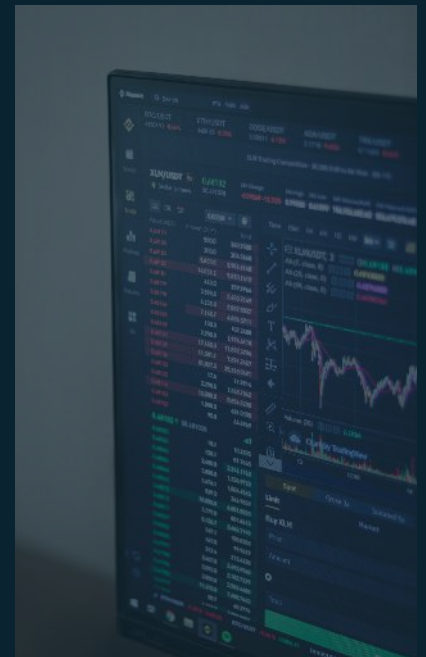


Chart-in-Focus

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When Sweet Commodity Turns Bitter

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Chart-in-Focus: When Sweet Commodity Turns Bitter

As the year draws to a close and the festive season approaches, a small but telling economic reality confronts consumers across markets: chocolates are not getting cheaper. This is not merely anecdotal. Despite a meaningful correction in cocoa prices over the past year, the cost of confectionery products has remained stubbornly elevated. The disconnect between falling commodity prices and persistent retail inflation offers more than a seasonal talking point. It provides a revealing case study in how commodity shocks propagate through supply chains, how markets adapt to extremes, and why inflation, once embedded, rarely unwinds as neatly as it appears on price charts.

Cocoa's journey over the past eighteen months has been extraordinary even by commodity standards. What began as a supply-driven rally quickly evolved into one of the most extreme price dislocations in agricultural markets in recent history. What followed was not a clean reversal, but a complex process of behavioural adjustment, demand destruction, and uneven price transmission. The result today is a market that has moved away from crisis pricing, yet remains structurally fragile.

This is not about sweets. It is about reflexivity in markets.

The Shock Came First

Cocoa prices surged dramatically through 2024, driven by acute supply disruptions in West Africa, which accounts for the majority of global cocoa production. Adverse weather patterns, the spread of crop disease, ageing tree stock, and years of underinvestment converged in a market with little spare capacity. Cocoa, unlike industrial commodities, cannot respond quickly to price incentives. Trees take years to mature, yields fluctuate seasonally, and production remains highly concentrated geographically.

When inventories are thin and supply flexibility is limited, prices do not adjust smoothly. They gap.

The price response in cocoa reflected precisely this dynamic. Futures prices moved sharply higher as the market attempted to ration demand and reprice scarcity. This was not speculative excess in the conventional sense; it was a classic supply shock amplified by structural constraints. The speed and magnitude of the move were exceptional, but the underlying mechanism was textbook. What was less conventional was what came next.

When Prices Change Behaviour

At extreme price levels, markets do not merely rebalance; they adapt. Cocoa's rally forced behavioural changes across the value chain. Chocolate manufacturers adjusted formulations, substituted ingredients, reduced portion sizes, and leaned more aggressively on hedging strategies. Retailers passed through price increases selectively. Consumers, facing higher shelf prices, altered purchasing habits. In some cases, consumption declined outright.

This is demand destruction, but not in the abstract macroeconomic sense. It is demand adaptation driven by sustained price pressure.

By early 2025, these behavioural shifts began to matter. Futures prices corrected sharply from their peaks, as the immediate scarcity premium eased and expectations of incremental supply improvements emerged. On paper, the market appeared to be normalising.

In reality, it was transitioning into a different regime.

Cocoa Futures, Multi-Year Perspective



At this point in the analysis, this chart is indispensable.

Cocoa futures witnessed an extraordinary price expansion in early 2024, with prices rising sharply from around USD 4,110 in January 2024 to a peak near USD 12,261 by April of the same year, representing an absolute gain of over USD 8,000 and a surge of approximately 204%. This parabolic advance was followed by a swift retracement of nearly 50%, after which prices staged another rebound to register a marginally higher peak at approximately USD 12,931, marking an incremental high rather than a renewed impulsive breakout. Subsequently, price action deteriorated materially, and a sustained corrective phase set in from December 2024 onward. This decline intensified through 2025, culminating in cocoa testing a low near USD 4,914 in November, implying a drawdown of close to 62% from the peak. The overall price structure reflects a classic boom–bust sequence, where an exceptional supply-driven rally gave way to deep mean reversion, leaving the market significantly off its highs despite remaining above long-term pre-spike levels.

A multi-year chart of continuous cocoa futures illustrates three critical features of the current environment. First, it captures the scale of the 2024 price surge, underscoring that this was not a routine cyclical move. Second, it shows the sharp correction that followed, confirming that the market did respond to demand destruction and behavioural change. Third, and most importantly, it reveals that prices remain well above pre-shock norms.

This visual context matters. Mean reversion has occurred, but normalisation has not. The market has moved away from panic pricing, yet it has not returned to a state of comfort. Cocoa today trades in a zone that reflects neither abundance nor crisis, but ongoing vulnerability.

Mean Reversion Is Not Resolution

It is tempting to interpret falling prices as evidence that the problem has been solved. Cocoa challenges that assumption.

The correction in prices did not restore inventory buffers, accelerate tree maturity, or meaningfully diversify geographic production. It reduced immediate stress, but left the system largely intact. Supply remains sensitive to weather and disease. Production remains concentrated. Demand, having adjusted once, remains alert to price shocks.

