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Annex to chapter III

COMMODITY PRICES

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COMMODITY PRICES

The overall downward trend in commodity prices that began in 1996–1997 continued throughout 2001–2002, but price movements varied significantly across markets, primarily due to different supply conditions (table 3.A1).[1] The slowdown of demand, in addition to a chronic oversupply, was the main factor in keeping a downward pressure on the prices of many commodities including coffee, bananas and some metals and minerals. By contrast, adverse supply conditions helped to offset the slowdown in demand for a number of commodities, such as cocoa, grains, vegetable oils and seeds, thereby stabilizing and even raising their prices. For a number of other agricultural commodities, notably cotton and sugar, market-support policies in developed countries, such as the new Farm Bill introduced in the United States in May 2002, contributed to weakness in their world prices.

The price index for tropical beverages rose in 2002, after having fallen for four consecutive years. This was mainly due to a substantial increase in cocoa prices. Coffee prices remained at the level of 2001, when they hit a 30-year low. The main reason for the crisis in the coffee markets is the persistent oversupply resulting from a rapid increase in production by new entrants to the market such as Viet Nam, new plantations in Brazil, and improvements in productivity. Since the third quarter of 2002, coffee prices have recovered slightly due to increased speculation about the possible contraction of production in Brazil and Viet Nam. The Coffee Quality-Improvement Programme launched by the International Coffee Organization in October 2002, with a view to removing low quality coffee from the market, also appears to have contributed to the improvement of the balance between supply and demand in the world coffee market.

Developments in the cocoa market were mainly determined by uncertainties resulting from the political situation in Côte d'Ivoire – the largest cocoa producing and exporting country in the world – that accounts for about 45 per cent of world production and exports. In 2002, there was a global shortfall in the supply of cocoa for the second consecutive year, leading to a price increase of 63.3 per cent. By contrast, tea prices fell as a result of the high level of stocks and stagnant world demand.

Average food prices deteriorated again in 2002, their annual average drop of 4 per cent reversing the rebound of the two previous years. However, there were strongly diverging trends for different commodities in this group: prices fell considerably for sugar, less for bananas and only slightly for beef. Sugar production in Brazil has continued to rise unabated, doubling over the past decade. Increased production in China and South Africa added to better-than-expected sugar output in the EU, depressing prices by more than 20 per cent, to approach the extremely low level registered in 1999. The oversupply of sugar is ex-

Annex table 3.A1

WORLD PRIMARY COMMODITY PRICES, 1997–2002

(Percentage change over previous year)

Commodity group	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
All commodities[a]	**-0.5**	**-13.1**	**-13.9**	**2.0**	**-2.9**	**-2.0**
Food and tropical beverages	**2.3**	**-14.9**	**-18.5**	**1.0**	**0.0**	**-2.0**
Tropical beverages	33.3	-17.3	-20.9	-13.2	-22.0	8.7
Coffee	54.7	-28.5	-23.2	-16.2	-28.5	0.0
Cocoa	11.2	3.7	-32.1	-22.2	22.7	63.3
Tea	35.1	4.3	-7.0	6.8	-20.2	-9.5
Food	-4.2	-14.1	-18.3	5.3	5.0	-4.0
Sugar	-4.9	-21.2	-30.0	30.5	5.6	-20.3
Beef	4.0	-7.0	6.1	5.7	10.0	-0.2
Maize	-25.3	-13.4	-5.5	-1.0	4.2	0.3
Wheat	-22.6	-19.9	-10.9	3.5	9.2	16.2
Rice	-10.7	1.3	-18.6	-18.1	-15.2	11.0
Bananas	4.3	-3.1	-9.9	-2.3	38.8	-9.6
Vegetable oilseeds and oils	**-0.9**	**7.1**	**-23.3**	**-22.8**	**-8.5**	**26.2**
Agricultural raw materials	**-10.3**	**-10.8**	**-10.3**	**1.9**	**-1.9**	**-6.7**
Hides and skins	-19.8	-22.7	-27.6	73.8	41.1	-9.2
Cotton	-8.9	-8.3	-22.9	3.5	-20.9	-3.3
Tobacco	15.6	-5.5	-7.0	-3.3	-0.3	-8.5
Rubber	-28.3	-29.8	-12.6	7.9	-14.1	33.1
Tropical logs	-5.5	-1.2	-7.2	3.8	6.3	-10.5
Minerals, ores and metals	**0.0**	**-16.0**	**-1.8**	**12.0**	**-9.9**	**-1.8**
Aluminium	6.2	-15.1	0.3	13.8	-6.8	-6.5
Phosphate rock	7.9	2.4	4.6	-0.4	-4.5	-3.3
Iron ore	1.1	2.8	-9.2	2.6	4.5	-1.0
Tin	-8.4	-1.9	-2.5	0.6	-17.5	-9.4
Copper	-0.8	-27.3	-4.9	15.3	-13.0	-1.2
Nickel	-7.6	-33.2	29.8	43.7	-31.2	13.9
Tungsten ore	-9.3	-6.4	-9.3	12.1	45.5	-41.8
Lead	-19.4	-15.3	-5.0	-9.7	4.9	-4.9
Zinc	28.4	-22.2	5.1	4.8	-21.5	-12.1
Crude petroleum	**-6.0**	**-31.8**	**38.7**	**55.6**	**-13.3**	**2.0**

Source: UNCTAD, *Monthly Commodity Price Bulletin,* various issues.
a Excluding crude petroleum.

pected to continue in the short run, although the downward trend may be mitigated by increased consumption in the emerging-market economies of East Asia and the Russian Federation. A major feature of the sugar market is the presence of market distortions, stemming mainly from subsidization in the EU and the United States that insulates domestic producers from international market pressures.

