

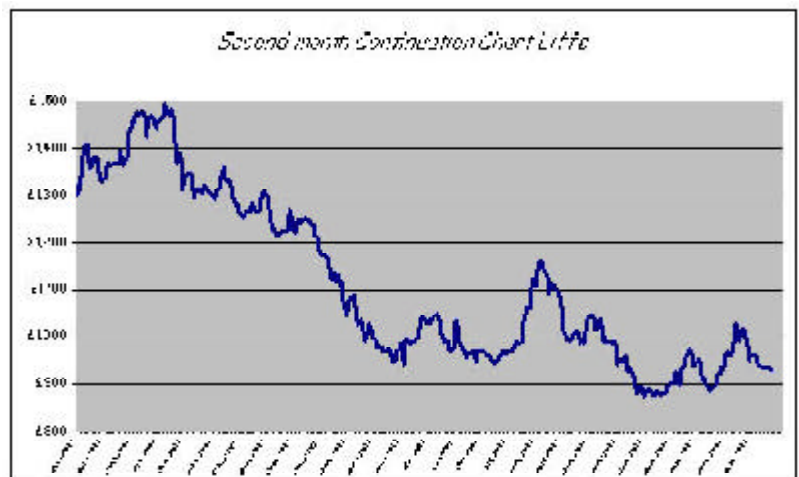


ANNUAL REVIEW 2003

Our December report traditionally reviews the most important features of the cocoa market during the year and this time the charts show a strong decline during the first half year, followed by a volatile but trend-less price pattern during the second half year.

The war in Ivory Coast between the northern rebels and the government army dominated the market during early January, resulting in a strong rise. This war premium eroded for the greater part after the announcement, that a round table conference would be held in Paris with the participation of all groups. On January 24th an agreement was achieved indeed, but the so-called "Marcoussis agreement" was not warmly received by most of the southern Ivorian population. This resulted in furious protests in Abidjan and in cocoa terms, another strong rally. Fundamental news, such as strong arrivals in West Africa and disappointing grinding figures, had no impact on the market at this point. The strength was very noticeable in the New York market, where, under the influence of a weak Dollar and a narrowing arbitrage a new 17 years' high was recorded, whilst the London market remained around GBP 100 below the high of July 2002.

The strength continued during the greater part of February with the market still focusing on the unstable situation in Ivory Coast, but fundamentals gained more of a grip on the market after the recording of the highest level of the year of GBP 1503 basis second position. The arrivals in West Africa and in particular in Ivory Coast continued to be strong and



weather conditions for the mid crop were so good, that bumper mid-crops were forecast. Even now it is difficult to understand how it was possible that the Ivory Coast could produce an extremely large crop under war conditions. Certainly high prices would have been an incentive for farmers to harvest as much as possible and weather conditions were almost optimal, but nevertheless the size of the crop was a surprise for many participants. Initiated by very aggressive speculative selling, prices then collapsed. New York witnessed the largest daily decline in history. Under this pressure the 12 months spread widened to GBP 50, while the arbitrage between London and New York remained stable. The strong participation of the funds on the selling side was reflected by the CFTC net combined speculative position, which rose from - 6763 to -18193 lots, mainly due to long liquidation.

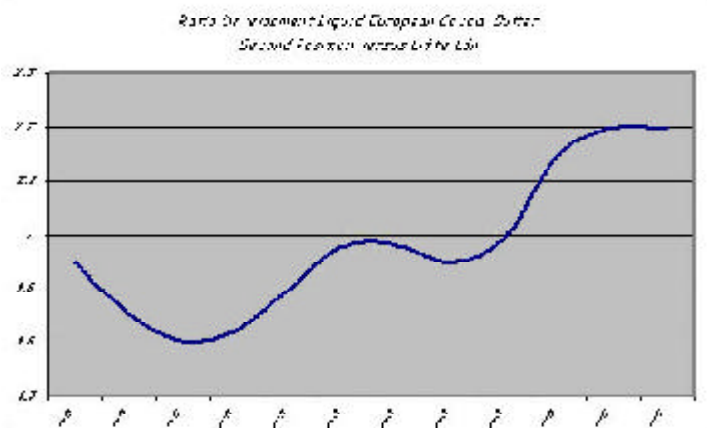
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In March the price pattern was very volatile, partly under the influence of renewed outbreaks of fighting, but the downward trend continued. Prices remained under pressure during April with a further rise of the net speculative short position to 25973 lots, an all time record. In London the spread structure widened slightly, but in New York backwardation continued with large premiums for the nearby positions, reflecting the very small stocks of beans in the USA. In the arbitrage New York even traded at a strong premium over London, whereas under normal circumstances it trades at a discount of around GBP 80-100. In London the long-term projections also became more bearish with December 2003/December 2004 trading at a discount of GBP 20, after being almost flat during the first quarter.

