

# DEVELOPMENTS IN THE WORLD COMMODITY MARKETS DURING THE FIRST QUARTER OF 1986

The weakening in the International Commodity Markets observed during the last quarter of 1985 abated during the first quarter of 1986. The major factors which influenced developments in the markets during the period included intense speculative activities among buyers, excess supply and continued appreciation of the British pound against other major trading currencies. Also significant was the inability of some International Organisations (Cocoa & Coffee) to agree on prices and quotas during the review period.

On balance, there was an increase of 4.5 per cent in the all-commodities price index which stood at 196.2 (1974=100). The rates of increase for individual commodities ranged from 3.0 per cent for cocoa to 40.7 per cent for coffee. Prices of a number of commodities such as copra, ginger, groundnut and palm oil, however, declined during the period (see Table 1). Detailed analysis of price developments in respect of some major commodities are given below:

## **Beverages:**

Prices of major products in this group rose during the period. The increases were triggered off partly by uncertainties about the state of supply (especially in the case of cocoa) and partly by the speculative buying which occurred in most of the markets in the wake of negotiations of new international commodity agreements to replace the old ones which are due to expire later in the year.

The upward trend in the price of **cocoa** observed throughout 1985 continued during the period although at a declining rate. At 282.1, cocoa price index for the first quarter of 1986 rose by a further 3.0 per cent over the level in the preceding quarter or by 2.4 per cent over that of the corresponding quarter of 1985. The current price level was however still lower than the position about three years ago due mainly to speculations of another major cocoa glut coupled with the fear that a new workable accord might not be concluded this year. The cocoa agreement talk in Geneva ended without a new agreement on quotas and prices following the unwillingness of Ivory Coast to participate in the new agreement. Nigeria's share of total cocoa export is estimated at 95,000 tonnes for 1985/86 season. This is about 37.0 per cent lower than the 151,000 tonnes recorded in 1984/85 season. Total world production of cocoa is also expected to decline by 2.4 per cent to about 1,885,000 tonnes. Ivory Coast alone produces about 500,000 tonnes of cocoa annually.

The price of **coffee** also rose during the period. At 408.6, the price index for coffee recorded an increase of 40.7 per cent over the preceding quarter or 23.9 per cent over the level in the corresponding quarter in 1985. The severe drought in Brazil which reduced output of coffee during the season by about 45 per cent or 16.7 million bags has been a dominant influence in the world coffee market. With the suspension of the International Coffee Agreement on export quotas on 19th February, traders had anticipated that this would have a dampening impact on coffee prices. There was however no apparent effect because strong demand helped to keep prices high. The United States of America which is the world's largest single coffee consuming country has indicated its intention to quit the International Coffee Agreement because of frequent price escalations. Under the existing agreement, African producers who account for about 30 per cent of total world

production are allocated only 25 per cent of the total export quotas.

## **Vegetable Oils and Oil Seeds:**

The decline in the prices of products in this group during the last quarter of 1985 continued into the first quarter of 1986, except for soyabeans and palm kernel which recorded price increases. The price index of **palm kernel** recorded an increase of 7.1 per cent, thereby reversing the trend in the past two successive quarters. The price of **soyabean** also increased by 11.0 per cent above the level. The increase was attributed mainly to an estimated sharp reduction of 11.7 per cent in supply caused by the Brazilian drought. At 111.6, the price index of **palm oil** showed a decline of 13.7 per cent below the level in the preceding quarter and 34.7 per cent below that of the corresponding quarter of 1985. The fall in price was attributed to the sharp increase in supply resulting from a rapid recovery in Malaysian production from the effects of drought during the preceding 18 months. Current Malaysian production of palm oil was estimated at about 450,000 tonnes per month, compared with normal production level of about 350,000 tonnes a month. Nigeria's palm oil production is currently estimated at about 50,000 tonnes per month.

