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AIECE Working Group Reports − Autumn 1996
World trade 1995-1997
World commodity prices 1995-1997

CPB Netherlands Bureau for Economic Policy Analysis,
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PREFACE

The papers put together in this publication are the half-yearly reports of two working groups of the AIECE, in which the CPB actively participates. The reports, presented on behalf of the groups, form the synthesis of views of many institutes and have their value as such. They do not necessarily reflect the opinion of the reporting institute itself.

AIECE is the Association of European Conjuncture Institutes, (in French: Association d'Instituts Européens de Conjoncture Économique), founded in 1957. The AIECE now groups 42 members and observing institutes, representing 20 countries and 4 international organisations (EU, OECD, IMF and ECE). The membership is open to independent European institutes involved in surveying economic development and macroeconomic forecasting. Independent is interpreted as not directly being involved in conducting economic policies and not representing some economic interests. The main objective of the association is to intensify the exchanges between its members with a view to improve their insight into international economic developments.

The CPB is a long-standing member of this organisation, which is appreciated as a valuable platform for exchange of views with mostly non-governmental institutes, next to the Bureau's official contacts with in particular OECD and EU. Moreover, it is a useful source of information when making CPB-forecasts.

Twice a year world economic issues are discussed in the plenary meetings of the AIECE. Major points on the agenda are the general report on the European conjuncture, prepared in turn by one of the institutes, and the presentation of selected special studies. Two standing working groups report on respectively the development of world commodity prices, and on world trade. In a special session reports are discussed on longer-term prospects and structural changes. These reports are meant to give a general assessment of developments in the respective fields. As the results may be interesting also for a wider public, the CPB publishes the working group reports in its Working Paper series.

Autumn 1996, the FTRI-institute has reported on world trade development on behalf of the Working Group on Foreign Trade. The analyses are largely based on the forecasts provided by the member-institutes with respect to their own country. The working group deals mainly with non-European developments, and places the European figures in a world setting. The assumptions made with respect to the international environment (oil prices, dollar exchange rate etc.) are consensus forecasts, and thus may have required a modification of the data supplied by the respective institutes for their own country. (The latest CPB analyses can be found in: CPB

Report 1996/3. Summarising trade tables with e.g. market growth, calculated import prices, export prices of competitors give the institutes the opportunity to re-assess their forecasts.

Our CPB reported on behalf of the Working Group on Commodity Prices. The group is formed by specialists on raw material prices of the AIECE member institutes. Their half-yearly report evaluates recent development of commodity prices and presents, starting from a set of framework assumptions, detailed price forecasts for a large number of commodity groups for the coming year and a half. One technical assumption made in its report is constant exchange rates, which is the most striking difference with the approach of the trade group. As there is indeed an exchange of information between the working groups, other differences in framework assumptions are usually limited.

Henk Don
managing director

ASSOCIATION D'INSTITUTS EUROPÉENS
DE CONJONCTURE ÉCONOMIQUE

− Working Group on Foreign Trade −

WORLD TRADE 1995-1997

Report presented to the AIECE Autumn meeting
Brussels, 23-25th October 1996
by Malgorzata Jagiello
Foreign Trade Research Institute - Warsaw

Members of the group are:

COE	Chambre de Commerce et d'Industrie de Paris, Paris
CPB	Centraal Planbureau, The Hague
DULBEA	Département d'Économie Appliquée de l'Université Libre de Bruxelles, Brussels
FTRI	Foreign Trade Research Institute, Warsaw
HWWA	Institut für Wirtschaftsforschung, Hamburg
INSEE	Institut National de la Statistique et des Études Économiques, Paris
ISCO	Istituto Nazionale per la Studio della Congiuntura, Rome
KOPINT	Economic Research, Marketing and Computing Co., Budapest

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Summary

OECD growth will be about the same this year as in 1995, but could accelerate slightly next year. US growth will be close to 2.5% this and next year. Japanese growth is recovering strongly this year and will slow down in 1997. Growth in Western Europe will be weaker in 1996 than expected earlier, at some 1.5%, but is projected to pick up to 2.3% next year. Meanwhile economic growth in Non-OECD areas remains quite strong.

World trade will grow in volume by over 6% this year and by more than 7% in 1997. International price developments will remain moderate, apart from a temporary upsurge in oil prices.

I Main assumptions on international environment in 1996-1997

The main findings of the Working Group on Foreign Trade are summarized in table 1. In comparison to the forecast of the group in spring 1996, the assessment is different in several respects. The main changes concern the speed of recovery in Japan, the world market prices, in particular for crude oil, as well as trade volume growth of Western Europe.

Table 1 Economic key assumptions now and a half-year ago (Working Group forecasts)

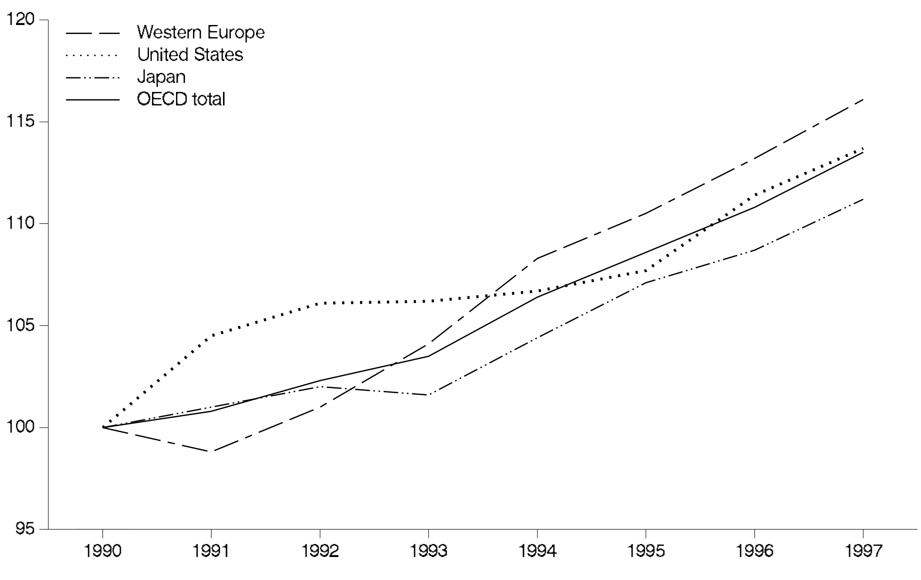
	Autumn 1996			Spring 1996		
	1995	1996	1997	1995	1996	1997
	annual percentage changes					
GDP volume						
United States	2.0	2.5	2.5	2.1	2.0	2.3
Japan	0.9	3.5	2.0	0.9	2.5	3.0
Western Europe	2.5	1.5	2.3	2.6	1.7	2.5
OECD total	2.0	2.1	2.4	2.2	2.1	2.5
Exchange rates (levels)						
DEM/$	1.43	1.51	1.55	1.43	1.49	1.50
Yen/$	94	107	108	94	105	105
World market prices ($)						
Crude oil (level, $/B)	17.1	20.0	19.0	17.0	17.5	17.5
Other raw materials (%)	14.0	−8.0	−1.0	14.0	−6.0	1.0
Manufactured goods (%)[a]	9.6	−2.3	0.7	9.0	−0.9	0.7
World trade volume	8.8	6.2	7.2	8.8	6.5	7.4
Exports Western Europe	7.3	4.1	5.6	7.4	5.0	6.2
Imports Western Europe	5.5	3.8	5.1	6.3	4.5	6.1

[a] Derived from world export price, oil price and price of other raw materials.

For the US economy we expect a slight acceleration in 1996 and the same growth rate next year, which is a little higher than the figure forecasted a half-year ago (Graph 1). After a number of temporary disturbances the United States economy picked up in the second half of 1995 to around potential 2% growth. The revival of growth was supported by increases in residential construction and domestic demand, as well as by an export pickup mainly induced by the Mexican recovery.

We have revised the spring forecast concerning the 1996 growth of the economy of Japan, which appears to recover easier than expected earlier. The economy has gained momentum since the autumn of last year, helped by a significant relaxation of both monetary and fiscal policy. In the early part of 1996 the recovery became more firmly based, mainly due to continued improvements in private sector sentiment. We now project a GDP growth of 3.5% for this year instead of 2.5% forecasted earlier. There are a number of special factors that make it unlikely that the recent growth rate will be maintained. The upturn in demand has been led by residential and public investment which have strengthened significantly as a result of fiscal measures introduced last year and the need to undertake reconstruction expenditure after the Kobe earth-quake of last year. Much of this additional expenditure was completed by the middle of this year. As a result, a decline in the total volume of investment may be expected soon. The fiscal stance is expected to tighten significantly later this year, which may help to constrain the growth of domestic demand. All these factors will have a negative impact on the GDP growth rate for 1997, which is expected to slow down to 2%.

