

Commodity Markets Review

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DECPG, The World Bank

Crude oil prices fell 16.1 percent in April on increasing oil supplies outside Iraq and limited damage to Iraq's oil facilities during the war. Oil prices ended the month at \$24.1/bbl, down 30 percent from pre-war levels of more than \$34/bbl. Oil inventories have started to build, however they remain extremely low.

OPEC unexpectedly raised quotas 3.7 percent at its April 24th meeting, which will be effective June 1st. The organization also called for greater compliance, and urged its members to take 2 mb/d off the market. OPEC production fell 0.8 mb/d in April, as reduced output in Iraq was partly offset by recovering production in Venezuela. This leaves total OPEC output production more than 1 mb/d above its new quota of 25.4 mb/d.

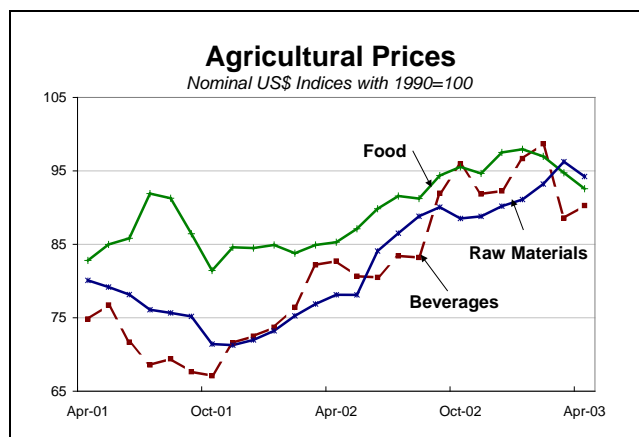
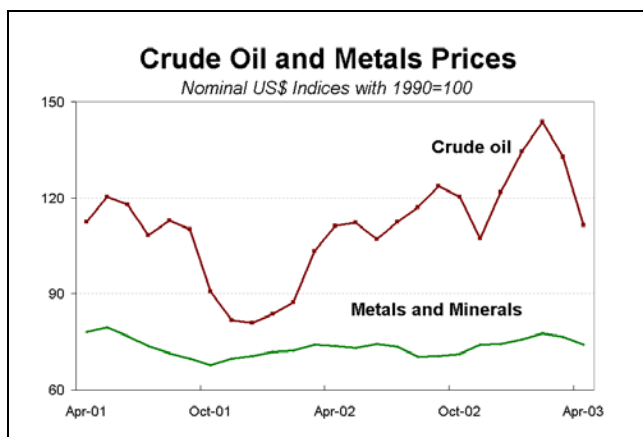
The return of Iraq exports is uncertain, as the legal authority to sell oil to foreign buyers is yet to be established. Meanwhile, production for domestic use has commenced and the oil-for-food program ends in early June.

Non-oil commodity prices rose 0.9 percent in February, with agricultural up 0.2 percent and metals up 2.5 percent compared to January. The increases extend a 16-month rally in agricultural prices that has raised the index by 28 percent, and a 6-month rally

Agricultural prices were mixed, with beverages and raw materials higher and food prices lower. A 1.2 percent increase in beverage prices was caused by continued increases in cocoa prices due to uncertainty caused by conflict in Côte d'Ivoire. Food prices were down 0.9 percent due to a drop in U.S. banana prices, while other food prices were largely unchanged, following large increases over the past year. Raw materials prices were up 1.0 percent due to higher cotton and rubber prices.

Fertilizer prices rose from increased costs of natural gas used in production. Nitrogen (urea) prices were up 14 percent, DAP prices were up 11.4 percent, and TSP prices were up 5.8 percent. Further price increases are expected and this could reduce fertilizer use and crop yields in the coming season.

Metals and minerals prices rose 2.5 percent in February, extending the modest rally that began in August 2002. The gains in February were fairly broad based with nickel and lead recording the largest increases. The nickel market remains tight due to strong steel demand, declining stocks, and concerns about supply disruptions in Russia due to strikes. Lead prices were buoyed by higher demand for batteries and declining stocks.



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Major Movers in April¹

Natural gas (Europe) prices soared 45 percent (up 244 percent year-on-year), as extremely cold weather led to surging gas demand for heating and electricity generation, resulting in sharply lower inventories.

Groundnut oil prices were broadly higher as surging prices for U.S. natural gas, a key input, led to fertilizer production cuts. DAP prices rose 11.4 percent, TSP prices increased 5.8 percent, and urea prices rose 13.9 percent.

Coffee prices rose 9.2 percent due to expectation of lower Brazilian production. Other factors also contributed to higher prices including speculative buying by commodity funds, rising oil prices which could divert sugar to ethanol production for fuel use, and expected higher sugar demand from oil exporting countries.

