

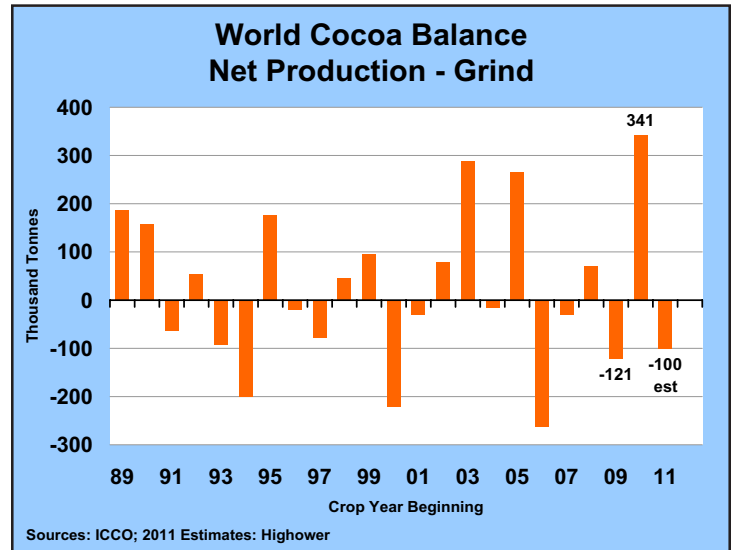


Cocoa - World Production Deficit Ahead!

February 27, 2012

The cocoa market saw some extreme price movement during 2011, first reaching multi-decade highs in March and then losing nearly half of its value by year's end. The main catalyst for the price volatility was the political situation in the Ivory Coast, where a civil war triggered by a disputed Presidential election resulted in an export ban for cocoa and other key commodities. Once opposition forces were able to gain control of the Ivory Coast, the resulting build-up of cocoa supplies was able to once again reach markets in Europe and North America. In addition, the 2011/12 season resulted in all-time record high cocoa crops for several major West African producers. Ivory Coast cocoa port arrivals were over 1.5 million tonnes, while official cocoa purchases in Ghana reached the 1 million tonne level for the first time ever. This resulting supply "glut" was matched by sluggish global demand levels late in the year and kept prices under considerable pressure. A turning point may have been reached early in 2012 that may provide cocoa prices with an opportunity to post solid gains during the next few months.

The Ivory Coast remains the focal point of the cocoa market, and it may be that this season's crop will provide the cornerstone for an extended rally. Excessively dry conditions over the past few months, due in large part to a severe edition of the "Harmattan" winds, has caused a severe decline in



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Futures Analysis & Forecasting

