Q4 2024

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Connecting Minds
Building Value

I. Commodity Trading Summit

The Commodity Trading Club is proud to have successfully organised its first **Commodity Trading Summit**, one of the world's largest events in the industry. This event welcomed more than 5,000 participants over three days in Dubai. Organised in collaboration with the Global Freight Summit and DP World, this exceptional and insightful event has propelled the Club into the global spotlight, setting the stage for a bright future.

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Panels Nov 19
Session 1
Innovations in Commodity Trading
Session 2
Sugar and Grain trade
Session 3
Financing Challenges in Global Trade and Freight
Session 4
Navigating Commodities Trade Whirlwind

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Career
Growing
Business

II. Q4 2024 Events

The Commodity Trading Club also hosted 15 events in Q4 2024 in a variety of premium locations. These special events provided unique networking and business opportunities for members of the Club's global community.

Special Panel Debate
Commodity Markets Outlook
Fundamental vs Technical Perspective
LONDON 8 OCT 6.30 PM
Society of Technical Analysts
TheBrokerClub

PARIS
Business
Networking
Afterwork
10 OCTOBER
6 PM TO 10 PM
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17 NOV
4 PM TO 6.30 PM

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COPPER OUTLOOK
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Bull Market?
SIMON COHEN
DANEX RESOURCES
CHRISTOPHER BEAUCHAMP
IG BANK
In partnership with
IG Bank
GENEVA
RUE DU RHONE 42
17 OCT
12.30 TO 2 PM
Register now

PANEL DISCUSSION & NETWORKING
LNG
Role in the
Energy Transition
LONDON
NOV 13
at 6.30pm
London Business School
accenture
commoditytrading.club

YEAR-END
Networking Dinner
WISTA
Switzerland
THEATER CASINO
Zug - 27 Nov
at 19.00

PRESENTATION & NETWORKING
COCOA MARKET
OUTLOOK
In partnership with
IG Bank
9 DEC
12.30 TO 2 PM
GENEVA
RUE DU RHONE 42
REGISTER
KAMELIA LALILECHE
COCOA TRADER
AXEL RUDOLPH
IG BANK

Exclusive Presentation & Networking
How to invest in Art
GENEVA
27 NOV 6.30 PM
CHRISTIE'S

III. Global Cocoa Market Faces Historic Supply Crunch

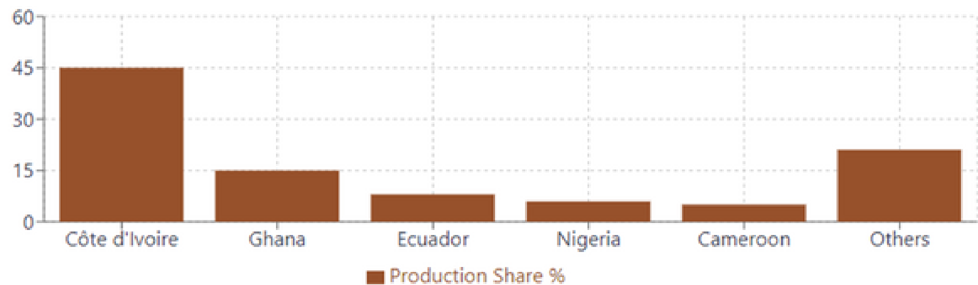
IG Bank

The cocoa market has captured the attention of commodity traders and chocolate manufacturers worldwide as prices have skyrocketed to historic levels, with ICE futures recently breaking through $10,000 per metric ton – more than triple the $3,200 level seen just a year ago. As illustrated in below chart, based on ICE Futures Europe and Bloomberg Terminal data, this unprecedented rally has seen prices surge from $2,800/MT in March 2023 to current levels, marking the most dramatic price increase in the commodity's trading history.

Supply-Side Crisis

West Africa, particularly Côte d'Ivoire and Ghana, which together account for approximately 60% of global cocoa production (45% and 15% respectively), has faced significant challenges this growing season. Our analysis of ICCO data reveals that Ecuador (8%), Nigeria (6%), and Cameroon (5%) round out the top producing nations, highlighting the market's heavy dependence on a handful of origins. Adverse weather conditions, including irregular rainfall patterns and stronger harmattan winds, have severely impacted crop yields. Disease pressure on aging cocoa trees has further complicated the situation, leading to one of the poorest harvests in recent years.

