

Outlook for West Africa's 2017/18 cocoa sector

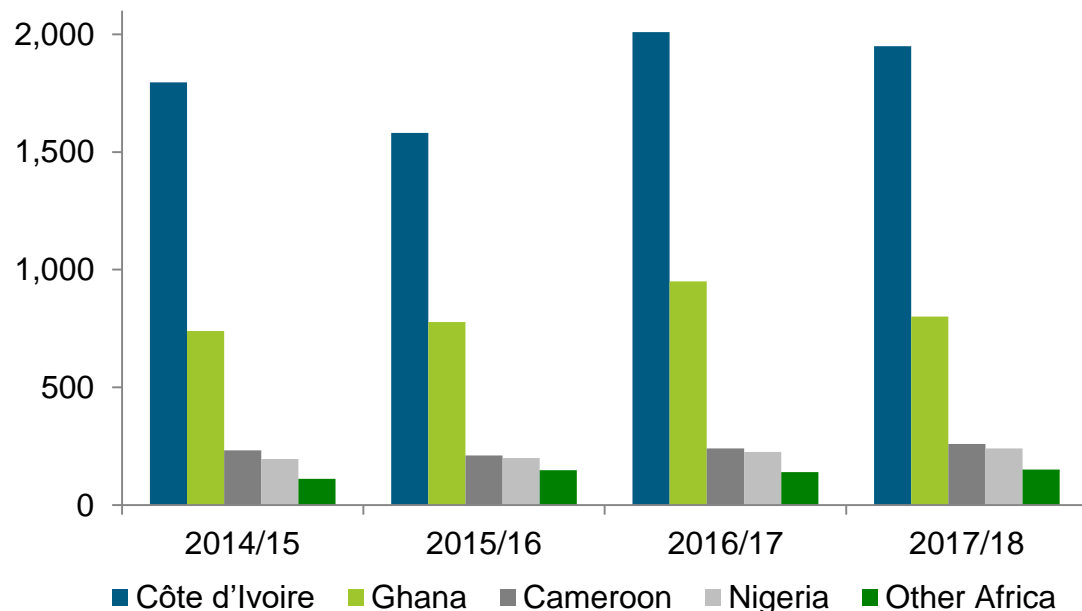
Dr Edward George
Head of Group Research, Ecobank
Berlin, 24 April 2018

@drteddgeorge / @ecobankresearch

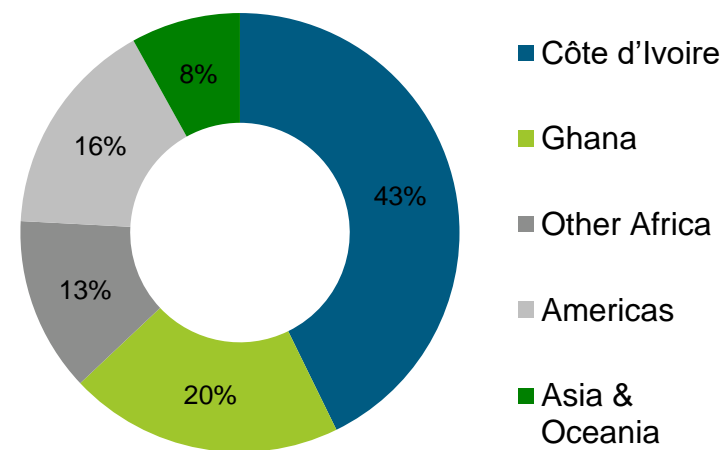
West Africa's 2017/18 season has lost steam

Côte d'Ivoire was on track for another record, but bean rejections are high

West African cocoa production, 000s tonnes



Share of world cocoa production, 2016/17



Sources: ICCO, Ecobank Research.

- High international & fixed prices, plus good weather, drove a record crop in 2016/17.
- But lower Ivorian fixed prices, bean quality issues and Ghana's ageing tree stock have reduced West African output by an estimated 6.6% in 2017/18, to 3.3mn tonnes.
- Côte d'Ivoire's crop is forecast to fall by 5.5% to 1.9mn tonnes in 2017/18, and Ghana's by over 15% to less than 800,000 tonnes.

Fixed farmgate prices are under pressure

Both Côte d'Ivoire & Ghana froze the fixed price at start of 2017/18

Fixed farmgate price (main crop), local currency & US\$

	2014/15	2015/16	2016/17	2017/18
Côte d'Ivoire (XOF/kg)	850	1,000	1,100*	700
Ghana (GHS/MT)	5,520	6,720	7,600	7,600
Côte d'Ivoire (US\$/MT)	1,356	1,681	1,849	1,217
Ghana (US\$/MT)	1,438	1,706	1,810	1,689
ICE cocoa futures (US\$/MT)	3,060	3,107	2,132	2,450
Côte d'Ivoire (% of ICE price)	44.5%	54.1%	86.7%	49.7%
Ghana (% of ICE price)	47.0%	54.9%	84.9%	68.9%

* Reduced to XOF700/kg for the mid-crop.

