



StoneX™



COCOA PRODUCTION & DEMAND OUTLOOK

INTL FCStone Pte Ltd

Asia Commodities

DARREN STETZEL

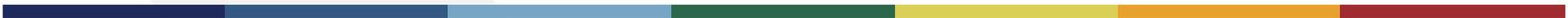
Risk Management Consultant – Soft Commodities



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INTRODUCTION

WHEN COCOA MET COVID-19



Introduction – When Cocoa Met Covid-19

Covid-19 timeline – From China to the world

- Timeline of events

Oil crash – Price and associated factors

- WTI & Brent
- Product demand

Cocoa futures – Price reaction

- New York & London futures
- New York & London spreads
- Speculators

Demand – Grind and product ratio

- The Grind
- Product ratios
- US Employment data

Supply – A global picture

- Port arrivals
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Currency – COVID & Brexit developments

- GBP/USD

COVID-19 TIMELINE

FROM CHINA TO THE WORLD



Timeline of events

Dec. 31, 2019



China alerts World Health Organization (WHO) to several cases of pneumonia with no known cause in Wuhan. The disease goes on to be named COVID-19.

Jan. 7



WHO officials announce they have identified a new virus named SARS-CoV-2 that causes COVID-19. It belongs to the coronavirus family, which includes viruses that cause SARS, MERS and the common cold.

Jan. 11



China announces the first death linked to COVID-19.

Jan. 13



WHO reports the first case outside of China in Thailand.

Feb. 26



National Institutes of Health (NIH) begin the first clinical trial in the U.S. for a potential COVID-19 treatment, remdesivir, an antiviral drug originally developed to treat Ebola.

Feb. 29



The FDA took steps to expand novel coronavirus testing to hospital clinical microbiology laboratories.

Mar. 11



WHO declares COVID-19 a pandemic, with more than 100,000 cases and 4,000 deaths in 114 countries.

Apr. 2



Confirmed cases of COVID-19 top 1 million worldwide.

Apr. 10



Global deaths due to COVID-19 top 100,000.

Outlook – Covid overview

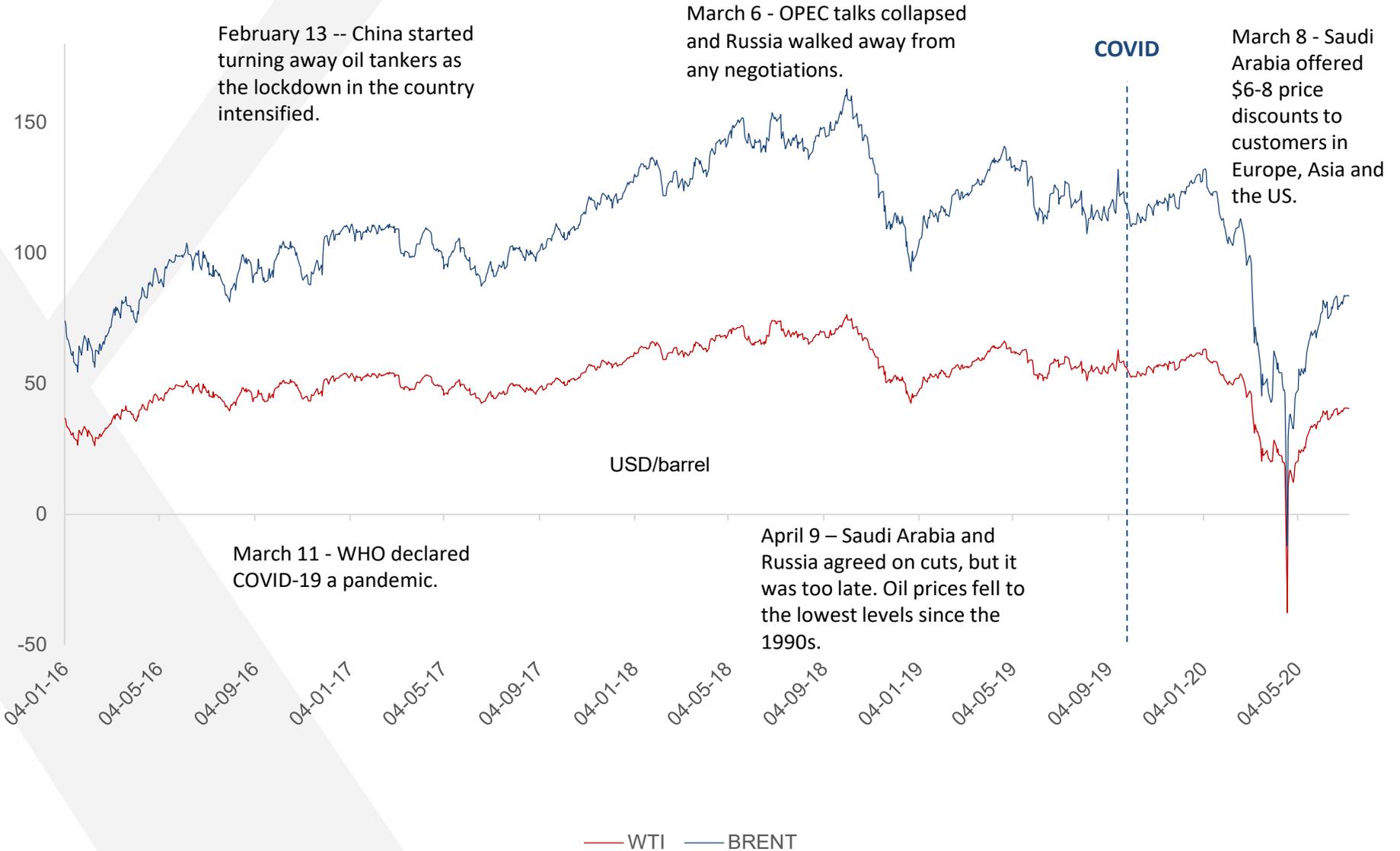
- Despite lockdown measures easing globally, COVID-19 deaths continue to rise.
- Hardest hit nations among the largest food consuming countries globally.
- Largest global consumer US remains the hardest hit, with no signs of the pandemic easing.
- Brazil and India in second and third, although rates of recovery show signs of improvement.
- Asia and Europe show gradual reduction in infection rates – helping slow the global growth rate.
- Avoidance of further lockdown measures continue key to recovery.
- WINTER IS COMING

