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GLOBAL COMMODITY MARKETS

a comprehensive review and price forecast

THE WORLD BANK
Commodities Team
Development Prospects Group

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THE WORLD BANK
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This report was prepared by the Commodities Team of the World Bank's Development Prospects Group. The core team includes **Donald Mitchell** (Team Leader), **John Baffes** and **Shane Streifel** (Economists), **Betty Dow** (Senior Information Analyst), and **Paul Llído** (Staff Assistant). The report was prepared with the assistance of **Margaret Moss** of G.I.Global, Inc. Questions or comments should be emailed to gcm@worldbank.org.

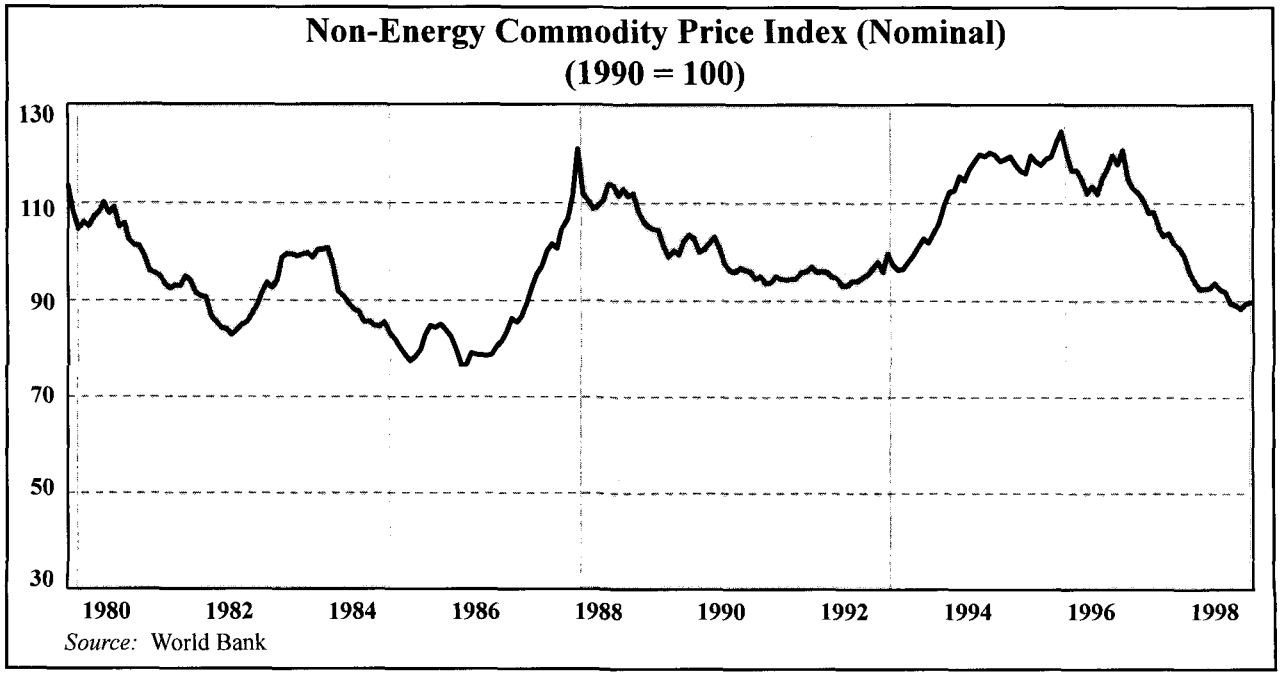
Summary

Commodity prices showed strength in the second quarter as supply cutbacks began to take effect and hopes for the global economy improved. Energy prices continued to rise on OPEC production cuts while agriculture and metals prices were mixed. Large stocks of most commodities preclude a rapid recovery of prices. However, the outlook has improved since our last report.

Energy prices were strong during the second quarter due to cutbacks in production and indications that the strong market discipline shown by OPEC producers will continue. Other commodities were less clear in their trend of prices. Metals prices showed some strength, especially aluminum and copper, and the index of metals and minerals prices rose 5.2% compared to last quarter. However, gold fell to new lows on continued central bank selling. Agricultural prices fell an additional 4.3% due to concerns that the new crops, which are now being harvested in the Northern Hemisphere, will be large enough to add to rather than reduce stocks.

The most significant developments of the quarter were related to the supplies of commodities rather than the demand. OPEC producers have achieved 90% compliance with the production cuts agreed in March and this has started to reduce the stocks of crude oil. If current trends continue, the excess supplies could be reduced sharply by the end of the year and prices could remain strong. Concern over the potential disruptions associated with Y2K (see Special Feature) may cause consumers, processors and distributors to stockpile crude oil and products and this could lead to additional price pressure as we enter the winter season of peak demand. A shortage of ocean tankers may develop if importers rush to beat the end of the year concerns over Y2K and this could contribute to the potential for price volatility.

