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# Developments in World Commodity Markets During the Fourth Quarter of 1983

The International Commodity Markets weakened slightly during the fourth quarter of 1983, compared with the preceding quarter. The major factors which influenced developments in the markets during the period included the reaction of speculators to movements in the sterling exchange rate as well as forecasts of the state of supply of most of the commodities. The weakness of the pound sterling *vis-a-vis* the U.S dollar coupled with the fear that this might deteriorate further due to rising interest rates in the US, tended to give strength to the market. On the other hand, speculations that earlier forecasts of supply deficiencies in some crops might in fact be less than expected, helped to depress prices during the quarter. On balance, there was a slight decline of about 1.3 per cent in the all-commodities price index for the quarter compared with the level in the preceding quarter. The rates of decline were significant in coffee and cocoa. Prices of a number of commodities, such as groundnut oil, palm kernel and palm oil, however rose during the period (See Table 1). Detailed analyses of developments in respect of some major commodities are given below.

## BEVERAGES

The price behaviour in most beverage markets was influenced largely by the uncertainty over production prospects during the year. For instance, the forecast of *cocoa* production for 1983/84 showed a marked decline, compared with the preceding season, especially for West Africa, owing to the effects of drought. During the current quarter, however, there were indications that production in Ivory Coast had been under-reported. This together with reports of higher output in Brazil helped to dampen the market during the quarter. Consequently, there was a decline of about 5.4 per cent in the price index of *cocoa* compared with the preceding quarter. The current price was however still higher than that of the corresponding quarter of 1982 by about 42.1 per cent.

Total world output of the *cocoa* in 1982/83 was estimated to have declined by about 17.0 per cent, while consumption increased by about 2.7 per cent compared with respective levels in 1981/82. The current decline in price is therefore unlikely to last for long. The present International Cocoa Agreement, scheduled to expire in September 1982, has managed to keep violent price fluctuation in check. The Agreement relied solely on effective management of the buffer-stock which, at the moment, stands at just over 100,000 tonnes.

Nigeria's *cocoa* production in 1982/83 was estimated to have declined by about 10.3 per cent to 162,000 tonnes, compared with the level in 1981/82. This has resulted in a more than proportionate decline in exports due to a marked increase in domestic consumption.

The price of *coffee* also declined by about 10.7 per cent during the quarter. The current price level was, however, higher than that of the corresponding quarter of 1982 by about 28.9 per cent. The decline during the quarter was attributed largely to the withdrawal of most buyers from selling due to the 140 cent per lb fixed by the International Coffee Agreement as the upper limit trigger price to be reached before additional coffee is released into the export market.

## VEGETABLE OILS AND OIL SEEDS

The rising trend in vegetable oil/oil seed prices, observed since the first quarter, continued through the fourth. This has been attributed mainly to forecast of short-falls in the output of major vegetable oil/oilseeds due to severe and protracted drought during the year. Another factor which favoured the steady increase in the prices of vegetable oils was the sharp recovery in the consumption of the European Community during the year.

At 136.3, the price index of *groundnut oil* rose 29.5 per cent above the level in the preceding quarter, or 38.0 per cent over that of the corresponding quarter of 1982. *Groundnut* did not however feature in the world market during the quarters, despite observed improvements in production in most producing countries. This has been largely due to corresponding sharp increases in domestic consumption in most of these countries. World market prices of *palmkernel* and *palm oil* also increased by 17.1 and 17.8 per cent, respectively during the quarter. Compared with the corresponding quarter of 1982 the rates of increase were 41.2 and 40.3 per cent for palm kernel and palm oil, respectively. This sharp rise in the price of palm oil in particular has been due mainly to the substantial reduction in production by most smallholders in Malaysia, coupled with the impact of severe drought during the year.

The sharp decline in the supply of palm oil was even more critical in Nigeria as a result of continued decline in domestic production coupled with a substantial decline in the level of imports arising from scarcity of foreign exchange. Consequently, there has been a phenomenal increase in the price of palm oil, averaging about 300 per cent during the period.

Prices of *copra* and *soyabean* also increased during the period by about 21.9 and 17.7 per cent, respectively. The increase has been due mainly to shortfalls in the supply of these commodities as well as their close substitutes. Nigeria is however yet to effectively exploit its rich potentials in *copra* production.