Global Production Share (%)



Production and Inventory Dynamics

The severity of the current market situation is clearly illustrated in below chart. Global production has declined sharply from 4.8 million metric tons to 3.8 million metric tons over the past year, while global inventory levels have plummeted from 1.65 million metric tons to just 950,000 metric tons. This dramatic supply squeeze helps explain the exponential price rise we've witnessed.

Global Production vs Inventory Levels

Source: International Cocoa Organization (ICCO) quarterly updates

Impact on Industry Players

Major chocolate manufacturers have begun implementing various strategies to cope with higher input costs. These include reducing product sizes, adjusting recipes, and passing costs on to consumers. With cocoa prices more than tripling in a year, as shown in our price evolution chart, smaller artisanal chocolatiers have been particularly vulnerable to the price increases, with some facing existential challenges due to compressed margins.

IG Bank

Market Response and Adaptation

The extreme market conditions have sparked increased interest in cocoa futures trading, with heightened volatility attracting both traditional commodity traders and new market participants. Daily trading volumes have increased by 40% compared to the previous year, reflecting the intense speculative interest in this market rally.

Sustainability Concerns

The current crisis has highlighted long-standing sustainability issues in cocoa production. With West Africa accounting for 60% of global production, as highlighted in the regional breakdown chart, the aging farmer population, limited investment in new plantations, and the impacts of climate change pose significant challenges to long-term supply stability. Industry initiatives aimed at improving farming practices and supporting farmer livelihoods have gained renewed attention.

Looking Ahead

Market analysts expect supply constraints to persist in the near term, as any improvements in production capacity would take several years to materialize. New cocoa trees require 3-5 years to begin producing pods, meaning that current shortages cannot be quickly addressed through increased planting. The inventory-to-grinding ratio has fallen to historically low levels, suggesting continued price support in the medium term.

Investment Implications

For commodity traders, the cocoa market presents both opportunities and risks. The price charts clearly show the strong upward momentum, but such extreme moves also suggest increased volatility risk. Many traders are closely monitoring weather patterns in West Africa, government policies in producing countries, and demand trends in major consuming markets for trading signals.

Sources: ICE Futures Europe, Bloomberg Terminal data, International Cocoa Organization (ICCO) quarterly updates and Annual Report 2023/24*

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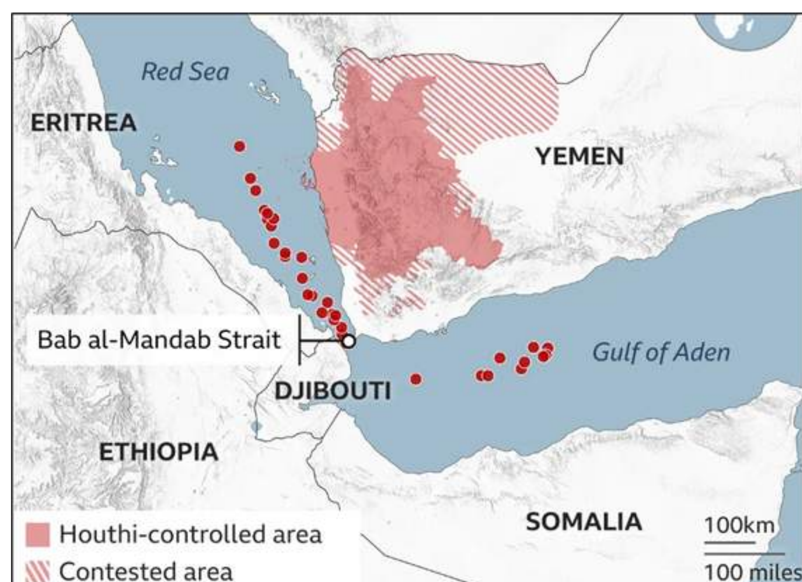
IV. Red Sea Crisis: Impact on Commodities

Since 2023, the Red Sea has witnessed a substantial number of attacks on shipping vessels carried out by the Houthis, an Iranian-backed Yemeni rebel group that controls a considerable part of the country, including the capital Sana'a, and a large portion of the country's Red Sea coast. They have been targeting maritime traffic as a response to the Israel-Palestine conflict in support of Palestine, with initial attacks targeting ships with ties to Israel and its citizens.