Zinc prices increased 8.9 percent due to recovery in demand from a relatively slow holiday season and reduced supplies.

Nickel prices rose 7.4 percent on concerns about a possible strike at Russia's Norilsk, the world's largest producer.

Sugar prices increased 7.0 percent on declining stocks as cold weather led to strong demand for batteries.

Rubber prices rose 6.9 percent because of very low stocks, and expectations of supply disruption in Iraq.

Palmkernel oil and **coconut oil** prices gained 4.8 percent, reaching the highest level since January 1986, as conflict continues to disrupt exports in Côte d'Ivoire, the world's largest cocoa supplier.

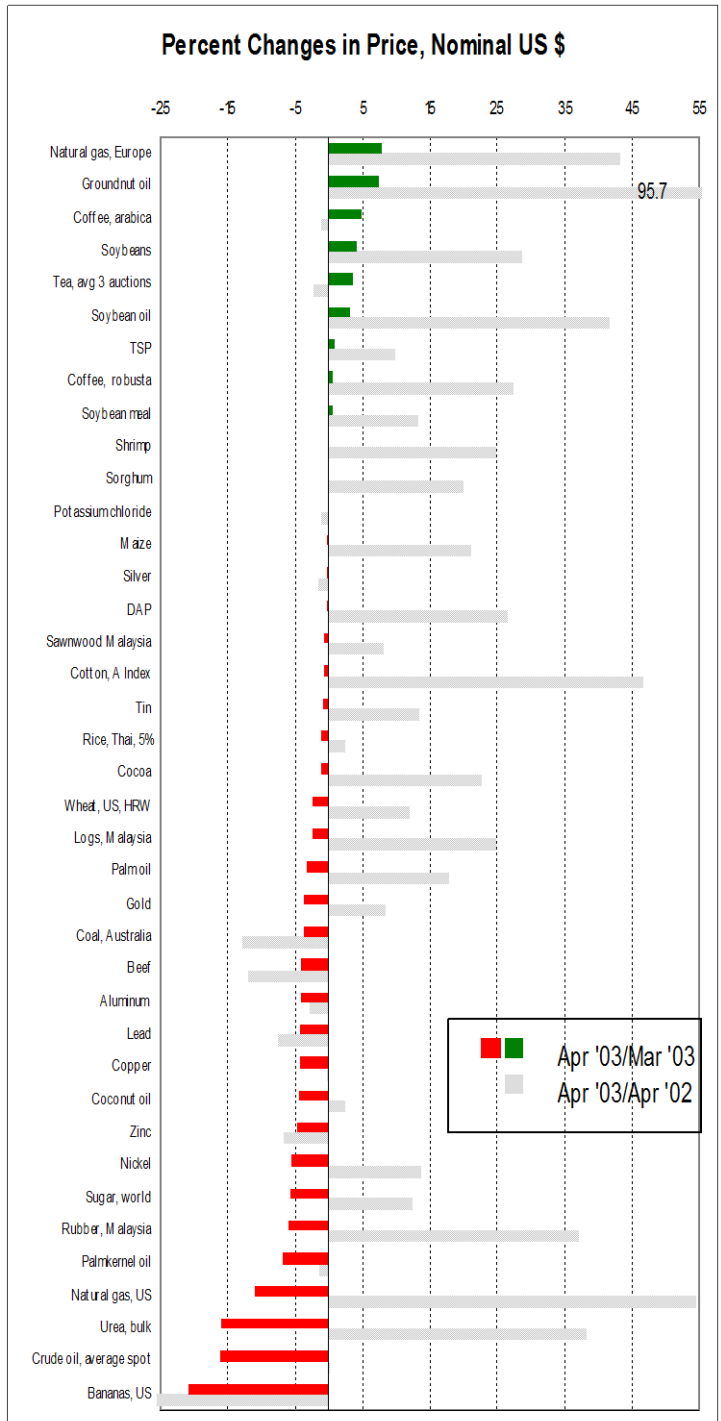
Natural gas (U.S.) prices gained 3.3 percent, reflecting the imbalance during the current season, as world consumption is expected to outpace production by 1.8 million tons, causing ending stocks to shrink to the lowest levels in eight seasons.

Palmkernel oil and **coconut oil** prices declined 4.8 and 3.4 percent, respectively, due to increased copra production in the Philippines, the world's dominant supplier of coconut oil.

Crude oil prices dropped 11 percent on end-of-

season price declines in India due to lower quality production, and reduced shipments to the Middle East because of concerns about war in Iraq.

Bananas prices in the U.S. declined 17.7 percent in February, primarily due to larger supplies in North American markets.



¹ Percent change of average April 2003 prices compared to average March 2003 prices in nominal U.S. dollars (graph also includes 12-month changes).

