

December 29, 2016

Cocoa Futures Remain Weak on Strong Supply Outlook

- **Nearby NY ICE cocoa range-bound:** After a six-session slide of \$236 in early December, a drop of nearly 10 percent, Mar-16 cocoa rebounded mid-month, supported by gap-filling in its rise above Fibonacci retracement resistance above \$2,265. The contract failed to hold above resistance around \$2,300, however, trending lower to range between that resistance level and the lower Bollinger Band; volume for cocoa has weakened in the second half of December. Resistance remains likely above \$2,265 and \$2,285, with support possible around \$2,190 and \$2,160. The contract has not seen a single close above the 20-day average since late September. The recent lows are the lowest for the nearby contract since April 2013. Meanwhile, the U.S. dollar index has consolidated at its recent highs, adding to pressure on commodities. Outside of new weather or market developments in West Africa, the only source of fresh news ahead will be the Q4 crush figures for major markets.
- **May-17 LIFFE cocoa has found a short-term range too:** After its own early December slide, the nearby contract has consolidated above support around £1,790; short-term support is possible around £1,805. Resistance may be seen near £1,835 and above £1,850 and £1,860. The pound has fallen steadily since mid-December.
- **Noncommercial positions turn net short:** In the last two weeks, short noncommercial positions for NY ICE cocoa futures have surpassed long positions for the first time since mid-2012. In the week of Dec. 13, commercial short positions rose to a two-month high before falling off slightly the following week; commercial long positions rose to a record high that same week but also dropped slightly in the week of Dec. 20.
- **West African weather favorable:** Current dry weather and occasional showers will support the main crop development and facilitate harvest, drying, and arrivals. Without the influence of El Niño, the Harmattan currently reported in West Africa is likely to remain mild. Thanks to rains in the last month, humidity will remain adequate to maintain the health of cocoa trees, but some pod damage is still possible before the end of the Harmattan season.
- **Ivorian arrivals up in most recent report:** For the week of Dec. 25, cocoa arrivals at major Ivorian ports were reported at around 83,000 MT, up by more than half from arrivals the same week last season; the relative strength of current arrivals underscores the difference in conditions between the current season and previous seasons. As of last report, current exports total 724,000 MT, up more than 8 percent from cumulative arrivals a year ago. Recent reports suggest that the latest decline in cocoa futures have prompted exporters to reduce and even halt the pace of their purchasing; stockpiles are growing, and storage at some facilities is running low, with backups apparently throughout the Ivorian cocoa supply chain, all the way to the farms.
- **Combined cocoa product ratio shows slight weakness:** Butter ratios have seen a slight decline, though powder ratios have held their ground.

In This Issue

- Futures' weakness slows bean purchasing
- Favorable weather in West Africa on mild Harmattan

Have questions? Contact us for answers!

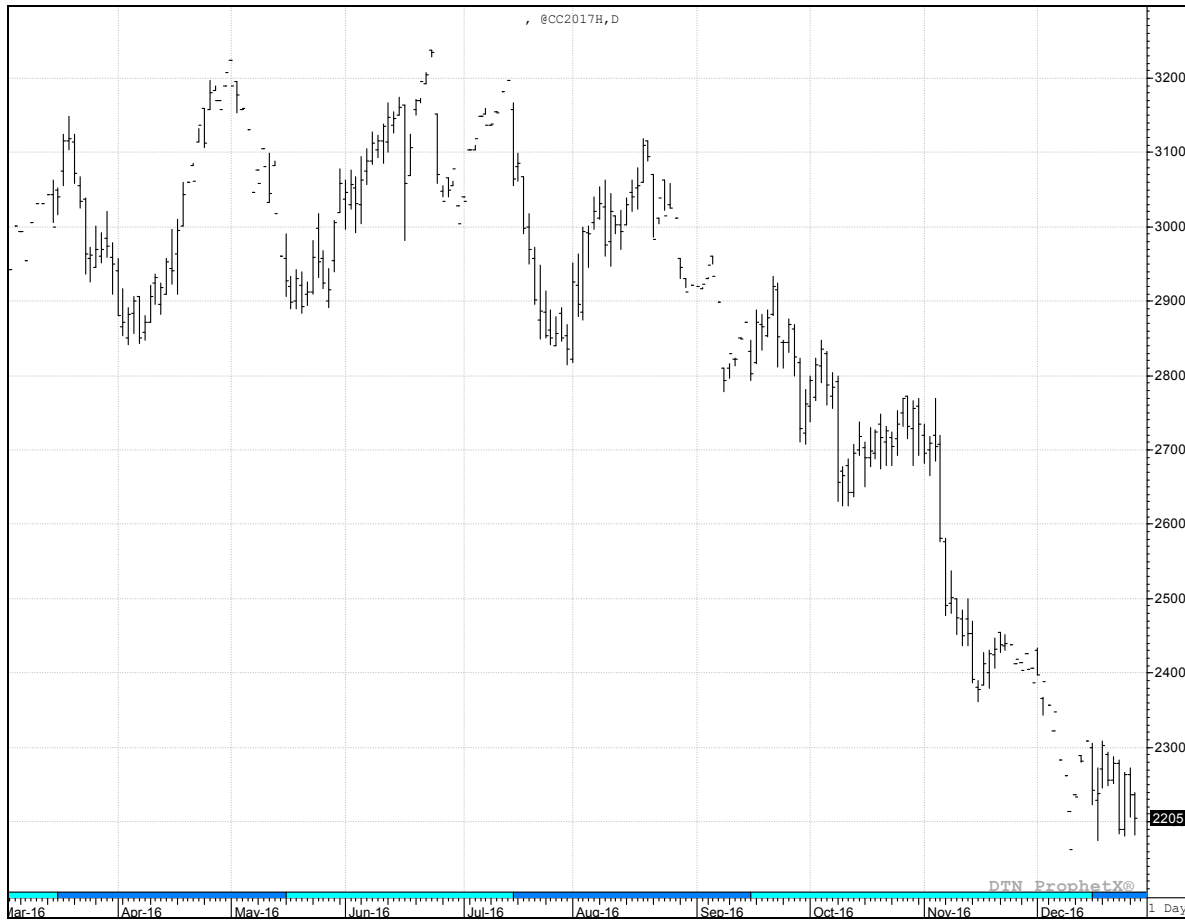
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Benchmark NY Cocoa Futures



NY Cocoa - Position of Traders

Contracts of 10 Metric Tons

<u>Processors</u>	<u>Dec 20, 2016</u>	<u>Change from Previous Week</u>
Long	106,613	-2,410
Short	118,949	-2,234
<u>Swap Dealers</u>		
Long	30,561	+144
Short	17,975	+181
Spreading	7,333	+1,110
<u>Managed Money</u>		
Long	42,720	-3,558
Short	43,694	-3,835
Spreading	10,571	+2,768
<u>Other Reportables</u>		
Long	23,188	-851
Short	24,492	+289
Spreading	16,465	-3,370

Source: CFTC

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