OIL CRASH

PRICE AND ASSOCIATED FACTORS

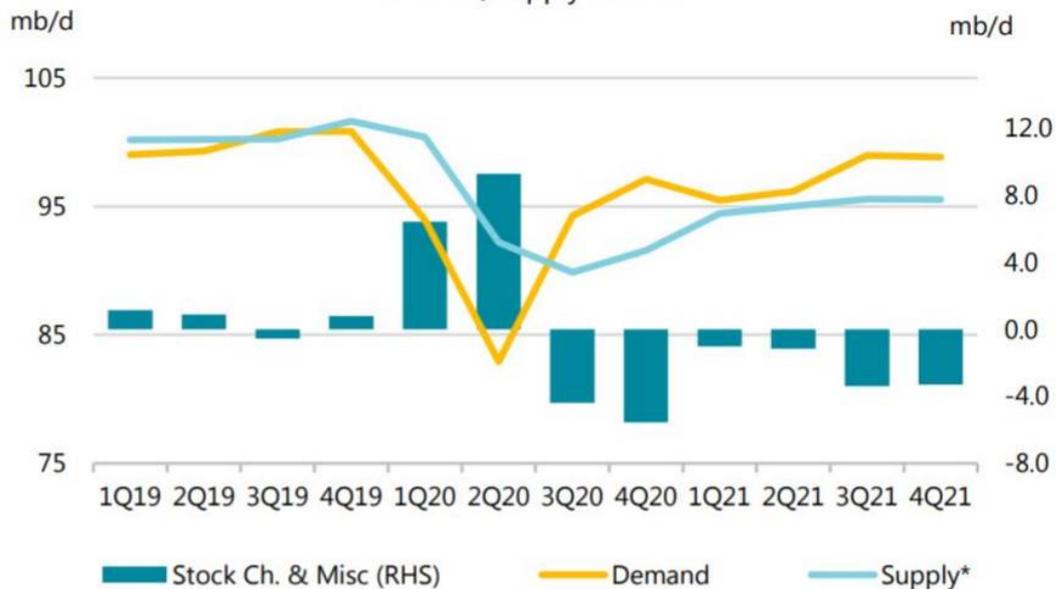


Oil crash: WTI & Brent

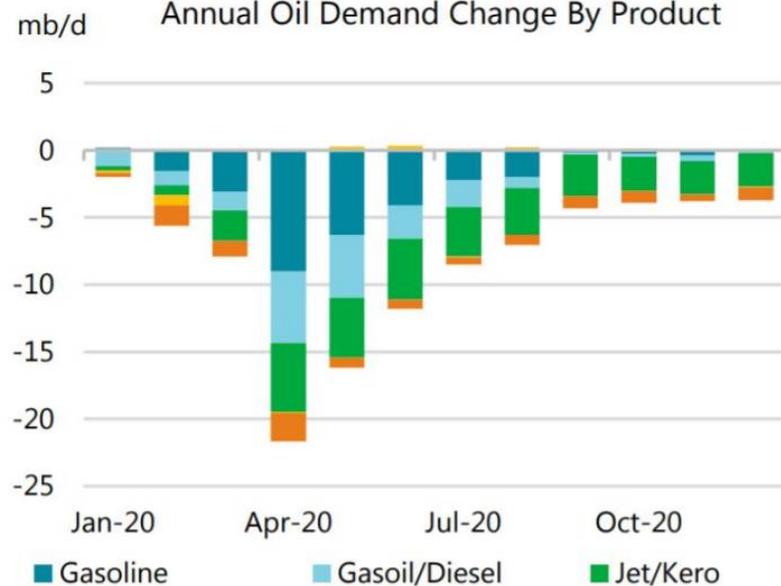


Product demand

Demand/Supply Balance



Annual Oil Demand Change By Product



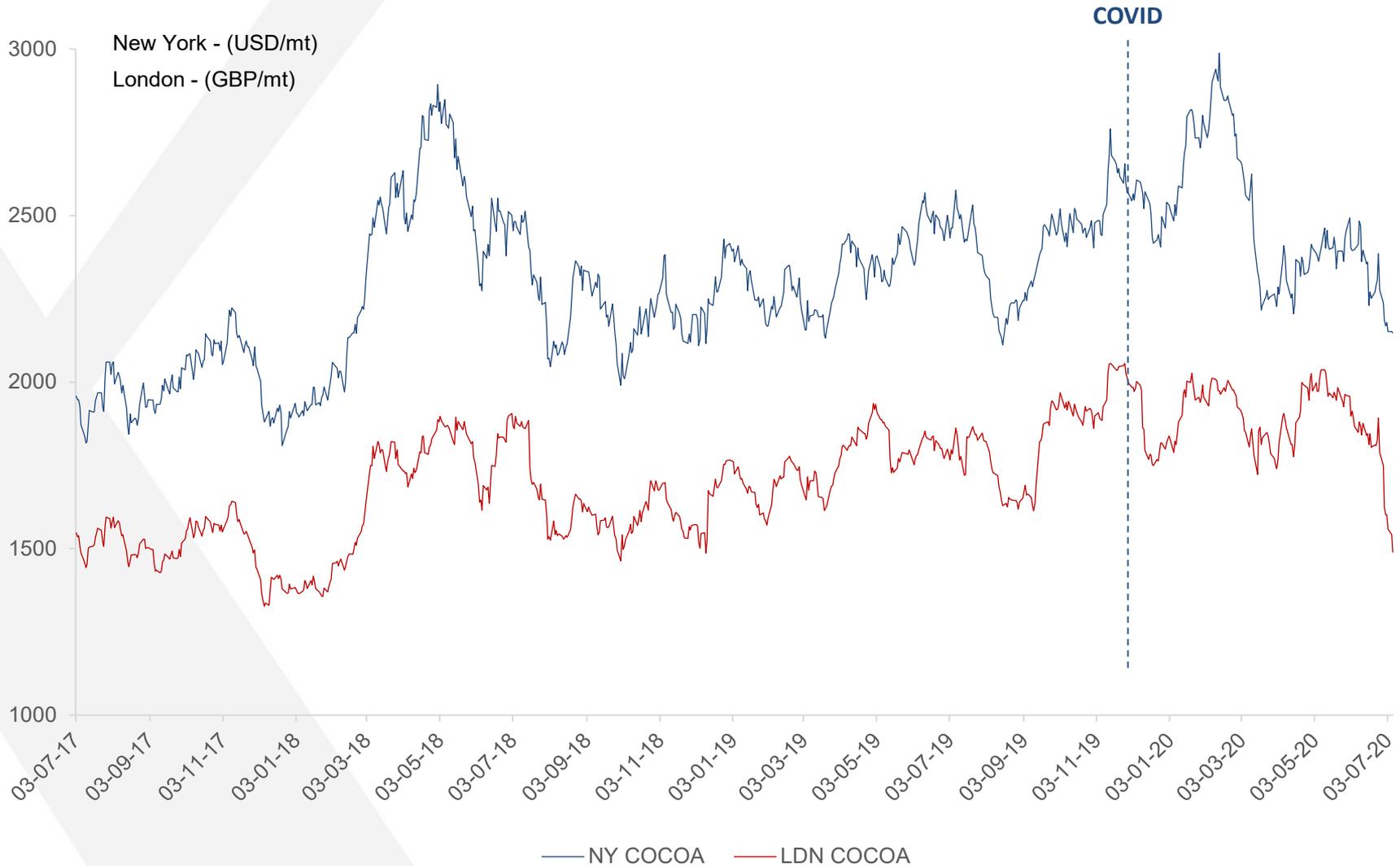
- 2020 demand forecast revised higher to 92.1 million bpd -- up 400,000 bpd from last month.
- Increase a result of a smaller-than-expected second-quarter decline.
- IEA warns that further spread of COVID-19 poses downside risk to the outlook.
- *"While the oil market has undoubtedly made progress ... the large, and in some countries, accelerating number of COVID-19 cases is a disturbing reminder that the pandemic is not under control."-- IEA*
- Oil refining activity in 2020 to fall further than expected, and to grow slower in 2021.
- Demand forecast for 2021 at 2.6 million bpd below 2019 levels.
- Kerosene and jet fuel accounting for three-quarters of the shortfall -- drop in global air travel.
- *"For refiners, any benefit from improving demand is likely to be offset by expectations of much tighter feedstock markets ahead." -- IEA*
- Refining margins will be challenged by a major product stocks overhang from a very weak second quarter.

