Commodity Markets Review

November 14, 2003

Non-oil commodity prices jumped 5.1 percent in October to the highest level since July 1998, driven by increasing demand, especially in China. Stocks of many agricultural commodities did not rebuild as much as expected and this has increased expectations of higher prices. Prices of all main groups except beverages increased, with fats and oils having double digit increases.

Crude oil prices rose 8.4 percent in October, averaging $29.1/bbl, following OPEC’s decision in late-September to cut quotas 3.5 percent November 1st. Short-covering and new long-positions by speculators drove prices near $31/bbl in early October, but prices have settled back around $28.50/bbl, as inventories continue to rise. Investors are awaiting further pre-emptive action by OPEC when it meets December 4th. OPEC may have to cut at least 1 mb/d from October levels in the first half of next year to sustain price, and even larger cuts may be needed depending on Iraqi developments.

Iraq’s oil production averaged 1.65 mb/d in October, mainly from higher output from the southern fields, with exports of 1.15 mb/d through the Gulf. Exports from northern fields remain shut-in because of ongoing repairs to the Kirkuk-Ceyhan pipeline. Concern over the vulnerability of exports from the north caused the State Oil Marketing Organization to cut back estimates of total exports in 2004 to 1.6 mb/d.

Agricultural prices rose 5.1 percent in October, led by an 8.3 percent increase in food prices. The rise in food prices was concentrated in fats and oils (up 16.6 percent), particularly in the soybean complex because of earlier drought in the U.S. and strong demand from China, but there were also large gains in palm, coconut and palmkernel oils. Agriculture raw materials prices rose 5.9 percent, with rubber prices surging 16.6 percent on a supply shortfall in Thailand and strong demand for automobile tires in China, while cotton prices rose 13.2 percent on large imports from China and drought in Australia that will reduce global supplies. Price declines were limited, with beverages down 4.6 percent.

Metals and minerals prices rose 5.2 percent in October, continuing an investment-led rally the past six months, driven by declining inventories, supply curtailments, and expectations of a strong recovery in demand. All base metals recorded strong increases, with lead and zinc up sharply on news of suspension of Lennard Shelf lead/zinc mining operations in Australia related to a takeover by Teck Cominco. Nickel prices continued to rise—up 150 percent the past two years—on strong demand for stainless steel in China, very low stocks, and expectations that the nickel market will be in large deficit the next couple of years until new supplies come on-stream in 2005-06.

Prepared by a team from the Prospects Group of Development Economics (DECPG) consisting of Donald Mitchell, Shane Streifel, John Baffes and Betty Dow. Katherine Rollins is the task assistant. This report is available on the World Bank’s intranet at http://decpg.worldbank.org.
Major Movers in October

Soymeal and soybeans prices soared 21.1 percent and 17.4 percent, respectively, due to large imports by China, a poor U.S. crop, sluggish Latin American production, and tight supplies of maize and other livestock feed.

Palmkernel oil and close substitute coconut oil prices surged 16.1 percent and 13.0 percent, respectively, due to low stocks and production in Malaysia and strong Chinese demand.

Rubber prices jumped 16.0 percent to a seven-year high, due to adverse weather in Thailand, and strong import demand from China to meet internal tire demand.

Palm oil and soyoil prices rose 15.5 percent and 11.8 percent, respectively, reflecting low palm oil stocks in Malaysia, and limited soyoil supplies and strong demand growth in China, India, and some African countries.

Cotton prices gained 13.2 percent to six-year highs on expectations China’s imports will be almost 40 percent higher (y/y), and that severe drought in Australia will reduce global supplies.

Lead prices increased 12.7 percent on declining stocks and possible suspension of the Lennard Shelf lead/zinc mining operations in Australia related to its acquisition by Teck Cominco.

Nickel prices rose 10.9 percent on earlier supply disruptions, strong demand in China, low inventories, and expectations of market deficits the next two years until new supplies emerge.

Zinc prices rose 9.8 percent on news of Teck Cominco’s takeover (see lead), although the zinc market is in surplus and stocks remain high.

Crude oil prices increased 8.4 percent following OPEC’s announced production cuts, and fears of further cuts when OPEC meets December 4th.