Graph 1 GDP volume, 1990-1997 (1990=100)



Western Europe reported a sharp slowdown of GDP growth in the second half of last year. In the first half of 1996 the region did not experience a significant upturn. The slowdown has been most severe in Germany, mainly due to the extremely cold winter, but it also affected France and Italy. At the same time national governments have been tightening fiscal policy in order to meet the Maastricht fiscal criteria and this may hamper the recovery. Current indicators paint a very mixed picture. Some optimistic signs come from Germany, where new orders have recently started to pick up and business climate indicators have begun to improve. However, considering the weak economic activity of the region in the first half of 1996, we have lowered our forecast of Western European GDP growth for 1996 from 1.7% to 1.5%, and for 1997 from 2.5% to 2.3%.

Despite the changed assumptions for GDP growth of the main regions of the world, the total picture of economic activity in industrial countries remains in line with the earlier forecasts. For the OECD area as a whole we now expect a GDP growth rate of about 2% in 1996 and a slight acceleration to 2.4% next year.

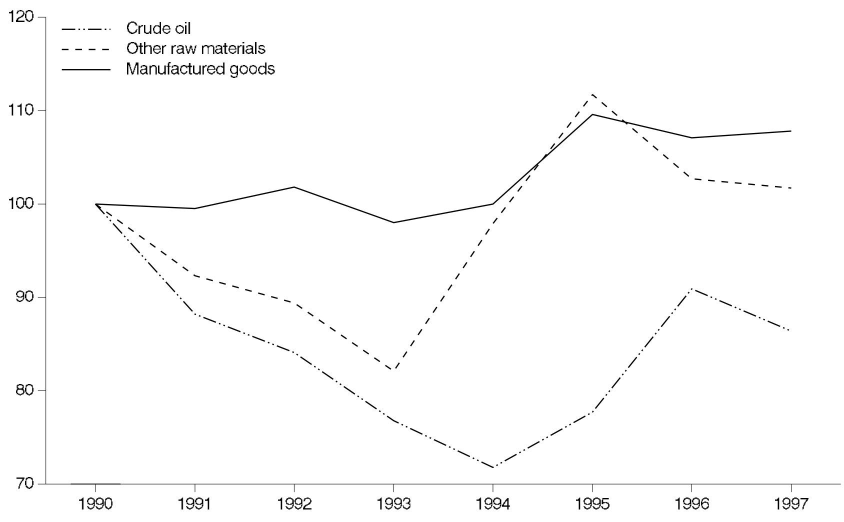
II World trade prices

1996 has been the year of a stronger dollar. The yen and the Deutschemark-block have experienced big declines against the dollar. Considering the recent developments we now project a somewhat stronger appreciation of the dollar than in our previous forecast. The greenback should reach the levels of 1.55 against the D-mark and of 108 against the yen in 1997, instead of respectively 1.5 and 105 forecasted earlier.

The rapid upswing of crude-oil prices in 1996 has been rather unexpected (Graph 2). It has continued to soar to more than $25 a barrel. We anticipate that oil prices will remain high this year, but expect a significant correction from the beginning of 1997, with Brent crude averaging $20 a barrel in 1996 and some 5% below this level in 1997. The 1996 increase is partly due to rising demand and Middle East turmoil, but it also owes a lot to tight inventories.

As can be seen from table 1, we are assuming a considerable weakening of the (dollar) prices of other raw materials this year (-8%). It is particularly true for the metals markets as a result of the unwinding of speculative positions after the Sumitomo announcement of losses in the copper market. The projections are in line with those of the Commodity Working Group also presented in this Working Paper.

Graph 2 World market prices, 1990-1997
(1990=100, dollar terms)



For 1996, the present price forecasts for oil and non-energy commodities, together with the somewhat higher value of the dollar than in the spring projection, lead to a substantially lower price forecast for manufactured goods. We now expect a 2.3% decrease in (dollar) prices of manufactured goods compared with 0.9% in the earlier forecast. For next year our forecast remains unchanged at 0.7%.

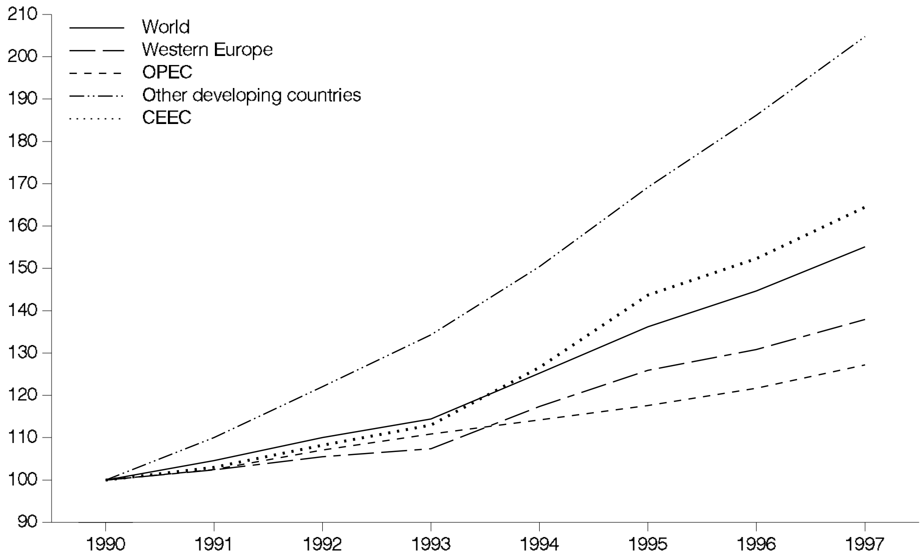
Price developments in national-currency terms are much more stable, with a growth trend of a little over 1% per year.

III World trade volume in 1995 and forecasts for 1996-1997

The volume growth of world trade slowed down to 8.8% in 1995. To a large degree this still high growth rate reflected a significant statistical carry-over from the strong rise witnessed in the course of 1994.

World trade growth is now expected to slow further to 6.2% in 1996, reflecting slower expansion of economic activity in Western Europe (Graphs 3 and 4). In line with the weaker development in Western Europe, we have lowered our trade projection of this region compared to the spring forecast. Instead of a 5% rise in export volume and 4.5% in import one, we now expect only a 4% increase both on export and import side. It implies a deceleration of export growth by over 3 percentage points over 1995, instead of the 2.5 percentage points expected earlier.

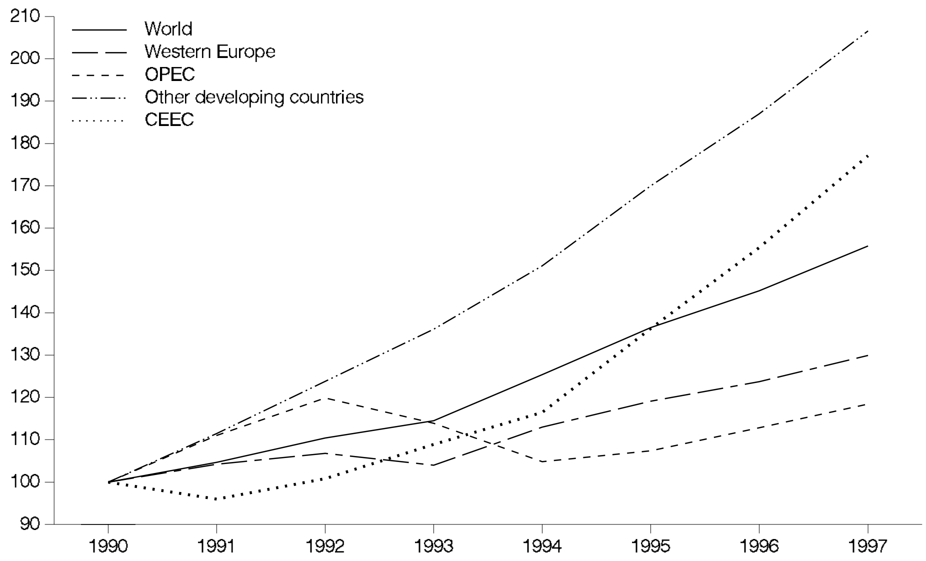
Graph 3 Export volume by region, 1990-1997 (1990=100)



Some offset to faltering growth of exports to countries within the European region may be expected from the robust demand from outside the region and from a better competitive position. Support for European export growth will be provided i.a. by the continuing economic expansion of the United States. The volume of US imports will rise somewhat slower than last year, but still increase at an annual rate of 6.5% this year and 6% next. US exports will expand at a rate of 9% in 1996-1997, reflecting the strengthening of domestic demand in Canada, Japan and Mexico.

The import volume of Japan is expected to grow by 4% this year and by 7% next year, while export growth could accelerate from 3% this year to 7% in 1997.

Graph 4 Import volume by region, 1990-1997 (1990=100)



Developing countries

In 1996-1997, OPEC countries will increase exports at an annual rate of 3.5 to 4.5%, and imports at a rate of 5%.