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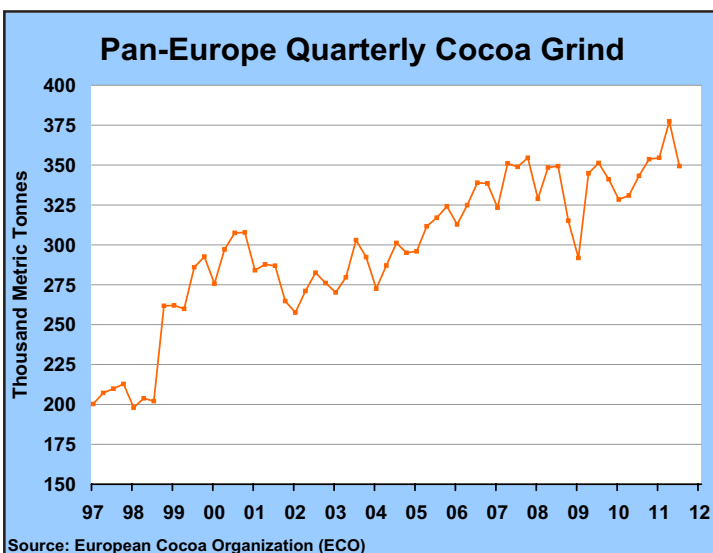
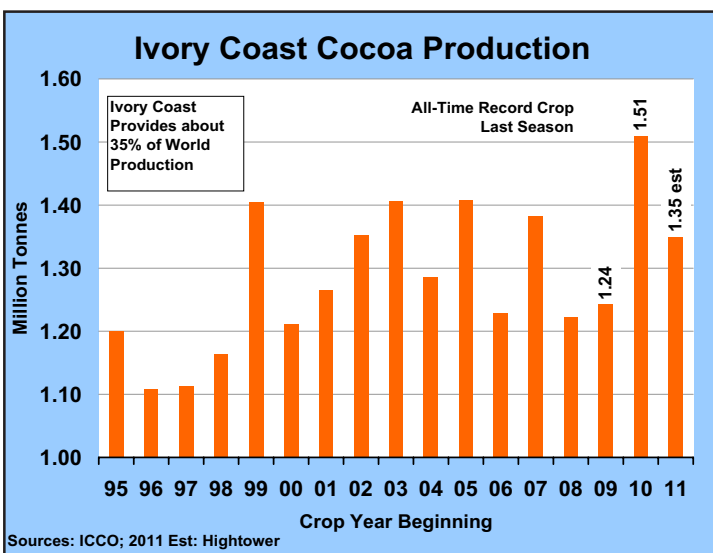
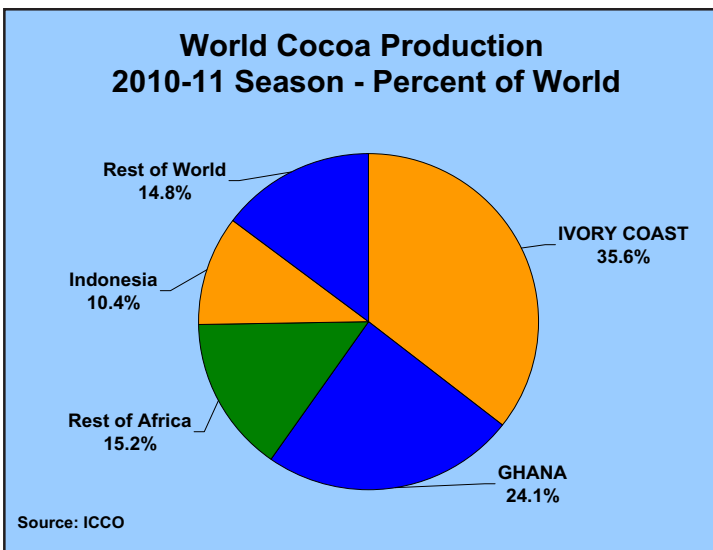
recently harvested cocoa levels. The full impact of these negative crop conditions may not be fully seen until the upcoming mid-crop is harvested later on this year. As of mid-February, this season's Ivory Coast cocoa port arrivals were running around 80,000 tonnes behind last season's pace, and they are likely to lose further ground as the season goes on. Many analysts are cutting back on their forecasts for the Ivory Coast this season, as the crop could see a much larger decline than the 10% that the International Cocoa Organization (ICCO) is currently projecting.

Other key cocoa producing nations are having difficulty reaching last season's record totals. Ghana's official cocoa purchases were running ahead of last season's levels at the end of January, but officials have already targeted a crop total more than 10% below last year. Problems with insects are likely to reduce this season's cocoa production in Cameroon, while dry weather and political instability could reduce Nigeria's cocoa output by as much as 20%. While Indonesia is expected to show some improvement from last year's severe reduction in cocoa production, it may take several years for that nation's cocoa industry to recover back to "normal" levels.

Recent quarterly cocoa grindings data from Europe and North America were a disappointment to many traders, but they may have been a reflection of the general anxiety in global markets during the fourth quarter of 2011. The positive turnaround in macroeconomic sentiment since the holiday season is likely to improve cocoa demand levels, as well as relieving the pressure on commodity markets and feeding into the shift towards a "risk-on" attitude in the market. In addition, there are widespread expectations that emerging market economies will see a sharp increase in cocoa demand over the course of 2012.

One factor that has caused some concern to the bulls has been the introduction of reform measures in the Ivory Coast, which include forward sales of their upcoming 2012/13 crop. However, any negative impact on prices would be more than offset by the prospect of diminishing supplies and the possibility that this season's global supply deficit will grow much larger as the year goes on.