Metals producers announced production cuts and this provided the spark needed to start prices rising. Aluminum prices rose 9.2% when measured on a quarter-on-quarter basis as LME stocks began to decline from record levels. However, the aluminum market is poised to slip back into surplus in the third quarter unless demand strengthens. Copper prices rose 4.3% quarter-on-quarter as producers began to close high cost mines. This has led to market optimism that the lows of this price cycle have been reached. By early July, copper prices had increased 20% from their May lows, and new orders from Asia further contributed to the belief that the lows are established. However, copper stocks remain high and are expected to increase again this year, which makes the recovery vulnerable. Steel prices rose 3.6% due to reduced trade following



Source: World Bank

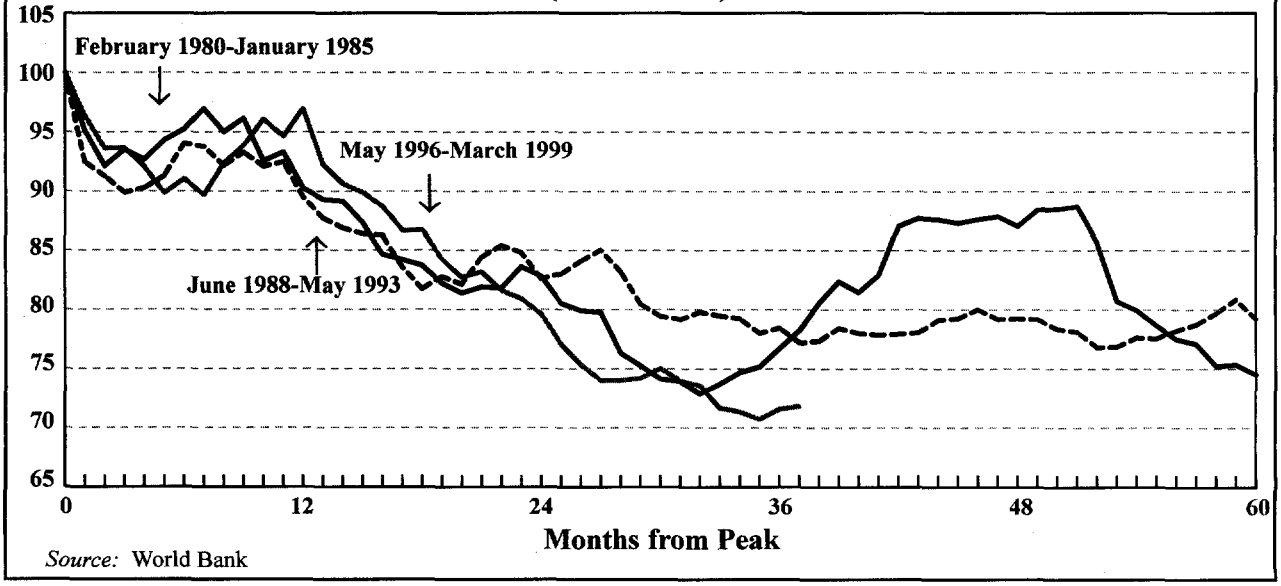
anti-dumping complaints by the US and other countries. Steel production was down more than 5% during the first five months of this year. Gold prices continued to fall as the announced 25 ton sale from the Bank of England sent prices down to about $260/toz. The UK plans to auction an additional 25 tons each month until March.

Agricultural commodity prices fell 4.3% on a quarter-on-quarter basis as the estimates of the extent of the current surplus continues to grow. Grains production for the old crop (1998/99) was revised up only slightly since our last report, but the USDA's estimate of the global carryover stocks was increased by 5.4% and this contributed to the 8% fall in grain prices. The estimates of fats and oils production was increased 0.6%, and Indonesia lowered its export tax on palm oil. Together, these two developments caused palm oil prices to fall 18.6% and the overall index of fats and oils prices to fall 8.3%. Global natural rubber production for the 1998 crop was increased 3.1% and this contributed to the 12.2% decline in Malaysian natural rubber export prices. Old crop sugar production has been revised higher by 1.5%, and this contributed to the 18% decline in sugar prices during the quarter. The increase in sugar production was due largely to increased production in Brazil. Production and stocks of cocoa were raised 1.5% and 5.5%, respectively, and prices fell 18.5%. Coffee prices were initially buoyed by concern that Brazil was entering the period when frosts could occur and damage production, but that concern subsided and the news turned negative as reports of lower domestic coffee consumption in Brazil point to increased Brazilian exports.

The overall index of non-energy commodity prices stabilized as shown in the figure below. We continue to believe (as we said in our last report) that most commodity prices have either hit their lows of the cycle or are near their lows. The recovery of prices is not expected to be rapid unless the outlook for the global economy improves significantly from the current forecast. However, the outlook for commodity prices has improved since our last report because of the improved outlook for the global economies and the faster-than-expected recovery in Asia.

Since the peak of the current price cycle in May 1996, non-energy prices have declined 29% to their recent lows and the decline is comparable in length to the two most recent price cycles. Agricultural prices continue to fall as estimates of carryover stocks increase, while metals and minerals prices have shown surprising strength since their lows in March. We expect further weakness in agricultural prices due to current large stocks and the prospects of another large harvest. Metals and minerals prices appear to have found strength in the announced production cutbacks, however, stocks are still large and demand has not recovered leaving further price recovery difficult.

Current and Previous Declines of Non-Energy Commodity Price Indices (Peak = 100)



Source: World Bank

Regional Price Indices

Prices of developing countries' non-energy commodity exports were down an additional 2.2% in the second quarter after falling nearly 30% over the past three years. Sub-Saharan African and East Asian exporters fared worst the while Latin American and Caribbean, and South Asian exporters fared relatively better.