Despite difficulties observed in a number of developing countries last year, the regions will continue to expand strongly. Import demand is expected to remain strong in Asia and parts of Latin America, giving a boost to overall world trade. However, the economic developments in Asian countries have little direct impact on the trade prospects for Europe. Some countries of Latin America, affected by the Mexican crisis, started in 1995 with tight monetary policies to slow the economy and reduce external imbalances. Thanks to that, the short-term prospects for that region look relatively promising.

In many Dynamic Asian Economies (DAEs) monetary policy was tightened - around the end of 1994 because of domestic overheating, a mounting current account deficit and inflationary pressures. The deceleration in demand has been aggravated by the appreciation of their currencies against the yen in 1995. Difficulties have been most serious for Thailand and Malaysia; in both countries the large current account deficits have been alarming. Although economic activity in the region moderated in the second half of 1995, the growth remained strong at annual rate. The slowdown of GDP growth in many Asian countries in 1996 is likely to be temporary and a slight re-acceleration is expected in 1997 as the effects of the exchange-rate appreciation wane. Along with economic activity we forecast for 1996 a temporary slowdown of export and import growth of the region and a re-acceleration in 1997 at a rate of around 10%.

Central and Eastern Europe

Demand for goods produced in Western Europe should remain relatively strong in Central and Eastern Europe. Imports volume of the transition economies is expected to increase by 14% both in 1996 and 1997. Import growth will continue to outpace export growth, largely in reflection of the revival of domestic demand in these economies and the continuation of economic recovery. Additionally, the increase of imports has been fuelled by the appreciation of national currencies, which happened last year. The effects may persist even next year.

The compilation is based on EIU figures Exports prospects for the CEE are not encouraging, partly because of the sensitivity to cyclical weakness in Western Europe. The projected recovery in Western Europe will help to strengthen export growth. However, the appreciation effects have a negative impact.

In many CEE countries the growth of exports seems to be less influenced by currency appreciation than import growth (see the case of Poland in box). We expect a slowdown in the volume growth of CEE exports in 1996 and some re-acceleration in 1997. The import growth will remain very strong, but the rate will be somewhat lower than last year. Based on the most recent national trade statistics of individual CEE countries, the Hungarian Kopint-Datorg Institute suggests even weaker trade growth than the Working Group, in particular on the import side. Table 2 presents the geographical composition of Central and Eastern European foreign trade.

For the Baltic states and WIIW data for the other countries for 1995 and various other sources, mainly national statistics.

Table 2 *Geographical composition of foreign trade of Central and Eastern European countries in 1995 (dollar terms)*

Country	Exports		Imports	
	share of total	share of group	share of total	share of group
	%			
Czech Republic	12.9	23.7	16.4	23.0
Hungary	7.7	14.1	10.0	14.1
Poland	13.7	25.0	18.8	26.5
Slovakia	5.1	9.3	5.5	7.7
Slovenia	5.0	9.1	6.1	8.6
CEEC5	44.4	81.1	56.8	80.0
Bulgaria	3.1	5.6	3.3	4.6
Romania	4.5	8.2	6.1	8.6
Croatia	2.8	5.1	4.9	6.8
CEEC8	54.7	100.0	71.1	100.0
Russia	38.5	84.9	21.6	74.6
Ukraine	3.3	7.3	2.5	8.7
Estonia	1.1	2.5	1.8	6.1
Latvia	0.8	1.7	1.2	4.0
Lithuania	1.6	3.6	2.0	6.7
Ex SU	45.3	100.0	28.9	100.0
Total above	100.0	–	100.0	–

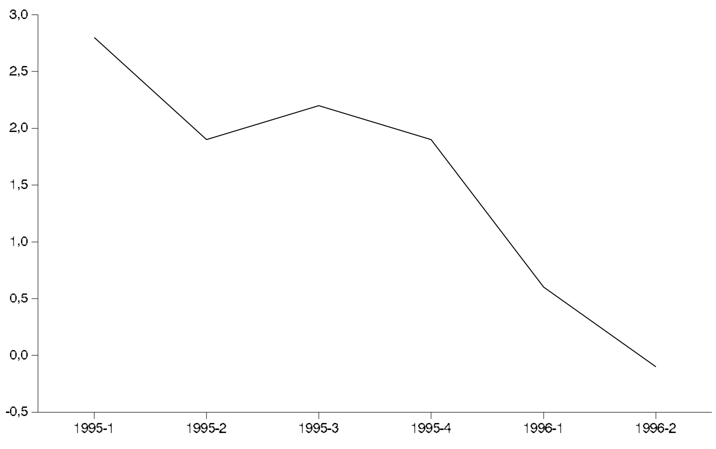
Note: Excluding intra-CIS trade
Source: Kopint-Datorg.

Effects of currency appreciation in Poland in 1995

In 1995 the Polish zloty was revalued, both in nominal and in real terms, against the currency basket of 5 main currencies - in May and in December. According to the results of the regular survey carried out by the FTRI, Polish exporters did not decrease their supplies to foreign markets immediately. However, they suffered from rapidly shrinking profit margins (see graph below). The behavior of Polish importers was quite different, reflecting their flexibility and effectiveness in adjusting to the changed environment.

In 1995 the import volume increased by 20.5%, compared to 13.4% in 1994, i.e. by more than 7 percentage points. In the same period the growth of Polish exports slowed down from 18.3% in 1994 to 16.7% in 1995, i.e. only by 1.6 percentage points. Since the beginning of this year the time-lag in exporters' reaction to the appreciation, combined with the slowdown in Western European demand, has resulted in a mounting trade deficit, which is reflecting the continued growth of import volume and a significant - deceleration in export growth.

The FTRI is forecasting a 11% rise of export volume and above 24% increase of import volume this year. The trade deficit is expected nearly to double in comparison to last year, approaching 7% of GDP. The effects of the appreciation should gradually wane next year, changing to some extent the profiles of export and import growth. If not, the policy makers will face the problem of a soaring trade deficit.



IV Statistical annex[1]

1 Note by CPB: To our regret, the original paper presented at the AIECE-meeting contained a wrong set of annex tables. The present slightly adapted report gives the right figures. We apologise.

ASSOCIATION D'INSTITUTS EUROPÉENS
DE CONJONCTURE ÉCONOMIQUE

-Working Group on Commodity Prices-

WORLD COMMODITY PRICES 1995-1997

Report presented to the AIECE autumn meeting
Brussels, 23-25th October, 1996

by Herman Stolwijk
CPB Netherlands Bureau for Economic Policy Analysis

Members of the group are:

COE	Chambre de Commerce et d'Industrie de Paris, Paris
CPB	Centraal Planbureau, The Hague
ETLA	Research Institute of the Finnish Economy, Helsinki
FTRI	Foreign Trade Research Institute, Warsaw
HWWA	Institut für Wirtschaftsforschung, Hamburg
IFO	Institut für Wirtschaftsforschung, München
INSEE	Institut National de la Statistique et des Études Économiques, Paris
IRES	Institut de Recherches Économiques et Sociales, Louvain-la-Neuve
IfW	Institut für Weltwirtschaft, Kiel

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1. Price developments in the past six months

During the second and third quarter of 1996 prices of primary commodities on world markets on average showed a modest increase. However, excluding energy prices the index showed an opposite picture. During both quarters non-energy prices lost ground, especially during the third quarter. Only food prices could give some counterweight during the second quarter, but during the third quarter food prices and prices of industrial raw materials decreased both.

During the second quarter food prices increased much more than expected in our spring forecast. In the third quarter it was the other way round. Those unexpected price movements can largely be attributed to the behaviour of cereals prices. Fears of supply shortages drove cereals prices up until forecasts of a 'bumper crop' caused them plummeting during the third quarter.

The overall price development of agricultural raw materials was more or less in line with our forecast. During the second quarter prices decreased more, during the third quarter prices decreased less than expected. This sluggish price development was caused by the weak economic development during the first half of 1996.

Prices of non-ferrous metals were extremely weak, especially during the third quarter. As with the agricultural raw materials this weakness was to a large extent caused by a sluggish economy in the industrialized countries, particularly in Western Europe. In addition, copper saw its price come down in a roller-coaster ride as a result of the Sumitomo affair.

As mentioned before, prices of energy raw materials increased significantly. In our spring forecast oil prices were expected to decrease somewhat, even assuming that Iraq was not entering the market. Actually the assumption about Iraq was right, but a smaller than expected non-OPEC supply and political instability in the Middle East caused prices to increase. Table 1 summarizes our spring 1996 forecast and the realisations during the second and third quarter of 1996.