That said, there have been numerous confirmed attacks on vessels of varying origins with limited, if any, actual ties to Israel. The attacks target vessels transiting through the Bab al-Mandab Strait, the chokepoint between the Red Sea and the Gulf of Aden, forcing the shipping industry, which relies on the trade passage, to undertake longer, and more costly routes to contend with rising insurance and security costs and fluctuating oil prices as a result. With nearly 15% of global seaborne trade transiting through the Red Sea, markets have been affected but it is likely that oil and Liquified Natural Gas (LNG) prices will remain supported unless tensions escalate.



The Washington Post recently quantified missile and drone strikes launched by the Houthis to have targeted approximately 80 vessels in the region since October of last year.[i]

Costs associated with shipping through the Red Sea have steadily risen since then. Naturally, due to instability and security concerns, War Risk premiums for vessels passing through the Red Sea have climbed from 0.1% to 1% between December 2023 and February 2024.[i]

War risk insurance is the additional cost a company pays in order to insure its vessel while it ships through areas that are deemed to be of higher risk of attack or political upheaval.[ii]

The premium signifies the percentage of the vessel's total value to be paid as insurance, which given the annual traffic in the Red Sea is a sizeable cost to the maritime industry.

As an alternative to the Bab al-Mandab Strait, vessels are being re-routed via Africa's Cape of Good Hope, substantially increasing operational costs due to the longer traveling distances, and resulting in substantial delays in freight delivery.[i]

The United Nations Trade and Development reported in January 2024 an estimated 42% drop in maritime traffic in Red Sea entry point, the Suez Canal in just two months.[ii] Dry bulk carriers in particular have seen a 79.6% drop in traffic through the Suez Canal in 1 year.[iii]

According to estimates, depending on the vessel size and freight value, shipping via the Suez Canal with the additional safety related costs could cost between USD 3 million to USD 5 million in contrast with rerouting costs of approximately USD 2 million.[iv]

With the reduction in the number of container ships passing into the Red Sea coupled with a spike in freight rates and insurance premiums, world trade prices have in turn increased.

At this point, there is no clear outlook on the problem. In December 2023, the US announced Operation Prosperity Guardian (OPG), an enhanced naval protection force to facilitate safe passage of vessels in the Red Sea in partnership with additional countries, including the UK. [i]

The OPG's presence does not appear to have stemmed the flow of vessels being rerouted to Africa's southern coast, and according to maritime intelligence provider Lloyd's List, four attacks in the Red Sea were logged in August 2024, the most recent being the MT Sounion and SW North Wind I bearing Greek and Panamanian flags respectively, with neither ship having obvious ties to Israel.[ii]

MT Sounion, a vessel carrying 1 million barrels of crude oil has been at the forefront of recent news due to sustaining critical damage in August 2024 caused by explosives rigged by the Houthis.[iii] If not salvaged the vessel has the potential to cause an ecological disaster.

The Houthis' sustained attacks on maritime traffic in the trade corridor has also shown indicators of sophisticated use of open-source data platforms for tracking vessels via their AIS systems.[iv][v]This is in addition to reports of rebels having received targeted training, reportedly from Iran, in attacking cargo vessels and targeting US warships as well as being supplied with munitions from Iran.[vi] [vii]

While Houthi attacks have not led to a halt in cargo flows, rerouting vessels has resulted in an average of approximately 10 days delay in delivery, dependent on the vessel size.[i] Industry experts posit that the energy sector (LNG and oil) is most vulnerable to knock on effects, but likely only if tensions escalate further, either between Israel and Iran, Israel and Hezbollah in Lebanon, or the US and the Houthis.[ii] The Bab al-Mandab Strait is an important trade route for the energy sector, accounting for 12% of total global seaborne-traded oil and 8% of LNG in the first half of 2023.[iii]

In January 2024 it was reported that 47% of oil shipments that ordinarily utilized the strait were rerouted via Southern Africa as a result of the attacks.[iv]Since the onset of the war in Ukraine and targeted sanctions on Russia, Europe has become more reliant on oil from the Middle East which has resulted in vessels originating from the Persian Gulf transiting via the Bab al-Mandab Strait becoming critical for oil supply to the west. This ties to recent analysis which suggests a likely increased level of focus on the Houthis targeting oil ships transiting through the strait as strategically it has a sizeable negative effect on western trade.[v]