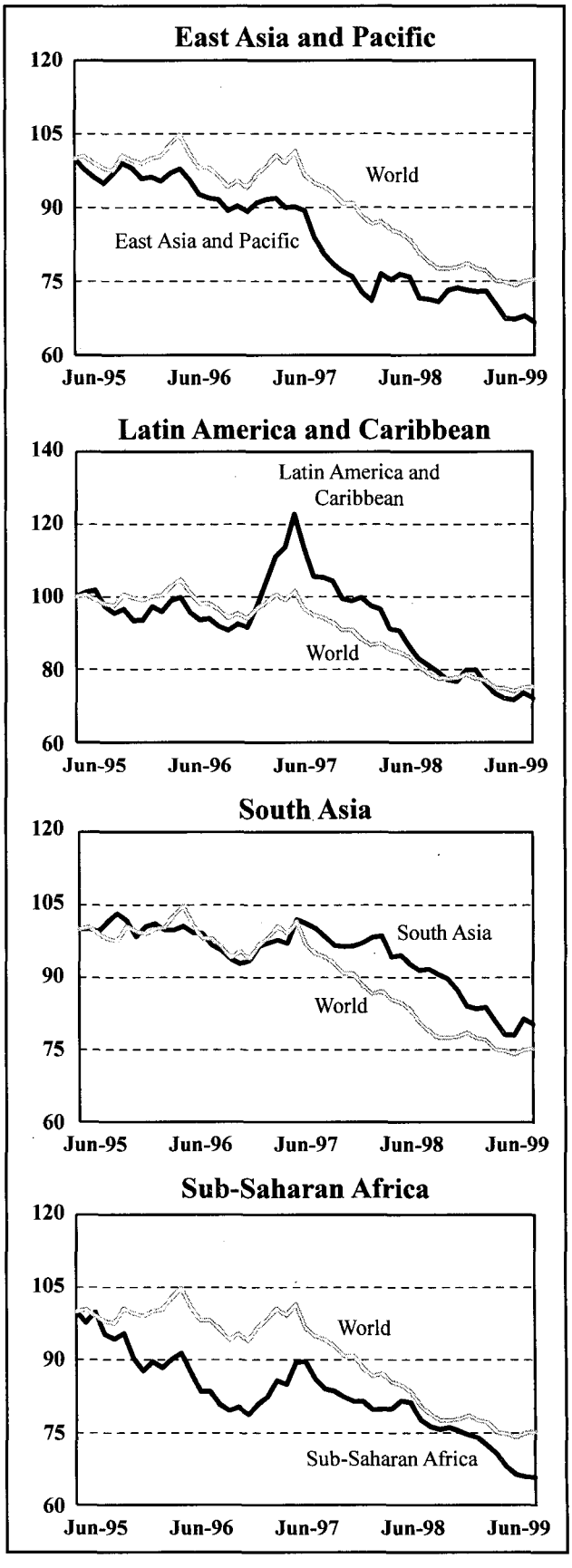
The East Asia and Pacific region had a 4.1% decline in its export index for the second quarter compared to the first. The major commodity exports of the region which fell included natural rubber (-12.2%), palm oil (-18.6%), and rice (-12.3%). Major exports of the region which saw higher prices included tropical timber, with sawnwood prices up 7.1% and logs up 2.0%. Metals prices, especially copper and tin, also important exports for the region, were up 4.2% and 3.6%, respectively.

The Latin America and the Caribbean region had a 2.0% decline in the index of non-energy commodity exports in the second quarter. The prices of the major exports of the region include soybeans and soybean products (-4.9% for the quarter), arabica coffee (-1.1%), robust coffee (-13.7%), and sugar (-18.0%). However, these price declines were partially offset by higher prices for metals and minerals (+5.2%)

Sub-Saharan African exporters fared much worse than the average during the second quarter, with a decline of 6.2% in their index of non-energy commodity exports. The declines in their major exports included: cocoa (-18.5%), robusta coffee (-13.7%) and sugar (-18.0%). Higher metals and mineral prices kept the price declines from being even more severe.

South Asian exporters had the smallest decline among developing country regions, with a fall of 1.3% in their export price index for non-energy commodities. Major exports of the region and the price changes for these commodities include robusta coffee (-13.7%), rice (-12.3%), and vegetable oils (-8.2%).

Note: The regional price indices use the non-energy commodity export basket of each region to compute the price index. This index is then compared with the index using global exports.



Anticipating Y2K

Anticipation of Y2K disruptions may cause consumers to increase stocks of commodities. The supplies of most commodities are large enough to meet increased demand, but crude oil supplies are tightening and prices may rise. Transportation is a potential bottleneck.

The Y2K technology problem (the millennium bug) that is expected to cause havoc at the turn of the century is receiving widespread attention and predictions of major disruptions – even global recession. The impact of computer and embedded chip failures potentially threatens simultaneous and multiple disruptions of services. The FAO warns that the millennium bug could prove to be "one of the most dangerous pests threatening farmers," and that the whole of the food chain is vulnerable to the Y2K problem.[1] There have already been some unpleasant surprises in preparations for Y2K such as the discharge of raw sewage into a Los Angeles city park during tests of computer and electronic systems (*Washington Post*), the loss of telephone service during Y2K testing in Canada (*The Ottawa Citizen*), and the shutdown of a nuclear reactor in Pennsylvania during testing (*Newsbytes*).

As we near the turn of the century, concerns will undoubtedly increase and problems will multiply. Regardless of whether the disruptions to occur are large or small, the anticipation of Y2K will lead to changes in consumer and producer behavior that could have significant impacts on commodity markets.

Anticipating a crisis

In some respects, Y2K resembles other major events that could have catastrophic outcomes such as war or a natural disaster. When faced with such events, consumers (including retailers, wholesalers, and processors) stockpile essential items. Following the event, consumers either delay additional purchases until their stocks return to normal, or they consume their stocks during the period when they cannot purchase these items at reasonable prices. This leads to a cycle of economic activity.