Table 1 March 1996-forecasts and realisations

	1996 II		1996 III	
Commodity group	Forecast	Actual	Forecast	Actual
	percentage change over previous period			
HWWA-total	0	4	−2	2
Total excl. crude oil	−3	−1	0	−6
Energy raw materials	1	6	−3	7
Food and tropical beverages	1	6	1	−6
Industrial raw materials	−5	−4	−1	−8
Agricultural raw materials	−11	−7	−4	−7
Non-ferrous metals	2	−2	2	−14
Iron ore, scrap	3	1	0	1

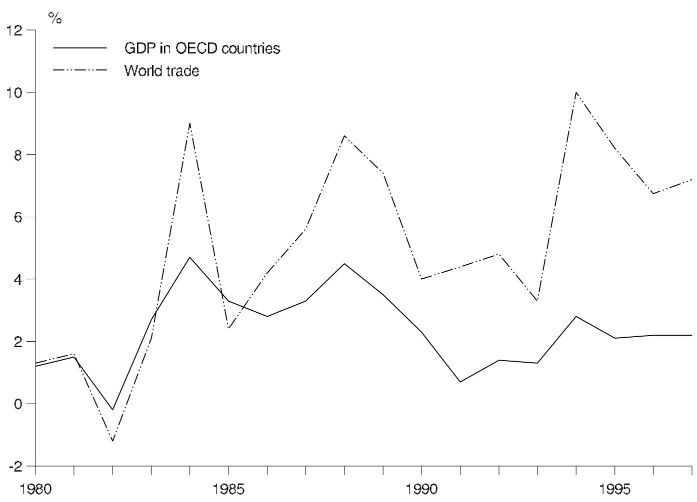
2. Price forecasts until mid-1998

2.1 Assumptions

Economic growth in OECD countries will be higher in 1996 than expected half a year ago. At that time, the growth forecast was scaled down from 2.6 to 1.7%. However, at this moment the economic slowdown seems to be less severe and it is expected that GDP in the industrial countries will grow by an average of 2¼%. About the same rate is expected for 1997.

During the first half of 1996 growth in Western Europe was very weak. Growth in Western Europe is expected to recover during the remainder of 1996, but the year-on-year growth rate will not exceed 1.5 %. For 1997 a growth rate of 2¼% is forecast. In Japan the long-awaited recovery is underway, boosted by the budgetary measures of the government. Although the effects of those measures will primarily be felt during 1996, Japanese GDP will also experience reasonable growth in 1997. Tthe recovery in the US is expected to continue also next year. Growth in non-OECD countries will remain high at an annual rate of about 6% during 1996 and 1997.

Chart 1 Growth of GDP in OECD-countries and World trade



In 1996 and in 1997 the increase in world trade will be somewhat smaller than in previous years, but with growth rates of about 7% world trade in goods will still be expanding much faster than GDP.

The export price of manufactured goods in US-dollars, will remain subdued during the forecasting period. With wage increases remaining moderate and a rising value of the dollar, the increase may even turn into a decline.

Table 2 Framework assumptions, 1995-1997

	1995	1996	1997
	annual percentage change		
OECD GDP, volume	2	2¼	2¼
World trade, volume	9	6¾	7¼
Export price of manufactures	8¾	−1	0
Exchange rate (DM/US$, level)	1,43	1,51	1,53

2.2 Aggregate price developments

Prices of food and tropical beverages are expected to decrease during the forecasting period. Harvests returning to normal (cereals, coffee) will lead to an increase in stocks. However as those stocks will remain at historically low levels, only moderate price decreases are expected.

Chart 2 Raw materials prices, HWWA-index

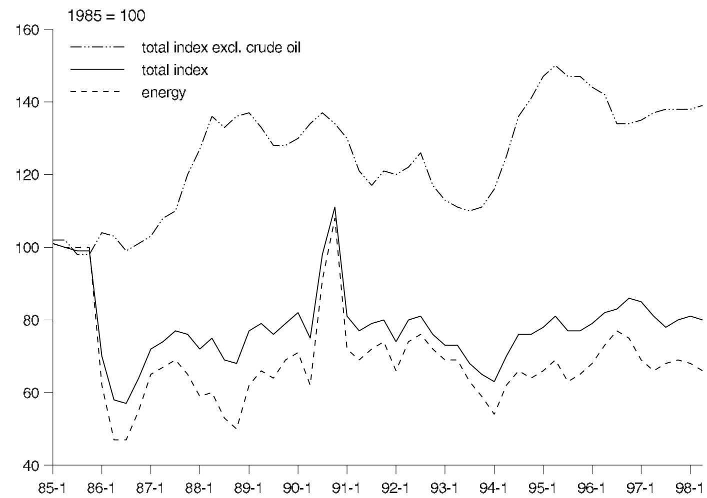


Table 3 Forecasts: aggregates, 1996-1997

	1996	1997
	annual percentage change	
Total	6	−1
Total, excl. crude oil	−7	−1
Food and tropical beverages	−1	−6
Industrial raw materials	−11	1
− Agricultural raw materials	−12	0
− Non-ferrous metals	−16	0
− Iron ore, scrap	0	5
Energy raw materials	13	−1
− Crude oil	16	−1

The modest recovery of economic activity in the industrial countries, together with a continuing expansion in the non-OECD countries, will have an upward effect on the prices of industrial raw materials in the second half of 1996 and in 1997. Because of a substantial negative overhang, the year-on-year price change is still negative in 1996 and will be zero in 1997.

Energy prices will show a significant increase in 1996 because of oil prices. During 1997 oil prices will loose some of the gains made during 1996 but on average oil prices will decrease by only 1%.

For the HWWA-index the above mentioned development of sub-indices implies an increase of 6% in 1996, followed by a small decrease in 1997. As the HWWA-index is dominated by energy prices, the index excluding energy tells a different story, especially for 1996. In 1996 that index will decrease by 8%, followed by a 1% decrease in 1997.

Projected quarterly price changes are rather modest, even for individual commodities. Nevertheless, in some cases prices might be very volatile in the short run because of historically low stock levels. For some commodities low stocks are the result of policy changes on the part of producers and/or consumers. As far as the oil market is concerned 'just-in-time' policies require lower stocks and imply less holding costs. For other, most agricultural, commodities low stocks are the result of adverse weather conditions and/or EU-policy decisions. For all those commodities low stocks may cause larger price swings in case of (expected) supply disruptions.

2.3 Energy raw materials

Largely because OPEC failed to impose production discipline on its members, world oil production increased by around 2% in the first half of 1996 as compared to 1995.

Nevertheless the oil market has been favourable to suppliers until now: **crude oil** prices increased to over $ 22 in September 1996. What were the reasons for this development?

Due to the long and cold winter, stocks were very low at the start of the summer. Morever, the strained relations between the US and Iraq resulted in a delay of the planned (partial) resumption of Iraqi oil exports. Together these factors led to uncertainty about oil supply. Consequently, prices started to rise.

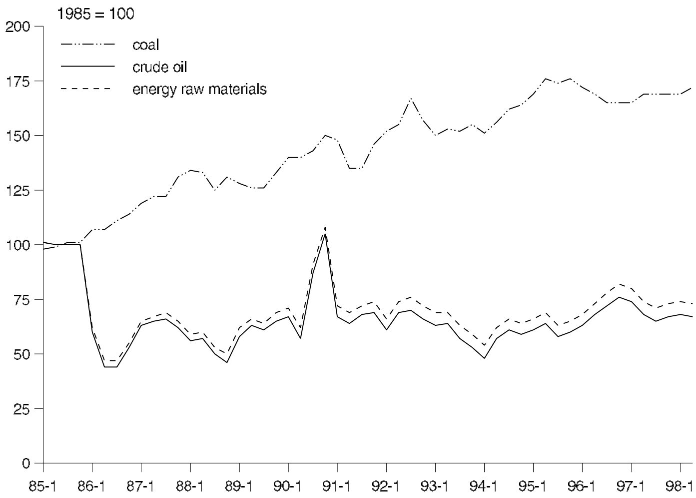
We do not expect that the situation of high oil prices will change drastically this winter. Since economic growth in both the industrial and non-industrial world will be relatively strong, demand for oil is expected to increase significantly. But the upward effect of this on prices will be fully dampened by an increase in oil supply. Although, the current capacity utilization rate in OPEC-countries is high, and, therefore, production will stabilize in the short term, production in non-OPEC countries will probably increase rather soon. As a result we expect that prices will stay slightly above US$ 20 in the coming six months. If there are no ’great’ surprises in the political sphere, we expect crude oil prices to decrease substantially in the second half of 1997.

