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DEVELOPMENT IN WORLD COMMODITY MARKETS DURING THE THIRD QUARTER OF 1983

In spite of random swings during the period, the prices of most of Nigeria's agricultural export commodities continued to maintain the rising trend observed since the fourth quarter of 1982. At 213.8 (1975 = 100), the all-commodities price index for the third quarter rose by 28.2 per cent above the level in the preceding quarter or 56.1 per cent above that of the corresponding quarter of 1982. The trend reflects the continued decline in the supply of most of the commodities due to adverse weather conditions and in some cases natural disasters in most of the producing countries. The recent drop in the value of the Naira also affected the local currency equivalent of the prices positively.

Detailed analysis of developments in some of the major commodities markets are given below.

BEVERAGES

Prices of most beverages rose during the period, partly due to uncertainties about the state of supply and partly to the speculative buying which occurred in most of the markets in the wake of impending renegotiation of some of the existing Commodity Agreements.

In the case of **cocoa**, the price index rose to its highest level of 227.0 in the past six quarters. This shows an increase of 9.3 and 64.8 per cent over the levels in the preceding quarter as well as the corresponding quarter of 1982. The marked increase in cocoa price during the period was due to a decline in cocoa production during the season as a result of adverse weather conditions coupled with rampant outbreak of bush-fire in major cocoa growing areas of Ivory Coast, Ghana, Nigeria and the Cameroun. Speculative buying by many manufacturers during the period, in anticipation of further price increases also helped to fuel the price hike.

Another development in the cocoa markets during the period was the declaration by Ivory Coast of her determination to participate in the renegotiation of a new International Cocoa Agreement. The preparatory work on this has in fact already commenced. It would be recalled that Ivory Coast, a major producer of cocoa did not ratify the 1980 Agreement which is about to expire because of her disagreement with the agreed export quotas and the intervention prices.

In Nigeria, a new producer price of ₦1400 was recently announced for the 1983/84 cocoa season. The revision was intended to serve as an incentive to farmers to further increase the output of the crop.

The rising trend in **coffee** price observed since the fourth quarter of 1982 also continued into the current quarter, but at a slightly lower rate. At 245.3, the coffee index rose by 6.6 per cent above the level in the preceding quarter or by 38.7 per cent above that of corresponding quarter of last year. In the previous quarter, the corresponding rates of increase were 11.9 and 42.8 per cent, respectively. A sharp fall in coffee output was largely responsible for the current increases in price. For instance, Brazil's export forecast for 1982/83 dropped from 31 to about 29.5 million bags; while latest US forecast for the whole world output was put at 93.6 million bags, as against an earlier forecast of about 97.0 million bags.

A new International Coffee Agreement was negotiated during the period. Apart from a slight upward revision in export quotas from 55.2 to 56.2 million bags, most of the provisions in the previous Agreement were retained. For instance, the price range to be defended was left at \$1.20-\$1.40 a lb, and the mechanism of handling exports to non-producers was also left unchanged.

VEGETABLE OILS AND OILSEEDS

Most commodities in this group also experienced substantial price increases during the quarter. The price hikes were also attributed largely to marked declines in the output of most of the crops, especially soya beans due to severe drought during the season. The resultant price increases in the affected commodities and their by-products also led to correspondent increases in the prices of competing seeds and oils such as groundnut, palm kernel and palm oil. Speculation about possible imposition of tax on production and import of vegetable oils by the European Community also fueled the price increases.

Groundnuts recorded the highest rate of price increase among the vegetable oil group of commodities during the period. At 257.8, the price index of groundnut rose by 74.2 per cent above the level in the preceding quarter or by 69.4 per cent over the level in the corresponding quarter of 1982.

The declining trend in **groundnut oil** price during the preceding three quarters was also reversed in the third quarter, with an increase of 32.0 per cent above the level in the preceding quarter. Compared with the corresponding quarter of last year the rate of increase was 48.8 per cent. Apart from the fall in the output of competing substitutes, the supply of groundnut/groundnut oil also fell substantially during the period due to the effect of drought. Only Sudan among the major exporters of the crop had achieved some increase in output this year; while the US, China and Australia have all recorded marked declines in their output.

At 161.7, the world price index of **palm kernel** also continued to maintain the rising trend noticed since the fourth quarter of 1982 with increases of 55.3 and 76.9 per cent over the levels in the preceding quarter and corresponding quarter of last year, respectively. **Palm oil** price also continued to maintain the upward trend observed since the first quarter of 1983, with a significant increase of 36.5 per cent over the level in the preceding quarter. Compared with the corresponding quarter a year ago the increase was 65.1 per cent. The sharp increase in the price of palm oil reflects the growing demand for the oil in the Middle East particularly during the period.

Copra and **Soya beans** also recorded substantial price increases in the third quarter mainly because of the uncertainty in their supplies. Copra price index went up by 68.2 per cent over the level in the preceding quarter, while that of soya beans rose by 17.4 per cent. Compared with the levels a year earlier the rates of increase were 111.4 and 39.6 per cent for Copra and Soya beans, respectively.

SPICES

The world prices of spices have continued to be erratic over the years mainly because of the seasonal nature of the supply of these commodities. During the past three

quarters, however, the trend has been in the upward direction. The price of **ginger** for instance has been in the increase since the fourth quarter of 1982. At 151.3, the current index shows an increase of 70.6 per cent over the level in the preceding quarter. Compared with the corresponding quarter a year earlier, the price level has virtually doubled in the current period.