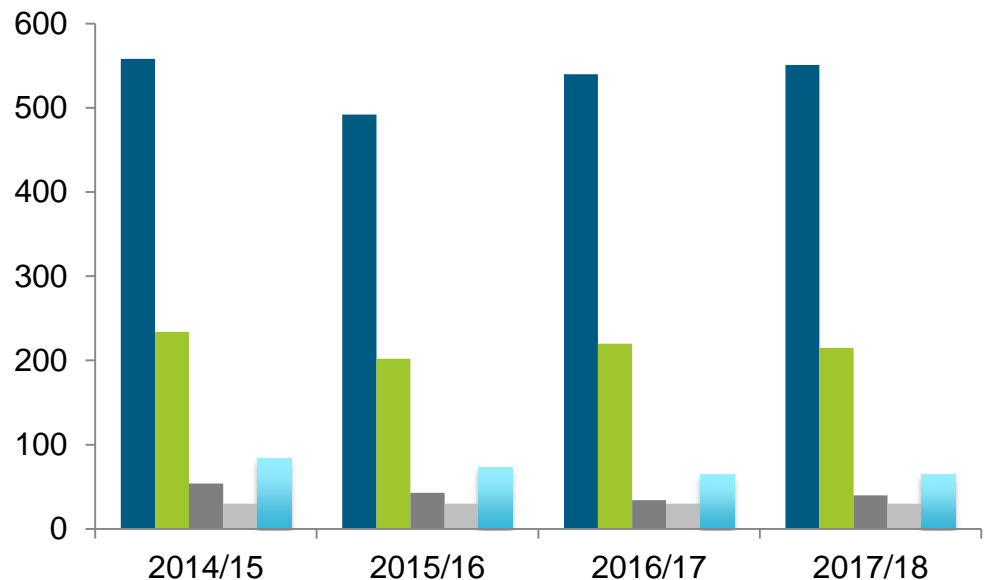
Sources: CCC, Cocobod, Bloomberg, Ecobank Research. ICE cocoa futures average for season.

- Last season Côte d'Ivoire & Ghana's fixed prices became seriously misaligned with international prices.
- CCC acted first, reducing mid-crop price to XOF700/kg and leaving it unchanged for the new main crop.
- Cocobod waited until the start of the new main crop, freezing the price (which with inflation is a small cut).
- Côte d'Ivoire's price is now back in its previous range of 45-55% of the international FOB price, while Ghana remains high at 69%.
- Côte d'Ivoire's approach has helped drive a modest crop reduction & a drop in speculative planting, but Ghana could struggle to pay farmers if the recent cocoa price rally fades.

West Africa's grind continued to grow in 2016/17

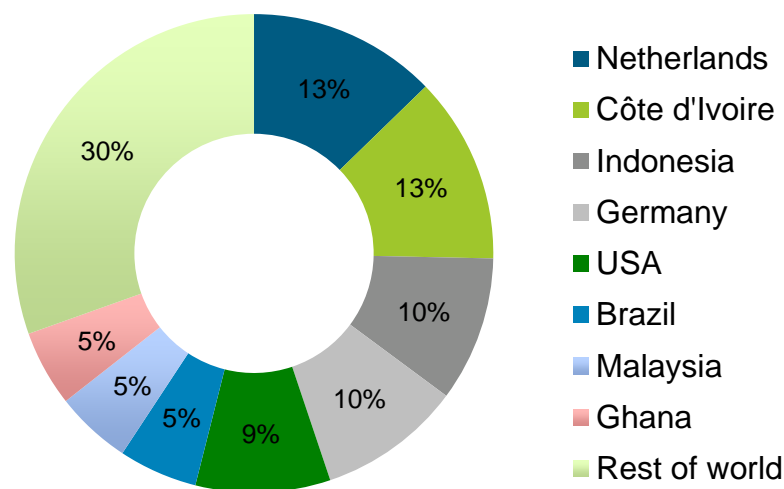
Côte d'Ivoire is the world's joint No.1 grinder (alongside Netherlands)

West Africa's cocoa grind, 000s tonnes



■ Côte d'Ivoire ■ Ghana ■ Nigeria ■ Cameroon ■ Other Africa

Share of world cocoa grind, 2016/17



Sources: ICCO, Ecobank Research.

- Côte d'Ivoire's cocoa grind is almost back up to its previous peak in 2014/15, and it is forecast to reach 550,000 tonnes in 2017/18, increasing the regional grind to 900,000 tonnes.
- Ghana's grinding sector has struggled to grow, with output expected to be flat in 2017/18.
- Other grinders in Africa (Cameroon, Nigeria) have struggled to build scale & profitability.

Cocoa sector reform has had mixed success

Conseil Café Cacao (CCC)

- **Improving farmer livelihoods**

CCC has delivered a strong fixed price to farmers, but has been prepared to bite the bullet and lower prices when needed.

