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DEVELOPMENTS IN THE INTERNATIONAL COMMODITY MARKETS DURING THE THIRD QUARTER OF 1985

Two major factors influenced developments in the international commodity markets during the third quarter of 1985. These were the continued appreciation of the US dollar against other major trading currencies and intense speculative activities among buyers of virtually all commodities. There was also the problem of excess supply, particularly in oilseeds, vegetable oils and rubber. Consequently, the market weakened further during the period compared with the preceding quarter. The intensity in the downward trend in prices has however been moderated in terms of naira values, following the continued depreciation in the exchange rate of the currency during the quarter. On balance, the all-commodities price index rose marginally by 0.7 per cent, to 212.4 (1975 = 100). This was due mainly to the strength of the cotton market, which helped to off-set price declines in most of the other markets (see Table 1). Third quarter price level was, however, 7.6 per cent lower than for the corresponding quarter of 1984.

Beverages

The downward trend in the prices of major beverage products observed since the beginning of 1985 continued during the period. This was due mainly to the persistent appreciation of the US dollar *vis-a-vis* other trading currencies and the speculative activities on the part of buyers.

At 264.0 (1975 = 100), **cocoa** price declined further, but by a moderate rate of 0.6 compared with 3.5 per cent in the preceding quarter. This level was, however, about 12.0 per cent higher than that of the corresponding quarter of 1984. Cocoa market was also influenced adversely by speculations about likely increases in supply later in the season. According to Gill and Duffus, World Cocoa production in the 1984/85 season, earlier estimated at about 1.84 million tonnes, was expected to increase beyond that level as to result in a surplus of about 95,000 tonnes, in contrast with deficits in the previous two consecutive years. Nigeria is expected to account for about 155,000 tonnes or 8.4 per cent of the total world supply.

The price of **coffee** also declined by 12.5 per cent during the period. The current price level was, however, 16.5 per cent higher than that of the corresponding quarter of last year.

The uncertainties created by the inability of the International Coffee Organisation (ICO) to reach agreement on quota and price ceilings aggravated the already low tempo in coffee trading during the period. Consumer members of the ICO contested the proposed revision in the quota, while producer members on the other hand defended the trigger price range of \$1.25-\$1.45 against the ruling range of \$1.20-\$1.45 per pound.

Oil Seeds and Vegetable Oils

Prices of oil seeds and vegetable oils have been on the decline since the beginning of the year, but the rate accelerated during the third quarter. The major influence was the bumper harvest in most producing countries. Thus, world production of groundnut in 1984/85 season, originally estimated at 13.46 million tonnes, was revised to 19.9 million tonnes during the quarter. A substantial proportion of this was supposed to enter the export market particularly from the USA and Argentina. Nigeria's production was however, expected to decline by about 7 per cent to 375,000 tonnes during the season.

The price of **groundnut oil** declined by 8.0 per cent during the

period, in contrast with the sharp increase of 18.0 and 15.0 per cent in the preceding two quarters, respectively. Compared with the position a year earlier, third quarter price level was, however, higher by 9.0 per cent.

The market for **soya beans** was also weakened during the period partly by the marked improvement in supplies, particularly from Malaysia, and partly by competition from cheaper substitutes such as rapeseed and palm oils. As a result there was a decline of 18.2 and 13.5 per cent in the price of soya beans below the levels in the preceding quarter and the corresponding quarter of 1984, respectively.

The price of **palm kernel** also dropped by 38.4 per cent during the quarter, or by 43.2 per cent below the level a year ago. There was, however, a marginal increase of 4.2 per cent in the second quarter.

The downward trend in **copra** price observed since the third quarter of 1984 continued during the period, with a further decline of 27.0 per cent. Third quarter price level was therefore 46.6 per cent below the level a year ago.

Natural Rubber

After three quarters of relative calm in the international natural rubber market, during which prices maintained a steady upward trend, the market was destabilised by the sharp increase in supplies particularly from Indonesia. This happened at the time when there was a show-down in activity among major rubber consuming countries, particularly the US tyre industry. Consequently, the price level of rubber dipped by 3.0 per cent during the quarter below the level in the preceding quarter. However this was still higher than the level a year ago by 32.4 per cent.

The International Natural Rubber Organisation (INRO) was forced by the sharp increase in supply to drop its buffer stock price during the quarter due to pressure on the Buffer Stock Manager. Presently, the buffer stock has reached its peak level of 320,000 tonnes and, by the INRO rules, members must provide extra funds to finance a contingency stock-pile of another 150,000 tonnes. The Organisation consequently agreed to review the entire rubber market situation during its next meeting.