COCOA FUTURES

PRICE REACTION



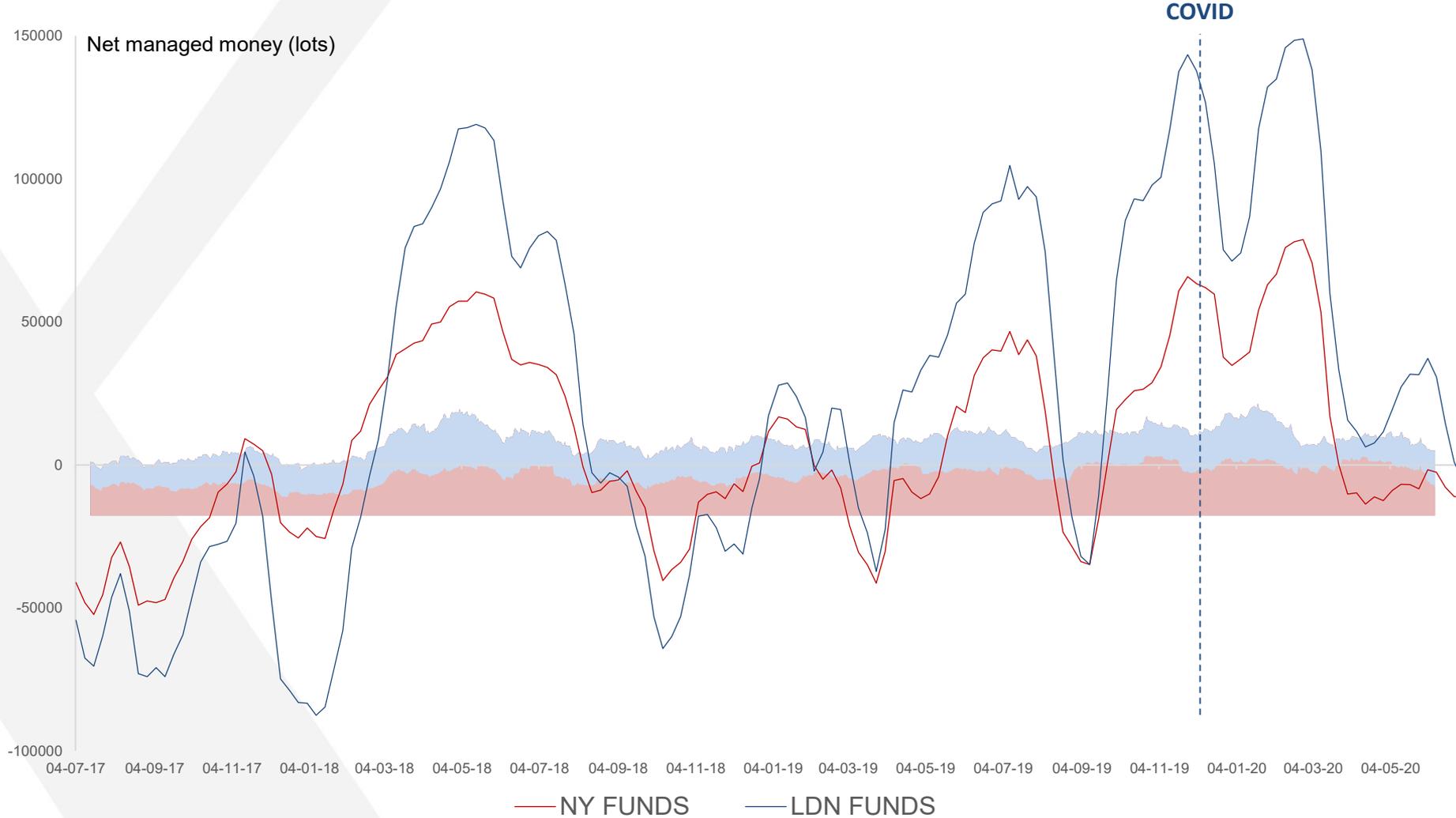
Cocoa futures: New York & London



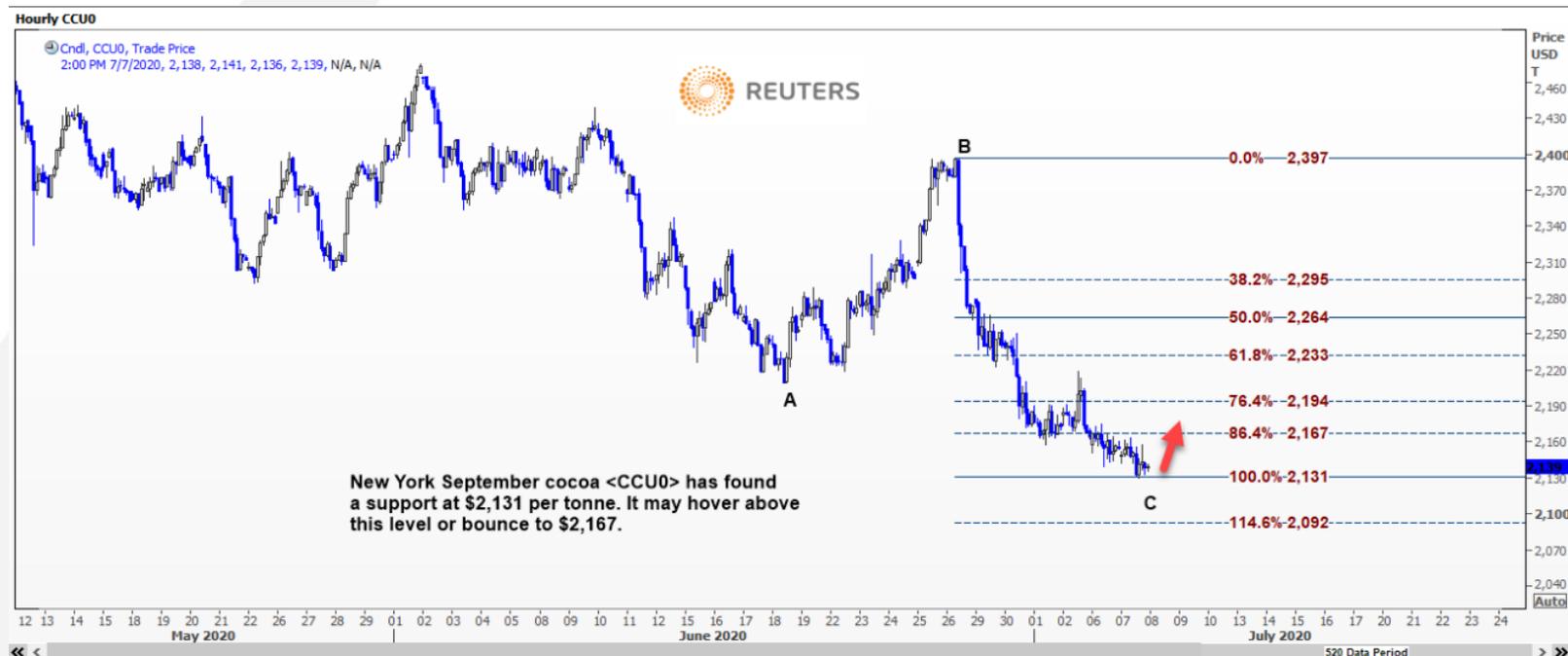
Cocoa calendar spreads: New York & London