Table 4 Energy raw materials, HWWA-index (1975=100 and percentage change on previous period)

	96/1	96/2	96/3	96/4	97/1	97/2	97/3	97/4	98/1	98/2	95	96	97
Energy raw materials	168	179	191	199	196	182	173	178	181	178	162	184	182
	5	6	7	5	−2	−7	−5	3	2	−2	8	13	−1
Coal industrial	212	208	205	205	205	209	209	209	209	213	213	207	208
	−2	−2	−2	0	0	2	0	0	0	2	10	−3	0
Crude oil	164	176	189	199	195	179	170	175	179	175	157	182	180
	6	7	7	5	−2	−8	−5	3	2	−2	8	16	−1

According to recent projections, the world trade in **steam coal** will increase by only 2% this year. In the first half of 1996, demand for coal has weakened in both the Far East and Western Europe. The depressed demand was reflected in a downward price trend. Spot quotations of South Africa steam coal declined from $ 35 per metric tonne in the second half of 1995 to just over $ 30 per tonne in mid-1996. In the third quarter the market balance seems to have changed again. Hydropower shortage pushed Finnish and Danish coal imports to unexpectedly high levels. Spot prices firmed to $ 32 in September. Most analysts predict a continued strengthening of the market in the fourth quarter of 1996, though the average price will probably remain slightly below last year’s level.

Chart 3 Energy prices, HWWA-index, 1985=100



In the longer term the prospects for an increase in steam coal trade appear robust. The fastest growing import area will be the Far East. However, the brighter economic situation in the industrial countries will boost coal deliveries to existing utilities also. On the other hand, as production capacities seem sufficiently large to meet increased demand, the projected rise in steam coal demand will lead to moderate price increases only.

The world steel industry remained depressed in the first half of this year. In June 1996 pig iron production in **coking coal** importing countries was 11% lower than in the corresponding period of 1995. Therefore, despite an improvement in steel sector performance in the second half of this year, the world seaborne coking coal trade volume is foreseen to diminish by 1% in 1996.

The forecasts for 1997 indicate a modest price recovery, resulting from an expected rise in world steel production. This implies a relatively strong market for coking coal next year.

Until now the price of coking coal was fairly stable. Changes of import prices mainly resulted from fluctuations in freight rates. For the remainder of this year, the average price level of coking coal is not expected to show a significant change. In view of a more favourable demand outlook, the suppliers can probably realize a slight increase in contract prices for 1997 and 1998.

2.4 Metals and minerals

Non-ferrous metal prices continued their downward trend during the second and the third quarter of 1996. Contrary to our expectations, a reversal of stock behaviour by raw material consumers did not materialize. The sharpest price decline was seen on the copper markets where the Sumitomo affair invoked an extraordinary price crash. The crash affected aluminium prices too. Weaker demand for stainless steel forced nickel prices down. Only lead prices performed quite well. The replacement of batteries after the strong winter and fresh demand from the recovering automobile sector, lifted lead consumption. Zinc and tin price slides remained limited, as the former benefited from the car industry revival, and the latter from concerns about China's ability to supply sufficient material.

Future price developments mainly depend on a turnaround in industrial demand. While economic growth in the US continues at 2 - 2½% and growth in Japan remains rather strong, growth in Western Europe seems to pick up in the second half of the current year.

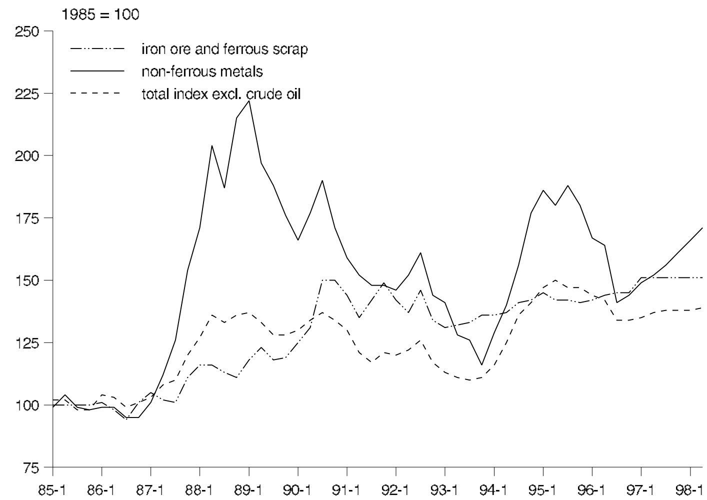
Stronger growth of the industrial sectors in the OECD countries will invoke a replenishment of stocks during the final quarter of this year and a further improvement of demand next year. This will be accompanied by some upward price revision.

Demand for **aluminium** in the US remained stable, however it was weak in Western Europe and Japan until now. Therefore, stocks at the London Metal Exchange increased, after a heavy draw down last year. As a consequence, the faltering of prices continued in the third quarter. Although industrial growth expectations are moderate for the remainder of this year, the overall market balance for aluminium points towards a reversal of price trends.

The Western world will have an output gap of around 2 million tons this year. This gap will partly be met by Russian exports but a part will also be drawn from world stocks. Moreover the recent low level of prices will induce customers to replenish stocks. Therefore, a strengthening of prices during the final quarter of the year is foreseen.

Due to an increase in economic growth next year, aluminium consumption is expected to grow by around 4 %. Despite an enlargement of production by the same percentage, there will stoll be a supply gap in the Western world. Most of it will again be filled by net Russian exports, but some will be supplied from current stocks. Although there will be an upward pressure on prices, the scope for price revival is limited as mothballed capacity can soon be activated. On average aluminium prices are forecast to rebound by 7 % in 1997 after a decline of 15 % this year.

Chart 4 Metal and mineral prices



Copper prices which were already on a downturn since the final quarter of last year, plummeted in May and June when one of the most important traders in copper, the Japanese Sumitomo firm, got into trouble because of irregularities. Sumitomo is said to have artificially supported prices through longterm buying. As the financial burden of crediting the long positions of copper became unacceptable for the creditors, Sumitomo had to sell his copper at big losses. The price collapse became worse as hedge funds sold copper too. Moreover, Chinese buying has been very low this year, while their imports were a stabilising factor on the market in earlier years.

The copper trade crisis has cut prices by one third as compared to the third quarter of last year. However, a further drop seems unlikely. As in 1995, a deficit of Western world copper supply is forecast. Although it will be markedly smaller than in 1995 and most of it will be compensated by Eastern European net exports, still around 160 000 tonnes will have to be met from stocks. Next year will reveal another supply deficit in the Western world. Again it will be partly met by net exports by the East. For another part it will be met from commercial stocks. Therefore these stocks will come down further.

Table 5 Metals and minerals, HWWA-index (1975=100 and percentage change on previous period)

	96/1	96/2	96/3	96/4	97/1	97/2	97/3	97/4	98/1	98/2	95	96	97
Non-ferrous metals	191	187	161	165	169	173	179	185	190	196	209	176	177
	−7	−2	−14	2	3	2	3	3	3	3	22	−16	0
Aluminium, GB	231	225	209	213	219	228	237	244	249	257	261	219	232
	−4	−3	−7	2	3	4	4	3	2	3	22	−16	6
Lead, GB	186	199	194	200	204	204	204	210	214	218	153	195	205
	10	7	−2	3	2	0	0	3	2	2	15	27	6
Copper, GB	209	201	161	164	169	172	179	186	192	198	238	184	177
	−11	−4	−20	2	3	2	4	4	3	3	27	−23	−4
Nickel, GB	199	198	178	181	185	191	196	202	210	219	206	189	194
	−4	−1	−10	2	2	3	3	3	4	4	32	−8	2
Zinc, GB	140	139	135	139	143	143	145	148	151	151	139	138	145
	3	−1	−3	3	3	0	1	2	2	0	3	0	5
Tin, GB	91	93	90	93	95	98	102	104	106	108	91	92	100
	−1	2	−3	3	3	3	4	2	2	2	14	1	9
Iron ore & scrap	149	150	151	151	157	157	158	158	158	158	150	150	158
	1	1	1	0	4	0	0	0	0	0	3	0	5
Iron ore, Can	138	138	138	138	145	145	145	145	145	145	138	138	145
	0	0	0	0	5	0	0	0	0	0	0	0	5
Steel scrap, USA	212	193	190	190	193	193	197	197	197	197	187	196	195
	13	−9	−2	0	2	0	2	0	0	0	−1	5	0

The increase in consumption and the stock reduction will result in higher prices. In our forecasts, they are projected to climb to around $ 2300 per tonne in the final quarter of 1997. However, due to overhang, copper prices will be down 3 % next year as compared to this year.

Lead prices continued their upward trend in the first half of this year. Statistics on last year reveal a Western world deficit of 300 000 tonnes. This year a decline in production is to be envisaged. However, as consumption in the Western world will drop by 3½ % too, the calculated production deficit will be smaller than in 1995. Nevertheless, at the end of the year stocks will have been reduced again.

The current strength in lead markets is expected to last also into 1997. The remarkable growth of battery usage worldwide is the main reason. Consumption of lead is expected to increase by more than 4 %. The current relatively high prices will induce an increase in production. But nevertheless a supply deficit will occur. An increase in imports from the transition countries will be out of question as their production falls sharply and there is a growing home demand. Growth in net exports from China is also unlikely as Chinese production will be down too and exports are restricted. Thus stocks will run down to an estimated 220 000 tonnes, which equals only two weeks of consumption. The market imbalance is exacerbated by difficulties in the secondary smelting sector. Europe's biggest new smelter is facing production problems. The average price increase next year is forecast to be 6 %, after 28 % this year. At the end of the forecast period prices may climb to a level of around $ 900 per tonne.

