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DEVELOPMENTS IN THE WORLD COMMODITY MARKETS DURING THE SECOND QUARTER OF 1986

The general improvement which was observed in the international commodity markets during the first quarter of 1986 was reversed in the second quarter with a decline of 10.7 per cent in the all commodities price index (see Table 1). All the items, except rubber and ginger, recorded price declines ranging from 0.6 per cent for coffee to 34.1 per cent for palm kernel. The prices of rubber and ginger increased by 4.3 and 1.7 per cent, respectively. The major factor responsible for the deterioration was the effect of failure to reach positive agreement on most of the international commodity organisations, particularly in respect of cocoa. Other factors which helped to depress the market included the sharp decline in oil prices which reduced the purchasing power of affected countries, appreciable gains by the pound sterling over the US dollar and the excess supply situation in most of the commodities.

In Nigeria, commodity marketing activities appeared to have slowed down considerably during the quarter following news of the impending abolition of the Commodity Board System and the uncertainty about how the 1986/87 crops will be purchased and marketed abroad. The export licence requirement from prospective exporters appears to have compounded the problem.

Beverages:

The decline in the price of **cocoa** which had been observed since the beginning of the first quarter of 1986 continued during the second quarter. At 250.6 (1975 = 100), cocoa price index declined further by 11.2 per cent below the level in the preceding quarter, or by 5.7 per cent below the level in the corresponding quarter of 1985. Apart from the inability of producers and consumers to reach agreement on a new international cocoa agreement, another factor that affected world price of cocoa in the quarter was the declaration by Ivory Coast (the largest cocoa producer) not to participate in the agreement.

This decision was, however, to be reversed later, although too late to have any favourable impact on cocoa prices. Strong speculations among consumers of possible increase in production from a gross estimated production of about 1.88 million tonnes in 1985 to 1.89 million tonnes in 1986 also helped to depress cocoa price. The increase was expected to come mainly from major producing countries. Nigeria's production was, however, estimated at about 95,000 tonnes, down from an earlier forecast of 110,000 tonnes, in spite of a marked increase in producer prices to ₦1,600 per tonne in 1985/86 season from ₦1,500 per tonne in the previous season. Two main factors have contributed to the decline in domestic production: first, the weakness of the Naira makes the price paid for cocoa in convertible currency in neighbouring countries a powerful incentive to smuggle significant quantities across the borders. A second element is the proposed privatisation of cocoa purchasing, which might have encouraged some entrepreneurs to accumulate stocks of cocoa beans within Nigeria in the hope of being able to arrange their export at a later date.

During the period, **coffee** price index also declined, although marginally, from 408.6 in the first quarter to 406.0 compared to the corresponding quarter of 1985, the current price level, however, showed an increase of 35.5 per cent. Reports of crop improvement in Brazil which had earlier been hit by frost

contributed to the price decline. In addition, there was a marked improvement in the port situation in Colombia, another major coffee producing country, leading to increased shipment during the quarter. Finally, the news that the United States had decided not to pull out of the International Coffee Agreement (ICA) did not influence the market price in any appreciable manner contrary to general expectations. Stocks of coffee in New York were in fact reported to have risen appreciably reaching a peak of over 600,000 bags by the end of June 1986.

Vegetable Oils and Oil Seeds:

The prices of virtually all types of vegetable oils and oil seeds declined during the period at rates ranging from 7.0 per cent for groundnut oil to 34.1 per cent for palm kernel. At 98.7 the price index of **palm oil** declined by 11.6 per cent over the level in the preceding quarter. This was however about 52.7 per cent lower than that of the corresponding quarter of 1985. The major influences included the weakness of the US dollar vis-à-vis the pound sterling and a sizeable increase in production during the period. There was also the impact of increased competition from soya-oil, despite the fact that palm oil continued to be the cheapest and most reliable source of edible and industrial oil. At 98.0 the price of **palm kernel** showed a decline of 34.1 per cent compared with the level in the preceding quarter, or by 63.1 per cent below that of the corresponding quarter of 1985. This was due mainly to current oversupply situation in the market. The price of **groundnut oil** also declined by 7.0 per cent below that of the preceding quarter.

Increased supply situation, decline in dollar-pound exchange rate and lower interest rates in the international financial market accounted for the decline in the price of groundnut oil.

Spices:

The price index of **ginger** increased by 1.7 to 157.3 in the reporting quarter compared with the preceding quarter. The marginal increase was however in contrast to the sharp decline of 44.3 per cent below the level in the corresponding quarter of 1985.

Fibres:

At 136.4, the index price of **cotton** showed a decline of 10.5 per cent below the level for the preceding quarter, or 9.7 per cent below that of the corresponding quarter of 1985. The fall has been attributed to an upsurge in global cotton production, outstripping demand for the first time in 3 years.