Funds: New York & London



Technical snapshot – Indicators & targets



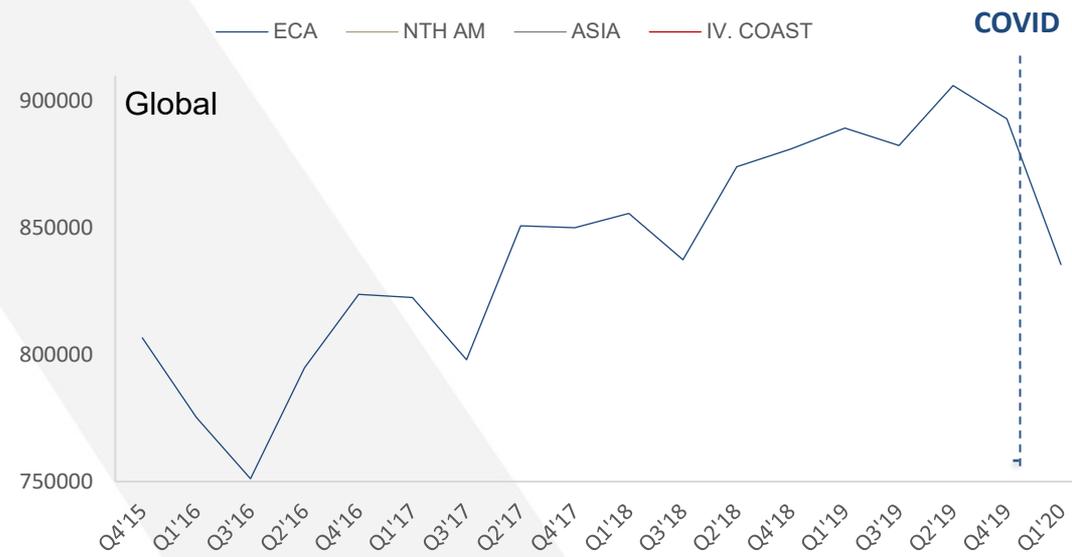
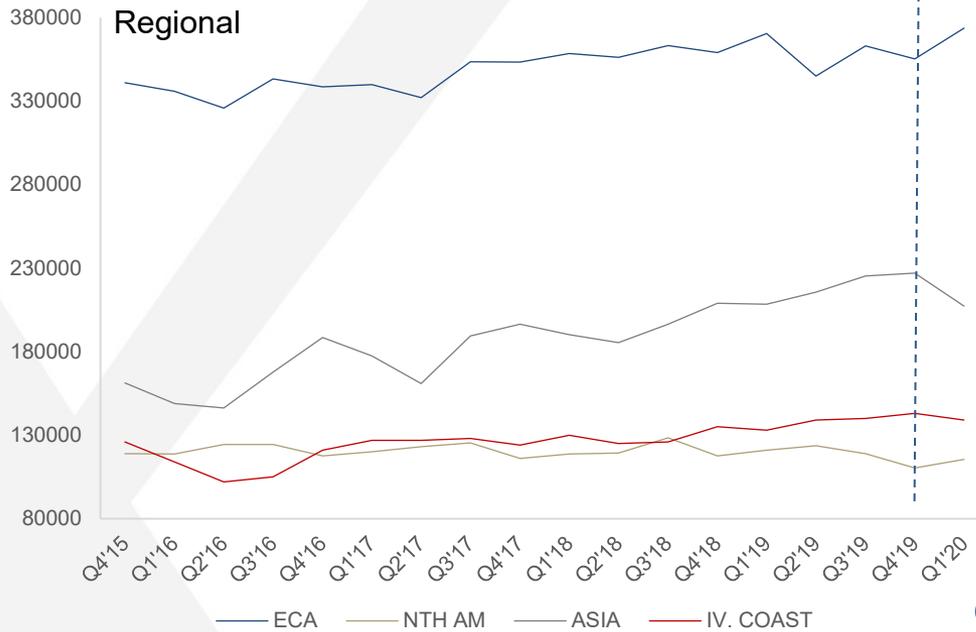
- New York September cocoa has found a support at \$2,131 per tonne.
- It may hover above this level or bounce to \$2,167.
- The support is provided by the 100% projection level of a downward wave from \$2,397.
- A break below this support could cause a fall to \$2,092.
- A break above \$2,167 could lead to a gain into \$2,194-\$2,233 range.

DEMAND

GRINDING & PRODUCT RATIO



The Grind

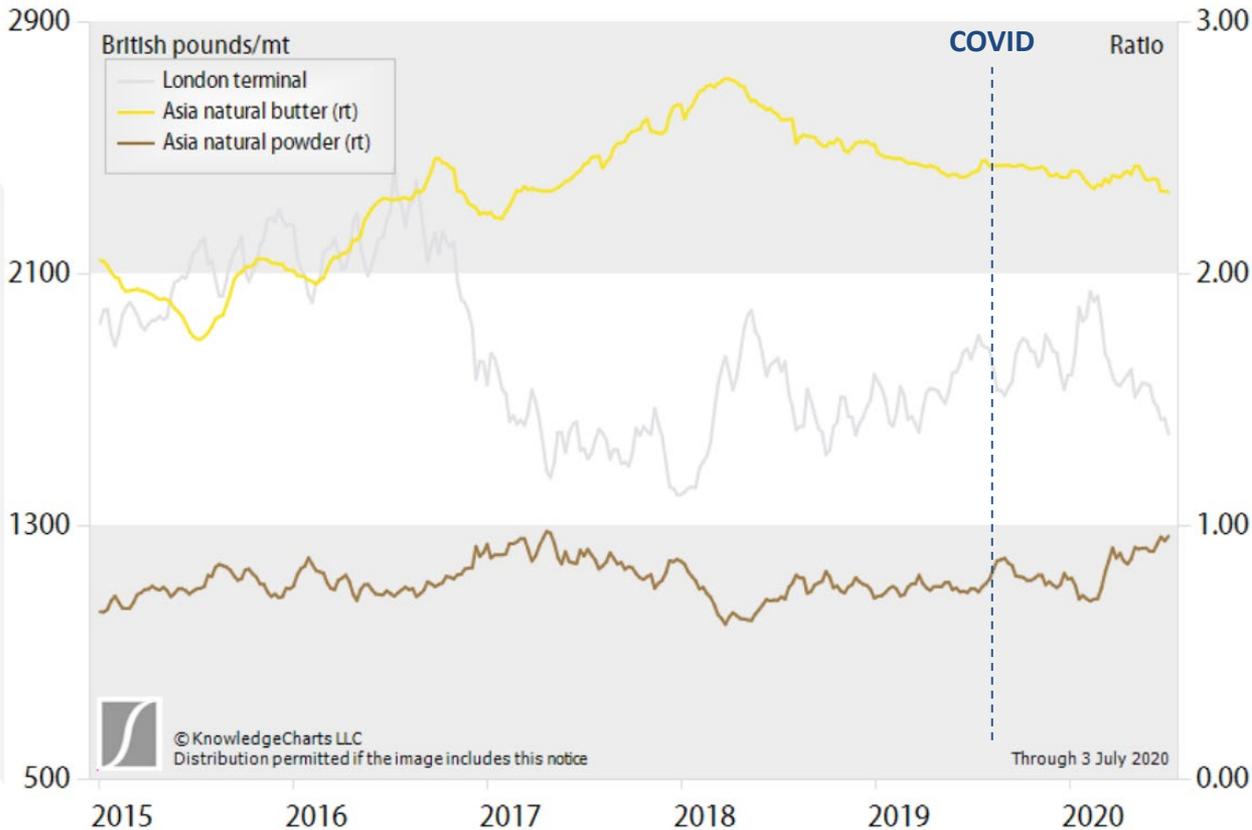


Source: ICCO

- Downward revisions to global production forecasts has been offset by a cut in the global grindings outlook to 4.78 million.
- The next round of global grinding data could be the most important yet.
- Ivory Coast cocoa grinders processed 422,000 tonnes of beans since the start of the 2019/2020 season to the end of June, up from 409,000 tonnes in the same period last season.
- While the market has reacted to a drop in demand, wider data has not yet proven how severe the impact of the pandemic has been.
- As companies prioritized the health of staff over profits, there is the likelihood of disruptions to cocoa processing.
- Crops had not yet been affected by the pandemic "but the possibility of the expected global economic recession affecting exports cannot be dismissed" – ICCO.