Before the event: i) the precautionary demand for certain items increases, ii) prices may rise in response to this demand and depending upon supplies of the items, iii) producers increase supplies in response to actual or anticipated increases in demand. If the event does not have a catastrophic outcome then consumers have higher demand prior to the event and lower demand following the event. If a catastrophic outcome does occur, then economic activity may be disrupted and prices may continue to rise. Y2K differs in one important aspect – it is global. Everyone will be affected.

Historical perspective

The Gulf War provides a recent example of how commodity prices react to uncertainty. Following Iraq's invasion of Kuwait in 1990, oil prices soared because of the loss of Kuwaiti and Iraqi exports, and fears of further losses from the Gulf. But, non-oil commodity prices rose a modest 3.9% through the end of September 1990 and then declined throughout the following months until the allied attack in mid-January 1991. The impact on non-oil commodity prices was substantially less than on oil because there was less threat of supply disruptions.

Food prices rose sharply in the 1970s – wheat more than doubled and rice prices tripled – between 1972 and 1974. This created food shortages and caused some countries to alter their grain importing and stocking patterns. For example, Japan and the Republic of Korea, which relied on imported wheat as an important food source, increased wheat stocks during and immediately following the period of high prices. France, which was a major wheat exporter, doubled its carryover stocks in 1974 despite a record production and strong global demand for exports.

Changes in demand and supply

The size of Y2K-related demand increases depends on several factors: how much consumers stockpile, how much speculators buy in anticipation of higher prices, how much governments increase precautionary demands for basic staples, and how much industries increase their stocks of raw materials. In the past, demand for most commodities has not increased significantly in anticipation of a disruption of supplies. But, growing concerns about the global impact of Y2K risks may lead to unexpected increases in demand. Basic staples such as food and fuels are expected to see the greatest increases.

Commodity producers may also alter their activities and increase production in anticipation of Y2K disruptions. As with consumers, they may take offsetting behavior following the event – or adjust to the consequences of the event. If producers correctly anticipate increases and subsequent declines in demand, then demand and supply could remain in equilibrium and prices could remain largely unchanged. If pro-

ducers incorrectly anticipate consumer responses, then we may see prices rise or fall.

Not all producers can adjust quickly. Agricultural producers are limited by the seasonal nature of production. Metals and minerals producers and energy producers can more easily increase production if they have excess capacity. Global stocks of most commodities are large due to the past two years of weakened global demand and large production, and this will buffer most commodity prices from significant increases. The supplies of many food commodities will also be large because the Northern Hemisphere crop will be harvested in the fall.

Impact on commodity prices

Energy appears to be the most vulnerable commodity to the Y2K bug because peak demand is in winter, when stocks – built up over the spring and summer – are required to satisfy demand. While oil stocks are high at present, they are expected to fall dramatically in the second half of 1999 because of OPEC's large cuts in production.

Energy supplies are also vulnerable because oil production is the most technology intensive of major commodities. Embedded microchips used for production, transportation, refining, and distribution leave energy vulnerable to disruption. Oil producing countries strapped for cash, such as Russia and Nigeria, may face problems which they lack the resources to fix. Thus, stocks could build at every available point along the supply chain because of fears of computer glitches.

During the Gulf War, there was an immediate loss of supplies from Iraq and Kuwait. Speculative demand bid futures prices up sharply. Saudi Arabia and other producers with spare production capacity raised output significantly, albeit with an initial delay, to meet demand and support the international coalition against Iraq. There was no attempt to exploit the situation and keep prices high. Although prices remained high up to the War in January 1991, they fell back to pre-crisis levels once the threat of additional supply losses were reduced.

What is not clear, as we approach Y2K, is whether there will be a sufficient supply response should speculative demand and stockpiling put undue pressure on prices. Producers are recovering from a prolonged slump in oil prices, and may wish to sustain prices around $20/bbl. The risk of being too accommodating with its production is that they may raise output too much and prices may fall precipitously. Thus there is a risk that a necessary supply response will be too little or too late, and that stocking and speculative demand because of Y2K will exert additional upward pressure on prices. This at time when markets are already expected to tighten significantly.

Transportation bottlenecks may occur

Transportation could become the bottleneck as we near Y2K. Since a large share of global commodities production is traded, a disruption in our capacity to transport commodities could lead to local shortages and surpluses. The transportation sector may face disruptions because of computer failures at the end of the year, but even before then, it may face a demand surge which disrupts normal shipping patterns. If importers attempt to increase their stockpiles of goods before the end of 1999, this could overburden the transportation system.

The rates for dry bulk ocean freight increased 14% in the second quarter and have risen 45% since the lows reached in January. The recent increases may be partly related to Y2K as well as the recovery in Asian economies. If demand increases and rates continue to rise, this could have several impacts on commodities. First, adequate space may not be available to ship commodities, and countries which depend on imports of food, fuel, and raw materials may find that they cannot import as expected. Second, low-valued commodities may be crowded out by high-valued commodities and manufactures. This could cause bulky commodities such as grains and tropical timber to be displaced by higher-valued cargo such as manufactures. This could lead to not only disruptions of normal shipping schedules but also to wide swings in prices as surpluses build in exporting countries and shortages develop in importing countries.

Conclusions

Y2K technology problems are expected to lead to increased demand as consumers stockpile essential commodities. Supplies of most commodities are adequate to accommodate such increases, but crude oil supplies are tight and prices could rise on Y2K fears. Transportation may become a constraint as exporters and importers try to ship before the end of the year. This could lead to surpluses in exporting countries and shortages in importing countries. Lower-valued bulk commodities may get squeezed out by higher-valued commodities and manufactures leaving trade disrupted.

