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## COMMODITIES CORNER

## Cocoa Prices Go Cold

By DEBBIE CARLSON

*Turns out cocoa isn't recession-proof.*

## DJ-AIG Commodity Indexes

**MAYBE CHOCOLATE ISN'T A RECESSION** refuge after all.

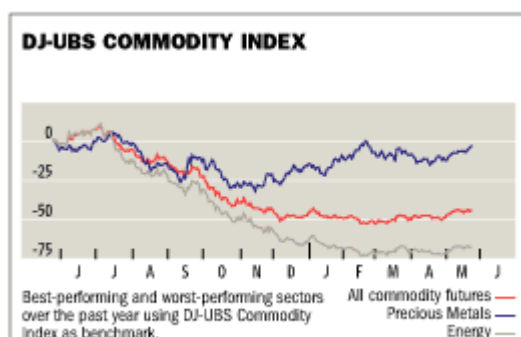
Cocoa prices rallied earlier this year on supply deficits and thoughts that even an economic slowdown wouldn't persuade anyone to deny his sweet tooth. But there are signs that even this most comforting food is subject to the pocketbook.

In mid-May, the International Cocoa Organization said it expects worldwide cocoa demand to see its largest yearly decline in 50 years because of the gloomy global economy, and the group narrowed the size of the expected production deficit. Furthermore, the Commerce Department also said this month that U.S. cocoa imports were down 30.6% in March and 36.5% below their levels a year ago. This news chipped away at prices, and the bulls' bellyache might not be over.

The mid-crop cocoa harvest is beginning in the world's top grower, the Ivory Coast, so supply is flooding the market as prices melt.

Technical price charts also favor the bears as seasonally, cocoa prices start to set their annual low in early June, says John Person, president, NationalFutures.com and contributing editor of the Commodity Trader's Almanac. "If cocoa falls to \$2,000 to \$1,800 [a metric ton], I would absolutely be a buyer," Person says.

Even if they are right, the bears will have to be patient. Friday, ICE Futures' U.S. July contract cocoa settled at \$2,420, up 4.04% on the week, as the dollar weakened.



Shawn Hackett, president of advisory firm Hackett Financial Advisors and publisher of the Hackett Money Flow Report, says that \$1,900 to \$2,000 July cocoa would be fairly priced for now. He believes cocoa demand will contract further this year and into 2010, tempering prices, provided there are no problems with supply.

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So far, demand for chocolate on the low end of the spectrum is holding up. This was most visible in [Hershey](#)'s (ticker: HSY) quarterly earnings, which were better than expected, boosted by consumers trading down to more moderately priced treats. But even the chocolate giant is worried volumes will fall later this year.

All things being equal, both Person and Hackett said candy companies such as Hershey and **Nestlé** (NESN, Switzerland) look fairly valued. Lower cocoa prices could spell good news for chocolate producers, of course. "Hershey has been known to come in and lock in prices in the market," Person says. Yet he notes: "While cocoa prices might be down, others are rising, like sugar and like wheat."

Hackett says that candy companies in the U.S. -- the biggest consumer -- face more than just a slumping economy. The biggest sweet-consuming demographic is the five-to-20-year-old age group, but that is shrinking. That is one reason the companies were targeting adults with more premium-type offerings -- the kind now dwindling. "This is a longer-term headwind for them," he says.

Person is less pessimistic. "Cocoa is a product that doesn't get knocked off the shelf in bad times. People are doing their part to be fashionable and do their part to trim excess...but we aren't going to see a huge dip in demand."

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