Product ratios

Asia product ratios, £
 FOB against London, six months forward

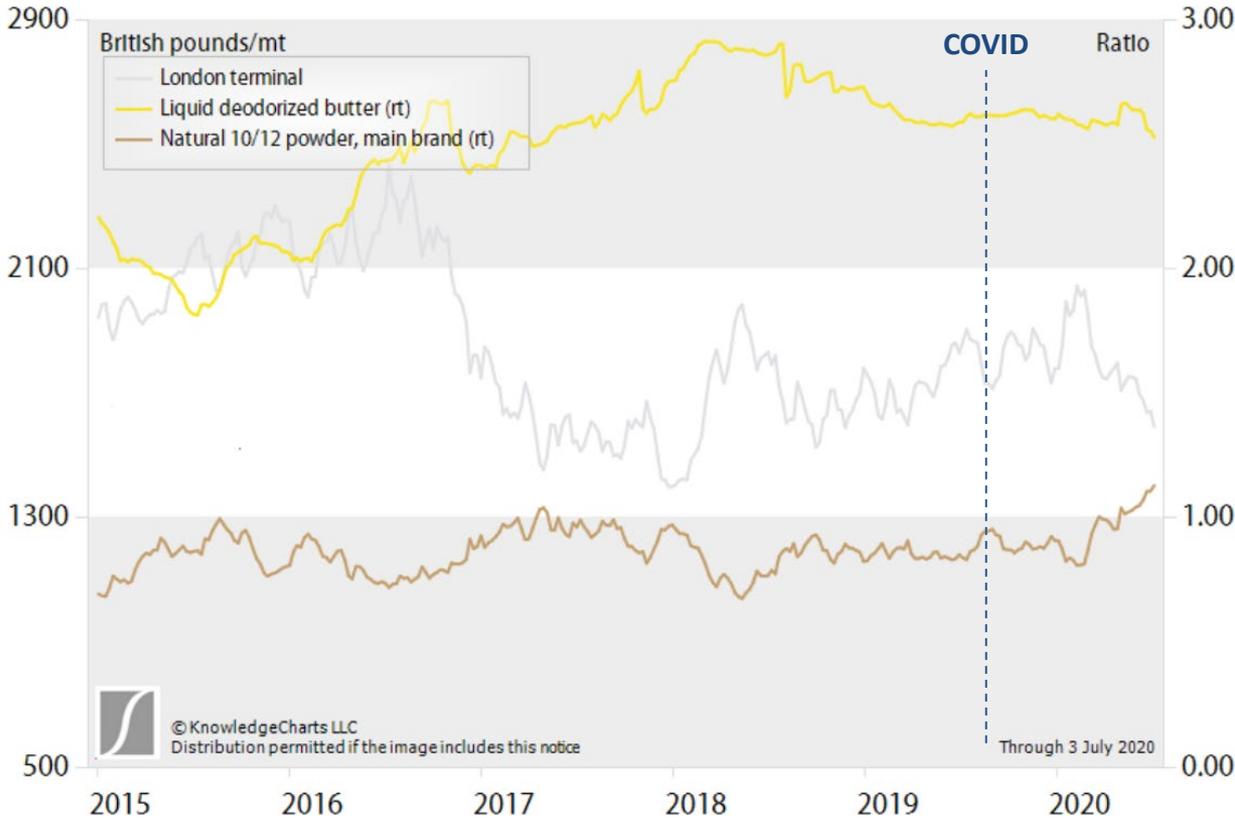


- **Least affected:** Manufacturers producing white label chocolate for supermarkets, and chocolate makers who rely heavily on supermarket shelves.
- **Most affected:** Chocolate makers relying heavily in airport sales, stand-alone stores, and those catering to focused on professionals.

Product ratios

European product ratios

Ex factory against London, six months forward

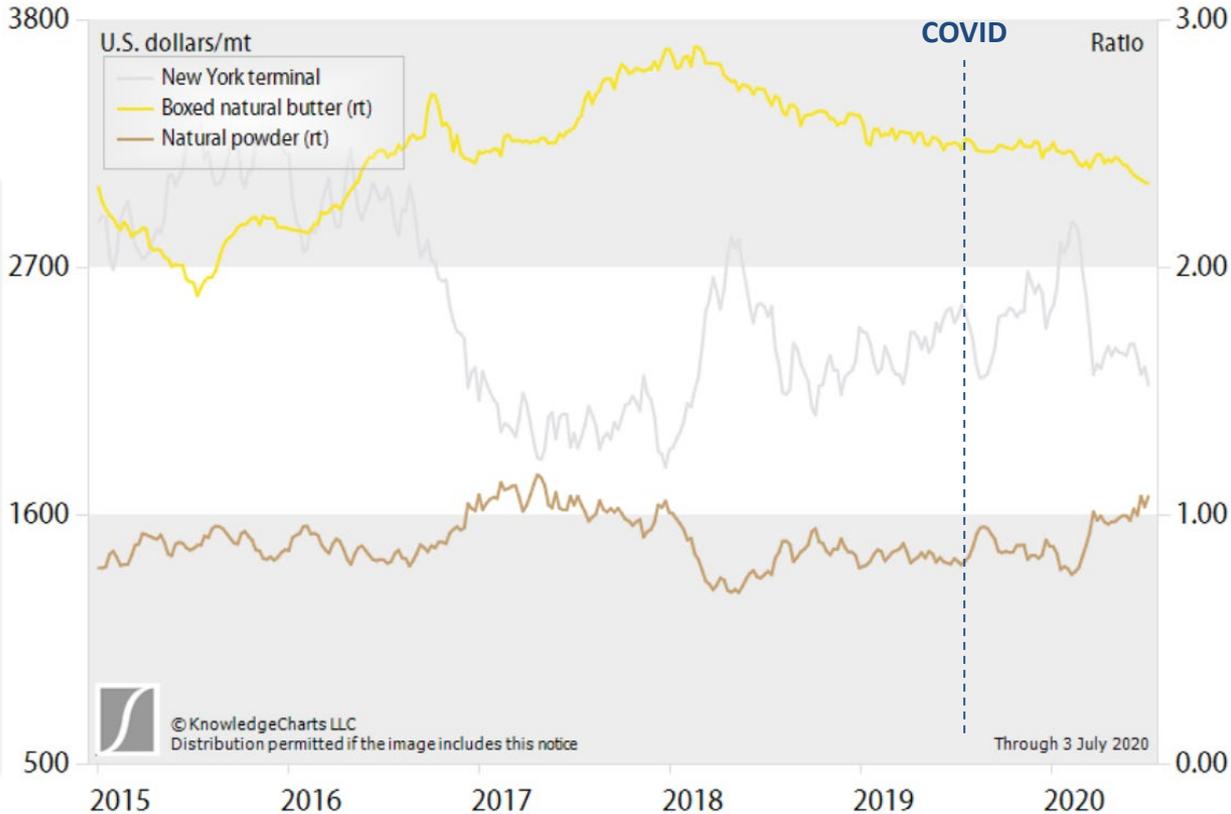


- Impossible to forecast when recovery will begin.
- A number of countries and US states putting in place restrictions, which had been lifted before.
- Unemployment still extremely high.
- Only when employment levels return to those before the crisis should we expect to see demand return to previous levels.