[1]News Highlights, Food and Agricultural Organization of the United Nations, "The So-called "Millenium Bug" – or Year 2000 (Y2K) problem," May 10, 1999.

New Income Support Schemes

New income support schemes for farmers are replacing price subsidies on commodities. However, recent examples have fallen short of the ideal and are likely to be less successful than originally hoped.

The EU Commission reformed its Common Agricultural Policy (CAP) in March 1999. The main elements of the reform, known as Agenda 2000, are: (i) a 15% cut in the intervention price for grains over a 2-year period; (ii) a reduction of import duties for all grains by an estimated $30/ton; and (iii) a 16% increase in direct area support for cereals over a 2-year period (i.e., from 54.34 euros/ton to 63.00 euros/ton).

Agenda 2000 was motivated by the desire to move away from quantity-based measures (such as price supports and import duties) to direct income support payments based on historical area under cultivation. Agenda 2000 is the latest of four attempts to reform agriculture in this way. Earlier reforms included: the 1992 CAP reform, Mexico's 1994 PROCAMPO program, and the US FAIR Act of 1996. While these programs are a step in the right direction, some shortcomings in their designs and implementation may make them less successful than originally hoped.

A step in the right direction ...

The problem with existing production-based subsidies is that in order to achieve their objective – usually to increase producer income – they distort production decisions. Policies that raise the price producers receive, cause producers to increase output, thus leading to stock build-up and pressure on world prices, which in turn requires other measures to restore market equilibrium. The rationale behind replacing these "distorting mechanisms" by direct income support is to prevent unwanted production effects. Consider the case of an import tariff. Under an import tariff, domestic producers supply more because they receive a higher price than what competitive circumstances would dictate without a tariff. Consumers pay a higher price and the government receives tariff revenue. The total losses to the country exceed the gains by producers because resources are wasted in order to produce more than what market forces would have otherwise dictated.

Under an income support mechanism, the government eliminates the tariff and provides income as lump-sum transfers. Producers supply less (as they receive a lower price) and are compensated by the government. Because of the theoretical appeal of this type of support program, governments have attempted to apply it in practice (see figure below for the three cases excluding Agenda 2000).

In 1992, the EU member states agreed to reform a significant part of CAP by replacing part of the price support with direct area payments, based on average acreage in support crops during 1989/91. Most cereals, oilseeds, and livestock were included. While the payments were fixed in nominal terms, there was no

Characteristics of Agricultural Support Programs in the European Union, Mexico, and the United States

Characteristic	*EU: CAP reform implemented 1993*	*Mexico: PROCAMPO implementated 1994*	*US: FAIR implemented 1996*
Objective	To compensate produers for a reduction in support prices	To compensate producers for the elimination of guaranteed prices on support crops	To compensate producers for the elimination of deficiency payments
Payment basis	Average acreage in support crops during 1989-91	Average acreage in support crops during 1991-93	Acreage for which deficiency payments were received in any of the past 5 years
Supported products	Wheat, maize, barley, rye, oats, rapeseed, sunflower, soybeans, dried pulses, beans, tobacco, beef, lamb	Wheat, maize, sorghum, barley, rice, cotton, beans, soybeans, safflower	Wheat, maize, sorghum, barley, rice, cotton, oats
Time profile	Fixed in nominal terms; no expiration date	Total of 15 years: first 10 years fixed in real terms; declining in final 5 years	Program lapses after 7 years unless extended
Payment limits	None	$6,700 per farm	$40,000 per farm
Restrictions on the use of support-crop land	Land should be allocated to support large crops; large producers must put into fallow a predetermined level of support-crop land	Land should be allocated to support crops, but since 1996 land can be allocated to other agricultural uses	Land should be kept in agricultural uses (excluding fruits and vegetables); use must be in compliance with existing conservation plans
Other features	Support prices continue for cereals at lower level	"Negotiated" prices in effect for the first 2 transition years of the program; floor prices are retained for maize and beans	Nonrecourse government guaranteed commodity loans are retained in modified form

expiration date and no upper limit on how much a producer could receive.

Mexico also began its PROCAMPO program in 1994, by replacing price supports with income supports to grain and oilseed producers. The support was based on average acreage during 1991-93 and included nine grains and oilseeds. The payments are scheduled to last 15 years (the first ten years fixed in real terms, declining in the last five years). The upper payment was set at the equivalent of about $6,700 per farm.

The US's Federal Agricultural Improvement Act (FAIR) became law in 1996 after the longest farm-bill debate in history. FAIR replaced the so-called deficiency payments with direct income support for most cereals. Payments to producers are declining in real terms and the program will expire after seven years. The upper payment limit is $40,000 per farm.

... *but with some shortcomings*

While these programs are a step in the right direction, a number of shortcomings still exist that prevent the programs from achieving their objective of transforming agriculture into a distortion-free sector.

Limiting the duration of the programs. The programs should be transitional and not permanent. Although PROCAMPO is scheduled to be phased out over 15 years, at which time world prices will prevail, FAIR's language leaves open the question of support when the program expires after seven years. Agenda 2000 has no time limit (nor did CAP reform). Nevertheless, if the final objective is to eliminate support, the programs should wind down to an explicit expiration date.

Lifting restrictions on land use. An income support scheme should not impose restrictions on the use of land. With the exception of environmental considerations, the main justification for restricting land use is to ensure that payments only go to bona fide producers. Yet one important reason for replacing price subsidies with income support is to encourage individual producers to use resources as relative prices and comparative advantage dictate.

