Pacific island commodity prices

David Rutherford

The June and September quarters of 1993 have been dramatic turning points for many commodity prices. For some, such as copra, coconut oil, palm oil, cocoa, coffee, copper and sawn timber, these quarters marked the beginning of quite significant recoveries. For others, including beef and meranti timber, they were the beginning of decline. Gold, sapelli timber, tea and sugar have shown no significant movements in either direction.

Copra

World average copra prices continue to rise from their low in the June quarter of 1993—from around US$330 per metric tonne in December last year to around US$384 per metric tonne in first quarter of 1994. The World Bank expects prices to fall during 1994 to around US$340 per metric tonne where they are expected to stabilise.

Coconut Oil

Copra and coconut oil prices are highly correlated (Figures 1 and 2), so average coconut oil prices continued to increase from around US$419 per metric tonne in the June quarter of 1993 to the current level of around US$569 per metric tonne. The trend is expected to fall over 1994, stabilising over 1995 and 1996.

The increase in copra and coconut oil prices is the outcome of both a reduction in supply, particularly in the Philippines, and an increase in demand from oleo-chemical industries in producing countries. Since last November, some 30,000 hectares of copra-producing land in the Philippines has been severely damaged by four typhoons. Meanwhile, import demand from new buyers such as China, Malaysia, the Republic of Korea and Turkey has been increasing. With this combination of supply shortfall and stronger demand, the World Bank expects a fall in the stocks-to-use ratio over the year, and the market for lauric oils to remain robust.

Palm Oil

The trend in palm oil prices continues to rise slowly from a low of around US$357 per metric tonne in the September quarter of 1993 to its current level of around US$395 per metric tonne. Despite the rise, the wide price discounts against other edible oils have shifted world import demand in favour of palm oil. With world demand for vegetable oils accelerating, and

David Rutherford is Statistical Officer of the South Pacific Economic and Social Database at the National Centre for Development Studies, The Australian National University.
expansion in palm oil production only partially offsetting supply shortfalls in other oil seeds, consumers are increasingly switching to palm oil to satisfy their needs. Most of the increased demand is from China, whose market for oils has generally been satisfied by Southeast Asia. Algeria, Egypt, Mexico, Pakistan and Turkey have all recently increased their imports of vegetable oils and oil seeds. With the current wide price advantage over soybean oil, palm oil is likely to expand its markets in Africa, Asia and the Middle East.

Globally, palm oil consumption is expected to remain strong in 1994. Even the expansion in world palm oil output in 1993 did not prevent vegetable oil prices from rallying to a five-year high in December last year.

Cocoa

The trend in cocoa prices also continues to rise from a low in the June quarter of 1993 of US$998 per metric tonne to around US$1267 per metric tonne in March 1994. During the first half of 1993, prices remained at around US$1000 per metric tonne due to large stocks. Subsequently, prices increased significantly as preliminary crop estimates indicated a
third consecutive production deficit in 1993/94. During the second half of 1993, weather conditions, in addition to political and economic uncertainty in some West African countries and pessimistic crop prospects in Brazil, also contributed to price increases. In Côte d’Ivoire, concerns over presidential succession and the disruption of crop flows sparked a wave of buying, pushing the price to around US$1400 per metric tonne by December. The smooth presidential transition eased concerns, and relieved upward pressure on prices.

**Tea**

In the June quarter of 1993, world average tea prices fell well below US$2000 per metric tonne and have remained there since. However, the December quarter prices fluctuated around US$1900 per metric tonne, significantly higher than the previous two quarters. These higher prices were due primarily to seasonal factors. The average price in the last quarter of 1993 was, however, about 13 per cent lower than in the corresponding quarter of 1992.

The primary reason for the general weakness in tea prices is the sharp recovery in supply since 1992 in all of the major tea-producing countries, when droughts led to significant interruptions to supply. The World Bank estimates that world supplies of black tea could be 150,000 tons higher than in 1992. The recovery in supply was most dramatic in India, Kenya and Sri Lanka, where it was largely a consequence of an abundant labour supply, yield improvements and improvements in estate management.