Product ratios

U.S. product ratios

African-type, east coast or ex factory, six months forward



- Drop in US demand has led to some users delaying deliveries of contracts.
- Reported that most warehouses carrying butter in the US Northeast are near their total capacity.

US employment key – world's largest consumer

- Pandemic causing huge unpredictable swings in US employment data figures -- adding to uncertainty.
- U.S. lost over 22 million jobs during the height of the pandemic -- restored only 7.5 million in past two months.
- U.S. added 4.8 million jobs in June -- unemployment rate fell for the second straight month to 11.1%.
- Stocks rose after the June employment numbers -- increase in new jobs exceeded the 3.7 million forecast.
- Economic recovery from the coronavirus might already be suffering a setback from a renewed surge in cases.
- Millions returned to work since states reopened in May -- deepest and shortest recession in American history.
- Economy has a long way to go to get back to normal – still a struggle in Los Angeles, Houston and Miami.
- Some states reimpose restrictions -- others plan to reopen slowly on fresh viral outbreak.
- Beware of July -- June employment survey took place before latest wave of coronavirus cases erupted.

Demand outlook – what to watch

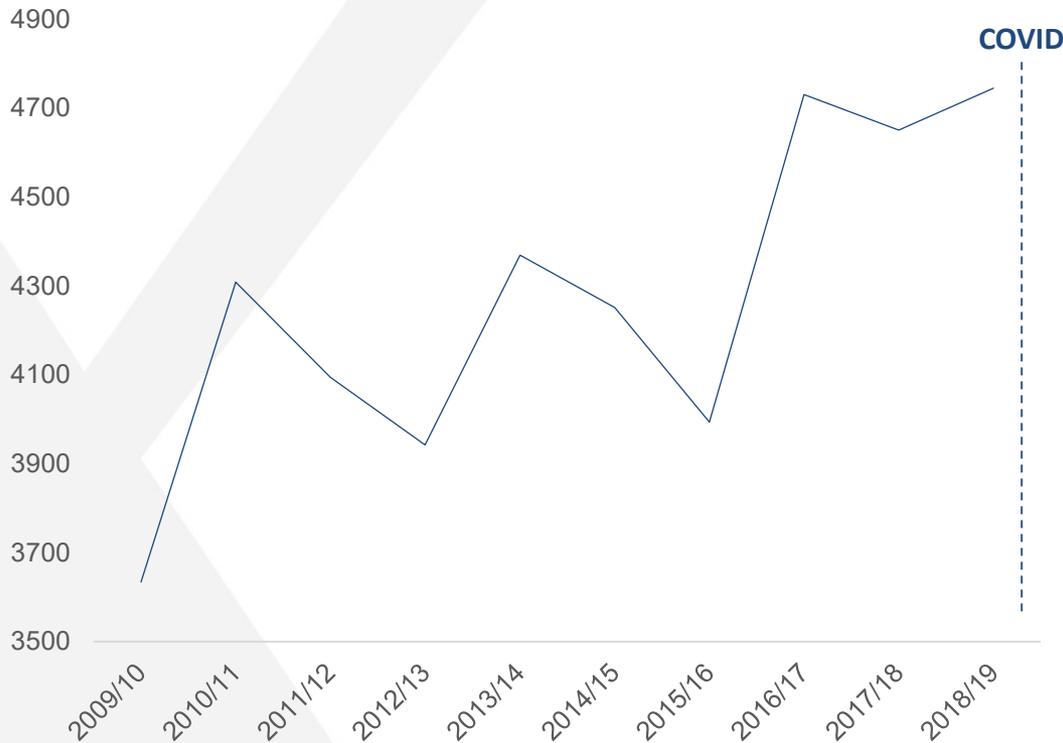
- Cocoa demand remains susceptible to underlying global economic growth.
- Global cocoa consumption to fall by 4% in 2019/20.
- Top 16 consumers unlikely to register any growth in consumption in 2019/20.
- Recovery of less than 2% in 2020/21 if virus controlled.
- Consumers will remain cautious and prefer to remain at home.
- Cocoa demand will be impacted by a decline in disposable incomes and change in shopping habits.
- Growing health concerns may reduce chocolate consumption.
- Medium-term cocoa consumption growth unlikely to be strong.
- Dark chocolate demand will increase and support overall consumption.
- Asia demand will lead any growth when virus slows -- greater potential than the global average.
- China and India demand growth forecast to fall by 4.9% and 6.1% respectively in 2019/20.
- China and India demand to recover by 2% in 2020/21.
- US consumption to fall 3% in 2019/20 – to recover 0.4% in 2020/21.
- US annual cocoa consumption will still remain strong at just under 800,000 tonnes.

SUPPLY

A GLOBAL PICTURE



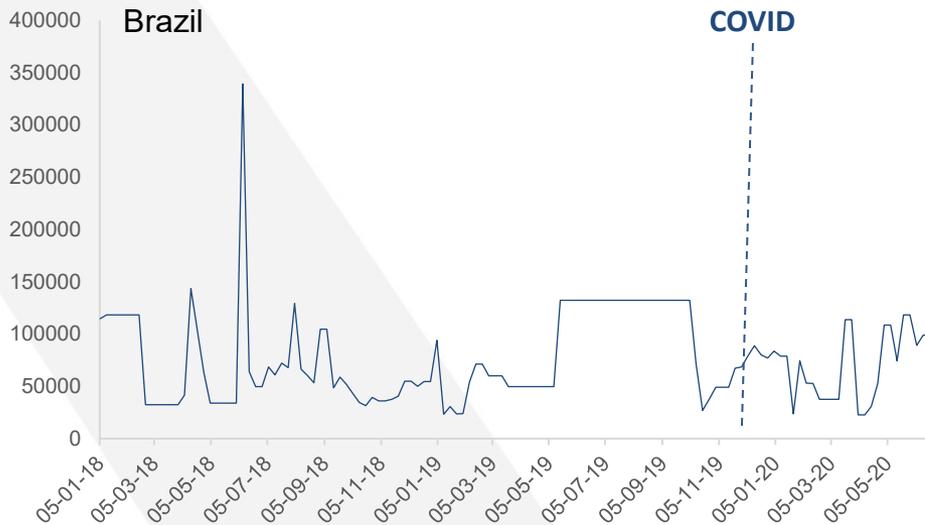
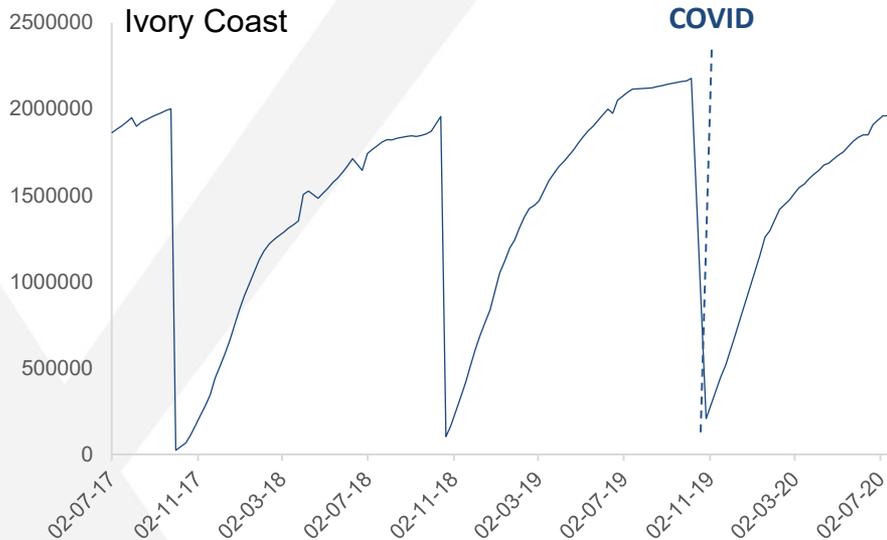
Global production



