Tightness lingers in the cocoa and coffee market

Cocoa and coffee prices have seen extreme volatility over 2024. We think that tightness in these markets coupled with weather uncertainty means that prices are likely to remain volatile through 2025

Arabica coffee beans being picked on an organic farm in the Alta Mogiana region of Franca, Sao Paulo, Brazil

Cocoa to shift from deficit to surplus

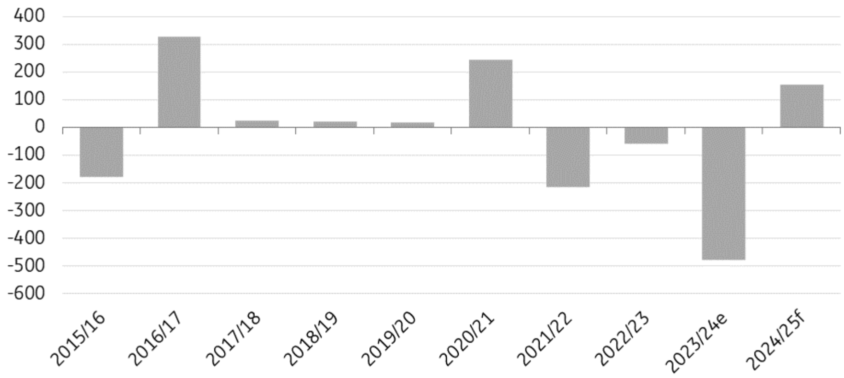
Cocoa prices have remained volatile with concerns over supply tightness in the market through the 2023/24 season. Low stock levels have also left the market extremely sensitive to developments with 2024/25 crops which are currently being harvested. As a result, we saw London cocoa prices peaking to a record high of GBP10,625/t in April, which was followed by a sell-off to below GBP5,000/t in September, only to rally back above GBP8,000/t more recently with renewed concerns over West African output.

The 2023/24 marketing year saw the global cocoa market register a deficit of 478kt, the largest in over 60 years and also the third consecutive year of deficit. This shortfall was driven by crop failures in West Africa, particularly Ivory Coast and Ghana. The deficit drove global cocoa stocks to the lowest level in more than a decade, while the stocks-to-grinding ratio fell from 35.3% to 27.9%, the lowest level since at least 2008/09.

While prospects for the 2024/25 marketing year are looking better, there are still concerns over weather developments in West Africa and what it could mean for output this season. Forecasts currently show that West African output – which accounts for more than 70% of global output – will edge higher. However, there are risks to this due to recent poor weather.

Stronger output and expectations that demand will remain below 2022/23 levels mean that the global market could see a surplus of a little over 150kt in 2024/25. Despite the return to surplus, the market is likely to remain highly sensitive to weather developments. Firstly, there is the risk that poor weather (which we have been seeing recently) could quickly erode this surplus. Secondly, historically tight stocks are likely to keep the market very sensitive to any supply and demand developments. Even if our estimated surplus is realised, the stock-to-grinding ratio will only increase to 30%, which is still the second lowest since at least 2008/09.

Global cocoa market to return to surplus but there are risks (k tonnes)

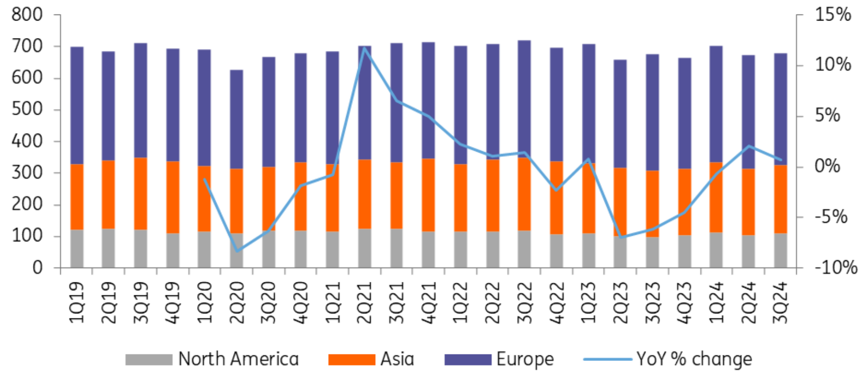


Source: ICCO, ING Research

High cocoa prices still needed to keep demand in check

Not only are prices likely to remain historically elevated due to uncertainty over the West African crop outlook and tight stocks, but prices need to stay high to keep a lid on demand. Grinding data in Europe, North America and Asia shows that total grindings over the first three quarters of this year were up just 0.7% year-on-year, and that is after falling 4.2% YoY in 2023. For 2025, we are assuming modest growth in demand, which still leaves the market in surplus over 2024/25.

High prices keep cocoa grinding in check (k tonnes)



Source: ECA, CAA, NCA, ING Research

Another deficit year for the coffee market

Coffee prices surged to almost a 50-year high in November. Arabica hit a high of USc335/lb at one stage and prices are up almost 70% this year. Drought conditions in Brazil for much of the year have raised concerns over supply for next season. As the top Robusta producer, Vietnam has also faced its own issues. This was reflected in the narrowing in the Arabica-Robusta spreads through until September.

The scale of the move in the market has been exaggerated by positioning with shorts having to run in and cover positions as the market has moved higher. The scale of the move would have also made any seller hesitant to enter the market, given the risk of large margin calls they would face.

The European Union Deforestation Regulation (EUDR) was another layer of uncertainty facing the market. The regulation was set to come into force in December 2024, but the Commission recently decided to postpone this by a year. The regulation will be important for the production and trade of coffee, given that the EU is a key importer in the global coffee market.

For Brazil, 2024/25 coffee output has suffered due to the unfavourable weather in the growing regions. The USDA lowered its Brazilian coffee output estimate by 5% to 66.4m bags, which leaves the crop only marginally higher YoY. Arabica coffee production, which makes up 68% of total Brazilian output, is expected to grow only 1.1% YoY, while the Robusta crop is expected to fall 1.9% YoY.

Drought conditions through much of 2024 are raising concerns for the Brazilian 2025/26 crop, which starts in April. The region has seen rainfall since October, which may help ease some of these concerns – although early estimates are still pointing towards a decline in Brazilian coffee output next season.

The global coffee market is set to face its fourth consecutive season of deficit and depending on how the 2025/26 Brazilian crop plays out, it could be facing a fifth year of deficit.

While certified stocks held by ICE have increased since late last year/early this year at less than 1m bags, stocks are still well below historic levels, highlighting the tightness the coffee market is facing. In 2021, these stocks exceeded 2m bags.

Tight coffee stocks and the persistent deficit environment are likely to keep the forward curve in backwardation. Prices are likely to remain volatile and elevated, at least until we get some further clarity on the 2025/26 Brazilian harvest.

ING forecasts

	1Q25	2Q25	3Q25	4Q25	FY25
London Cocoa (GBP/t)	6,000	5,400	5,000	4,400	**5,200**
ICE Arabica (USc/lb)	280	260	250	280	**268**

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com