From a technical standpoint, a turning point in the cocoa market may have come when May cocoa followed a retest of the mid-December lows with a \$302 rally over the next two sessions. Cocoa prices have been forming a bottom over the



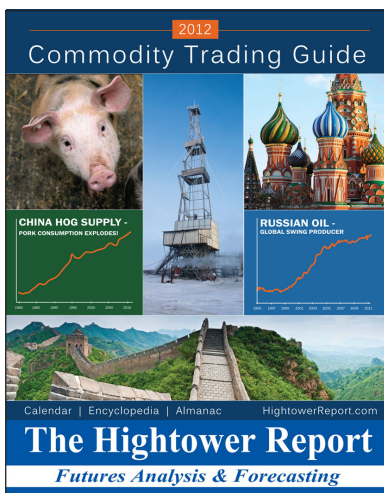
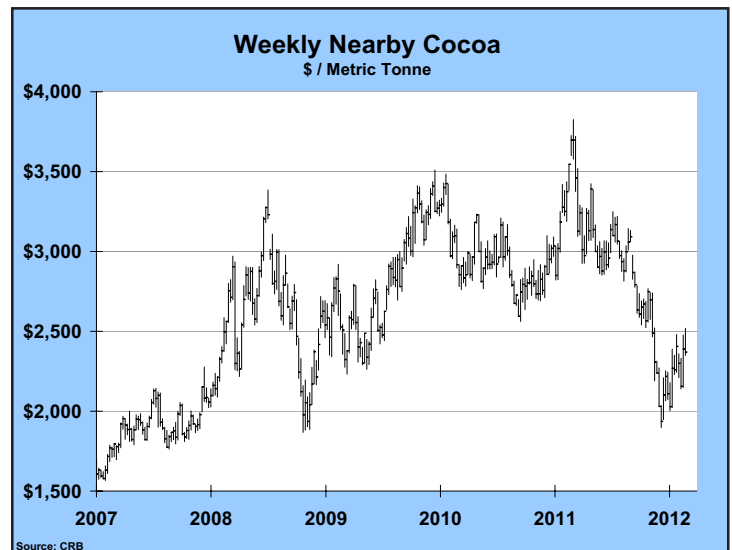
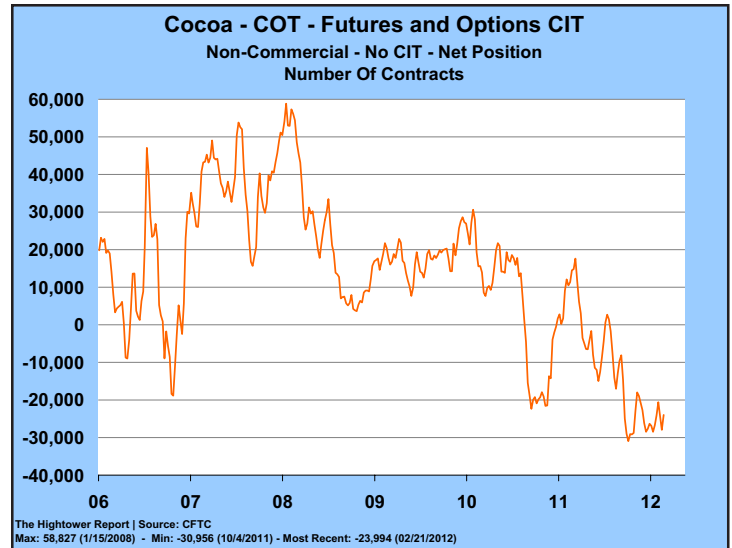
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past two months and have rejected another extended move below the \$2,200 level earlier this month. The Commitment of Traders report as of February 21st showed that trend-following fund traders (non-commercial excluding commodity index funds) were net short a whopping 23,994 contracts and were closing in on their largest net-short position in at least 6 years. This could lead to extensive fund short-covering in cocoa futures if a strong longer-term rally were to take hold, and it would likely help to strengthen the upside momentum of the market.

Suggested Trading Strategies:

1) Buy May Cocoa at 2324 with an objective of 2807. Risk the trade to 2254.

2) Buy the July cocoa 2550 call at 117 with an objective of 325. Risk a total of 55 points from entry.



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