- Global cocoa deficit of 80,000 tonnes is forecast for the 2019/20 season (October to September). This is a reduction from the previous projection of 85,000 tonnes.
- Global production forecast cut by 74,000 tonnes to 4.75 million.
- Impact on deficit was offset by the 78,000 tonne cut in global grindings outlook to 4.78 million.
- Production in Ivory Coast forecast to reach 2.15 million tonnes in 2019/20 -- down from a previous projection of 2.18 million
- Ivory Coast crop hit by below average rainfall lowering expectations for the smaller mid-crop.
- In Ghana, a harvest of 800,000 tonnes is forecast, down from a previous forecast of 850,000 tonnes.
- Ghanaian farmers challenged mainly by an outbreak of swollen shoot virus.

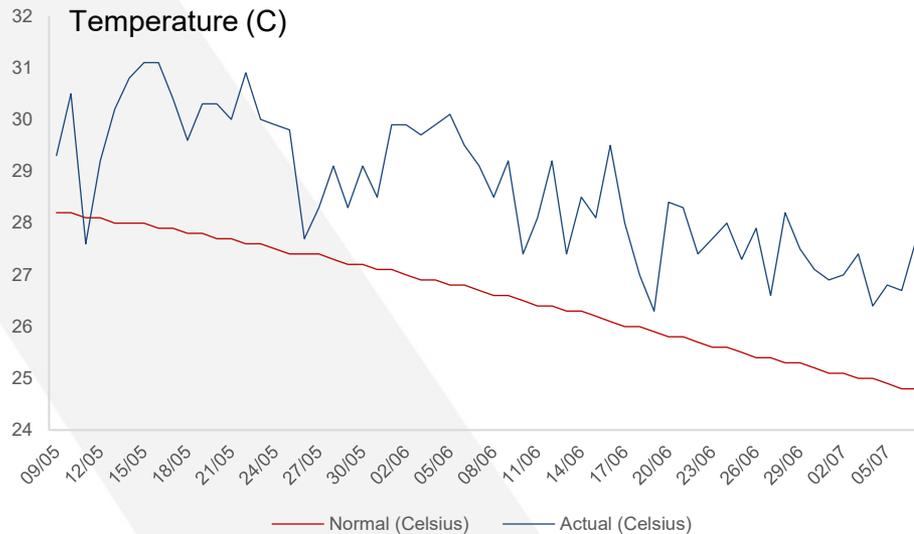
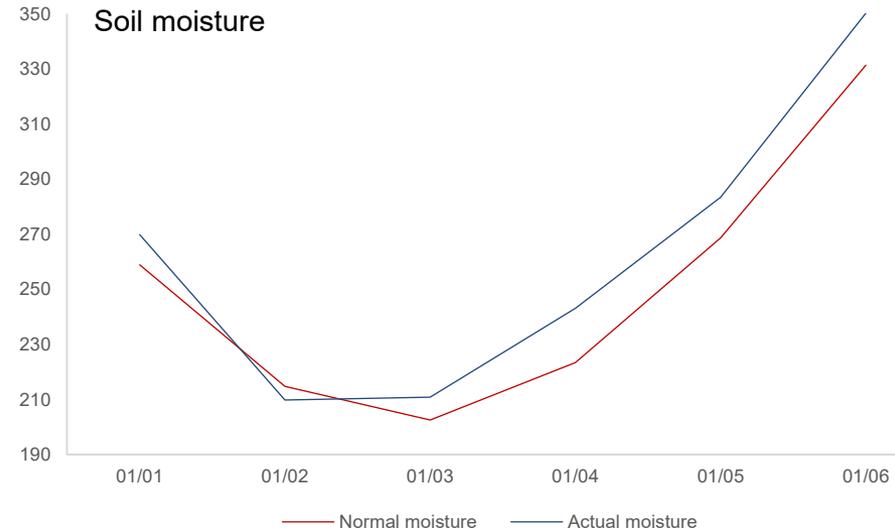
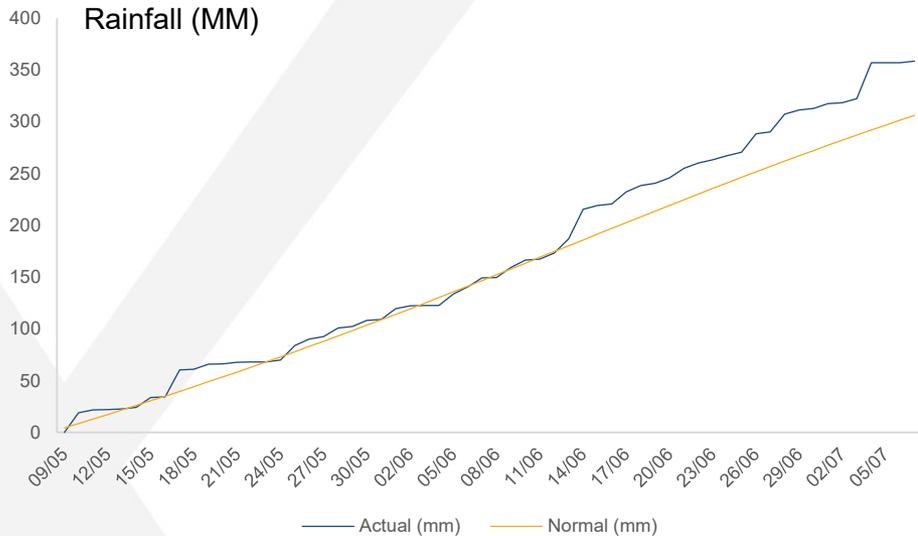
FORECAST	2018/19	2019/20	% CHANGE
AFRICAS	3624	3693	1.90%
AMERICAS	838	853	1.80%
ASIA	283	277	-2.10%
GLOBAL	4745	4824	1.70%

