in 2020?

Cocoa - Review and global prices



Sources: ICCO, Rabobank

### → Cocoa bean production is concentrated in the hands of two countries

70% of cocoa bean production is concentrated in Africa. Côte d'Ivoire and Ghana are the main suppliers, accounting for nearly 60% of global supply. Alternative markets are struggling to develop. Neighbouring countries, Cameroon and Nigeria, are barely getting off the ground despite the determination of their governments. The same can be said of Ecuador, Brazil or Indonesia, where production is undermined by diseases or ageing plantations. This has led to an increased dependence on supply from Côte d'Ivoire and Ghana.

### → Asian countries are increasingly fond of chocolate

The processing is carried out in the consumer countries, mainly in Europe. The European Union alone crushes a third of the beans produced. Emerging economies are nevertheless increasingly present downstream in the chain, in producing countries to capture the value, but also in new consumer countries, such as in Asia, where people are increasingly fond of chocolate.

Demand, which is mature in developed economies, is therefore growing in emerging countries, driven by Asia. There is a strong increase in per capita consumption of chocolate, and plenty of scope for further development, bearing in mind that a Chinese eats 200 g per year, while an English person eats 11 kg!

### → Producers hit hard by 2016 and 2017 price slump

The sharp increase in supply concomitant with the abundant harvests in West Africa in 2016/2017 weakened the market equilibrium and caused a significant fall in prices, undermining the economies of Côte d'Ivoire and Ghana, which are particularly dependent on cocoa bean sales.

These two countries then sought to agree on actions to regulate production, limit price volatility and restore income to farmers, typically small farmers. After unsuccessful attempts to establish a floor price of \$2,600/t with large client firms, they opted for a premium – a living income differential – of \$400/t on contracts for the 2020/2021 crop year.



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## → Heading for a cocoa price of \$2,600/t in 2020?

Heavy inventories have long weighed on prices, but are slowly deflating. The situation is tending to rebalance or even to be slightly in deficit thanks to the continued strong momentum of Asian demand. Prices are back on the rise.

Other factors should contribute to the rise in prices in 2020:

- The big buyers appear to have accepted the premium proposed by the two cocoa producing giants and Barry Callebaut has already passed on increases to its own clients.
- The development of diseases, notably *Swollen Shoot* in Ghana, which gangrene plantations and lead to uprooting and reforestation programmes. Bear in mind that it takes three to five years for a new plant to be productive.
- The growing ethical and environmental concerns of buyers, particularly on the issues of deforestation and child labour, under pressure from consumers and NGOs, are contributing to an increase in the cost price.

Are the governments of Côte d'Ivoire and Ghana on the way to winning their wager of imposing an average annual price of around \$2,600/t?

For 2020, we do expect prices to rise compared with 2019 (\$2,340/t for the ICCO index). They could reach \$2,600/t, but it is difficult to make projections. Few of the analysts giving a quantified forecast are willing to go up to this level.

Remember, too, that this bullish outlook depends on exogenous factors that are difficult to assess at this juncture. It could be stronger in the event of drought in the winter months, depending on the intensity of the Harmattan. Conversely, it could be dampened by a failure of the "cocoa cartel" or by the global economic slowdown, particularly in Asia.