**Coffee**

Both the quarterly and annual trends in coffee prices continue to rise, although the fluctuations in world arabica prices during the fourth quarter of last year indicate that the market is evaluating the stock-retention plan. Under this plan, twenty-eight coffee-exporting countries agreed to retain 20 per cent of coffee exports as stock.

World coffee prices, declining since the suspension of the International Coffee Agreement’s export quota system in 1989, hit bottom in 1993 at around US$1342 per metric tonne but are now recovering to around US$1850 per metric tonne. This recovery has been supported both by the retention plan and by reduced production in several major coffee-exporting countries such as Colombia and Brazil.

**Figure 3**  
Annual average prices: cocoa, tea, coffee, sugar, beef, US$ per metric tonne
Sugar

The quarterly and annual trends in sugar prices have remained largely unchanged, although prices were, on average, slightly higher at the end of last year. The quarterly average rose from US$227 per metric tonne in December 1993 to a current level of around US$241 per metric tonne. Production was down by 4 per cent, consumption was down by 1 per cent and year-end stocks were down 3.7 per cent on 1992 figures.

The important news for the world sugar market was the conclusion of the NAFTA and GATT agreements. Pacific exporters can now expect to maintain their current export levels, because the reduction of internal agricultural support in the United States and European Union stipulated in the GATT has already been achieved without involving sugar.

Beef

From a high of US$2786 per metric tonne in the September quarter of 1993, the trend in beef prices has fallen to US$2535 per metric tonne for the March quarter of 1994. However, the average price for the year as a whole has remained strong due to an 8 per cent reduction in meat access levels, (and lower supplies of imported beef) to the US beef market.

With US domestic meat production continuing to increase, allowable imports under the US Meat Import Law have been reduced further in 1994. Australia’s beef access level has been reduced to 301,600 tons and New Zealand’s access has been reduced to 184,400 tons. However, in contrast to the lower beef shipments from Australia and New Zealand in 1993, US beef imports from Central America were sharply above last year’s levels.

The decline in beef trade between North America and Oceania was offset by significant growth in beef trade in other Pacific rim countries, particularly in Japan and Korea. Other Asian markets are also increasing their import levels. The Asian region is expected to offer continuing opportunities for beef exporters due to the increasing diversification of diets as incomes rise.

Copper and gold

The quarterly trend in copper prices recovered from a 1993 December quarter value of US$1666 per metric tonne to a
current value of around US$1862 per metric tonne, although the annual trend continues to fall.

The recent upturn in copper prices was led primarily by speculative purchases, based partly on the strong growth of the US economy, declining FSU exports, increasing Chinese imports and declining mine production. However, the continuing weakness of the European and Japanese markets remains the fundamental constraint to the copper market, bringing the consumption growth of market economies to a near halt in 1993, and contributing to the declining trend in prices.

The trend in gold prices remains steady, with a slight increase in the quarterly average from US$373/toz to US$384/toz.

**Timber**

Malaysian (meranti) log prices in the Japanese market declined by 23 per cent between the third and fourth quarters of 1993, contributing to the continuing downward quarterly and annual trends in the price of these logs. These price declines, from US$492 per cubic metre in June 1993 to US$302 per cubic metre, were due partly to decreased demand in Japan, and
African (sapelli) log prices did not change significantly as a consequence of stagnant demand in the French market: prices remain around US$305 per cubic metre. Tropical log imports declined by 15 per cent in Europe between 1992 and 1993, and preliminary forecasts give no indication of a prompt recovery.

The trend in sawn timber prices has increased quite dramatically over the last three quarters. This was due mainly to export restrictions that Sabah adopted earlier last year. The quarterly average has risen from a low of US$500 per cubic metre to the current level of around US$723 per cubic metre.

References


South Pacific Economic and Social Database, National Centre for Development Studies, The Australian National University, Canberra.