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Recent Developments in International Commodity Prices

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Unlike the generalized commodity "booms" associated with the Korean conflict and the Suez crisis, the price behavior of primary commodities in recent months has been characterized by a considerable degree of dispersion. (See Table 1.) Accordingly, different indicators of price movement respond differently, depending largely on the particular details of commodity coverage and weights.

The Federal Reserve price index of sensitive industrial materials in the U.S., for example, has been displaying an exceptional degree of stability. After reaching its most recent cyclical peak of 98.2 (1957-1959= 100) in September 1961, the index fluctuated narrowly over a range of 96.5-97.8 between December 1961 and October 1963, closing at a level of 97.0, unchanged from the immediately preceding month. By contrast the Reuters (London) index reached 495.6 on November 12, 1963, the highest level reported since January 31, 1957.

Foodstuffs

The recent rise in particular indicators of world commodity prices owes far more to shortfalls in supply, particularly of foodstuffs, than to any demand induced inflationary pressures.

a. Throughout the Sino-Soviet bloc, Communist mismanagement of agriculture compounded by adverse weather has dried up major sources of exportable supplies and, in important instances, converted them into deficits. Soviet wheat purchases from the West, which have firmed prices throughout the list of grains and oilseeds, are but the most recent examples of this phenomenon, having been preceded by the fiasco in Cuban sugar production and the earlier decline in soybean exports from mainland China.

b. Fires, drought and frosts in Brazil have done what the International Coffee Agreement had theretofore failed to accomplish, viz., created a sharp run-up in coffee prices.

c. By contrast, domestic prices for hogs and steers are down 14 per cent and 25 per cent respectively from year-ago levels, serving as major depressants of various indicators of prices in U.S. markets. The heavy current volume of cattle marketings combines with the use of synthetic leathers to create a substantial decline in prices of hides. With the incidental concern for the volume of beef imports, especially from Australia, these domestic livestock developments may also have some impact on international markets.

d. Over the longer run, the application of a Common Agricultural Policy in the European Economic Community, with its heavy reliance on variable import fees, would also likely encourage European production of

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Table 1. Commodity Price Quotations 1962-1963

Commodity	New York 1/ Unit	Dec. 2 1963	Year Ago	Change (%)	London 2/ Unit	Nov. 29 1963	Nov. 28 1962	Change (%)
Metals								
Aluminum	lb.	$ .23	$ .22-1/2	+ 2.2	Ton	£184	£180	+ 2.2
Lead	lb.	.12-1/2	.10	+25.0	Ton	£71-7/8	£56-1/8	+28.1
Nickel					Ton	£642	£642	0
Copper	lb.	.31	.31	0				
Silver	oz.	1.293	1.195	+ 8.2	oz.	111-3/4d.	103d	+ 8.5
Steel scrap	ton	25.00	26.00	- 3.9				
Tin	lb.	1.31	1.10-1/2	+18.6	Ton	£990-1/2	£868-1/4	+14.1
Zinc	lb.	.13	.11-1/2	+13.0	Ton	£90-1/16	£68-13/16	+30.9
Grains & Feeds								
Corn	bu.	1.17-1/4	1.11-1/2	+ 5.2	Ton	£21/12/6	£19/15/0	+ 9.5
Wheat	bu.	2.15-1/2	2.38-3/8	- 9.6	Ton	£28/10/0	£28	+ 1.8
Soybean meal	ton	74.50	71.00	+ 4.9				
Oils & Oilseeds								
Soybeans	bu.	2.71-1/2	2.53	+ 7.3				
Peanut oil	lb.	.10-3/4	.14-1/2	-25.9	Ton	£63	£58-1/2	+ 7.7
Soybean oil	lb.	.08-1/8	.08-5/8	- 5.8	Ton	£75-1/2	£73-3/4	+ 2.4
Copra	ton	182.50	157.50	+15.9				
Tallow	lb.	.06	.05-3/4	+ 4.3				
Fibers								
Cotton	lb.	.3300	.3325	- 0.8	lb.	23/10d.	24d.	- 0.7
Jute					Ton	£111	£109	+ 1.8
Burlap	yd.	.1180	.1485	-20.5				
Rayon	yd.	.265	.255	+ 3.9				
Sisal					Ton	£148	£118	+25.4
Wool tops	lb.	1.830	1.690	+ 8.3	lb.	132d.	109d.	+21.1
Foods								
Flour	cwt.	$6.67	$7.12	- 6.3				
Coffee	lb.	.37	.33-1/2	+10.4	Ton	£277	£162/6	+70.7
Cocoa	lb.	.26-3/4	.22-1/4	+20.2	Ton	£205	£166/3	+23.4
Sugar, raw	lb.	.093	.065	+43.1	Ton	£92-1/2	£32-1/2	+184.6
Hogs	cwt.	15.25	17.75	-14.1				
Steers	cwt.	23.50	31.50	-25.4				
Miscellaneous								
Hides	lb.	.13	.17	-23.5				
Gasoline	gal.	.11	.12-1/4	-10.2				
Rubber, nat.	lb.	.24-3/8	.30-1/2	-20.1	lb.	20-3/16d.	23-7/8d.	-15.4

1/ Wall Street Journal, December 3, 1962.
2/ Financial Times, November 30, 1963.

various foodstuffs at the expense of overseas suppliers, with consequent depressive effects on price.