Port arrivals – Ivory Coast & Brazil



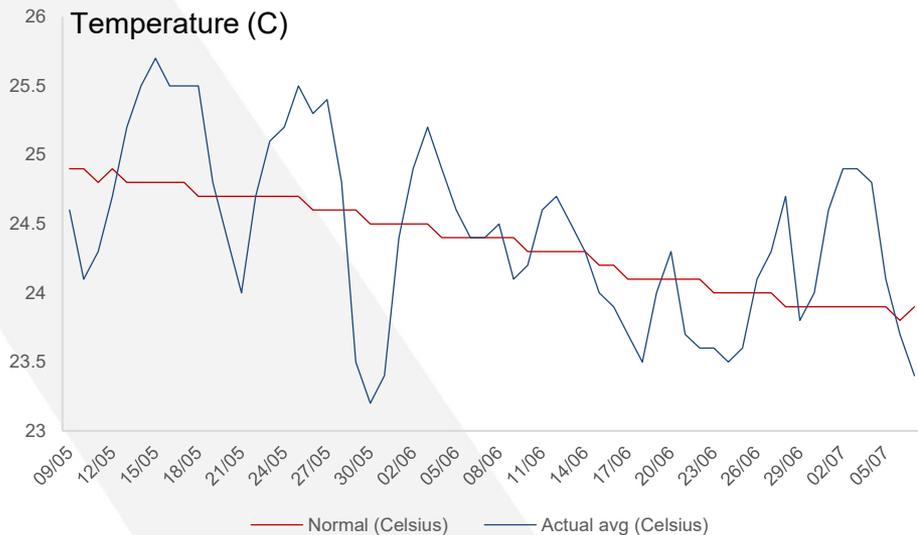
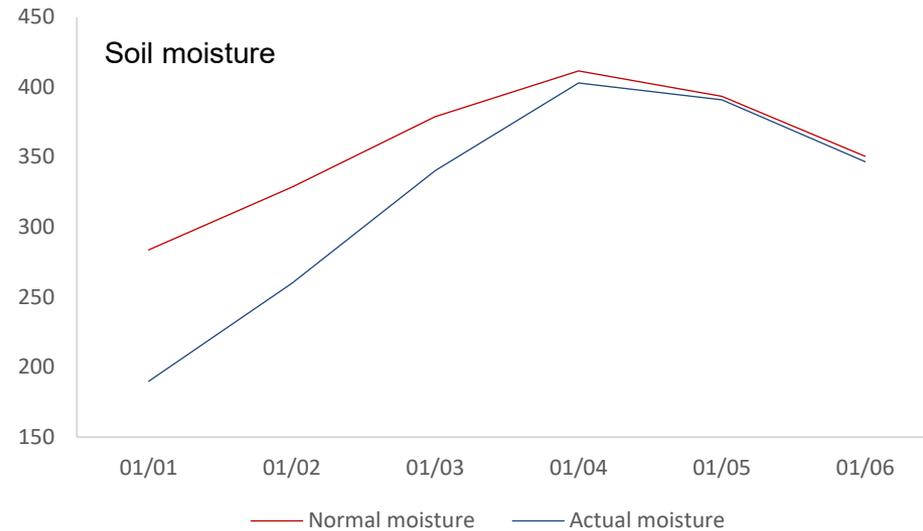
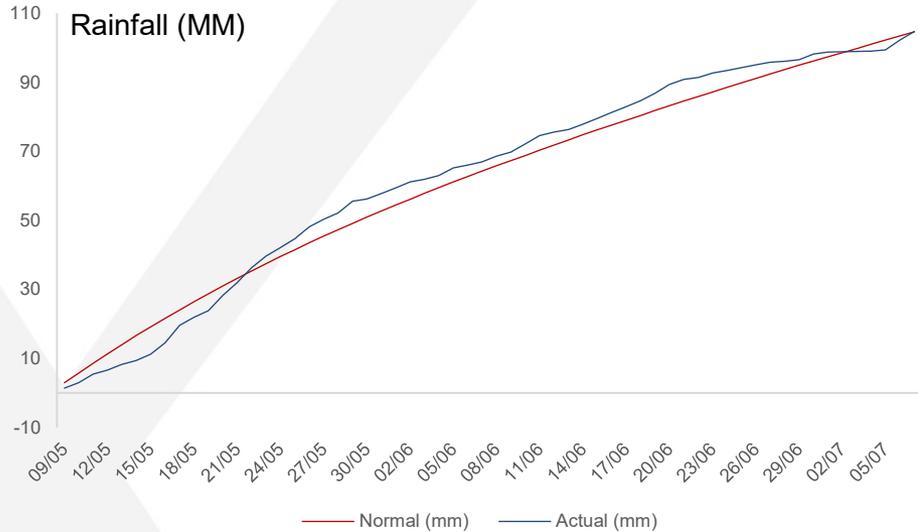
- Ivory Coast ports arrivals reached 1.986 million tonnes between October 1 and July 12.
- Arrivals down 5.9% from 2.111 million tonnes over the same period last season.
- Around 11,000 tonnes of beans were delivered to Abidjan port and 13,000 tonnes to San Pedro from July 6 to July 12.
- The total of 24,000 tonnes was up from 14,000 during the same week last season.
- Brazil total at 1,837 million tonnes -- down by 6.3% from the 1,960 million last season.
- Exports from October 19 to April 20 totaled 1,251 million tonnes -- down by 3% from the same period of last year.
- The exports of byproducts in the same period totaled 222,782 tonnes, down by 14% from the previous year.

Weather – Ivory Coast



- The weather in the Ivory Coast also weighed on prices. While the forecasts for April were mainly dry, reflecting on the Vegetation Health Index (VHI), which dropped during May, better rainfall levels were observed last week.
- Although the levels are still below average for the period, the forecasts point to improvements in the region, bringing optimism and good outlooks for the quality of cocoa beans that will be harvested in June.

Weather – North-East Brazil



- In Brazil, the early harvesting started strong in Pará and totaled 3,072 tonnes delivered.
- Meanwhile, rainfalls in Bahia have been impacting the harvest leading the state to deliver only 1,298 tonnes so far.

Supply outlook – what to watch

- Global output to fall in 2019/20 -- lower production in West Africa.
- Stronger global cocoa production in 2020/21, with output rising by 3.1%, to 4.8m tonnes.
- US\$400/tonne living income differential in Ivory Coast and Ghana will incentivise investment in the sector.
- Coronavirus pandemic will not significantly disrupt cocoa harvesting in 2020/21.
- Grinding facility expansions in Ivory Coast and Ghana may be delayed due to the coronavirus pandemic.
- Ivory Coast production will fall 3% in 2019/20 to 2.1 million tonnes -- could recover to 2.15m tonnes in 2020/21.
- Ghana production to fall by 3.9% in 2019/20, to 780,000 tonnes.
- Cameroon target of securing 600,000 tonne output in 2020 is out of reach.
- Cameroon production to rise 1.8% in 2019/20-2020/21 – if security remains stable.
- Nigeria production to fall 2% in 2019/20 – late rains impacting mid-crop quality -- increase of 4.1% in 2020/21.
- Potential for growth in Latin America, but investment will slow due to Covid.
- Ecuador production to rise 3.5% forecast per year.
- Brazil production to recover during 2019/20-2020/21 -- growth will average 11.8% per year.

CURRENCY

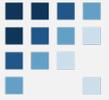
COVID & BREXIT DEVELOPMENTS



The Great British Pound



- Pound to continue as one of the best-performing currencies.
- Traders moved into riskier assets such as equities.
- British pound attracting investor attention -- rising nearly 2% so far this month.
- Many cautious investors are staying on the sidelines.
- Little has been achieved in negotiations between Britain and the European Union on a trade deal following Brexit.
- Sterling traders remain unsure how to approach the pound -- driven mostly by external factors.
- The pound is expected to weaken given that countries that are net exporters have an advantage over Britain.
- UK trade policies are expected to be in flux beyond 2020.
- Negotiations this year considered only the starting point for trade adjustments going forward.
- Traders see regulatory alignment, dispute arbitration and trade friction as issues to crop up over the medium-term.
- Trade-weighted pound has never recovered to pre-Brexit referendum levels.
- Pre-Brexit recovery unlikely until 2021.



THANK YOU

