

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Raw material markets: Continuing pressure on prices in the sugar market

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1967) : Raw material markets: Continuing pressure on prices in the sugar market, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 2, pp. 56-, <https://doi.org/10.1007/BF02930587>

This Version is available at:

<https://hdl.handle.net/10419/137703>

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Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1966				1967		
	Jan.	Apr.	Jul.	Oct.	Jan.	Jan. 20	Feb. 3
HWWA-Index¹ (1952—1956 = 100) . . .	98.0	99.1	95.8	92.6	92.3	92.4	93.0
Foodstuffs	88.4	86.7	85.6	83.7	83.7	84.4	85.4
Raw materials other than foodstuffs . . .	102.6	105.0	100.8	96.8	96.4	96.2	96.6
Fuels	95.6	95.7	95.7	95.5	95.2	95.2	95.2
Raw materials for consumer goods . .	91.6	96.0	95.9	91.2	92.5	92.3	92.7
Raw materials for capital goods	117.0	120.4	109.6	102.3	100.2	99.9	100.7
Reuter's Index (18. 9. 1931 = 100)	470.4	470.7	462.9	429.1	425.6	421.7	433.7
Moody's Index (31. 12. 1931 = 100)	412.4	395.7	407.9	371.1	370.7	371.0	371.0

¹ Index compiled by the Hamburg Institute for International Economics.

quarter of 1966 the deficit reached \$ 872 million—annual rate adjusted for seasonal variation—while in the preceding quarter it amounted to only \$ 564 million. An even more pronounced deterioration would have occurred if the high domestic level of interests had not favoured the inflow of foreign capital.

Against the background of a slowed down economic expansion President Johnson in this year's State of the Union Message de-

manded a 6% increase of the income tax from mid-1967 on. With that the budget deficit of the fiscal year 1967/68 is to be reduced in spite of the vigorous expansion of expenditure. During the current year the restrictive effects of the tax increases on private demand will be kept within narrow limits, as simultaneously a considerable rise of social insurance benefits is provided for. The real growth of the GNP of 4% to be expected for 1967 (1966: 5.5%) will thus not be jeopardised.

declined considerably when e.g. in the summer of 1966 Brazil—contrary to cartel agreements—sold 530,000 tons of sugar (only a bare 1% of world production) to intermediaries. Apart from these stocks in second hand the pressure on prices is increased by the possibility that the East-bloc might offer Cuban sugar on the narrow free world markets.

The deterioration of prices on the sugar market has caused only a few countries to cut down production, although prices do not cover even approximately the production costs also of producers working at particularly favourable conditions. By sales at high prices within the scope of special agreements the exporting countries get a certain compensation for sales at low prices in the free market. (e.g. in the United States). The individual countries' expectations to extend their sales to these special markets, and the necessity to earn foreign exchange at any price also in the free market, rather promote sugar growing.

Last but not least for this reason no new international regulation agreement foreseeing also drastic production cuts has been concluded at the last UNCTAD sugar conference in autumn, 1966. Under these conditions a sudden change in tendencies on the sugar market cannot be anticipated soon.

Raw Material Markets

Continuing Pressure on Prices in the Sugar Market

The continuing pressure on prices in the sugar market lasting for three years now has again increased during the second half of 1966 after the export cartel founded as recently as April collapsed and the first estimates for the season 1966/67 signalled a considerable growth in production. Until January 6, 1967, the New York sugar price declined to a new post-war bottom of 1.16 c/lb.

For the sugar-year 1966/67 F. O. Licht forecasts a new production increase by 4.7% to 66.5 million tons (1966: 63.5 million tons). Even with a similarly high increase of sugar consumption as in the last

year, by 2.5 million tons to 63.5 million tons, world stocks would rise by about 3 million tons and reach a volume of more than 23 million tons by the end of the 1966/1967 season. However, stocks of at most 13 to 15 million tons may be considered "neutral as regards the effect on prices", so next year about 9 million tons or 15% of one year's production will put pressure on the market.

But the surplus situation on the free world market alone is even more precarious, because due to the expanding special markets only 15% of world demand are still covered here. Therefore prices

INTERECONOMICS • Monthly Review of International Trade and Development

Edited by The Hamburg Institute for International Economics (Hamburgisches Welt-Wirtschafts-Archiv), Director: Prof. Dr. Heinz-Dietrich Ortlieb, and The German Overseas Institute (Deutsches Übersee-Institut), President: Prof. Dr. Dr. h. c. Andreas Prädöhl. Editorial staff: Dietrich Kobschull (managing editor), Hubert Höping (editor), Karl-Muck-Platz 1, Hamburg 36, published by Verlag Weltarchiv GmbH., Eppendorfer Landstraße 106, 2 Hamburg 20. Advertising Representative: Dr Hans Klemen. Printed by Otto Schwitzke, 2 Hamburg 70. Annual rate of subscription DM 48,— (US-\$ 12,—). Copyright by Verlag Weltarchiv GmbH.