TSP prices rose 6.7 percent due to strong demand in China and India, price increases for production inputs, and expected higher demand following recent commodity price increases.

Cocoa prices declined 9.5 percent on estimates that 1.5 million tons of cocoa is expected to be shipped to Europe from West Africa (mainly Cote d'Ivoire), while European manufacturers still have six months of supplies in stocks.

Groundnut oil prices fell 12 percent due to increased exports from India and the U.S., and improved prospects in Senegal from beneficial rainfall.
Selected Commodity Prices, Nominal U.S. dollars, 1998-2003

- **Aluminum ($/mt)**
  - Oct-98: 1,000
  - Oct-99: 1,200
  - Oct-00: 1,400
  - Oct-01: 1,600
  - Oct-02: 1,800

- **Coal, Australia ($/mt)**
  - Oct-98: 23
  - Oct-99: 26
  - Oct-00: 29
  - Oct-01: 32
  - Oct-02: 35

- **Copper ($/mt)**
  - Oct-98: 1,200
  - Oct-99: 1,400
  - Oct-00: 1,600
  - Oct-01: 1,800
  - Oct-02: 2,000

- **Crude Oil, Average ($/bbl)**
  - Oct-98: 10.0
  - Oct-99: 15.0
  - Oct-00: 20.0
  - Oct-01: 25.0
  - Oct-02: 30.0
  - Oct-03: 35.0

- **Gold ($/troy oz)**
  - Oct-98: 200
  - Oct-99: 250
  - Oct-00: 300
  - Oct-01: 350
  - Oct-02: 400

- **Natural Gas, US ($/million btu)**
  - Oct-98: 0.0
  - Oct-99: 2.5
  - Oct-00: 5.0
  - Oct-01: 7.5
  - Oct-02: 10.0

- **Nickel ($/mt)**
  - Oct-98: 2,500
  - Oct-99: 5,000
  - Oct-00: 7,500
  - Oct-01: 10,000
  - Oct-02: 12,500

- **Silver (cents/ troy oz)**
  - Oct-98: 400
  - Oct-99: 450
  - Oct-00: 500
  - Oct-01: 550
  - Oct-02: 600
  - Oct-03: 650
### Non Energy Commodities