Goldman Sachs estimated that rerouting vessels could increase brent crude oil prices by USD 1 per barrel and an addition USD 4 for refined products.[i] Moreover, the US-Houthi conflict reflected in oil prices as seen with the US's recent missile assault on numerous Houthi outposts in Yemen in January 2024. This initiated a spike in the brent crude oil price, stoked by speculative fears that further disruption to the supply chain was imminent; however, the spike receded shortly after.[ii][iii]

While still at risk of fluctuation, the general belief seems to be that there remains a relatively stable, albeit premium, oil price due to there being a steady supply of oil.[iv] This indicates that the supply chain, although impacted by the need to reroute or pay premiums for passage through the strait, continues to operate, albeit with delays and additional costs.

With no immediate cessation of hostilities in sight, and Iran's ongoing intelligence and arms supply to the Houthis enabling their assaults on vessels in the Red Sea, sizeable costs to secure passage through the trade corridor remain alongside operational costs associated with rerouting shipments and ensuing delays in cargo delivery. Impacts on commodities additionally will be stronger felt in the energy sector due to related concerns about the potential reduced supply of oil but are expected to remain at their current level if hostilities don't escalate into full blown conflict involving Iran.

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V. A desire for Greatness

Described as an antioxidant, an extraordinary natural antidepressant and a blood pressure reducer. But aren't all these benefits just a way of concealing our greed, leading some of us to consume in moderation, while others eat it uncontrollably.

First processed into powder and consumed as a beverage in South America by the Olmecs, Mayas and Aztecs, chocolate made from harvested cocoa beans enjoyed a boom in Europe in the 16th century.

The Spanish were the first Europeans to process and consume it in the form of chocolate buttons. Then the Netherlands discovered it through the arrival of cargoes in their harbors.

Later, France and Italy, through migratory movements from Spain, also succumbed to chocolate fever. Initially considered as a luxury product, it became more democratic, accessible and inexpensive.
It was in Switzerland that the first milk chocolate appeared in 1879, and in 1930, still in Switzerland, that the first white chocolate saw the light of day.

This rise in consumption has been accompanied by the industrialization of chocolate production in Europe in the early 19th century. Between 1815 and 1830, there was an expansion of manufacturers such as Cailler, Suchard and Kohler in Switzerland, Van Houtten in the Netherlands and Cadbury in England.

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The countries of the South produce and the countries of the North consume. Ivory Cost and Ghana remain the most important cocoa-producing countries, together accounting for 50% of world production. Switzerland mainly imports cocoa beans from Ghana (44%) and Ecuador (18%).

Cocoa beans are processed into a number of products, including cocoa paste, chocolate, cocoa butter and cocoa mass...

Europe remains the leading continent for cocoa processing, with 36% of this activity (Netherlands 21%, Germany 9%, France 4%, Switzerland 1%...). Africa processes 22%, America 19% and Asia-Oceania 23%.

The cocoa market is highly volatile. It depends on weather conditions, production levels in cocoa producing countries and the political stability of these countries.

Climatic variations such as hot weather or severe drought are not conducive to stable production over the long term. Abundant rainfall also favors the spread of disease among trees, particularly cocoa trees. In 2024, cocoa-producing countries had to cope with abundant rainfall, which affected bean production.

Inthe two main producing countries, Ghana and Ivory Coast, the majority of agricultural producers are farmers with few financial resources and outdated production equipment. Their low income makes it difficult for them to invest in their farms to improve yields.

These countries therefore have very old cocoa trees, which are more sensitive to climatic disturbances and, above all, to diseases such as Cocoa Swollen Shoot Virus Disease (CSSVD) or the proliferation of Black pod. This situation has led to a drop in production and a de facto supply problems.

In April 2024, we observed a sharp rise in cocoa prices and an increase of volatility. In addition to structural and climatic effects, speculative movements are also having an impact.
We are now facing a highly speculative cocoa market that has a direct impact on our daily lives.

The Cocoa performance has been tremendous and has nothing to envy the other 2024 performers.