Major industrial raw materials

Supplies of such key materials as iron ore, coal, petroleum and bauxite have been ample to meet enlarged consumption requirements, although petroleum is continuously vulnerable to adverse political developments in the major exporting countries.

a. The heightened degree of international competition in steel has provoked reciprocal charges of dumping by the E.C.S.C., Japan, U.K., and the U.S.

b. The threat of a more rational cotton-support program in the U.S. continues to depress futures markets for this major textile fiber. (The prospective decline in the support level for next year's wheat crop has been having a comparable effect.)

c. Adverse political developments in Indonesia have had a major bearing on recent firmness in the market for natural rubber, which had responded earlier neither to three successive years during which U.S. auto production has exceeded 7 million units, nor to the emergence of the Sino-Soviet region as a larger rubber importer than the U.S.A., once the destination for as much as three-quarters of the world's annual output. Notwithstanding a rise of some 5 per cent from its 1963 low, the price of natural rubber still remained 15-20 per cent below its year-ago level, as of the end of November.

Lesser industrial raw materials

Sugar aside, the most spectacular price rises in recent months have occurred within the group of less important raw materials. In tin, as in foodstuffs, shortfalls in available supplies have been the major contributing factor; in the cases of wool, lead and zinc, and silver, the main impetus has come from the demand side.

a. Tin provides a classical case of the irreversible supply curve. Recent price rises for this commodity, held somewhat in check by releases from U.S. strategic stockpiles, reflect the inability of major producing regions (other than Malaya and Thailand) to restore levels of production that prevailed prior to the tightening of export quotas under the International Tin Agreement in 1958.

b. Recent price increases for lead and zinc do reflect some strengthening of demand, but the rise is from a severely depressed level. Inasmuch as quotations in London have climbed even more rapidly than in U.S. markets, little immediate relief is in prospect from removal of U.S. import quotas. However, U.S. strategic stockpiles are so enormously in excess of requirements that releases from stockpile are available, potentially at least, as a price restraint. Unlike tin, new supplies of which come exclusively from abroad, sales of lead and zinc out of stockpile would run into political opposition from domestic producer groups.

c. Demand considerations have been important in bidding up recent prices of raw wool, supplies of which are extremely inelastic in the short run. But the inroads of synthetic fibers pose an underlying threat to the market position of this commodity, just as tin is subject to increasing competition in the packaging field from such substitute materials as plastics, glass, and aluminum. For both of these commodities, recent price volatility may in fact serve further to undermine their long-run market position. By contrast, Malayan producers of natural rubber have, by the introduction of high-yielding varieties of trees, placed their industry in a strong position to meet competition from the synthetic product at a moderate though stable price.

d. Since 1951, world consumption of silver has regularly exceeded world production by a gradually rising margin that by 1962 had come to exceed 175 per cent. By far the largest increase in usage during the past decade has come in the arts and industries outside U.S., which have more then doubled their annual requirements. From mid-1955 through late 1961, this imbalance was checked by Treasury releases of silver from its "free" reserves (i.e. not required for backing silver certificates) in quantities sufficient to hold prices at or just below 91.4 cents per oz. Prices surged upward when the Treasury announced abandonment of that policy on November 28, 1961; by March 1963 the rise had amounted to about 40 per cent, to a level equivalent to the price at which the U.S. Treasury stands ready to redeem silver certificates out of a monetary stock of some 1.8 billion ounces.

Territorial ramifications

The local impact of these diverse commodity developments varies a good deal from region to region.

a. Obviously, Soviet wheat purchases have already strengthened the export position of Canada and Australia, while the U.S. and the entire Western World stand to benefit, indirectly at least, from consequent sales of Soviet gold.

b. An increase is in prospect for the import bill payable by continental Europe, a major deficit region for primary commodities.

c. These developments will tend to operate to the relative advantage of the U.S., which is an important exporter of individual primary products.

d. Higher coffee prices are raising export earnings throughout the tropical portion of Latin America and East Africa.

e. Commodities in which the overseas sterling area either dominates, or contributes a substantial portion of, world exportable supplies, have been doing particularly well in volume or price or both, and the area's foreign exchange reserves have benefitted accordingly. In Australia, for example, reserves have increased more than 75 per cent since the end of 1960, to levels unmatched since the commodity inflation associated with the Korean conflict.

f. Such heavy accumulations of foreign exchange by the overseas sterling area, held largely in the form of short-term balance in London, are undoubtedly providing substantial support to the pound sterling at the present time. South Africa, however, has taken its recent accruals in the form of gold, holdings of which have increased some one-half billion dollars since the middle of 1961.