Zinc prices remained fairly stable this year as demand from the US-automobile sector was sustained on a high level and the increase in zinc production lagged behind consumption growth. Interestingly, exports from China are reported to be much smaller than expected. This means that at year end another Western-world supply deficit will result. This deficit is only partly compensated by Eastern countries' net exports. Consequently, commercial stocks will shrink. And prices are expected to hold firm during the final quarter of 1996.

Growing consumption by European and Japanese car industries and low stocks at manufacturers will pave the way for an upturn of prices next year. On the other hand, zinc production will grow slightly faster than consumption in the Western world and exports from the East (mainly China) will recover. This will limit price rises to some 5 % in 1997, after a stabilization in 1996.

World stocks of zinc will certainly decrease further so that prices during the first half of 1998 will probably hold well.

Nickel prices lost ground since the fourth quarter of last year. From the first quarter until September of the current year, prices decreased by around 10 %. The price weakness can be explained by the lower-than-expected demand, especially in Western Europe and Japan (due to stagnant stainless steel production) and the insufficient output cuts by nickel producers.

Recently, nickel prices seem to have reached bottom as destocking with manufacturers came to a halt. Despite a 10 % reduction in nickel consumption and an increase of production of 2½ %, supply in the Western markets will not be enough to cover demand this year. Net exports of Russia will decline, but will be high enough to compensate the deficit. Markets will tend to be balanced at year end.

Next year a recovery of the stainless steel sector and, consequently, of nickel consumption, will pave the way for a steady rise in prices.

While nickel prices will fall 8 % this year, they will gain around 2 % on average next year. A prerequisite of the forecast is a sustained level of net Russian exports to the West of about 110 000 tons. In 1998 a stable rise in nickel consumption will result in climbing prices, despite the coming on stream of huge Canadian capacities. The latter will however badly be needed to meet world demand, as especially consumption by Russia is likely to recover.

According to recent statistics, last year's **tin** consumption in the Western world totaled 178000 tonnes, an increase of more than 5 % as compared to 1994. Production on the other hand, decreased by around 1 %. The supply deficit was partly filled by net exports of China and deliveries from the US strategic stockpile. The remainder (25000 tonnes) should have been taken from commercial world stocks. But as these have only come down by 14000 tonnes, an amount of 11000 tonnes must have come from various unknown sources, an indication that tin smuggling is still affecting the market. The resulting high price level in the final quarter of last year could not be maintained in 1996. Obviously the 1995-price level was high enough to stimulate production. Still there is again a supply deficit in the Western world. Various problems have hit production in China so that Chinese deliveries to the world market will again not suffice to fill the output gap. So the supply situation will remain tight and prices will hold their level. Next year a similar market imbalance is foreseen with some recovery of Chinese deliveries but still lasting supply deficits in the West. Therefore prices will rise during 1997. According to our estimates, they will, on average, be 9 % higher than in 1996.

World **crude steel** production increased by 3½% in 1995. Production growth was strongest in South America and Eastern Europe. Consumption failed to keep pace with production and remained virtually stable at world level. As a consequence stocks increased and prices decreased.

Although prices of both long and flat products recovered slightly in the second quarter of 1996, a slackening of demand resulted in a small price decrease again in the third quarter.

Views on price developments in the fourth quarter of 1996 vary, but since construction activities revive in Europe and imports by China are picking up, a small price rise is most likely.

A number of factors point to a further price rise next year. First, steel production in 1996 will be lower than in 1995 while the economic situation for Europe is improving. Moreover Chinese imports will continue and exports from Eastern Europe countries and the former Soviet Union will decrease as their domestic demand increases. On the other hand, economic growth in Asia is expected to slow down somewhat. Moreover local steel production capacity is expanding. All in all there will be room for a moderate price increase.

The price of **steel scrap** has fluctuated on a high level this year. The price increased quite rapidly as scrap collection was problematic due to the cold winter. Although scrap prices have decreased somewhat since then, they are still high. The high price reflects the chronic deficit of ferrous scrap. Although the situation will not change in the forecasting period, the availability of pig iron and other substitutes will prevent a serious further price rise.

Although global production of **iron ore** increased by 5½ per cent in 1995, ore production is well below its record height in 1989. Mainly due to production problems in Brazil, ore production is expected to be even lower this year. Demand developments (steel production) were more or less in line with production of ore. As steel production is picking up during the remainder of this year and next year also, demand for ore will increase. As a consequence, a price rise of ore can be expected. The rise will, however, be modest as new ore production capacity will soon add to ore supply.

The average annual contract price for **manganese ore** was settled in March/April at US$ 214 per metric tonne, a rise of 7%. Although the current price is still less than 50 per cent of the price in the early nineties, it was the first price rise in five years. The drastic price fall in recent years was above all caused by the transformation process of the steel industry in the former socialist countries. Since this transformation process has gone quite far to date, there was room for a limited price rise.

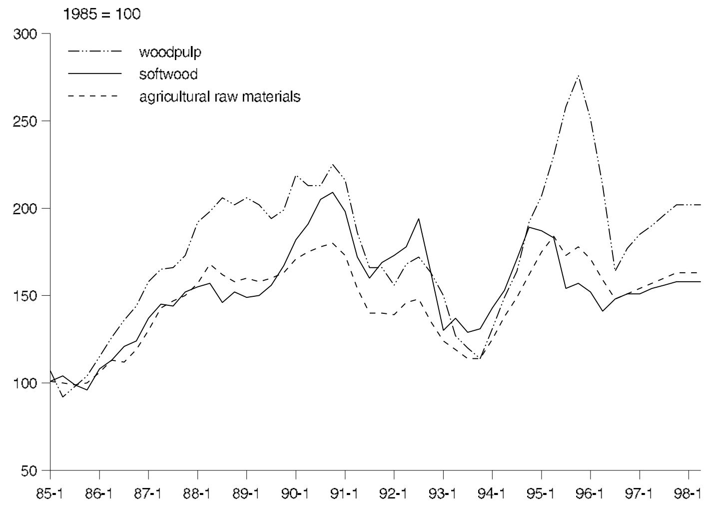
Next year steel production will increase. This will help to add another few percent to the current price.

The price of **tungsten ore** has fluctuated quite strongly in the past year. China, which produces about 70 per cent of world tungsten ore, is the most important player on the world. As prices of tungsten ore are rather low at the moment, China is closing mines. If this policy is continued, there is ample scope for a price rise, whatever the reaction of other producers. Because steel production will increase, also developments on the demand side point to higher prices. So we expect prices will start to rise in the fourth quarter of this year. This rise will continue in 1997.

2.5 Agricultural raw materials

The price of the benchmark **woodpulp** grade reached an all-time high of $ 1000 in October 1995. From December to April it collapsed by 50%. Paper producers carried out a huge destocking while stocks at pulp producers increased. Since May the direction of woodpulp prices has been far from clear. Prices that are recorded are much lower than those announced: recorded prices seem to have remained below $ 520 during summer. It is to be seen whether the higher prices that were announced reflect an improvement in final demand or are purely speculative. The turnaround in OECD industrial production since spring supports a recovery of woodpulp prices. Final demand for paper will probably soon start to increase. And woodpulp prices will follow in the remainder of this year and they will continue to rise next year.

Chart 5 Agricultural raw material prices



Softwood prices have been on a downward trend for two years already. The main reason can be found in the weakness of the European housing industry, especially in Germany, the United Kingdom and France.

The fall in housing permits seems to have bottomed out in Germany, France and probably also in the United Kingdom. Although the worst may be over, the prospects are still rather dim. In the short run, the high level of real longterm interest rates remains a drag. In the medium and long term the outlook is not very favourable due to weaker demographic trends.

Looking at the near future, the best prospects might be found in the UK, the largest European market as far as softwood is concerned. There housing demand is more sensitive to short-term interest rates. All in all, only a moderate upswing in softwood prices can be expected from mid-1996 on.

Tropical timber prices have declined since mid-1995, but much less than softwood prices. This is partly due to a relative scarcity of supply, but also because of a rebound in housing starts in Japan since mid-1995 (although it has been losing steam lately). Apart from Japan, the construction sector is booming in many Asian countries.

The through prices may have been reached in mid-1996 and a gradual rise might be expected. In the face of growing demand for timber and domestic supply restrictions, Asian transnational firms are massively investing in Africa and Latin America were public controls are limited.