2024 ytd performance as of 26/11/2024:
COCOA: +116%
BITCOIN: +122%
NVIDIA: +177%
GOLD: +26%

And now, what?
While cocoa bean production reached 5 million tons in 2023, production is expected to be lower in 2024, at 4.4 million tons.

Prices are in an uptrend, and the major European and American groups are trying to maintain their income from sales.

In this case, there are only two possibilities to remain competitive: Raise the price or reduce quantity.

For several months, prices were stable for consumers thanks due to the hedging strategies implemented by the producing companies, enabling them to agree a price in advance on the futures markets so as to be less affected by upward movements in cocoa prices.

But the party’s over! Consumers now realize that their sweet tooth comes at a price, and prices are on the rise.

Swissquote

This inflation has led to a drop in chocolate consumption, and in response to this situation, producers have had to change their recipes by using less chocolate in their products, or by shrinkflation (reducing the quantity offered, while often keeping the same packaging dimensions).

Switzerland (9 million inhabitants), the United States (335 million inhabitants) and other European countries remain the leading per capita consumers of chocolate.

2024 ytd performance comparison of 3 majors quoted companies as of 25/11/2024:
MONDELEZ -12%
HERSHEY -8.59%
LINDT +0.10%

After the sharp rise we've seen, most analysts expect prices to stabilize.

This is due to the end of the El Niño climatic phenomenon (warming of sea surface temperatures leading to very heavy rainfall), which began in October 2023 and ended in spring 2024.

This phenomenon occurs every 2 to 7 years (the previous one took place in 2016) and then gives way to another phenomenon characterized by cooling waters (El Niña).
Ecuador and Brazil, the main producing countries in South America, should see their share of world production increase, as the main farms there have adopted an industrialized model with higher yields than the aging farms (due to lack of investment) in Ghana and Ivory Coast.

This price stabilization could be short-lived, as the European regulation on deforestation and for sustainable production will lead to a reduction of the production.

And out of the shadow, the strong price movements have aroused the appetite of speculators still seeking performance through new asset classes.

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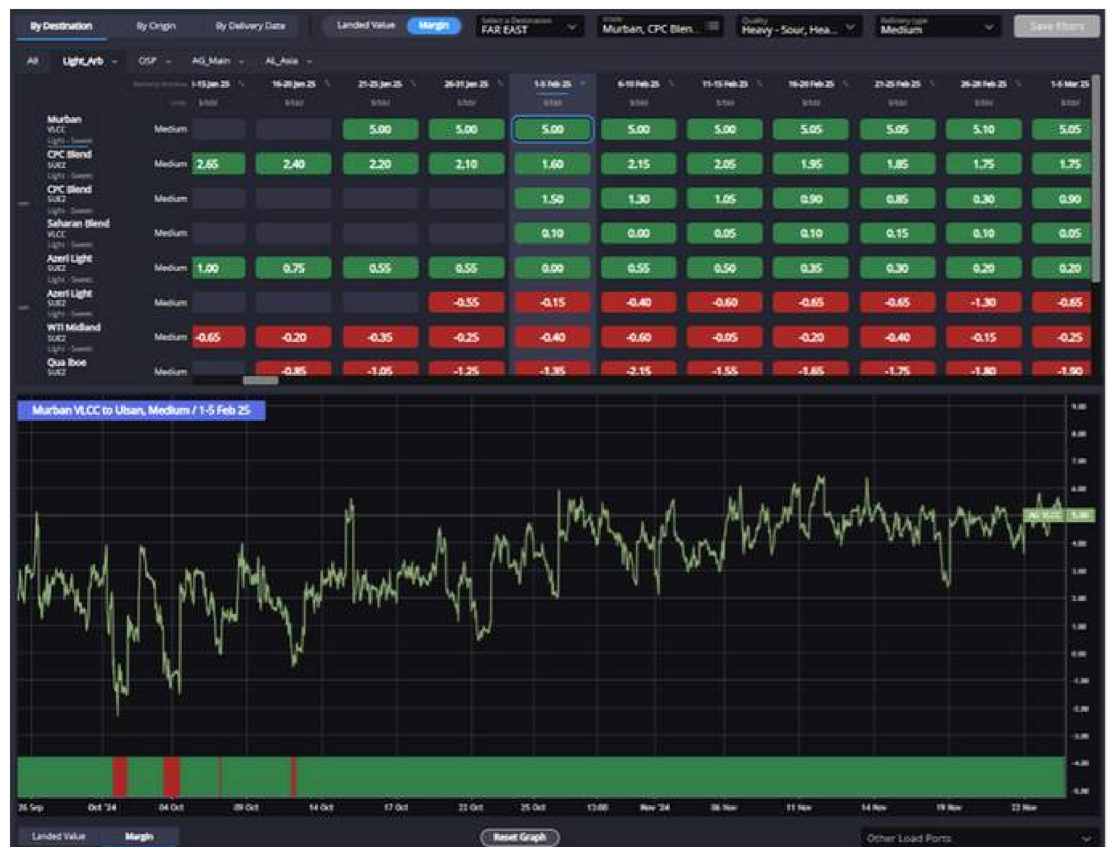
VI. Oil Markets Update