May was the month of the long liquidations. We guess that the remainder of substantial long positions, set up a long time ago and held by non commercial parties, were finally liquidated, although it is difficult to trace it in the CFTC figures. As a matter of fact the continuous flow of fresh arrivals of beans put enormous pressure on the market, but purchase activities in Ivory Coast stopped almost totally after local prices declined below the minimum farmer price.

This proved to be a very temporary affair, since reports of purchases below this price soon circulated in the market. Anyhow, all support levels were broken easily and prices declined GBP 250, on the back of opinion that the crop could finish with a small surplus instead of a large deficit. This season it was well demonstrated that high prices are very positive to better husbandry as well as more efficient harvesting and this can easily lead to higher than forecast outturns.



The weakness continued during the greater part of June, but around the level of GBP 950 a very strong support area was set. Sales of nearby cocoa from Ivory Coast and Indonesia as well as new crop from Ghana were well absorbed, although daily fluctuations were considerable. For the first time in many months prices at the months' were higher than at the beginning. The structure on the London market, particularly for 2004 positions widened enormously and a year after the squeeze the 12 months switch was back to a discount of GBP 90, this being full carry. In New York, however, the nearby tension continued with strong premiums over the forwards.

Under the influence of low rainfall in West Africa and lower than expected arrivals in Indonesia, prices continued to recover during the early part of July, despite the absence of any substantial industry support. When rainfall in West Africa resumed again aggressive selling re-entered into the market and prices declined again to the support area around GBP 950, at which level consolidation was seen in to mid August.

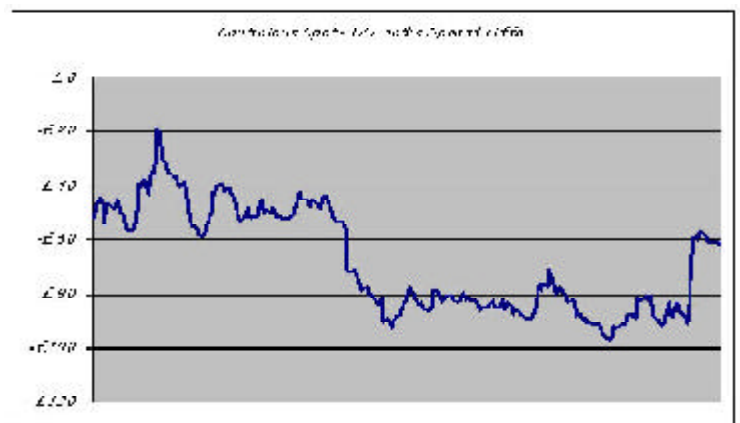


The quietness suddenly came to an end during mid August. After having been short during the whole decline, the funds decided to take profit. Aggressive buying combined with the absence of strong origin pressure led to a rally of GBP 200 in 2 weeks. Just for the illustration, the net combined short position went from – 13354 lots to + 7380 lots. Also supportive for the market was renewed tension in Ivory Coast with rumors of assassination plots against president Gbagbo, as well as unfavorable weather conditions for the new crop development.

Prices declined during the first part of September as quickly as the August rally took place. Reports of better rainfall in West Africa, selling by Ghana of new crop cocoa as well the complete absence of industry buying were the ingredients for massive long liquidation by the funds. After taking their loss the funds remained quiet during October, reflected by the almost zero figure of the combined speculative position. The relative quiet period was interrupted by an one-day rally on reports that the rebels in Ivory Coast would suspend their participation in the government. Meanwhile the structure in London narrowed slightly with Dec03/Dec04 trading at GBP 70, -.

