Chocolate lovers should stock up as Ebola threat sparks speculation in cocoa futures

Ebola and chocolate don’t have much in common; however, the price of the latter has become inextricably linked to the spread of the former. Chocoholics don’t have to visit West Africa to be affected by the Ebola virus; chocolate is at risk because the price of cocoa is skyrocketing. Fear of the Ebola virus spreading to the Ivory Coast, the world’s largest producer of cocoa, and to its neighbor Ghana, one of the fastest growing cocoa producers. Neither country have yet recorded any cases. Ivory Coast has long shut its borders with neighboring Liberia and Guinea, which supply many of the seasonal workers who would now have been arriving on the cocoa plantations to supply the labor for the harvest. The Ivory Coast produces an average of about 1.6 million tons of cocoa a year, 33% of the world’s total and the shortage of laborers combined with market speculation over the Ebola epidemic will send prices of chocolate products skyrocketing ahead of the Christmas season, when demand for the delicious bean is highest. Prices – and quality chocolate consumers – have already felt the shock on prices (cocoa futures have surged), while major international companies in the sector are organizing to raise funds to donate in aid to combat and prevent the virus.

The World Cocoa Foundation (WCF) has asked its 15 members, including Nestlé and Mars, to donate while Barry Callebaut, one of the largest international companies operating in Ivory Coast’s cocoa sector, have already adopted on the spot preventative measures for all employees. The Ivorian government has ordered the closure of borders with its neighbors since last August and September the cost of cocoa futures have surged from an average of between USD$

2,000-2,700/ton to between USD$ 3,100 – 3,400/ton thanks to unfettered speculation in global markets. As is the case for so many commodities from oil to iron ore and agricultural basics, there are inevitable consequences for consumers. Financial speculators have already laid their hands on cocoa, whose crops in the Ivory Coast and Ghana have been threatened, but not yet touched by the Ebola epidemic. West Africa, hard hit by the Ebola virus, is an area dominated by agriculture. Agriculture is the leading productive sector and the major source of income for most of the population in the three countries where the virus has left its biggest mark while neighboring countries suffer the consequences. Their main products are palm oil, cereals, rice and cocoa are the main products, most of which are for export. Increased use of mineral fertilizers such as potash have contributed to the increased and more efficient cocoa bean production. Yara International has sponsored various initiatives in Ghana to train farmers on such ‘best practices’ as correct fertilizer application techniques to improve cocoa yields.

The epidemic threatens to generate some USD$ 33 billion dollars in losses in West Africa alone. The agriculture sector is the most affected by the spread of Ebola. Panicking farmers have abandoned the countryside leaving their plantations behind, especially cocoa plantations that are the most profitable for the area. In recent weeks, in fact, the cocoa bean has been the target of a kind of ‘splash and dash’ financial speculation on the international market. In late September, cocoa price levels were starting to match the record highs set in 2011 levels only to collapse dramatically in the first week of October. Cocoa bean futures touched record values at the London stock exchange (GBP 2,187 pounds/ton and USD$ 3,399/ton on Wall Street. Values not seen since 2011, on the eve of the civil war in Ivory Coast. The enthusiasm, however, lasted for the space of a few days. The value has dropped to GBP 1,990 pounds in London and USD$ 3,079 in New York.

This sort of swing reflects the kind of speculation borne in fear and crisis even though the numbers one and two in global cocoa production – Ivory Coast and Ghana – have not been touched by the contagion and have put in place preventive health measures to reduce the risk of infection, while speculators have been ‘banking’ on the high probability of the epidemic spreading from Guinea, Sierra Leone and Liberia. The main problem is that in October, the traditional month of the cocoa bean harvest, seasonal workers from Liberia and Sierra Leone cross the border with the Ivory Coast to find work in the plantations. Thousands of people who could act as a vehicle for the virus enter the Ivory Coast. The consequences would start at a quarantining of the country, closing of borders and an export ban. The risks, however, may still be overblown and several organizations consider the export bans as representing unjustified alarmism and peaks of a speculative game designed to trigger panic in the market, in order to reduce the price and check the conditions more favorable. The risk, many say, certainly exists, but it is quite low. The Ivory Coast has long since closed the border to Sierra Leone and Liberia and deployed a health cordon sanitaire. Moreover, the authorities have invested a lot of energy on prevention.

Measures that seem to work judging by the fact that since March, the month in which the Ebola virus reappeared in Guinea, there has yet to be even a suspect in the Ivory Coast. However, the cocoa plantations are located in an area of the country in which it would be difficult to monitor the comings and goings of people, and this is the part that worries investors. The World Cocoa Foundation still believes that 2014 could still be a very bullish year for cocoa as the Ivory Coast has yet to revive forecasts that it will produce close to the 1.74 million tons collected harvested in 2011 after the civil war. But, should the Ebola virus cross the border and also affect the Ivorian population the consequences would be devastating and incalculable.