

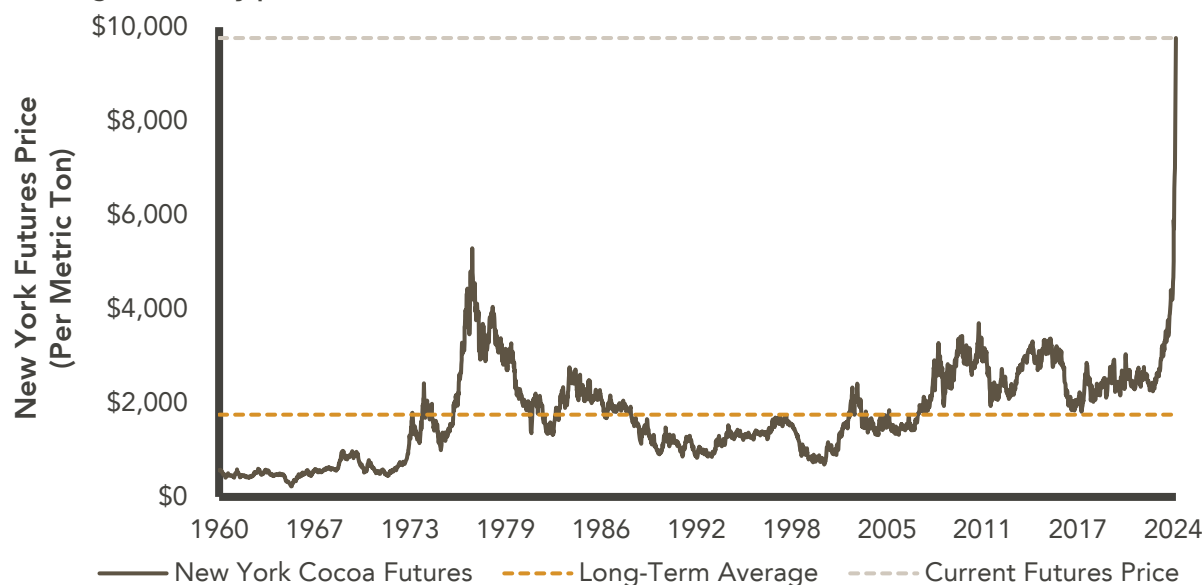
# Chart of the Week

April 1, 2024

## Sweet and High Up

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▾ Cocoa futures prices have gone parabolic in recent months due to supply constraints and financial challenges faced by producers



Source: Bloomberg, ICE Futures US as of March 31, 2024

Chocolate eggs and bunnies may have appeared more expensive to shoppers this Easter weekend, as the price of cocoa futures has surged by around 125% since the beginning of 2024. New York futures prices saw a roughly 50% increase in the month of March alone and now sit at an all-time high of just below \$10,000 per metric ton. By comparison, copper futures prices sat at approximately \$8,900 per metric ton as of this writing, meaning cocoa is currently more expensive than the bellwether industrial metal.

The drivers of this dramatic increase in cocoa prices involve difficulties faced by the two biggest growers of the commodity: Ivory Coast and Ghana. Specifically, both nations have seen production hampered by strong seasonal winds and a lack of rainfall, as well as a prevalent disease known as swollen shoot virus, which serves to kill cocoa trees and leads to a drop in yields. To make matters worse, the Ghana Cocoa Board, which depends on foreign financing to compensate domestic farmers, may soon lose access to a critical funding facility due to a lack of beans. Due to these challenges, experts currently expect cocoa production shortfalls ranging from 150,000 to 500,000 tons over the next few seasons.

As readers might imagine, these dynamics are creating turmoil within futures markets. Investors with short positions have been forced to either manage margin calls or purchase contracts to close out their shorts, which

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can exacerbate price action. Pain has not been limited to futures market participants, as consumers have been forced to stomach chocolate prices that have climbed by roughly 10% over the last year. Additionally, it is possible that more shelf price increases are on the way, as producers of chocolate often hedge their purchases of cocoa months in advance. All of this said, it is unlikely that these developments will have a material impact on capital markets broadly. In other words, a diversified portfolio is one of the best ways for investors to keep their returns sweet! ■

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