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Commodity Prices Still under Pressure

With the slackening-off of expansive forces in a number of major countries last year, the world markets for industrial raw materials have also felt the effects of the slowdown. The threat of strikes and production shortfalls in some non-ferrous metals such as copper, lead and zinc, however, prompted manufacturers to stock up as a precaution, which in turn initially pushed up prices substantially. Not until late summer, when the production of these commodities returned to normal, did demand calm down. The outbreak of the Gulf crisis triggered temporary strains on individual markets – especially in aluminium, where production shortfalls in the Gulf region were feared. In general, however, the retarding influences gained momentum as an additional strain on the global economy and an associated drop in the consumption of raw materials began to emerge due to higher oil prices and greater risks. In this situation most manufacturers and traders were keen to keep stocks low, especially as interest rates in most countries remained high.

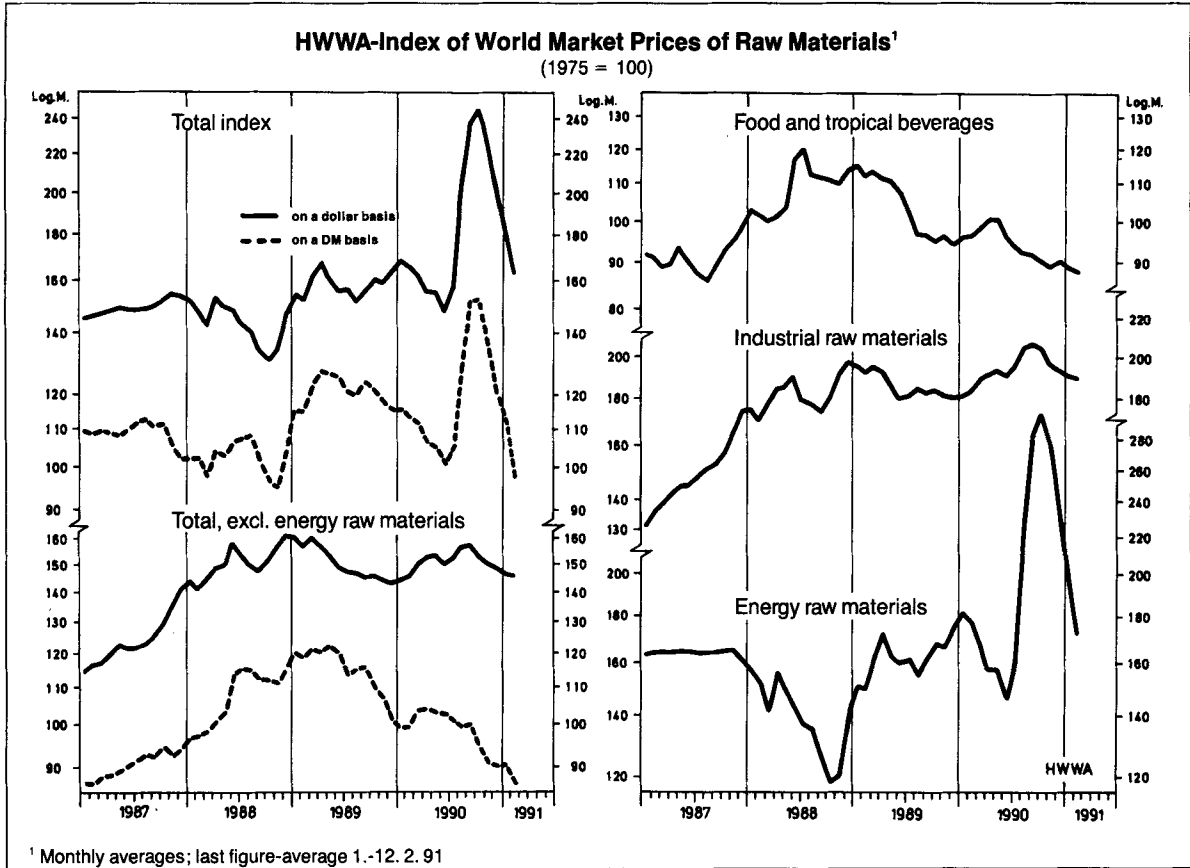
In all, the prices on the world market for industrial commodities have dropped appreciably since last autumn. The annual average price level for 1990 as measured by the HWWA index was 4% up on 1989 on a dollar basis, but this reflected the depreciation of the dollar. Based on special drawing rights, which represent a basket of the five major currencies, prices declined by 2% and, measured against the ECU, by as much as 10%.

