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Asia Loses Its Sweet Tooth for Chocolate

Rising prices, slower growth have Asian buyers shunning cocoa



A Chinese visitor packs chocolates into one of her suitcases in Hong Kong, where demand for the sweet treat has slowed down in recent months. PHOTO: LIAU CHUNG-REN/REUTERS

By JULIE WERNAU May 10, 2015 2:16 p.m. ET

Asia is skimping on chocolate.

Slowing economic growth and higher candy prices have dulled the region's demand for cocoa, the main ingredient in chocolate, and upended bets by investors, traders and big food companies after a surge in consumption in the past decade.

The amount of cocoa ground by Asian processors fell 9.3% in the first quarter from a year earlier, according to the Cocoa Association of Asia, and industry experts say China accounts for much of the decline. It is the first time the measure, a proxy for demand from buyers, has fallen for three consecutive quarters since the association began reports in 2011.

The slump has weighed on the \$2.4 billion market for cocoa futures, which have dropped 13% from 3½-year highs hit in September. Since the start of the year, hedge funds and other investors have slashed their net bullish bets by 56%, according to the U.S. Commodity Futures Trading Commission.

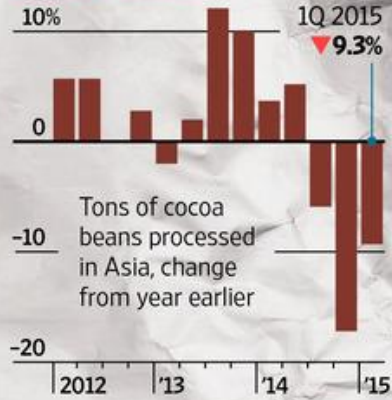
Dark Outlook

Rising chocolate prices in China...

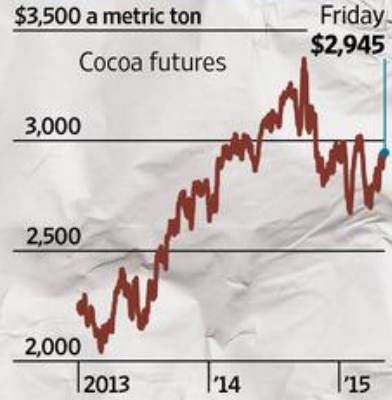
Retail prices for chocolate confections, per kilogram



...are weighing on cocoa demand...



...pushing down prices...



...and prompting investors to pare back on bullish bets.



Sources: Euromonitor (retail prices); Cocoa Association of Asia (beans processed); FactSet (futures); U.S. Commodity Futures Trading Commission (bets)

“China is considered by everybody in the industry to be the next frontier of global growth,” said Peter Johnson, vice president at Transmar Group, a cocoa trader based in Morristown, N.J. “If that engine for growth is slowing, cocoa-bean prices should go down significantly.”

The Chinese government is targeting 7% growth this year after its economy expanded last year by 7.4%, the slowest rate in 24 years.

In Johor, Malaysia, sales are down at Guan Chong Berhad, a company that grinds beans into cocoa butter and chunks of cocoa powder. Chocolate makers are ordering less of the raw material because people across the region are simply eating less of the sweet, said Jessy Chuah, global sales manager for the cocoa processor.

“If people don’t feel the economy is good, they cut down on chocolate consumption,” said Ms. Chuah. “We are slowing down. I think everyone has to.”

A boom in Asian demand—fueled by growing disposable incomes—contributed to a decadelong rally in cocoa that pushed prices to record highs in early 2011. Now, consumers both in Asia and elsewhere are pulling back as growth slows and in response to higher retail costs, industry executives and analysts say.

Prices for chocolate confections in China rose 5.6% in 2014, according to Euromonitor International, a market-research firm, in line with increases in the U.S.

Even more hikes are in store. Last year, Mars, Inc., [The Hershey Co.](#), [Nestlé SA](#), Lindt&Sprüngli AG and [Mondelēz International](#) Inc. announced price increases as high as 8% for 2015.

“The full effect will be felt around Halloween,” said Jared Koerten, senior food analyst at Euromonitor, noting world-wide consumption is particularly strong around the holiday.

Asia is losing its sweet tooth, following slower economic growth and higher prices for candy prices, and has reversed big bets placed by investors. Julie Wernau reports. Photo: iStock/librakv

To be sure, cocoa prices are getting some support, at least in the short term, from other corners of the market. The International Cocoa Organization forecast in February that global cocoa

production will fall short of demand this year by 17,000 metric tons, the second deficit in three years. Analysts estimate that the latest crop out of Ghana, the world's second-largest cocoa grower, will disappoint, likely keeping prices buoyant in the coming weeks.

And chocolate sales in some emerging markets, such as India and Brazil, have stayed resilient even as Chinese demand slows.

David Martin, founder of Martin Fund Management, which oversees \$95 million, is bullish on cocoa because he thinks the demand weakness is temporary. Overall, he said, the Chinese appetite for everyday luxuries is rising.

“You have a growing middle class,” Mr. Martin said. “And they’re reaching for these items.”

Victor Balli, chief financial officer of [Barry Callebaut AG](#), the world's largest cocoa grinder, told investors last month that demand is falling short of expectations but cocoa companies continue to expand.

“We have not expected this trend to last so long and go so deep,” Mr. Balli said.

Hershey reported lower-than-expected profit in the first quarter due to a 47% plunge in Chinese sales and slashed its outlook for full-year international revenues.

Nestlé executives said in February that they’re facing challenges with the performance of the company’s Asia Pacific segment. The company said it is working to retool its products to better cater to the tastes of Asian consumers. Mondelez, which has been experimenting with thinner versions of Oreo cookies in China, reported last month that the strategy helped pull up overall sales in the country.

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—Damien Thouvenel, a cocoa trader at Sucden Financial in Paris

“My feeling is there was always big hype as far as China was concerned,” said Damien Thouvenel, a cocoa trader at Sucden Financial in Paris. “One year ago, the Asian market was buying every single bean available. They bought too many beans. The demand for cocoa product in Asia completely stopped and the Asian market basically shut down.”

The lackluster demand in Asia comes amid falling cocoa consumption in North America and Europe. Those are the world's two largest chocolate-consuming regions, although cocoa-demand growth in these mature economies has lagged behind that of Asia.

As a result, global supplies of cocoa beans are looking relatively robust in the longer term, said Gillian Rutherford, portfolio manager at Pacific Investment Management Co., which manages \$20 billion of commodity investments.

Pimco has less exposure to cocoa than recommended by its benchmarks.

“There are enough cocoa beans today,” she said.