Fibres

Fibre market bounced back during the third quarter, after the brief lull in the preceding quarter. At 164.8, the price index for **cotton** rose by 9.1 per cent above the level for the preceding quarter and by 24.5 per cent above that of the corresponding quarter. The price increase is traced to the sharp recovery in world cotton consumption which is expected to rise by 0.9 million bales to 70.8 million bales during 1985/86. Global cotton production is also expected to rise due to improved growing conditions in several countries. The stability in the world cotton market is, therefore, expected to continue for some time.

Grains

The average price of **rice** (parboiled with 5% broken) declined to ₦147.2 per tonne in the reporting quarter compared with the price of ₦202 per tonne recorded in the second quarter of 1985 (see Table 2). The third quarter price was 27.1 per cent

lower than the price level in the previous quarter and 27.6 per cent lower than that of the corresponding quarter of 1984.

The decline in price was attributed to the ban on importation of rice in Nigeria which contributed to a 10 per cent slump in the export value of the Commodity at the World market (F.A.O., *Food Outlook*) coupled with the foreign exchange problems causing a hitch in the world rice trade in the less developed countries. In 1984, Nigeria imported about 686,000 tonnes of milled rice compared with 588,000 tonnes in 1983. The price of **Maize** on the other hand increased by 19.3 per cent to ₦203.6 per tonne over the preceding quarter's average price.

The price of **Wheat** which has been on the decline in the past three quarters declined further in the third quarter by 2.3 per cent to ₦146.5 and by 3.2 per cent compared with the corresponding quarter of 1984.

Sugar

The price of sugar which rose in the preceding quarter by 26.6 per cent over the price in the first quarter of 1985 recorded a decline in the reporting quarter. At a level of ₦110.5 per tonne, sugar price declined by 46.8 per cent from the level in the preceding quarter and by 48.9 per cent compared with the corresponding quarter of 1984. The decline has been attributed to excess supply in the market particularly from the EEC.

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Table 1

INDEX OF WORLD PRICE (C.I.F.) OF NIGERIA'S AGRICULTURAL COMMODITIES

Base: 1975 = 100

| Commodity | 3rd Quarter | 2nd Quarter | 3rd Quarter | Percentage | |
|------------------------------|-------------|-------------|-------------|----------------|-----------|
| | 1984 | 1985 | 1985 | change between | |
| | (1) | (2) | (3) | (1) & (3) | (2) & (3) |
| <i>All Commodities</i> | 229.9 | 211.0 | 212.4 | -5.7 | 0.7 |
| Benniseed..... | — | — | — | — | — |
| Cocoa..... | 235.6 | 265.7 | 264.0 | 12.1 | -0.6 |
| Coffee..... | 257.2 | 299.7 | 262.3 | 16.5 | -12.5 |
| Copra..... | 377.3 | 276.2 | 201.4 | -26.8 | -27.1 |
| Cotton lint..... | — | 151.1 | 194.7 | — | 28.9 |
| Ginger..... | — | 282.3 | 333.0 | — | 18.0 |
| Groundnut..... | — | — | — | — | — |
| Groundnut oil..... | 133.7 | 158.7 | 145.9 | 18.7 | -8.1 |
| Palm Kernel..... | 287.7 | 265.3 | 163.4 | -7.8 | -38.4 |
| Palm Oil..... | 170.1 | 208.9 | 135.7 | 22.8 | -35.0 |
| Rubber..... | 112.6 | 153.9 | — | 36.7 | — |
| Soya bean..... | 152.4 | 161.1 | 131.8 | 5.7 | -28.2 |

Source: Compiled from Public Ledger, Financial Times and West Africa.

Note: Crop not quoted in the market during the period.

Table 2

WORLD PRICES OF SELECTED GRAINS AND SUGAR FOR THIRD QUARTER 1985

(₦/Tonne)

| Commodity | 3rd Quarter | 2nd Quarter ¹ | 3rd Quarter | Percentage | |
|---------------------------------|-------------|--------------------------|-------------|----------------|-----------|
| | 1984 | 1985 | 1985 | change between | |
| | (1) | (2) | (3) | (1) & (3) | (2) & (3) |
| Rice (parboiled 5% broken)..... | 203.4 | 202.0 | 147.2 | -27.6 | -27.1 |
| Maize..... | 143.5 | 170.6 | 203.6 | 41.9 | 19.3 |
| Wheat..... | 151.3 | 150.0 | 146.5 | -3.2 | -2.3 |
| Sugar (Raw)..... | 216.2 | 207.7 | 110.5 | -48.9 | -46.8 |

¹ Revised.

Source: Compiled from Financial Times, Public Ledger and FAO Monthly Bulletin of Agricultural Economics and Statistics.