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Commodity Prices Under Pressure

The world market prices of industrial raw materials stayed in the last few months for the most part on their downward course. The cyclical downturn in Western industrialized countries has damped down demand perceptibly. Not only has the consumption of raw materials declined but manufacturers and dealers have drawn down their stocks; high interest charges in the USA and other major consuming countries are encouraging inventory cutbacks. In the prevailing unsatisfactory economic situation the further oil price increases before the turn of the year occasioned no fears that the prices of raw materials might go up; thus speculative boosts to demand as observed previously, did not occur this time round. The prices of commodities quoted in sterling or dollars were also depressed by the appreciation of these currencies in which the bulk of the raw material business is still being done. In terms of the depreciated currencies of buyers outside these two currency areas raw materials have become much dearer. Apparently, this made them more inclined to wait for a turn of the market trend before replenishing their stocks.

The non-ferrous metals were affected most by the depression in the commodity markets. Between November 1980 and February 1981 the London price of lead fell by 12 %, that of tin by 9 %, copper by 7 % and zinc by 5 %. Natural rubber lost 7 %. Cotton and wool prices were more resilient: supplies of both are rather tight whereas the demand for them kept up

unexpectedly well – despite the adverse business conditions for textiles – due to their improved competitiveness compared with synthetic fibres.

Overall the price level in the markets for industrial raw materials declined between November 1980 and February 1981 by 5.1 % as measured by the HWWA Index on a dollar basis. Compared with February 1980, they have fallen by 14.6 %. The prices of energy

Table 1
Changes of World Market Prices of Raw Materials
(as indicated by the HWWA Index, based on US dollars, in %)

Commodity Groups	February 1981 compared with February 1980	February 1981 compared with November 1980	November 1980 compared with August 1980
HWWA Index, total	+ 13.9	+ 3.1	+ 2.6
HWWA Index, total, excl. energy raw materials	- 8.6	- 7.6	+ 1.3
Food, tropical beverages	+ 1.1	-10.9	+ 6.2
Cereals	+20.0	- 5.4	+10.1
Oilseeds, oils	+ 5.2	-10.8	+15.8
Tropical beverages, sugar, tobacco	- 6.3	-13.1	+ 2.2
Industrial raw materials	-14.6	- 5.1	- 2.3
Agricultural raw materials	- 4.9	- 4.9	- 0.1
Non-ferrous metals	-29.3	- 8.5	- 4.2
Iron ore, scrap	- 8.2	+ 0.6	- 5.2
Energy raw materials	+22.6	+ 6.7	+ 3.1
Coal	+ 9.7	- 1.3	- 2.4
Crude oil	+23.2	+ 7.0	+ 3.1

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Christian Wilhelms

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

materials, including crude oil in particular, rose in the period under review on average by 7 %.

The supply-demand outlook suggests a further slight easing of the price level for industrial raw materials in the next months. With industrial production in the industrialized countries of the West likely to recede, the consumption of raw materials will at first continue to decline. Moreover, the producer and commodity exchange stocks of most raw materials have risen once more noticeably, despite some production cutbacks. There are signs that the producers are considering further measures to counter excessive pressure on the prices but they have found before how difficult it is to concert production or export cuts. Reassured by the prospect that prices will if anything recede further, many manufacturers are likely to adhere at first to a cautious inventory stock policy; the high interest rates make the holding of raw material stocks in any case very expensive.

The pressure on the prices in the industrial raw material markets is likely to continue into the second half of 1981. Only if the general economic situation in the industrialized countries of the West improves, as it is expected to do later this year, is a significant revival of the demand reaching the commodity markets likely to take place. As the manufacturers' stocks are generally very low, the demand could derive considerable impulses from inventory restocking. In the initial phase of the cyclical recovery the prices would probably – helped along by speculative influences – rise strongly despite the availability of relatively large supplies. When the temporary demand

overload has been worked off, a further advance of the prices from their higher level would probably be moderate.

Any forecast about the prices in the international raw material markets is however subject to the same great uncertainties as all predictions at this juncture concerning the economic trend in the industrialized countries, to say nothing of the incalculable impact of future exchange rate fluctuations, especially in relation to the pound sterling and the US dollar.

In the world markets for foodstuffs the price level declined between November 1980 and February 1981 by 11 %, according to the HWWA Index for the sector, on a dollar basis. The prices of sugar, wheat, feed grains and oilseeds fell most. Those of cocoa and coffee remained surprisingly firm.

The depression in the food markets is probably connected with the fact that the requirements of the importing countries in the current 1980/81 season are generally lagging behind earlier expectations. In addition, the buyers seem to count on substantially larger crops in the next season. In the important US commodity markets, which set the tone for the world markets, foreign buyers seem also to have been held back by the strength of the dollar.

In the coming months the prices of food and stimulants will probably remain under pressure. In a few markets the prices may however shoot up if new acreage and crop estimates raise doubts about the expected improvement of supplies in the 1981/82 season.

HWWA Index of World Market Prices of Raw Materials¹
(1975 = 100)

Raw Materials and Groups of Materials	1980				1981			
	AA ²	February	November	December	January	February	Feb. 27 th	March 3rd
Total index	226.0	214.4	236.8	236.9	246.2	244.1	243.7	243.4
Total, excl. energy raw materials . .	157.5	161.9	160.2	152.7	152.6	148.0	146.8	145.2
Food, tropical beverages	150.4	143.3	162.6	150.1	150.6	144.9	143.2	139.6
Industrial raw materials	162.9	176.0	158.3	154.7	154.0	150.3	149.5	149.4
Agricultural raw materials	164.3	166.4	166.3	164.8	163.1	158.2	156.6	156.7
Non-ferrous metals	185.5	225.0	173.9	164.7	163.8	159.2	159.2	160.0
Energy raw materials	265.9	245.0	281.5	286.0	300.9	300.3	300.3	300.8

¹On dollar basis. - ²Annual Average. For the new method of computation of the HWWA Index cf. INTERECONOMICS No. 5, 1980, p. 261 ff.