Table 6 Agricultural raw materials, HWWA-index (1975=100 and percentage change on previous period)

	96/1	96/2	96/3	96/4	97/1	97/2	97/3	97/4	98/1	98/2	95	96	97
Agricultural	205	190	176	180	183	187	191	194	194	194	214	188	189
raw materials	−4	−7	−7	2	2	2	2	2	0	0	24	−12	0
Cotton, USA	176	171	154	149	151	155	160	163	163	163	197	163	157
	−1	−3	−10	−3	1	3	3	2	0	0	26	−17	−3
Sisal, GB	112	119	123	123	123	123	123	123	123	123	100	119	123
	8	7	3	0	0	0	0	0	0	0	5	20	3
Wool, Aus	167	172	184	182	184	186	187	187	187	187	184	176	186
	0	3	7	−1	1	1	1	0	0	0	23	−4	6
Hides, USA	322	363	404	408	408	416	416	429	429	429	379	374	417
	−4	13	11	1	0	2	0	3	0	0	1	−1	11
Softwood, Swe	172	160	169	172	172	175	177	179	179	179	192	168	176
	−3	−7	5	2	0	2	1	1	0	0	3	−12	4
Woodpulp, Fra	227	193	149	161	167	172	177	182	182	182	220	182	175
	−9	−15	−23	8	4	3	3	3	0	0	53	−17	−4
Rubber, USA	268	260	245	240	242	245	250	250	250	250	237	253	247
	11	−3	−6	−2	1	1	2	0	0	0	61	7	−3

The supply of **hides** was greatly influenced by the BSE-affair on the cattle market. At the same time there was a slightly growing demand for leather. As a result hide prices have increased in recent months. Because of the killing program in the UK and decreasing cattle herds in many European countries as a reaction on low prices, slaughterings will be increasingly reduced. As a consequence prices of cattle hides will increase also next year.

World cotton production in 1996/97 is estimated at 88.4 million bales, a decrease of nearly 3 % compared with production in 1995/96. The fall in production is concentrated in the US and China. In the US the area sown with cotton was reduced in reaction to high cereal prices. In China the fall in production was mainly due to bad weather conditions. However, as cotton stocks are relatively high, the production fall will not result in a serious price rise. For the remainder of this year, we expect a stabilization at September's price level. For next year we foresee a small increase in prices.

Despite a fall in production, Australian **wool** exports, the main source of world supply, are forecast to rise by about 13% in 1996/97. Because wool stocks are still large, the increase in demand hardly had an upward effect on prices. Next year global demand is expected to increase further. Because there is still plenty of wool for sale, wool prices are expected to rise only slightly.

Natural **rubber** prices decreased by nearly 15% in the first three quarters of the year. As a reaction supplies are slackening. According to the International Rubber Survey Group, world rubber production will lag slightly behind consumption in 1996, so stocks will decline somewhat. In the short term this supply reaction will prevent prices from falling further. However, as demand is expected to remain weak and production will, in response to last year's very high prices, remain high, in the longer term the price trend will be downwards.

2.6 Food and tropical beverages

The international **wheat** price quotations reached their peak in the second quarter of 1996, reflecting extremely low stocks at the end of the crop year 1995/96. With an expected for a major production increase at the beginning of the new harvest in the Northern Hemisphere, prices started to decline. The production increase is the expected reaction on last year's high prices. The most significant increases will be realized in Russia and the EU with a plus of 7 million tonnes and 5 million tonnes in the USA and China. This global recovery in production will pull prices down to more 'normal' levels in the coming months. As this will lead to a (slight) rise in consumption, the stock/consumption ratio will only marginally improve. Despite the fall in prices, wheat prices will remain attractive for producers. Moreover, administrative restrictions on production in the EU have been further loosened, i.e. the set-aside requirement is reduced from 10 to 5 %. Therefore we expect that the, still tight, production/consumption balance will relax further in 1997. Consequently prices will slightly decline in 1997.

Similar to the international quotations for wheat, **maize** and **barley** prices peaked in the second quarter and started falling in July when a significant production growth became increasingly likely. Estimates for 1996/97 show an increase of about 60 million tonnes. This increase will mainly materialize in two regions: the US (40 million tonnes) and the EU (10 million tonnes). A major decrease in production is expected in the Ukraine (-5 million tonnes).

Because of growing incomes in Asia and because of a strong demand for grain-based livestock products in the EU (which substitutes to a certain extent beef, suffering from BSE problems), global feed demand remains strong. Therefore, there will hardly be an improvement of the stock/consumption ratio. This will prevent a too drastic fall in prices in the coming months.

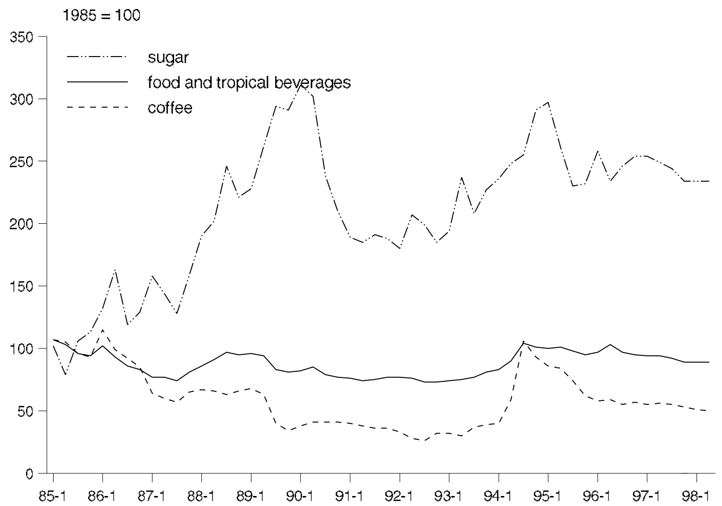
Table 7 Food and tropical beverages, HWWA-index (1975=100 and percentage change on previous period)

	96/1	96/2	96/3	96/4	97/1	97/2	97/3	97/4	98/1	98/24	95	96	97
Food and	116	123	115	112	111	111	109	107	106	106	117	116	110
trop. beverages	2	6	−6	−2	−1	0	−2	−3	0	0	3	−1	−6
Cereals	129	147	126	115	115	114	112	109	109	111	104	129	113
	7	14	−14	−8	0	−1	−2	−3	0	2	13	24	−13
Barley, Can	116	122	105	95	95	95	92	88	88	88	94	110	92
	2	5	−14	−10	0	0	−3	−4	0	0	40	17	−16
Maize, USA	130	150	122	110	110	110	107	103	103	103	96	128	107
	13	16	−19	−10	0	0	−3	−4	0	0	12	33	−16
Rice, Thai	104	99	100	102	104	106	106	106	109	109	87	101	106
	2	−4	1	2	2	2	0	0	3	0	−12	16	4
Wheat, USA	136	149	124	115	115	111	111	108	108	115	115	131	112
	1	10	−17	−7	0	−3	0	−3	0	6	19	14	−15
Beverages,	103	103	101	104	102	102	101	99	98	96	125	103	101
tobacco, sugar	−1	0	−2	3	−1	0	−1	−2	−1	−1	0	−18	−2
Coffee, USA	147	150	140	146	141	143	140	134	132	128	193	146	139
	−7	2	−7	4	−3	1	−2	−4	−2	−3	3	−25	−4
Cocoa, ICCO	108	121	120	122	121	120	121	122	121	120	115	118	121
	−4	11	−1	2	−1	−1	1	1	−1	−1	3	2	3
Tea, GB	128	126	123	123	122	126	129	131	131	131	119	125	127
	1	−1	−2	0	−1	3	3	1	0	0	−11	5	1
Tobacco, USA	115	116	116	116	116	116	116	116	116	116	163	116	116
	4	0	0	0	0	0	0	0	0	0	−10	−29	0
Sugar, USA	59	54	57	58	58	57	56	54	54	54	58	57	56
	11	−9	5	3	0	−2	−2	−4	0	0	0	−2	−1
Oilseeds and oil	130	139	137	133	130	132	128	126	126	123	118	134	129
	2	7	−2	−3	−2	2	−3	−2	0	−2	2	14	−4
Soybeans, USA	134	145	144	139	137	139	135	133	133	130	112	141	136
	6	8	−1	−3	−2	2	−3	−2	0	−2	−2	25	−3

At the current price level one may expect a further expansion of production in the Northern Hemisphere countries. The reduction of the set-aside requirement in the EU supports this expectation. With a resulting further increase in global production, prices will probably fall again in the second half of 1997.

Due to a large second crop harvest in Thailand and Vietnam, **rice** quotations fell slightly this summer. With an expected rather balanced rice market in 1996/97 and a continuing strong demand, the global stock/consumption ratio will fall from 13 to 12½ per cent. As a reaction quotations will recover from this summer's slight depression. They are expected to remain at a level of about $ 330 per tonne.

Chart 6 Food and tropical beverages prices



The international **beef** markets are still heavily influenced by the BSE problems in the EU, in particular in the UK. Consumption in the EU will be down by 10 to 15 % in 1996. With production reduced only marginally as compared to 1995, stocks are increasing and there is a growing exportssupply. This dampens prices on other markets (e.g. the North American markets) also. When the overheated debate on BSE will have calmed down, and slaughtering goes on in the UK, quotations will recover. We expect that this will happen in the second half of 1997.

