

Cocoa Futures Activity

Future	Prev. Settle	High	Low	Settle	Change	Volume	Open Int.	Mar. 26 Settle
MAY 09	3274	3315	3244	3272	-2	12,187	51,862	2592
JUL 09	3322	3360	3303	3331	+9	9,783	51,306	2595
SEP 09	3331	3368	3327	3340	+9	1,047	15,441	2593
DEC 09	3317	3345	3306	3317	0	424	6,025	2590
MAR 10	3313	3349	3295	3305	-8	326	4,682	2587
MAY 10	3304	3330	3286	3294	-10	160	3,333	2586
JUL 10	3307	3328	3290	3297	-10	311	7,013	2597

Market Factors

Main crop harvest is underway in Ivory Coast and Ghana. Arrivals for October in the Ivory Coast are up but quality is still in question. Despite a good start there is concern over the tail end of these main crops due to lack of moisture in the key growing areas in late summer/early fall of this year. This may effect arrivals as we approach the end of harvest.

Election efforts in the Ivory Coast may be postponed again. The situation will be watched closely, as civil unrest could delay arrivals of cocoa beans. What is known from past experience is that the beans do eventually make it to market despite the delay.

Market movement in the last two weeks was driven mainly by shifts in the dollar versus the sterling, rather than by fundamental news. The outlook for U.S. currency over the next few months does not look positive. Short-term weakness in the dollar will be bullish for the New York cocoa market

Industry coverage is close to an all-time low, around just 3 to 4 months out. Due to heavy origin selling, many are waiting for a break in the market to book further out. This is similar to what occurred in late 2007 and summer 2008, and should help support the market on dips.

Speculator interest remains brisk and continues to increase. This will add volatility to the market, as they are more interested in setting technical positions rather than watching fundamentals.

There are still questions surrounding chocolate demand. Continued low cocoa butter prices around \$2.00/lb. indicate chocolate demand is still suffering. We look forward to sales results for key chocolate demand times in the U.S., such as Halloween, the Christmas season, and Valentine's Day. Halloween should have received a boost compared to previous years since it fell on a weekend, but only the numbers will tell.

Cocoa powder remains tight and prices continue to rise. Buyers are looking more at securing supply rather than worrying about the price. Cocoa powder ratios continue to creep up. In order for this to turn around chocolate demand must pick up in a big way. A high cocoa market is not helping chocolate demand as more companies turn toward chocolate compounds, which use cocoa powder versus chocolate.

Strong origin selling in West Africa should provide opportunity for dips in the market over the next six weeks. The market will continue to have large swings due to continued fund interest. Buyers should be poised to act once a suitable market level is determined.

▲ BULLISH FACTORS ▲

- ▲ Renewed fund interest
- ▲ Weak U.S. dollar
- ▲ Dryness in West Africa, late summer/early fall of 2009
- ▲ Ivory Coast political instability

▼ BEARISH FACTORS ▼

- ▼ Lower chocolate demand
- ▼ El Niño conditions developing
- ▼ Main crop harvest in West Africa, origin selling

In The News

Ivory Coast Unions Suspend Cocoa Industry Strikes

Nov. 2 - Labor unions in Ivory Coast, the world's biggest cocoa producer, canceled plans to start a nationwide cocoa-industry strike today and will instead hold them later, a spokesman said.

The unions, which represent 35 different cooperatives, had threatened to shut down the transport and delivery of beans to ports and warehouses across the country as they demanded higher prices and more state financing for growers.

Farmers are frustrated that a raft of new regulations for the cocoa industry following pressure from the World Bank has yet to benefit them. The unions want the government to guarantee farmgate prices, and are calling for the official representative of cocoa growers, the Council of Wisemen, to be dissolved because some of its members are seen as political appointments.

Ivory Coast, which accounts for about 40% of global output, may see production decline by as much as 15 percent [due to] lack of investment by impoverished farmers and delayed government programs to distribute pesticides, according to shippers. Ageing trees and diseases are also curtailing output.

- Excerpted from Bloomberg.com. To read complete article, follow link:

<http://www.bloomberg.com/apps/news?pid=20601116&sid=ah717826XmRU>

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