#### Agriculture
- **Beverages**
  - **Cocoa**
    - Units: bbl
    - Prices: 105.9, 177.8, 178.7
  - **Coffee, Arabica**
    - Units: bbl
    - Prices: 137.3, 135.7, 141.8
  - **Coffee, robusta**
    - Units: bbl
    - Prices: 60.7, 66.2, 82.3
  - **Tea, arrests (3), average**
    - Units: c/kg
    - Prices: 159.8, 156.0, 156.5
  - **Tea, Coombo auctions**
    - Units: bbl
    - Prices: 161.7, 156.2, 156.1
  - **Tea, Kokata auctions**
    - Units: bbl
    - Prices: 166.1, 146.4, 147.0
  - **Tea, Mombasa auctions**
    - Units: bbl
    - Prices: 151.7, 149.2, 153.1
- **Fats and Oils**
  - **Coconut oil**
    - Units: bbl
    - Prices: 318.1, 421.0, 451.0
  - **Copra**
    - Units: bbl
    - Prices: 202.1, 266.3, 286.4
  - **Groundnut oil**
    - Units: bbl
    - Prices: 680.3, 687.1, 1262.1
  - **Palm oil**
    - Units: bbl
    - Prices: 285.7, 390.3, 430.6
  - **Palmkernel oil**
    - Units: bbl
    - Prices: 308.1, 415.8, 439.8
  - **Soybean meal**
    - Units: bbl
    - Prices: 181.0, 175.2, 199.7
  - **Soybean oil**
    - Units: bbl
    - Prices: 354.0, 454.3, 538.4
- **Grains**
  - **Maize**
    - Units: bbl
    - Prices: 89.6, 99.3, 104.5
  - **Rice, Thailand, 5%**
    - Units: bbl
    - Prices: 172.8, 191.9, 198.0
  - **Rice, Thailand, 25%**
    - Units: bbl
    - Prices: 153.1, 175.0, 181.5
  - **Rice, Thailand, 35%**
    - Units: bbl
    - Prices: 149.1, 170.5, 177.9
  - **Rice, Thai, A1. Special**
    - Units: bbl
    - Prices: 134.1, 150.2, 149.6
  - **Sorghum**
    - Units: bbl
    - Prices: 95.2, 101.7, 104.7
  - **Wheat, Canada**
    - Units: bbl
    - Prices: 151.3, 175.3, 174.8
  - **Wheat, US, HRW**
    - Units: bbl
    - Prices: 126.8, 148.1, 142.8
  - **Wheat US SRW**
    - Units: bbl
    - Prices: 107.7, 130.0, 134.3
- **Other Food**
  - **Bananas EU**
    - Units: bbl
    - Prices: 777.2, 759.4, 788.9
  - **Bananas US**
    - Units: bbl
    - Prices: 583.3, 526.8, 371.9
  - **Beef**
    - Units: bbl
    - Prices: 212.9, 210.5, 189.6
  - **Fishmeal**
    - Units: bbl
    - Prices: 497.2, 605.2, 620.5
  - **Lamb**
    - Units: bbl
    - Prices: 291.2, 330.3, 377.9
  - **Oranges**
    - Units: bbl
    - Prices: 595.5, 564.5, 692.5
  - **Shrimp, Mexico**
    - Units: bbl
    - Prices: 1,517, 1,052, 1,153
  - **Sugar EU domestic**
    - Units: bbl
    - Prices: 52.86, 54.92, 59.12
  - **Sugar US domestic**
    - Units: bbl
    - Prices: 47.04, 46.14, 47.75
  - **Soybean meal**
    - Units: bbl
    - Prices: 19.04, 15.18, 16.03
- **Raw Materials**
  - **Timber**
    - Units: bbl
    - Prices: 266.1, 266.1, 266.1
  - **Sawmood, Cameroon**
    - Units: bbl
    - Prices: 471.9, 486.4, 548.7
  - **Sawmood, Malaysia**
    - Units: bbl
    - Prices: 481.4, 526.5, 552.8
  - **Wool**
    - Units: bbl
    - Prices: 418.7, 469.0, 540.1

### Other Raw Materials
- **Cotton A Index**
  - Units: bbl
  - Prices: 105.8, 101.9, 134.7
- **Cotton Memphis**
  - Units: bbl
  - Prices: 116.8, 104.9, 150.2
- **Jute**
  - Units: bbl
  - Prices: 329.4, 270.8, 241.6
- **Rubber, Malaysia**
  - Units: bbl
  - Prices: 60.0, 77.1, 101.1
- **Rubber, Singapore**
  - Units: bbl
  - Prices: 57.5, 76.5, 104.5
- **Sisal**
  - Units: bbl
  - Prices: 699.2, 659.6, 682.5
- **Wool**
  - Units: bbl
  - Prices: 418.7, 469.0, 540.1

### Energy
- **Natural gas, Europe**
  - Units: bbl
  - Prices: 4.06, 3.05, 3.90
- **Natural gas, US**
  - Units: bbl
  - Prices: 3.96, 3.35, 5.52

### COMMODITY PRICE DATA

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* a/ Included in the petroleum index
* b/ Included in the non-energy index
* c/ Steel not included in the non-energy index

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continued on next page
### COMMODITY PRICE DATA

#### Fertilizers

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<th>Quarterly averages</th>
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<td>Jan-Dec 2002</td>
<td>Jan-Oct 2003</td>
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<td>DAP $/mt</td>
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<td>TSP $/mt</td>
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#### Metals and Minerals

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<td>Zinc $/c/kg</td>
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#### World Bank commodity price indices for low and middle income countries (1990 =100)

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a/ Included in the petroleum index  
b/ Included in the non-energy index  
c/ Steel not included in the non-energy index  
$ = U.S. dollar  
¢ = U.S. cent  
bbl = barrel  
cbm = cubic meter  
dmtu = Dry Metric Ton Unit  
kg = kilogram  
nmbtu = million British thermal units  
mt = metric ton  
toz = troy oz  
n.a. = not available  
n.q. = not quotation