Trend Changes on Raw Materials Markets

1987 saw a change in trends on many international raw materials markets. Prices, which had been under pressure for several years, began to rise again. This trend cannot be expected to continue everywhere in 1988, however.

There was a clear upward price trend again on international raw materials markets in 1987. The period of excess supply and pressure on prices, which had lasted a number of years, thus came to an end. The more rapid expansion of industrial production in western countries led to an increase in demand on markets for industrial raw materials. Non-ferrous metals were particularly affected by the upward trend, since producers continued to limit the supply in the light of their experiences during the preceding years of downward price trends. In the case of food the upward price trend did not set in until after mid-1987, as lower harvest yields and a slight decrease in the substantial stocks in exporting countries became apparent. On the beverages markets on the other hand, the pressure on prices has so far continued due to the marked increase in the coffee and cocoa supply. The price support measures within the framework of international agreements for these products have merely prevented a further decline in prices.

Measured against the HWWA index of world market prices of raw materials, which is calculated on a dollar basis, the level of prices for both industrial raw materials and food and beverages increased by 25% during the course of 1987 (until December). For consumers in countries outside of the dollar area, however, the increase in the price of raw materials in national currency was much less pronounced due to the drop in the dollar exchange rate.

In real terms, i.e. in relation to the index of export prices of manufactured goods from industrialised countries – also calculated on a US-dollar basis – the level of prices for raw materials only increased by roughly 5% in 1987. According to this calculation, the price level at the end of 1987 was still roughly 30% below the level at the beginning of the 1980s. This meant a considerable improvement in the terms of trade for the industrialised countries, whereas the importing capacity of those developing countries which export raw materials fell considerably and their debt problems grew worse.

Price Increase for Industrial Raw Materials

On world markets for industrial raw materials demand grew to a much greater extent during 1987 than during 1986. On the one hand, the consumption of raw materials increased as a result of the accelerated increase in industrial production in many western countries. On the other hand, there was an increase in demand, since improved sales expectations induced manufacturers to increase their raw materials stocks as a precaution. The increase in stockpiling activities, however, was also strongly influenced by the continuous deterioration of the fundamental situation on most markets to the detriment of manufacturers after supply-side pressure had already eased somewhat in 1986 in the wake of the gradual reduction of stocks by producers. Voluntary production cutbacks and strike-induced production shortfalls (aluminium, copper, tin, lead and zinc) were contributory factors in this context. Even after the recovery of demand in 1987 many producers were careful not to increase supplies too rapidly in view of the falling prices experienced during preceding years. There was only a slight increase, therefore, in the production of most industrial raw materials.

* The Hamburg Institute for Economic Research (HWWA), Hamburg, West Germany.
REPORT

materials, and the stocks of producers and at commodity exchanges continued to fall substantially.

Furthermore, buying by manufacturers was stimulated by a general change in the price climate. The increase in the prices of precious metals up until the stockmarket crash in October 1987, for example, also indicates that after the stabilising stimuli emanating from the reduction in energy prices had petered out and as a result of the market monetary expansion worldwide – especially in the years 1985 and 1986 – inflationary expectations tended to increase. What is more, in view of the stabilisation of the dollar exchange rate up until autumn 1987 the manufacturers outside of the dollar area probably no longer expected an exchange rate induced reduction of the import prices of raw materials. In view of these developments the upward trend for raw materials prices was compounded by speculative activities.

After the collapse of stock exchange prices the quotations on commodity exchanges nevertheless initially continued to increase markedly, even after the arithmetical effects of the renewed dollar depreciation are eliminated. In view of the adverse effects on the business climate of the turbulences on financial markets this is a further indication of the substantial shift in the supply-demand relationship in favour of raw materials suppliers.

There was a particular increase in the prices of copper, nickel, aluminium and wool in 1987. Quotations for zinc, tin and timber, on the other hand, hardly increased at all. On the whole, the level of prices of industrial raw materials in December 1987 was 37% higher on a dollar basis than in December 1986 (annual average in 1987: + 21%). For raw materials processors outside of the dollar area, however, the price increases were much less pronounced due to the depreciation of Kay-Michael Schanz

AUSLANDSVERSCHULDUNG UND DIE ROLLE VON IWF, BIZ UND PARISER CLUB
Inhalt und Grenzen der Verpflichtungen des Internationalen Währungsfonds sowie der Bank für Internationalen Zahlungsausgleich und der Teilnehmer des Pariser Clubs

FOREIGN DEBTS AND THE ROLE OF IMF, BIS AND PARIS CLUB
Extent and Limits of the Obligations of the International Monetary Fund, the Bank for International Settlements and the Members of the Paris Club

The discussion on foreign debts often neglects or ignores the legal aspects of the participation of the IMF, the Paris Club and the BIS in the solving of debt problems, in particular the question to what extent these institutions are legally obliged to support debtors and creditors. These problems are dealt with in this study by Kay-Michael Schanz, written as his doctoral thesis for the faculty of law of the Johann Wolfgang Goethe University, Frankfurt. The method of procedure of the Paris Club in particular is closely connected with the question of the necessity of an international law on debt rescheduling. The author develops various approaches to an international arbitration procedure which raises the hope that rescheduling can be speeded up.