## SPICES

The world prices of spices have been rising since the beginning of the year. For instance, at 246.6, the price index of *ginger*, was about 5.5 per cent higher than the level in the preceding quarter and 63.7 per cent over that of the corresponding quarter of 1982.

Although a relatively non-essential foodstuff in most developed countries, *ginger* has never-the-less been able to expand its share of the market for spices, especially in seasons when supplies are steady. The crop is, however, very susceptible to seasonal fluctuations in both its supply as well as price.

## FIBRES

At 181.2, the index of world price of *cotton* declined by 2.6 per cent below the level in the preceding quarter. This was to reverse the upward trend in cotton price observed during the past three consecutive quarters. The drop in price has been attributed mainly to increased supplies from some marginal producers who took advantage of previous periods' high prices. Such increases more than off-set the reduction in US supply due to her Payment-in-Kind (PIK) Scheme. The current quarter's price was, however, still higher than that of the corresponding quarter of 1982 by about 30.7 per cent.

### NATURAL RUBBER

The rising trend in the world price of *rubber*, observed since the first quarter, continued through the fourth quarter. At 169.1, the price index of rubber recorded a further increase of 2.1 per cent above the level in the preceding quarter, or 38.1 per cent above that of the corresponding quarter of last year. This sustained rise in the world price of rubber during the year has been attributed partly to the weakness of sterling *vis-a-vis* the US dollar and partly to the recovery in world auto industry, especially in Japan and the expansion in the production capacity of US tyre manufacturing industry.

### GRAINS AND SUGAR

The world prices of major grains during the quarter, except for *rice* where a price increase of about 6.0 per cent was recorded. The decline was most pronounced in *maize*, where a fall of about 40.2 per cent below the level in the

previous quarter was recorded. The continued implementation of the P.I.K. scheme in the U.S.A. (which helped to reduce total acreage under maize in the U.S. from 81.9 to 60.1 million acres) has not unfortunately resulted in any appreciable decline in world maize and wheat supply. Consequently, the world price of *wheat* also fell by about 4.8 per cent during the quarter, compared with the level in the preceding quarter.

The world price of *sugar* also fell for the second time in two consecutive quarters. The main reason has been the steady decline in world demand due to the gradual switch to substitutes in countries like the U.S., coupled with outright cuts in consumption in other countries due to foreign exchange constraint.

AGRICULTURAL STUDIES OFFICE  
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TABLE 1  
INDEX OF WORLD PRICES (C.I.F.) OF AGRICULTURAL COMMODITIES 1975= 100

Commodities	4th Quarter 1982 (1)	3rd Quarter 1983 (2)	4th Quarter 1983 (3)	Percentage Change Between	
				(1) & (2)	(2) & (3)
All Commodities	128.2	213.8	211.0	40.0	-1.3
Benniseed	—	—	—	—	—
Cocoa	131.4	227.0	214.7	42.1	-5.4
Coffee	174.3	245.3	219.1	28.9	-10.7
Copra	167.3	317.3	406.4	47.3	21.9
Cotton	128.9	186.0	181.2	30.7	-2.6
Ginger	84.6	233.0	246.6	63.7	5.5
Groundnut	—	257.8	—	—	—
Groundnut oil	59.6	96.1	136.3	38.0	29.5
Palm kernal	139.3	237.1	286.1	41.2	17.1
Palm oil	99.0	165.9	201.8	40.3	17.8
Rubber	102.5	165.5	169.1	38.1	2.1
Soya bean	144.4	173.7	211.0	16.9	17.7

Sources: Compiled from Financial Times, Public Ledgers and CCST Commodities Market Reports

TABLE 2  
WORLD PRICES OF SELECTED GRAINS AND SUGAR FOR THE FOURTH QUARTER 1983 (₹/TONNE)

Type of Item	October	November	December	Quarterly Average		% Change
				3rd Quarter	4th Quarter	
Rice (parboiled 5 per cent broken)	215.10	210.70	220.10	202.30	215.30	6.0
Maize	122.80	117.80	115.70	166.50	118.80	-40.2
Wheat	137.00	136.50	137.00	143.40	136.80	-4.8
Sugar (raw)	175.70	176.00	175.70	191.00	175.80	-8.6

Sources: Financial Times, Public Ledgers and CCST Commodities Market Reports