Soybean prices are at a higher level at the moment than forecast at our previous meeting. In the second quarter of this year, bean prices increased to above $ 300 per tonne. This price level has been maintained since then.

The cause of the stronger price must primarily be found in the tight markets for feedgrains.
Despite the high prices, soybeans were less competitive this year than last year: at the time of planting the price ratio of soybean futures to corn futures was favourable to corn.

In the coming months, prices of soybeans will be mainly affected by the size of the soybean harvest in the United States and the situation on the global cereal markets. If production estimates of USDA materialize, supply of both soybeans and cereals in the Nothern Hemisphere will increase significantly as compared to last year and the market situation will be less tight. However, since demand is strong and stocks are small, prices will remain relatively high.

With respect to prices in the first half of 1997, production of soybeans in Brazil and Argentina is of major importance. At given high prices one may expect that production of soybeans in these countries will increase. This will create a modest pressure on prices next year.

The increased scarcity of feedgrains had a positive effect on the demand for **soybean meal** and, consequently, on meal prices. In the second quarter of this year soybean meal prices rose by 4 per cent. In a year time soybean meal prices have risen by some 40 %.

In the short and medium term demand for meal will remain strong. The pig and poultry industries are the main consumers of soybean meal. Due to growing incomes and high income elasticity for meat in many parts of the world, especially in Asia, demand for pig- and poultry meat is increasing rapidly. Moreover, since the price ratio of soybean meal to corn is still favourable to soybean meal, the share of soybean meal in feed rations tends to increase.

On the other hand, production of oilmeals is expected to increase only marginally. The main pressure on prices will probably come from an increased production of feedgrains. The situation of extreme scarcity is rapidly changing. Lower prices for feedgrains will certainly have a depressing effect on soybean meal prices.

Taking supply and demand developments on the markets for soybean meals and its substitutes together, we expect rather high but slightly decreasing prices in the short and medium term.

After sharp rises in April and May, **soybean oil** prices started to decline in June. Weaker import demand and expanding supplies of vegetable oils contributed to the decrease. However, prices remained clearly above their long-run trend as stocks of soybean oil and competing oils were (and still are) at a rather low level. The period of declining prices was short-lived. Due to an increase in imports, mainly by China, and rumours about disappointing palm oil production in Malaysia and Indonesia, prices started an upward movement in August.

Despite the significant increase in soybean production the current price level will not decline seriously during this and next year. As stocks of soybeans are at a very low level, soybean oil production will not keep pace with production of beans. Moreover, the increase in bean production will, for the greater part, be offset by a decrease in rapeseed. Because rapeseed has a higher oil content than soybeans, the overall production of vegetable oils will hardly increase in 1996/97. On the other hand, due to a growing incomes and a continuing rapid growth of the world population, demand for vegetable oils will increase by about 1 to 2 per cent at a global level.

So on balance the situation on the markets for vegetable oils will remain rather tight in this and next year.

International **sugar** quotations fluctuated slightly between 12 and 13 cents per lib. Given the very high stock/consumption ratio, this price level is somewhat surprising. Three or four years ago, the current stock/consumption ratio would have been consistent with prices of 6 to 8 cents per lib. An explanation can partly be found in the regional structure of the stocks. As a consequence of two consecutive years of unusually high production, India has a relatively high share in global stocks. Since the Indian sugar market is greatly isolated from the world market (low export en import elasticities), Indian stocks hardly affect world market prices.

Although production is expected to decrease slightly in 1996/97 (mainly due to reductions in the CIS), global sugar production will still surpass consumption. So the stock/consumption ratio will increase further. Therefore prices will decline. Because of the above mentioned reason, the price decrease will be modest.

For almost the whole of 1995 **coffee** prices showed a steady decline from the highs achieved in 1994. During the first two quarters of 1996 prices levelled off at around 105 cts/lb. This stabilization was caused by a tighter supply. This tightness is principally the result of two severe frosts and a subsequent drought in Brazil in 1994. According to coffee traders closing stocks (producer and consumer stocks together) at the end of the 1995/96 crop year (October 1 - September 30) will be 10 mln bags lower than a year earlier. Stocks would have been even lower had not coffee consumption reacted to high coffee prices. During the third quarter the influence of the tight supply situation on prices was less then expected. Estimates of a normal Brazilian crop for 1996/97 may have forced prices down.

For the near future prices will remain volatile at a rather high level because of the tight supply. The new Brazilian crop will reach the market in December. Then prices may start a modest decline. The efforts of producing countries to stabilize world coffee prices seem not very effective. Moreover, non-participants will undoubtedly undermine those efforts by the ACPC.

For next season the price outlook seems even more bleak for the producing countries. Assuming normal weather, even with increasing coffee consumption, supply is likely to outpace demand.

With record havests in West African **cocoa** producing countries prices declined during the first quarter of 1996. Production in all West African countries benefited from very good weather and in Côte d'Ivoire new cocoa plantings, planted during the late 1980s, reached maturity. After four years of supply deficits the bumper crop of 1995/96 will lead to a production surplus of about 35 thousand tons. The price development during the second quarter of 1996 was very much out of line with expectations of a production surplus. Cocoa prices increased by more than 10%. According to market analysts this was largely due to investment fund bying and speculative covering. More recently, prices have already eased somewhat.

The short-term price development is especially sensitive to early projections of the 1996/97 crop. Assuming normal weather in West Africa next year, production will not match the record of 1995/96. With a small increase in world grindings, the production surplus will change into a deficit. The probable increase in cocoa production in Indonesia will not be enough to avert this deficit. The expectation of a deficit will lead to upward pressure on prices during the rest of 1996. With the West African 1996/97 crop coming to the market in the second quarter of 1997 prices might ease somewhat. With a slight increase in production as well as in consumption another deficit is likely in 1997/98. But with closing stocks at still a high level, price increases will remain subdued.

After a steep increase in the last quarter of 1995, auction prices of **tea** in London levelled off at about $ 1730 per tonne during the first and second quarter of 1996. In spite of record production in India in November and December last year, there was no build up of stocks. In contrast to 1994, exports revived in 1995. During 1994 India exported only 151 million kg, in 1995 exports rose to 165 million kg. This increase was to a large extent atributable to strong demand by the former Soviet Union. That increase was also favouring producers in Sri Lanka.

As it looks now, demand for tea will remain firm. Therefore tea prices are expected to show further gains during this year and next. However, with a simultaneous increase in production, price rises will be quite modest.

2.7 Shipping rates

The worldscale index of **tanker** freight rates is revised at the beginning of every year on the basis of changing costs for oil bunker and harbour duties. Therefore comparisons of different years are of limited value.

The rates show a strong seasonal fluctuation. It is assumed that increasing oil prices will have a ’cost push’ effect.

In 1997 increasing demand for oil will lead to a slight rise of oil tanker rates. Although there has been, on average, a moderate medium-term price increase since 1994, it is not likely that the 1991 level of tanker rates will be realized again until the end of the forecast period.

Liner rates (DM-based) have increased in recent months, mainly as a result of the higher US$/DM exchange rate. Structural competition problems in liner trade, some EU regulation measures, and better growth perspectives of the world market in 1997 will all have a positive effect on liner rates. An increase of about 3% in both this and next year is expected.

After the strong decline of **tramp** rates in the second half of 1995, tramp rates dropped further in the first two quarters of this year. For the rest of 1996, a slight increase of tramp rates is expected mainly due to a higher oil price. A further rise of shipping costs and a higher growth of the world economy could lead to somewhat higher rates in the first half of 1997.

Table 8 Commodities not included in the HWWA-index (percentage change on previous period)

	96/1	96/2	96/3	96/4	97/1	97/2	97/3	97/4	98/1	98/2	95	96	97
Beef	−5	−4	−8	1	0	0	4	3	6	6	−19	−10	−1
Soybean meal	9	4	0	−4	−2	2	−6	−2	0	−2	1	29	−6
Soybean oil	−11	7	−3	−1	0	2	−1	−1	1	0	2	−9	0
Tropical hardwood	−3	0	2	1	1	1	1	1	0	0	7	−1	4
Steamcoal	1	−2	0	2	0	0	3	0	3	0	25	−1	2
Manganese ore	0	2	3	0	0	3	0	0	0	0	−4	3	4
Tungsten	−15	4	−10	7	9	0	9	0	8	0	50	−15	15
Steel	−7	6	−4	2	0	4	0	4	0	4	10	−9	4
Shipping rates													
Tankers	31	1	−4	−10	19	1	−3	−11	14	−2	2	23	4
Tramps	−3	−3	3	2	2	3	0	−2	−2	−1	13	−11	6
Liners (DM)	1	3	3	−2	1	4	−2	−3	0	−1	−4	3	3