Making reforms comprehensive. To realize the full benefits of an income support system, the programs should include all crops and replace all existing commodity programs. For example, FAIR does not apply to sugar, tobacco, peanuts, or milk, all of which are heavily protected in ways that seriously misallocate resources. PROCAMPO is restricted to nine commodities which have some price floors still in operation. CAP reform fails to entirely eliminate price supports and retains many quantitative restrictions.

Establishing supporting institutions. A national land registry needs to be in place to ensure fair and timely payments to producers. The government must have policy credibility or producers will not respond as desired. The macroeconomic environment, especially the exchange rate, should be adequate and stable. In some cases, eliminating currency overvaluation makes it possible to eliminate protection without providing fiscal compensation.

Keeping costs down. As a general rule, the fiscal costs of income support programs should not exceed the costs of the programs they replace. When world prices are high (as they were in 1996 when the US FAIR Act was implemented) producers received both high prices and program payments. Thus taxpayers bear a double burden: they pay both the high consumer prices and the program's costs. Payments should instead be linked to world prices so that when prices are high, producers receive less support, and when prices are low, producers receive more support.

It is important to remember the intent of a direct income support program: to provide a transition from price-distorting subsidies to a fully liberalized sector that allows resources to be allocated more efficiently. Such programs are not intended to be poverty reduction mechanisms, although they can raise the incomes of small producers. They are not intended to be investment programs, since they have no provisions on how the support money is to be spent. And they are not designed to induce sectoral growth, since they lower producer prices. Because income support programs are linked to an asset – land – a majority of the payments will inevitably go to larger producers.

Conclusion

Recognizing the waste of resources that traditional commodity subsidization programs have caused over the years, recently governments have attempted to replace them with programs that support farmers' incomes and do not cause misallocation of resources. Following EU's CAP reform in 1992, Mexico introduced its own program in 1994, followed by the US in 1996, and more recently another CAP reform, known as Agenda 2000. While these programs are a step in the right direction, a number of shortcomings make their success doubtful.

Economic Outlook

World economic activity continues to improve but downside risks remain.

The US economy continues to show surprising strength and a faster-than-expected recovery is occuring in Asia. Economic performance in the other crisis countries, including Brazil and Russia, has fared better than initially expected. Nevertheless, significant downside risks remain, with prospects in the industrial countries particularly uncertain.

Consensus Forecasts show world GDP growing by 2.1% this year, somewhat higher than the 1.8% in our March 1999 forecast, shown below. The five East Asian crisis countries are seen growing by 3% this year with the Republic of Korea rising by 5.8%. Industrial production has been growing by double-digit rates in all the large Asian economies with the exception of China, whose momentum appears to be faltering.

In Latin America, Brazil is staging a recovery from the depths of the balance of payments crisis and *Consensus* now shows GDP declining by only 1% this year. Growth is also accelerating in Mexico (*Consensus* 2.9%), but debt problems and economic difficulties in Argentina, Colombia, and Ecuador will result in declining economic activity in those countries.

Russia has benefited from higher oil prices and *Consensus* shows the economy contracting by only 3.5% this year. In the rest of the region, performance has been mixed, with strong growth in Hungary and disappointing performance in Poland. In the industrial countries, GDP is expected to rise more slowly in the second quarter than in the first, although the US will continue to record solid growth in the short-term. European industrial production remains weak, and growth in Japan is expected to slow following the unexpected spurt in the first quarter.

In 2000, economic growth is expected to be more balanced as the recovery gathers strength in Europe and spreads in developing Asia, while slowing in the US. However, while the conditions for sustained global recovery have improved, a number of risks remain. The situation in Japan is very uncertain and there remains a risk of an even deeper and more protracted recession. The recovery in Europe is still hesitant, and a substantial stock market correction in the US and Europe is possible.

Countries in Latin America are still grappling with the full force of the crisis, and the speed at which they will recover depends critically on the outcome of the electoral cycle and the ability of Argentina and Brazil to consolidate the recent improvement in sentiment. East Asian countries risk losing some of the cost advantage as their currencies have appreciated and the costs of some key inputs are rising, e.g., oil and metals.

World Growth, 1981-2007
(Change in real GDP)

				Forecasts			
Region	**1981-90**	**1991-97**	**1998**	**1999**	**2000**	**2001**	**2002-07**
World total	**3.1**	**2.3**	**1.9**	**1.8**	**2.4**	**2.8**	**3.1**
High-income countries	3.1	2.1	1.9	1.8	2.1	2.3	2.6
OECD countries	3.0	1.9	2.0	1.8	2.0	2.2	2.5
Non-OECD countries	6.6	6.1	-1.7	1.6	3.8	4.7	5.2
Developing countries	3.0	3.1	1.9	1.5	3.7	4.6	5.1
East Asia	7.7	9.4	1.8	4.0	5.5	6.3	6.8
Europe and Central Asia	2.6	-4.0	-0.3	-1.5	2.3	3.6	4.7
Latin America and the Caribbean	1.9	3.6	2.0	-0.8	2.5	3.9	4.3
Middle East and North Africa	1.0	2.9	1.5	0.7	2.5	3.3	3.7
South Asia	5.7	5.5	5.2	4.4	4.8	5.2	5.0
Sub-Saharan Africa	1.9	2.2	2.1	2.5	4.0	4.0	4.1
Memorandum item							
East Asian crisis countries*	6.9	6.9	-7.7	0.3	3.5	4.5	5.3

*Indonesia, the Republic of Korea, Malaysia, Philippines, and Thailand.