Crude Market Update

The market waited long for signs of higher buying over the last few weeks, to match what has been for some weeks now healthy margin signals to take advantage of. At last, there has been some movement at least in light sweet crude diffs. Medium and heavy crude diffs, however, are in large part still under substantial pressure.

Cracking margins on Murban are very positive.



Grade		1-15 Jan 25	16-20 Jan 25	21-25 Jan 25	26-31 Jan 25	1-5 Feb 25	6-10 Feb 25	11-15 Feb 25	16-20 Feb 25	21-25 Feb 25	26-28 Feb 25	1-5 Mar 25
Murban VLCC	Medium			5.00	5.00	5.00	5.00	5.00	5.05	5.05	5.10	5.05
CPC Blend SUEZ	Medium	2.65	2.40	2.20	2.10	1.60	2.15	2.05	1.95	1.85	1.75	1.75
CPC Blend SUEZ	Medium					1.50	1.30	1.05	0.90	0.85	0.30	0.90
Saharan Blend VLCC	Medium					0.10	0.00	0.05	0.10	0.15	0.10	0.05
Azeri Light SUEZ	Medium	1.00	0.75	0.55	0.55	0.00	0.55	0.50	0.35	0.30	0.20	0.20
Azeri Light SUEZ	Medium				-0.55	-0.15	-0.40	-0.60	-0.65	-0.65	-1.30	-0.65
WTI Midland SUEZ	Medium	-0.65	-0.20	-0.35	-0.25	-0.40	-0.60	-0.05	-0.20	-0.40	-0.15	-0.25
Qua Iboe SUEZ	Medium		-0.85	-1.05	-1.25	-1.35	-2.15	-1.55	-1.65	-1.75	-1.80	-1.90

SPARTA

Margins remains for the most part very workable even in the Far East. From the perspective of Murban, relative to competing arbed crude from the West, it could "afford" to see FOB premia rise as refiners return from maintenance and post end-year inventory management.

While there has been some upside to MEG FOB premia in the January Asian cycle, some may view this cycle as having proved relatively disappointing so far from the demand signals perspective.

In Europe, BFOET FOB premia look healthier, but come with the caveat of very strong buying recently from major trading houses. For now cheap landed prices for WTI in NWE may make this trend short-lived.

Meanwhile in the medium and heavy crude segment, FOB premia are decidedly more lacklustre on the global basis. Johan Sverdrup is one of the more prominent crudes showing this weakness. It is cheap in NWE and so cheap that it is currently landing cheapest in the USG ahead of Tupi and Guyanan crude.

We expect crude to be dragged up and down rather by geopolitics over the coming weeks, which again appears to be making an outsized impact on flat price and spreads, and inevitably shifts physical Brent at the prompt.

The market is grappling with the seemingly consensus view that 2025 will be very long liquids. Even if refinery demand returns strongly in the coming weeks, this may not be enough to boost crude spreads beyond what is currently being done by geopolitics.

There may even be scope for global physical diffs to head lower if supply is ample enough and assuming that the current nascent recovery in the light sweet market is partly related to covering stockdraws created by end-year inventory management over the December trading windows.

SPARTA

Gasoline Market Update

The gasoline market has traded higher during November, with Europe being the most bullish focus throughout the month in both cracks and spreads, and a significant correction in the Asian market's prompt crack during recent sessions. One of the key fundamental factors comes from U.S. stocks, where consecutive declines in PADD 1 have contributed to tightening the Western market, progressively improving the arbitrage from Europe to the U.S. and driving up the TA arb.

