

DEVELOPMENTS IN THE INTERNATIONAL (LONDON) COMMODITIES' MARKET DURING THE FIRST QUARTER, 1984

The world market prices of a number of scheduled commodities, notably coffee, cotton, palm-kernel and rubber recorded significant increases during the first quarter of 1984. Price declines were, however, recorded in respect of copra, ginger, groundnut-oil and soyabeans. On balance, there was an overall increase of 13.0 per cent in the all-commodities price index compared with the level in the fourth quarter, 1983, or 71.1 per cent from that of the corresponding quarter of last year.

A number of factors accounted for the general improvement in commodity prices. Firstly, there was a decline in the supply of most of the commodities due to the effect of worldwide drought during the period. The second factor was the uncertainty regarding production prospects in the immediate future. Finally, there was a general increase in the demand for most of the commodities during the quarter due probably to the continued weakness in the exchange rate of the two major transaction currencies (the pound sterling and the US dollar) vis-a-vis the currencies of other major consuming countries.

BEVERAGES

The continued uncertainty regarding the level of production of products such as cocoa, coffee and tea greatly influenced the behaviour of the prices of beverages during the period. For instance, the price of cocoa fell because of under-estimation of production in the previous period, while the price of coffee rose as a result of the belief that the short-fall in the supply of the commodity would persist.

For the second consecutive quarter, **cocoa** price index declined, this time marginally by 0.5 per cent. This compared with the decline of 5.4 per cent in the fourth quarter, 1983. The current price however, still exceeded that of the corresponding quarter of 1983 by about 27.0 per cent. The decline in cocoa price during the past two quarters may be attributed largely to the downward revision in the supply gap from a previous estimate of 100,000 tonnes to only about 40,000 tonnes as a result of improved production prospects in Ghana, Nigeria and Ivory Coast. Estimates of Nigeria's production in 1984/85 has, for instance, been revised from 165,000 to 170,000 tonnes.

The price of **coffee**, on the other hand, continued to rise after the brief period of decline in the fourth quarter of 1983. At 335.8, coffee price index rose by 53.3 per cent in contrast with a decline of 10.6 per cent in the preceding quarter. The recovery was due mainly to the decline in estimated world supply as a result of the effect of worldwide drought. In addition, the US dock strike during the period also had an adverse impact on the level of total supply of coffee to the world market. On the demand side, total world consumption of coffee has been on the increase particularly during the reference period.

The International Coffee Organisation (ICO) continued its price support scheme during the period which involved fixing prices at very high levels and ensuring that producers do not sell directly to non-members of ICO. This scheme had resulted in a sharp increase in ICO stock from 38 million bags as at the end of 1979/80 to 57 million bags at the end of 1982/83 and there is a forecast of a further increase to 68 million bags by the end of 1984. There was also mounting discontent

among the coffee consuming members of the ICO who were being forced to pay the high price, even when producers who managed to sell to outsiders did so at some discount.

VEGETABLE OILS AND OIL SEEDS

The rising trend in most vegetable oil and oil seed prices observed in 1983 was reversed during the quarter, except in respect of groundnut and palm kernel. Most of the commodities were however, still in short supply due to the effects of drought. The only exception was palm oil where supply was boosted through increased production by Malaysia. The prices were therefore depressed not through over supply but because of the weakness in the exchange rate of the dollar in which most of the commodities were denominated.

The price index of **copra** which had risen sharply from 146 to 406 between the first and last quarters of 1983, slumped by 30.3 per cent to 283.1 during the review quarter. The pattern of price behaviour during the first quarter of 1984 was similar to those of **groundnut oil**, **palm oil**, and soya beans with respective price declines of 16.3, 7.1 and 23.5 per cent, during the quarter after they had risen throughout 1983. On the other hand, the world prices of groundnut and palm kernel continued to rise throughout the quarter. At 305.9, the price index of groundnut was about 149.1 per cent higher than the level in the corresponding quarter of 1983, while that of palm kernel also rose to 308.2, showing an increase of 7.7 and 127.6 per cent from the levels in the preceding and corresponding quarters of 1983, respectively.

SPICES

The price index of ginger declined by 12.7 per cent to 215.5 during the quarter due mainly to the seasonal fluctuations in the supply of the commodity. The current price level was, however, still higher than that of the corresponding quarter of 1983 by about 135 per cent.