Note: GDP is measured at market prices and expressed in 1987 prices and exchange rates. Growth rates over historic intervals are computed using the least squares method.

Source: Global Development Finance, World Bank. Data and baseline projections, March 1999.

Ocean Freight

Freight rates rose on strengthening demand amid economic recovery and re-stocking, but weakened at the end of the quarter.

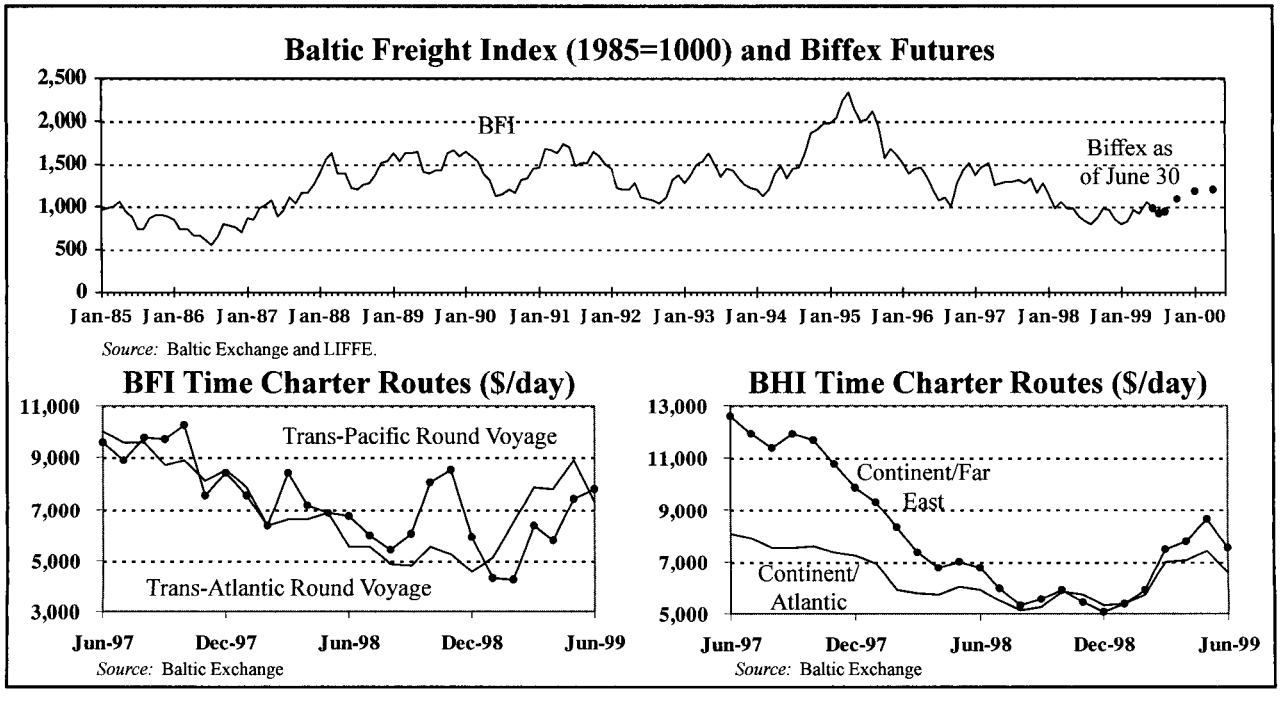
Dry bulk freight rates rose 14% in the second quarter due to strong demand for time charter routes for Panamax size vessels. The Baltic Freight Index (BFI) of rates for Capesize (80,000+ dwt) and Panamax (50,000-75,000 dwt) size vessels hit 1,125 in early May, up 45% from the 12-year lows in January. However, rates slipped back to end the quarter at 970. The Baltic Handy Index (BHI) – for Handysize vessels less than 43,000 dwt – increased by 21% in the second quarter. The index held fairly steady in May and June, and ended the quarter at 844, down slightly from the May high of 892.

Panamax rates for grain tonnage rose strongly for all main destinations. The BFI voyage rates from the US Gulf to Europe for light grain increased 13%, hitting $12.50/ton in May before retreating to $11.18/ton by end-June. Heavy grain shipment rates from the US Gulf to Japan were up 12% with rates reaching $19.75/ton, before receding to $16.75/ton at end-June. Time charter rates were up more sharply, especially Trans-Pacific round voyage rates which rose 41%, ending the quarter at $7,288/day – although the volatile rate soared to $8,679/day in early June. Trans-Atlantic round voyage rates increased by 23% on average, although rates surged to $10,000/day at end-April – more than double the lows in January – but settled back to $7,189/day at end-June.

Capesize rates for coal and ore tonnage were much softer in the quarter due to weak demand and exports. Coal shipped from Hampton Roads (US) to Rotterdam fell 1% in the quarter, as US coal exports slumped due to loss of competitiveness to lower-cost suppliers. South African coal rates to Europe were off 4.5%, falling to $4.00/ton in June. Rates for iron ore shipments from Brazil to Europe were flat due to weak steel demand, but end-June rates were 15% lower than at the beginning of the quarter at $3.20/ton.

Handysize rates for both Atlantic and Pacific routes rose strongly in May, but by end-June prices had fallen back below levels at the beginning of the quarter. End-June time charter rates for a Trans-Pacific round voyage were $6,827/day and the Trans-Atlantic round voyage were $6,118/day. Tanker rates fell due to sharply reduced crude oil exports from OPEC countries.