The late October drop left a scenario with more upside potential than downside, as reflected in the premiums of blending components—apart from naphtha—which have traded higher this month. Another factor behind this rally has been the general decline in freight rates, which, although beginning to find support at annual lows, has reduced the cost of arbitrage to the West and East, boosting blending demand.

For December, the outlook remains encouraging, though with less upside potential compared to the past month. The gas-nap spread is trading above the historical average, and the East/West spread is moving away from historical lows. With builds in Western stocks expected next month and strong exports from the Middle East, the market is likely to be less tight until the potential impact of seasonal maintenance expected in Q1 2025 in the West.

Naphtha Market Update

After the strong rally accumulated since Q2, the end of October marked the conclusion of the bullish trend in the naphtha market, setting the stage for the subsequent correction observed in recent weeks. The strength of the MOPJ, driving imports from the West—both Europe and the U.S.—pushed the East/West spread to annual highs and sparked a rally in cracks and spreads, with the MOPJ trading in positive territory for several sessions. The main fundamental driver was the drop in Russian exports to Asia during Q3, which hit the lowest volumes of the year. This pressured the MOPJ complex to increase its physical and paper premiums, allowing the arbitrage from the West to open.

SPARTA

In November, we saw a reversal of this trend. The arbitrage has no longer been necessary for year-end deliveries, and Russian volumes are gradually returning to the market, which has exerted downward pressure on the global naphtha market.

For December, the outlook is less bearish. Now that the market has priced in the return of Russian exports, the downside potential for naphtha indicators is significantly smaller. Additionally, the current gas-nap levels and the gasoline outllok, suggest the spread could soon hit a ceiling following its recent rise.

The petrochemical demand outlook remains unpromising, and the arbitrage is expected to stay closed for 1H January arrivals from both Europe and the U.S. Consequently, we do not anticipate the East/West spread reaching the levels seen during Q3, however, it could see a slight rebound due to a weaker European market in the final month of the year, where destocking will play a key role.

Distillate Market Update

Since the start of November, the global distillate market has been marked by continued bullishness, driven by tightening supply dynamics and somewhat improving demand. Diesel cracks and spreads have steadily gained momentum, with ICE Gasoil spreads, in particular, showing real strength. The diesel market has shifted into backwardation down the curve until mid-2025 (apart from HO in the very prompt), reflecting robust near-term fundamentals.

The European market shows strong signs of current tightness, exacerbated by subdued regional refinery runs as indicated by recent JODI data. Despite declining freight rates on key routes, including TC5 and TC14, supply into Europe has been constrained. Middle Eastern diesel cargoes remain largely directed East, aided by a widening GO E/W spread. December arrivals of ULSD into Europe are projected to fall significantly compared to November, deepening the region’s supply challenges.

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In Asia, Singapore diesel and jet spreads have hit a ceiling under the weight of increased distillate arrivals, supported by elevated South Korean refinery runs.

Nonetheless, Middle Eastern jet cargoes have started to head West, lending some weakness to European markets (NWE jet has moved back into contango). Conversely, US distillate stocks have continued to largely draw, supporting the HOGO and maintaining upward pressure on cracks.

Looking ahead, uncertainties persist around Russian refinery restarts and the pace of diesel exports from new facilities such as Dangote and Dos Bocas. Combined with the seasonal maintenance expected in Q1 2025 across NWE and the USGC, the tightness in global distillate markets appears set to persist, leaving little room for stock builds before spring.

The structural bullishness of diesel markets remains firmly intact, with ICE Gasoil showing significant upside potential through year-end and into early 2025.

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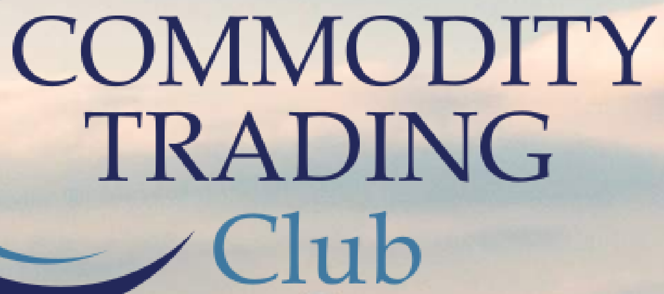

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