After a substantial increase in 2001, banana prices tumbled in 2002. There was a moderate contraction in production and exports, but global demand fell despite a small growth in consumption in the United States. Beef consumption rose due to the recovery of consumer confidence in this particular food item, but global beef supply also increased because higher feed prices encouraged slaughtering; the outcome was a slight fall in beef prices. Prices of grains improved due to reduced supply as a result of drought and other unfavourable weather conditions in the major producing areas in North America and Australia, which was not compensated by stock depletion or increased output elsewhere. Food aid to African countries affected by drought also appears to have played a role. Maize prices remained unchanged, despite downward pressure from more competitively priced, low-quality wheat supplies exported in large quantities by China. Prices of vegetable oilseeds and oils increased substantially due to a fall in production resulting from adverse weather conditions that affected crops in the major exporting countries.

Prices of agricultural raw materials, and minerals, ores and metals are most vulnerable to cyclical downturns in economic activity. As a result of high levels of stocks and weak demand from industry, prices declined for all commodities in these groups, except rubber and nickel. For cotton, the average price level continued to fall in 2002 due to sluggish growth in world demand, abundant cotton inventories and fierce competition from synthetic fibres. However, lower production during the crop year 2002/2003 and strong demand from China caused prices to recover to a certain extent during the second half of the year. Subsidized cotton production in the United States and China continued to contribute to oversupply and to the historically low level of prices reached in the 2001/2002 growing season. Particularly hard hit by these measures were the export earnings of producing countries in West Africa and Asia, many of which are among the world's poorest developing countries. The evolution of prices for the various qualities of cotton continued to vary; prices of the better qualities showing a more positive evolution than those of the lower qualities.

Natural rubber prices increased due to strong demand, exchange-rate appreciations in producer countries and an imbalance in the rubber industry, that led to falling stocks. This prompted governments in some producing countries such as Thailand to intervene in the market. Weather conditions also helped to keep rubber supply low. The establishment of the International Tripartite Rubber Organization (ITRO) by the three major producing countries – Indonesia, Malaysia and Thailand – with the objective of rationalizing and coordinating production also had some influence on rubber prices.

Prices of metals and minerals are closely related to the growth performance of the world economy. Demand for most metals has been growing only slightly due to the sluggishness of the world economy. Although prices recovered to some extent in early 2002, the overall trend has been negative, and despite some cuts in production capacities, short-term expectations of producers remain depressed, as the level of stocks is still relatively high and demand prospects are uncertain. China is playing an increasingly important role as an emerging market for many metals and minerals, due to the rapid growth of consumption. For iron ore, aluminium and copper, China's industrial expansion is critical to increasing global demand and prices. The same is true for nickel, the most important ingredient for stainless steel production, which accounts for two-thirds of the worldwide consumption of primary nickel. As production is unlikely to keep up with demand, stocks are likely to continue falling and prices rising.

After a substantial decline in 2001, oil prices have been fairly stable since the beginning of 2002, thanks to the discipline established by the Organization of the Petroleum Exporting Countries (OPEC). Production targets, set with a view to maintaining the price per barrel within the $22 to $24 range, as well as the coordination of production with non-OPEC oil exporting countries, have been working well. The rise in crude oil prices during 2002 was mainly spurred by political instability in the Middle East and Venezuela. In the end, oil prices did not rise as dramatically as had been feared. Global production expanded during the course of the year after a preliminary reduction of the OPEC target in January 2002. The target was revised upwards in December in an attempt to adjust supply to rising demand due to a colder-than-expected winter in the Northern hemisphere and to some switching to oil from other sources of energy in Japan and the United States.

This forced some depletion of stocks, particularly in the United States.

With the beginning of the war in Iraq in March 2003, volatility in the oil markets increased. But even after the war, prospects for any near-term change in oil prices remain unclear as the role of Iraq in the oil markets is still uncertain. During the second quarter of the year, some of the factors that were contributing to price rises have been easing, including the gradual recovery of production in Venezuela and Nigeria and the seasonal reduction in demand with the end of winter in the Northern hemisphere. Continuing slow output growth in the world economy and reduced travel as a result of SARS may further weaken demand growth. Clearly, the evolution of oil prices remains highly dependent on the capacity of OPEC to maintain some discipline in the new geopolitical context. ■

Note

1 There are considerable differences in commodity price statistics published by different international organizations including UNCTAD, the IMF and the World Bank. These differences arise largely from differences in the coverage of different categories of products (e.g. meat) and product groups (e.g. food, minerals, fertilizers) as well as differences in the weights used for aggregation. UNCTAD statistics define coverage and weights according to the relative importance of the different products to developing countries. Thus, while in UNCTAD statistics weights are determined according to the share of individual commodities in the total commodity exports of developing countries, in some others (e.g. IMF statistics) the shares of individual commodities in world commodity exports are used as weights. Commodity prices used are also different; UNCTAD uses prices that apply primarily to the exports of developing countries.