Rubber:

The price index of natural **rubber** increased by 4.3 per cent to 186.1 above its level in the preceding quarter, or by 20.5 per cent over that of the corresponding quarter of 1985. The major factor responsible for the price improvement was the stability in demand for natural rubber in India, China, Japan and the USSR mainly because of the depreciation of the US dollar. The currently steady prices are however, liable to come under pressure as producers' supplies increase in the face of slack demand among consumers in the northern hemisphere during the vacation period. There is also the fact that natural rubber has continued to face stiff competition from synthetic rubber whose price is now cheaper due to reduced chemical feed stock

prices. Also there has been a general slack in demand for rubber in the USA and this has influenced recent market trends greatly.

Grains:

As a result of generally favourable weather in most regions of the world, including Africa, grain supplies are expected to rise sharply over the level in the preceding season. This would apply particularly to the coarse grains (maize, sorghum and millet), while for rice and wheat the harvest would be less plentiful.

The average world price of rice (parboiled, 5% broken) increased by 5.5 per cent to ₦250.1 per tonne in the second quarter of 1986, from ₦237.0 per tonne during the first quarter. Compared with the corresponding quarter of 1985, current price level was higher by about 25.8 per cent. The price increase was as a result of a marked decline in production in the United States. The price stability is however, expected to be temporary in view of anticipated reduction in import especially from African countries, reflecting the continued balance of payments problems in the continent and improvement in crop yields in coastal countries of West Africa. At the moment, official shipment into Nigeria has been substantially reduced; the small quantity that is being shipped now is supposed to be the carry-over of contracts made in the previous year before rice import was banned early in 1986.

Similarly, the world price of wheat increased by 10.3 per cent to ₦188.50 per tonne from ₦170.90 per tonne in the preceding quarter. This was largely due to a drop in US production as a result of fungus infestation of the soft red winter wheat crops. Despite this increase, there was strong speculation that the volume of world wheat would drop from 100 million tonnes in 1985 to 90 million tonnes in 1986 as a result of growing desire for self-sufficiency in food production in most regions of the world and the resultant low import demand.

The world price of maize also increased by 6.7 per cent to ₦220.90 per tonne in the quarter, from ₦207.10 in the preceding quarter, or by 30.1 per cent above that of the corresponding period of 1985 when maize price averaged about ₦169.80 per tonne. The E.E.C.'s freeze on farm prices of cereals for 1986/87 through the imposition of a 3 per cent production levy to help the "destocking" of grains was the major factor responsible for the increase in the price of maize during the quarter.

Sugar:

The price of sugar which had been declining steadily over the years started picking up since the beginning of 1986, with a further increase of 31.7 per cent during the second quarter, from ₦145.6 per tonne in the preceding quarter. The average price for the current quarter was about ₦191.70 per tonne. Supply deficits created by shortfalls in production in Cuba, USSR and India were responsible for the improvement in sugar price. With the present improvement in price, producers are indicating interest on negotiating a new International Sugar Agreement which had expired two years back, in order to forestall renewed price instability.

On the home front, Tate and Lyle Nigeria Limited is to set up a sugar plantation capable of producing 44,000 tonnes of sugar annually in the River Hadejia Valley in Kano State.

The first of the two phases of the projects involving the cultivation of a plantation covering about 2,200 hectares, was scheduled for the second quarter of 1986.

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Table 1

**INDEX OF WORLD PRICES (C.I.F.) OF AGRICULTURAL COMMODITIES
IN THE SECOND QUARTER OF 1986 (1975 = 100)**

Commodity	2nd Qtr. 1985 (1)	1st Qtr. 1986 (2)	2nd Qtr. 1986 (3)	Percentage change between	
				(1) & (3)	(2) & (3)
All Commodities	211.0	196.2	175.1	-17.0	-10.7
Cocoa	265.7	282.1	250.6	-5.7	-11.2
Coffee	299.7	408.6	406.0	35.5	-0.6
Copra	276.2	149.5	117.8	-57.3	-21.2
Cotton (Lint).....	151.1	152.4	136.4	-9.7	-10.5
Ginger	282.3	154.6	157.3	-44.3	1.7
Groundnut.....	—	—	—	—	—
Groundnut Oil.....	158.7	113.3	105.4	-33.6	-7.0
Palm Kernel.....	265.3	148.7	98.0	-63.1	-34.1
Palm Oil.....	208.9	111.6	98.7	-52.7	-11.6
Rubber	153.9	178.5	186.1	20.9	4.3
Soyabean.....	161.1	175.2	153.3	-4.8	-12.5

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

Table 2

**WORLD PRICES OF SELECTED GRAINS AND SUGAR FOR SECOND QUARTER OF 1986
(₹/TONNE)**

Items	2nd Qtr. 1985 (1)	1st Qtr. 1986 (2)	2nd Qtr. 1986 (3)	Percentage change between	
				(1) & (3)	(2) & (3)
Rice (Parboiled)					
5% broken.....	202.0	237.0	250.1	23.8	5.5
Maize	169.8	207.1	220.9	30.1	6.7
Wheat.....	—	170.9	188.5	—	10.3
Sugar (Raw)	207.7	145.6	191.7	-7.7	31.7

NB = The Prices have not been indexed.

Source: Compiled from Financial Times and Public Ledger.