In October another massive wave of funds selling was noticed and prices declined by about GBP 200 to the lowest level of the year. The non-commercial players sold around 17000 lots in New York alone and, as a consequence, the 12 months spread in London widened to the biggest discount of the year, viz. GBP 95. Due to the decline and the high level of the taxes, the minimum farmer price in Ivory Coast could no longer be maintained, which led to the suspension of sales for some time, without having any effect on the market. Much sooner than many participants expected, the funds covered much of their short position during mid November, which resulted in another rally. Industries, still with relatively large cover, again stayed away, and, after the funds were satisfied, the overhanging arrivals put a lot of pressure on the market, finally resulting in another setback to a level marginally above the lows of the end of October.

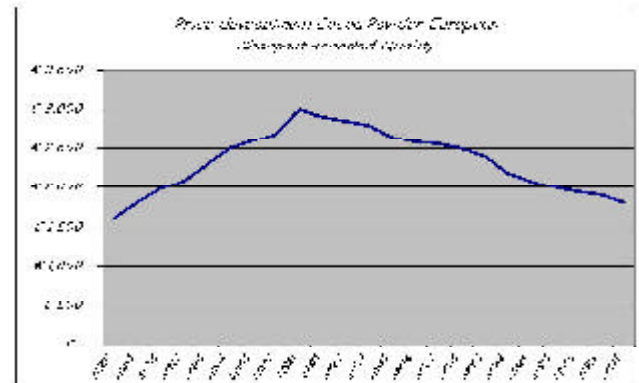
During December the market was even more volatile. Supported by renewed unrest in Ivory Coast and continuing low arrival figures in West Africa buyers dominated the market again during the beginning of December. After breaking the highs of November, fresh fund buying entered the market, producing a very strong rally. This rise also proved to be short lived, and almost as quickly prices declined again. During the latter part of December the price erosion continued despite the on going relatively low arrivals. In spite of the weakness the forward structure in London has strengthened with September trading at a premium over December and March.





In summary: London prices have declined about GBP 400 (= 30%), reflecting the surplus from the 2002/3 crop, and after a year of very high prices. Due to the weakness of the USD against the GBP (from 1.61 to 1.78) and the Euro (from 1.036 to 1.26) the decline has been dampened to USD 500 (=25%). For the current 2003/4 crop a wide range of production figures are circulating. As the crop profile is different to those during recent crop years, a few analysts foresee that the crop will last longer than is normal and, that the final outturn will be in line with last year. Others however, believe that the current crop will show a short fall. On the consumption side only marginal increases are foreseen, but nevertheless it is expected that global grindings will rise more strongly due to extra demand for cocoa butter. It is most likely that fluctuations will remain very volatile; given the reality that fund activity is increasingly dominating the cocoa market.

The product market was turbulent during 2003. After a continuous rise of cocoa cake and powder prices only over the last couple of years, from second quarter of 2003 onwards, solid prices were starting to weaken. At the same time steady demand for cocoa butter led to increasing cocoa butter ratios. New installed capacity in Malaysia came on stream later than expected, which resulted in huge shipment problems. A fire in one of



the other major Malaysian factories again resulted in many shipment problems. Because of these delayed shipments extra cover for the traditionally strong 4th quarter had to be taken, and, with butter stocks both in Europe as well as the U.S.A. Already running at the bare minimum, the stage was set for a spectacular improvement in butter ratios. With butter stocks low and shipments still not up to normal levels, during the first quarter of 2004 ratios will probably remain high.

Another feature this year was the two big fires, which occurred in Holland, and destroyed about 20.000 m/tons of high quality cocoa powder. Although initially the impact on cocoa powder prices appeared minimal, one should bear in mind that Dutch cocoa powder prices would probably have been much lower should these fires not have happened. It is generally believed that the cover of cocoa powder buyers worldwide is rather short and that buyers will have to come to the market again during the 1st quarter of 2004. This, coupled with the belief that the supply line for cocoa butter will be filled again during the first 4 or 5 months of the New Year, justifies us questioning whether the historically high combined ratio currently being seen, can be sustained during 2004.