This creates an unstable equilibrium. Prices no longer reflect acute shortage, but they also cannot ignore the system's fragility. As a result, the market has become more reactive, not less. Smaller supply headlines now have the potential to generate disproportionately large price responses, precisely because the margin for error remains thin.

In this sense, cocoa has not reverted to a calm agricultural market. It has transitioned into a structurally volatile one.

Why Falling Prices Have Not Brought Relief

For consumers, the most visible puzzle is not cocoa's volatility, but its absence at the checkout counter. Why have falling futures prices not translated into cheaper chocolates?

The answer lies in the mechanics of price transmission. Cocoa is only one input in a complex cost structure. Manufacturers hedge months in advance. Packaging, energy, transport, sugar, and dairy costs remain elevated. Reformulation decisions, once made, are not easily reversed. Retail pricing, shaped by margins and branding, is asymmetrical; prices rise quickly, but fall slowly.

The result is a familiar but often misunderstood phenomenon: commodity deflation without consumer deflation. This gap between spot prices and shelf prices explains why inflation can feel persistent even when commodity markets suggest relief.

Cocoa makes this dynamic tangible, but it is not unique. It reflects a broader truth about how inflation embeds itself into systems.

Cocoa as a Case Study in Inflation Optics

For investors and policymakers alike, cocoa's recent history highlights a recurring disconnect. Markets respond to marginal changes in supply and demand. Consumers experience prices through contracts, lags, and corporate decision-making. When the two diverge, narratives become confused.

Commodity prices may fall, but inflation expectations remain sticky. Central banks may point to easing input costs, while households see little change in daily expenses. Cocoa demonstrates how both perspectives can be simultaneously correct and practically disconnected.

This matters for portfolio construction. It cautions against drawing linear conclusions from commodity corrections and extrapolating them into broad disinflation narratives. It also underscores the importance of understanding transmission mechanisms, not just price movements.

The Technical Setup Going Forward - Is This a Reversal Waiting to Happen?



The natural follow-up question is whether cocoa is poised for another dramatic rally. Framed this way, the question is misleading.

A broader view of the daily chart indicates that cocoa prices remain constrained within a well-defined falling channel that has been in place since May, highlighting the persistence of the corrective phase. However, recent price action has begun to display early signs of internal improvement. Over the past several weeks, a clear bullish divergence has developed between price and the Relative Strength Index (RSI). While prices have continued to register lower lows, the RSI has failed to confirm this weakness, instead forming higher lows. Such divergence typically reflects waning downside momentum and suggests that selling pressure is losing intensity even as prices remain depressed.

In parallel, the price structure shows the emergence of an inverse head-and-shoulders formation, a classical bullish reversal pattern that gains credibility due to its formation after a prolonged downtrend. This pattern indicates a gradual shift from distribution to accumulation, with demand beginning to absorb supply at lower levels. A decisive move above the neckline region near USD 6,240 would be significant, as it would signal a potential breakdown of the prevailing downtrend and increase the probability of a broader trend reversal, thereby limiting the scope for cocoa prices to decline meaningfully in the near term.

Another relevant observation is that cocoa now trades as a market where volatility is endogenous. Prices are sensitive not because of speculative positioning alone, but because the underlying system lacks resilience. Small shocks matter more when buffers are thin and behavioural responses are fresh in memory.

This does not imply an imminent return to extremes. It does suggest that stability should not be assumed. Cocoa has shifted from a low-attention agricultural commodity to a structurally watched market, where risk premiums adjust quickly.

In this environment, the absence of a new rally is not reassurance; it is simply a pause within a more fragile equilibrium.

Broader Lessons for Markets

Cocoa's experience offers several lessons that extend well beyond agriculture.

First, commodity shocks are nonlinear. When supply systems are constrained, prices do not adjust gradually. They overshoot, forcing behavioural change.

Second, behavioural adaptation has lasting effects. Once demand adjusts, it does not immediately snap back, even if prices retreat. This creates asymmetry in recoveries.

Third, mean reversion does not repair structural damage. Prices may normalise faster than systems do. Investors who focus solely on price levels risk missing lingering fragility.

Finally, inflation is as much about transmission as it is about inputs. Falling commodity prices do not guarantee relief where it matters most.

These lessons apply across asset classes, from energy to industrial metals to food. Cocoa simply presents them in a concentrated, accessible form.

A Seasonal Closing Thought

As consumers notice that holiday treats remain expensive, it is easy to attribute the outcome to margins or market power. The truth is more complex and more instructive. Cocoa's journey over the past year reveals how shocks ripple through systems unevenly, how markets adapt in stages, and how price signals lose clarity as they move from futures exchanges to retail shelves.

As the holiday season approaches, the charts suggest that cocoa may be closer to stabilisation than to another meaningful leg lower. While prices have spent much of the year in a corrective downtrend, recent technical developments point to a gradual loss of downside momentum and early signs of demand re-emerging at lower levels. Momentum has begun to diverge positively from price, and the evolving price structure indicates that the market is attempting to build a base rather than extend the decline.

In this context, expectations of significantly cheaper cocoa appear premature. The technical evidence increasingly favours a transition phase in which the market consolidates and tests the limits of the prevailing downtrend, rather than breaks decisively below it. As a result, even as prices remain volatile, the conditions for a sustained decline into year-end look constrained—helping explain why, for consumers, the cost of cocoa-linked treats is unlikely to soften meaningfully during the festive season.

The sweetest commodity has delivered a bitter reminder: in modern markets, resolution is slower than repricing, and stability is harder to rebuild than it appears. The spikes may be over. The lesson is not.

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