FIBRES

As a result of the decline in the output of most fibres due to the effects of world wide drought, the market for most fibres have continued to be under pressure. Consequently, price of most of these items have continued to rise since the beginning of the year. For instance at 186, the price index for **cotton** rose by 14.1 per cent above the level in the preceding quarter or by 22.6 per cent above that for the corresponding quarter of last year. The increase in price has also been enhanced by continued slump in crude oil market, which has led to a fall in the output of synthetic fibre, a by-product of crude oil and a strong competing substitute for cotton lint.

NATURAL RUBBER

After rising for two consecutive quarters, the price of **natural rubber** finally declined in the third quarter. At 165.5, the third quarter price index fell by about 14.0 per cent below the level in the preceding quarter. However, when compared with the position a year earlier, a marked increase of 51.7 per cent was recorded. Seasonal production increases, while consumption remained sluggish due to depressed market for automobiles (main consumer of rubber) was largely responsible for depressing the rubber market during the period. Even the re-entry of China into the Malaysian market for substantial purchases during the period was not enough to turn the market around.

GRAINS AND SUGAR

Prices of most grains also continued to rise during the quarter¹. Sharp declines in production due to the incidence

of World-wide drought, especially in major grain producing countries accounted for the observed price increases. Part of the decline in output was also due to the "Payment-in-Kind (PIK)" programme of the US government, which involves cutbacks in total areas under cultivation, especially for grains.

There was a marked increase of 64.0 per cent in the price of maize, from ₦101.50 to ₦166.50 per tonne. The increase is traceable to the substantial fall in output of maize due to the drought. US production of maize for instance dropped significantly due to the drought which has been described as the worst in half a century. The hot dry weather also affected maize production in Canada and Western Europe. Wheat output also declined substantially in spite of US traditional resistance to drought. Consequently, its price for the quarter rose from an average of ₦127.60 to ₦143.40 per tonne, showing an increase of 12.4 per cent. The US PIK programme also accounted for the decline in wheat production.

In contrast, the price of **rice**, however, declined by 15.2 per cent to ₦202.30 during the period, compared with ₦238.60 per tonne in the previous quarter. Slow down of export sales and the lack of speculators' interest in the market was largely responsible for the decline in the price of rice. Average price of sugar in the current quarter also rose sharply above that for the previous quarter average, inspite of declines recorded towards the end of the quarter. The rate of increase was 38.7 per cent. Damage to the crop due to locust infestation of sugar plantations in major producing countries like the Philippines, coupled with the strict enforcement of price support programme of the International Sugar Agreement contributed largely to the strength of the sugar market during the period.

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¹This part of the report has been a very recent addition; consequently the price series are yet to be transformed into indices.

INDEX OF WORLD PRICE (C.I.F.) OF AGRICULTURAL COMMODITIES 1975 = 100

Table 1

| ALL COMMODITIES | 3rd Quarter 1983(1) | 2nd Quarter 1983(2) | 3rd Quarter 1983(3) | PERCENTAGE CHANGE BETWEEN | |
|-----------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
| | | | | (1) & (2) | (2) & (3) |
| All Commodities | 137.3 | 166.7 | 213.8 | 56.1 | 28.2 |
| Benniseed | 102.4 | — | — | — | — |
| Cocoa | 137.7 | 207.7 | 227.0 | 64.8 | 9.3 |
| Coffee | 176.8 | 230.2 | 245.3 | 38.7 | 6.6 |
| Copra | 150.1 | 188.7 | 317.3 | 111.4 | 68.2 |
| Cotton | 140.3 | 163.0 | 186.0 | 22.6 | 14.1 |
| Ginger | 63.0 | 136.6 | 233.0 | 269.8 | 70.6 |
| Groundnut | 152.2 | 148.0 | 257.8 | 69.4 | 74.2 |
| Groundnut Oil | 64.6 | 72.8 | 96.1 | 48.8 | 32.0 |
| Palm Kernel | 134.0 | 152.7 | 237.1 | 76.9 | 55.3 |
| Palm Oil | 100.5 | 121.5 | 165.9 | 65.1 | 36.5 |
| Rubber | 109.1 | 192.5 | 165.5 | 51.7 | -14.0 |
| Soya beans | 124.4 | 148.0 | 173.7 | 39.6 | 17.4 |

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

WORLD PRICES OF SELECTED GRAINS AND SUGAR FOR THIRD QUARTER 1983 (N/Tonne)

Table 2

| TYPE OF ITEM | July 83 | August 83 | Sept 83 | QUARTERLY AVERAGE | | |
|---------------------------------------|---------|-----------|---------|-------------------|-------------|----------|
| | | | | 2nd Quarter | 3rd Quarter | % Change |
| Rice (parboiled 5 per cent broken) | 187.70 | 202.10 | 217.10 | 238.60 | 202.30 | 15.2 |
| Maize | 165.70 | 165.80 | 168.20 | 101.50 | 166.50 | 64.0 |
| Wheat | 140.10 | 144.50 | 145.60 | 127.60 | 143.40 | 12.4 |
| Sugar (raw) | 195.70 | 199.30 | 178.00 | 137.70 | 191.00 | 38.7 |

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