Consumption of industrial commodities in 1991 will probably rise only a little due to the slowdown in global economic trends, while production in many areas will continue to expand. Thanks to the tangible expansion of cotton planting following the previous rise in prices, for example, a much larger harvest can be anticipated. With the growth of consumption now weaker, the replenishment of the – heavily depleted – stocks is emerging for the first time in a longer period; cotton prices will thus come under pressure. In the case of wool, oversupply is likely to persist.

Apart from the unusually high stocks, the supply of wool this season will again probably substantially exceed demand, which will show only a very modest rise. It is very unlikely that the minimum fixed price level in Australia and New Zealand can be sustained. In view of the large reserves in the exporting countries and rising production, rubber is also likely to be in ample supply. This will not cause a noticeable drop in prices, though, because the Buffer Stock Manager has large resources at his disposal for support buying. On the non-ferrous metal markets, stocks on the London Metal Exchange have also risen again recently, following the overcoming of numerous production bottlenecks and also due to increased supplies from Eastern Europe. Production will continue to adjust to slow-downs in the growth of demand with a delay. Prices for non-ferrous metals should therefore continue to decline in general.

All in all, world market prices for industrial commodities will tend to recede in the immediate term. The end of the Gulf War has, however, improved economic prospects, so that commodity prices are likely to rise again in the course of the year.

The persistent downward price trend on the markets for food and tropical beverages throughout the whole of 1989 was halted in the first months of 1990. There was a forceful rise in coffee and cocoa prices in particular in this period, because the producers pursued a restrained supply policy; maize, sugar and oilseeds also became more expensive, while wheat prices dropped. In early summer, however, prices overall started to decline again. Demand ebbed, evidently in anticipation of an increase in supply. The quotations for grain, sugar and cocoa have since fallen distinctly. In all, measured by the HWWA subindex on a dollar basis, the price level on the world markets for food and tropical beverages in December 1990 was 4% down on December 1989. The annual average decline amounted to 9%; for importers in Western Europe the price reduction measured in ECU terms even showed an average of 21%.



According to the harvest forecasts available so far for the 1990/91 season, there is likely to be an ample supply on most food and tropical beverages markets in the calendar year 1991. The global wheat harvest will probably exceed demand by far, so that a considerable replenishment of the – low – reserves and a further slight fall in prices is likely. There will also probably be a surplus in the production of sugar and cocoa, so that an increase in stocks in the exporting countries and persistent price pressure is to be expected. Production of fodder grain, in contrast, will probably lag behind demand. As a result of

the increased use of low quality wheats for feed, the prices for maize and other feedstuffs are unlikely to alter much. At present, there is still particularly great uncertainty as to supply trends in oilseeds and coffee. Production will probably diminish, however, so that shorter supplies and a tendency towards rising prices again is to be expected. As a whole then, the price level on the world markets for food and tropical beverages will alter little in 1991.

Compiled by the Department of World Business Trends of the Hamburg Institute for Economic Research (HWWA).

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

Raw Materials and Groups of Materials	1990				1991			
	AA ²	Febr.	Nov.	Dec.	Jan.	Febr.	1. 3.	15. 3.
Total index	185.7	166.1	228.4	201.2	182.3	157.7	155.7	154.3
Total, excl. energy raw materials	150.8	145.5	150.2	148.6	146.7	146.1	146.6	141.7
Food, tropical beverages	94.7	96.3	89.2	90.1	89.0	88.5	89.6	88.8
Industrial raw materials	193.6	183.0	196.8	193.2	190.7	189.9	190.0	182.0
Agricultural raw materials	210.8	206.9	216.8	214.2	212.6	209.8	209.6	198.2
Non-ferrous metals	201.9	182.3	193.8	187.2	183.8	184.1	187.5	183.2
Energy raw materials	206.0	178.0	274.0	232.0	203.1	164.5	161.1	161.6

¹ On dollar basis. ² Annual Average.