- **Forward contract auctions**

Successfully introduced in 2012, but stumbled last season after several SMEs reneged on contracts when the price moved against them, disrupting marketing of crop. Licensing has been streamlined this season in effort to reduce this problem.

- **DUS & Barème are still an issue**

Calculation and enforcement of export tax (DUS) and shipping costs (barème) remain contentious for shippers and require further reform to ensure the incentives are right.

Ghana Cocoa Board (Cocobod)

- **Fixed price regime**

Cocobod has delivered a consistently high fixed price to farmers, but the sustainability of this policy is in question.

- **Overhang of previous leadership**

Major investigations into fraud and mismanagement by previous leadership have hindered roll-out of some programmes.

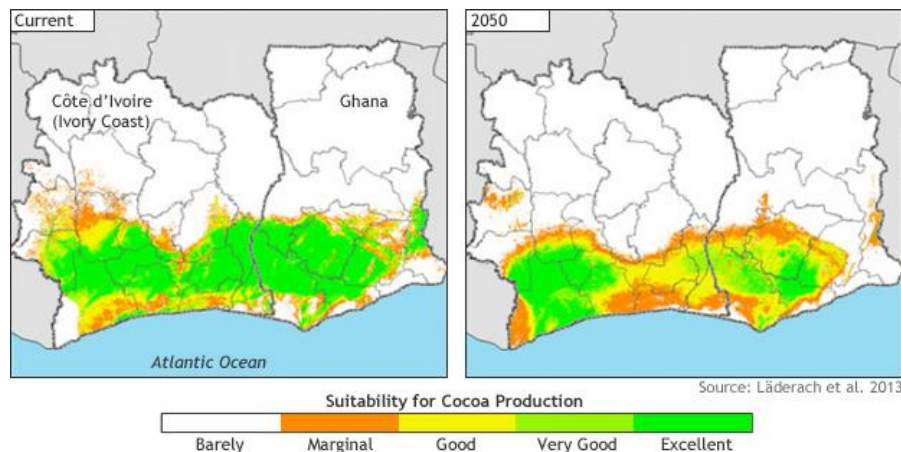
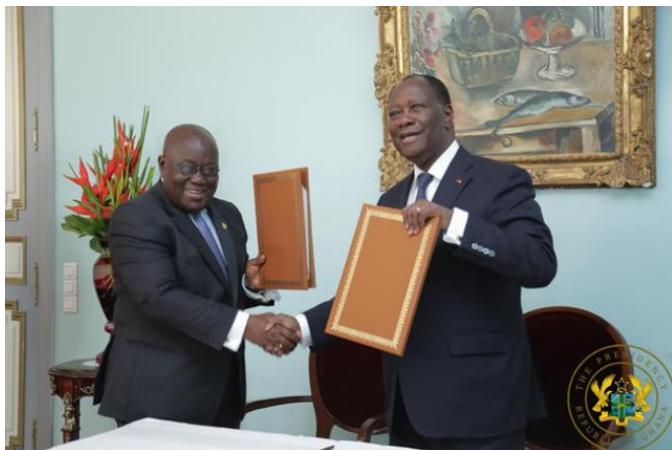
- **Review of input policy**

Root-and-branch reform is under way, reviewing structure of Cocobod and its role as provider of plant stock, inputs & pricing.

- **Grinding sector**

Viable alternative to discounting light crop needs to be found to support local grinders as light crop is getting smaller each season.

The Abidjan Declaration: laying down the gauntlet



- Signed by the presidents of Côte d'Ivoire & Ghana on 26 March 2018, this commits both countries to boost cooperation in their cocoa sectors and introduce uniform pricing.
- Both countries have committed to jointly announcing their respective fixed prices at the start of the next season (2018/19), and to harmonise their marketing policies.
- Key part of effort to stamp out smuggling & increase state revenues, as the strong price differential between the two countries' fixed prices is a major incentive to smuggle.
- Potential for Ivorian cocoa to erode Ghana's historical margin over it, especially if the quality & reliability of Ivorian contracts can be improved to match that of Cocobod.
- Ambitious plans to build strategic stocks in West Africa & to exert control over international prices (like OPEC) are fraught with technical challenges, not least building infrastructure, logistics & warehousing that can maintain cocoa quality in tropical climates.

Thank you

Announcing our website



Africa **FICC** Fixed Income
Currency
Commodities

Ecobank
The Africa Bank

CONTACT US 

HOME

OVERVIEW

Welcome to local
knowledge

Featured Research
Coffee

Coffee is a brewed drink prepared from roasted coffee beans, which are the seeds of berries from the Coffee plant in tropical Africa and Madagascar.

READ MORE

Ecobank Research
@EcobankResearch

Mr Patrick Akimwutan, Group Executive
@GroupEcobank engaging Stakeholders on
Financial inclusion @fintech_ng @Dinstitute
#FinTechNigeria

2 days ago

www.ecobank.com/africaficc