## **Fibres:**

At 152.4, the price index of **cotton** increased by 17.1 per cent above the level in the preceding quarter. The current price level was however 6.9 per cent lower than that of a corresponding quarter of 1985. The increase recorded could be attributed to a steady rise in demand for cotton textile due to a shift in taste from synthetic fibre to cotton.

## **Rubber:**

The price index of **natural rubber** increased by 15.5 per cent to 178.5 above the level in the preceding quarter. Compared with the corresponding quarter of 1985, current price level showed a sharp decline resulting from an increase of 17.8 per cent in supply. Current price increase was due to severe winter in Malaysia which reduced latex production by about 50.0 per cent. Increase in demand for natural rubber also helped to raise price of the product. At the moment, total world demand for natural rubber is expected to rise by 2.3 per cent to 13.7 million tonnes, from 13.4 million tonnes in 1985. The price of Nigerian rubber however showed a decline in the face of declining production.

## **Sugar:**

The world price of sugar increased by 14.2 per cent to N145.6 per tonne during the quarter. The current price level was however about 11.2 per cent lower than that of the corresponding period in 1985 (see Table 2). The upturn in the price of sugar was attributed to supply shortage which was induced by the cutting back of production and export by major producers because of the low prices in recent years. World production of sugar is currently estimated at about 97 million tonnes as against world consumption estimated at 99.3 million tonnes.

## **Grains:**

The average world prices of all the grains increased during

the quarter. The price of **rice** (par boiled and 5.0 per cent broken) increased by 7.0 per cent to ₦237.0 per tonne, from ₦221.5 per tonne in the last quarter. Similarly the prices of **maize** and **wheat** increased by 14.0 and 15.8 per cent to ₦207.1 and ₦170.9 per tonne, respectively during the quarter (see Table 2). The increases were due mainly to supply shortages. For example, world wheat production for 1985/86 is estimated at about 511 million tonnes, which was 2.0 million tonnes lower than earlier estimates for the season or 1.6 per cent lower than actual production in 1984/85.

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Table 1  
**INDEX OF WORLD PRICES (C.I.F.) OF AGRICULTURAL COMMODITIES  
 IN THE FIRST QUARTER 1986**  
 (1975=100)

Commodities	1st Qtr. 1985 (1)	4th Qtr. 1985 (2)	1st Qtr. 1986 (3)	Percentage change between	
				(1) and (3)	(2) and (3)
All Commodities .....	234.0	187.8	196.2	-16.2	4.5
Cocoa .....	275.4	273.8	282.1	2.4	3.0
Coffee .....	329.8	290.4	408.6	23.9	40.7
Copra .....	311.4	172.3	149.5	-52.0	-13.2
Cotton (lint) .....	163.7	130.2	152.4	-6.9	17.1
Ginger .....	—	240.1	154.6	—	-35.6
Groundnut .....	290.4	—	—	—	—
Groundnut oil .....	134.0	137.0	113.3	-15.4	-17.3
Palm Kernel .....	254.6	138.9	148.7	-41.6	7.1
Palm oil .....	170.9	129.3	111.6	-34.7	-13.7
Rubber .....	151.5	154.5	178.5	17.8	15.5
Soyabean .....	162.8	157.9	175.2	7.6	11.0

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

Table 2  
**WORLD PRICES OF SELECTED GRAINS AND SUGAR  
 FOR FIRST QUARTER 1986**  
 UNIT — (₦/TONNES)

Type of Item	1st Qtr. 1985 (1)	4th Qtr. 1985 (2)	1st Qtr. 1986 (3)	Percentage change between	
				(1) and (3)	(2) and (3)
Rice (Par boiled 5% broken) .....	200.0	221.5	237.0	18.5	7.0
Maize .....	163.8	181.7	207.1	26.4	14.0
Wheat .....	103.6	147.6	170.9	65.0	15.8
Sugar (Raw) .....	164.0	127.5	145.6	-11.2	14.2

Source: Compiled from Financial Times and Public Ledgers.  
 NB—The prices have not been indexed.