FIBRES

After a brief period of decline in the fourth quarter of 1983, the world market price of **cotton** resumed the upward trend observed since the last quarter of 1982. At 212.3, the current price index of cotton showed an increase of 17.2 per cent from the level in the preceding quarter. This in contrast with a decline of 2.6 per cent recorded during fourth quarter of 1983. Compared with the corresponding quarter of 1983 the current index still showed an increase of 44.6 per cent. The present increase has been attributed mainly to the decline in world supply of cotton due to drought and the effects of Payment-In-Kind (PIK) scheme introduced in the USA, designed to reduce the production of most agricultural products.

RUBBER

The price index of natural rubber rose by 31.3 per cent to 222.0, compared with the modest increase of 2.1 per cent during the fourth quarter of 1983. The substantial increase in price of rubber was due largely to the widening gap in world supply of the product observed since 1979 as a result of the steady increase in the demand for automobile tyres.

GRAINS

The world prices of grains were generally on the decline during the quarter. The decline was mainly due to over supply of the commodities in the market, resulting from measures taken by some producing countries to boost grain exports in order to off-set the effects of US Payment-In-Kind programme designed to limit production and export. The only exception was maize where a substantial price increase was recorded during the quarter.

The price of **rice** declined by 8.8 per cent, as against an increase of 6.4 per cent in the preceding quarter. The decline was attributable mainly to the marked increase in world production, which was estimated by the United States Department of Agriculture (USDA) to have increased from 431.3 to 435.3 million tonnes between 1981/82 and 1983/84. The price of **wheat** also declined further by 1.2 per cent compared with a decline of 2.6 per cent in the preceding quarter. Over supply of the commodity by the US and continuing decline in demand by the Soviet Union and China

were largely responsible for the continued decline in wheat price. The price of **maize**, on the other hand, increased by about 36.1 per cent from an average of ₦118.80 per tonne in the fourth quarter, 1983 to ₦161.70 per tonne in the current quarter. The decline in supply due to effects of drought in most producing countries and reduction in area cultivated by the US were largely responsible for the price increase.

SUGAR

For the third time in three consecutive quarters, the world price of sugar declined by 25.8 per cent. As in the past, the price decline was due to declining world consumption of sugar. For instance in 1982/83 alone, world sugar consumption dropped by about 150,000 to 200,000 tonnes. A large proportion of the cut in sugar usages has been attributed to Coca Cola Company which recently embarked on a policy aimed at reducing the sugar content of its soft drinks from 75 to 50 per cent.

INDICES OF WORLD PRICES (C.I.F.) OF AGRICULTURAL COMMODITIES

(Base: 1975 = 100)

Table 1

COMMODITIES	1st Quarter 1983 (1)	4th Quarter 1983 (2)	1st Quarter 1984 (3)	PERCENTAGE CHANGE BETWEEN	
				(1) & (3)	(2) & (3)
All Commodities	139.4	211.0	238.5	71.1	13.0
Benniseed	—	—	—	—	—
Cocoa	168.3	214.7	213.7	27.0	- 0.5
Coffee	226.3	219.1	335.8	48.4	53.3
Copra	146.0	406.4	283.1	93.9	- 30.3
Cotton	146.8	181.2	212.3	44.6	17.2
Ginger	91.6	246.6	215.4	135.1	- 12.7
Groundnut	122.8	—	305.9	149.1	—
Groundnut oil	53.9	136.3	114.1	111.7	- 16.3
Palm kernel	135.4	286.1	308.2	127.6	7.7
Palm oil	93.8	201.8	187.4	99.8	- 7.1
Rubber	134.4	169.1	222.0	65.2	31.3
Soya bean	129.9	211.0	161.4	24.2	- 23.5

Sources: Computed from price quotations in London Financial Times and Public Ledger.

WORLD PRICES OF SELECTED GRAINS AND SUGAR

(₦ Per Tonne)

Table 2

TYPE OF ITEM	January	February	March	Quarter average		Percentage Changes
				4th Quarter 1983	1st Quarter 1984	
		1984				
Rice (paraboiled 5 percent broken)	201.6	190.9	—	215.3	196.3	- 8.8
Maize	163.4	160.4	161.2	118.8	161.7	36.1
Wheat	132.4	135.4	137.8	136.8	135.2	- 1.2
Sugar (Raw)	133.1	133.1	124.9	175.8	130.4	- 25.8

Sources: Compiled from price quotations in London Financial Times and Public Ledger.