Biffex futures were in contango at end-June suggesting weak demand in the dry bulk freight market, and are supported by declining rates in June. Rates are expected to rise as economic recovery in Asia continues and the Y2K deadline nears.



COMMODITIES

Coal

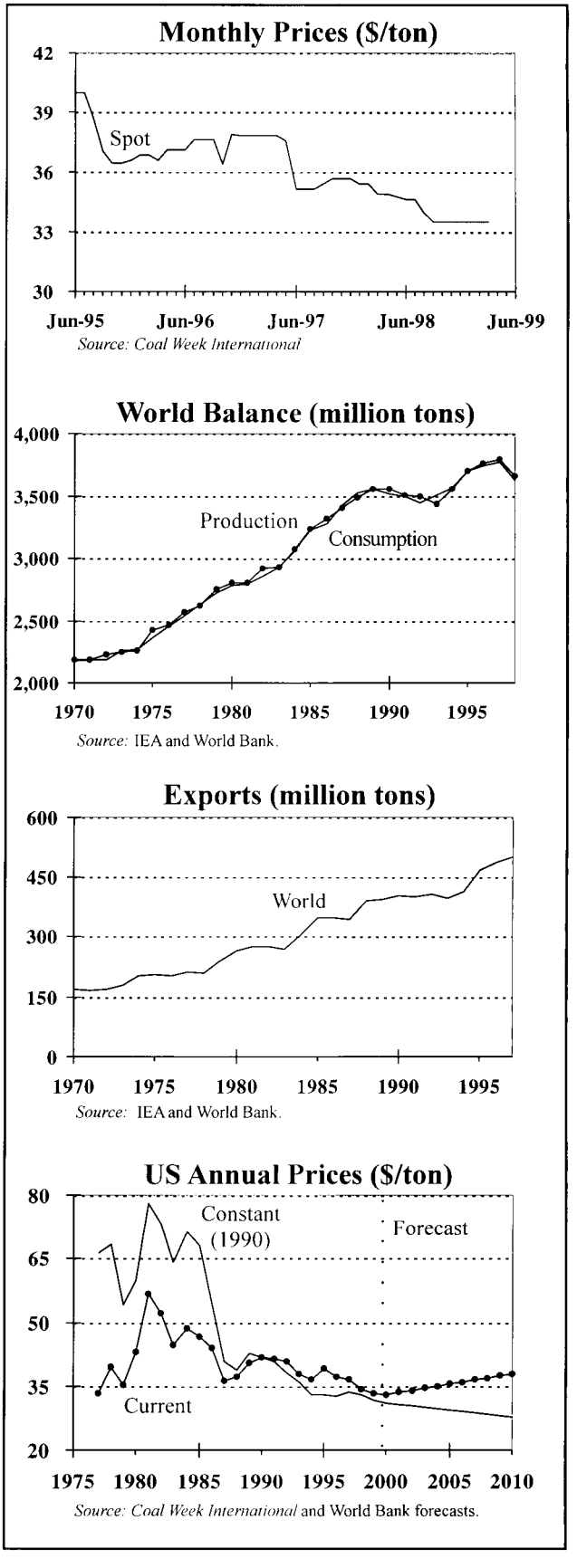
Coal prices remain weak on ample supplies and sluggish demand. While Asian economic activity is recovering, abundant supplies and increasing competition will lead to further declines in real prices.

Coal prices weakened slightly in the second quarter due to weak demand and excess supply. International thermal coal prices have fallen by more than 30% the past three years due to weak demand and increases in new low-cost supply, the latter augmented by currency devaluations in several exporting countries. US prices have declined by little more than 10% over this period, as most of US production is consumed domestically for power generation. However, exports have fallen because of the loss of competitiveness of higher cost producers.

In the coking coal market, the slump in Asian demand and oversupply of low cost coal that led to an 18% price decline this year is being felt in markets. The US continues to lose market share to Australia and Canada, and South Africa is losing share to Venezuela and Indonesia. World steel production fell 3% last year and is down 2% this year, partly due to antidumping measures. Coking coal prices are expected to remain under pressure because of oversupply and weak demand.

In the thermal coal market, although demand is recovering in Asia, there are still abundant supplies that will prevent a meaningful recovery in prices any time soon. Coal will remain a major fuel for power generation in Asia and major consuming countries are moving ahead to expand steam coal power capacity. However, abundant resources, further productivity gains, and keen competition are likely to result in continued declines in real prices.

The coal industry faces several challenges over the forecast period, i.e., environmental constraints, competition from natural gas, liberalization of electricity and gas markets, and movement away from long-term contracts to greater spot market purchases. The New York Mercantile Exchange is planning to launch a coal futures contract in the US later this year which will add to the competitive pressures on both buyers and sellers of coal. US exports will continue to be affected by new low-cost suppliers, e.g., Colombia, Indonesia, and Venezuela.



Other Developments

- Broken Hill Proprietary Co, the world's largest exporter of coking coal, is targeting a 30% productivity improvement in Australian coal mines in 1999-2000. Mine site cash costs fell about 25% in the year ended May 1999 versus the three previous years, and by the fiscal year ending May 2000, the company expects to achieve a cumulative 30% reduction. Total number of employees is expected to fall from more than 5,000 in 1997 to less than 3,000 at the end of the current fiscal year.
- German coal imports are expected to surge to 30 million tons (mt) in 2000 and add another 10 mt over the next five years, according to the German Coal Importers Association. Domestic production is to fall following the scheduled closure of mines. German subsidies are to be halved to DM5.5 billion ($2.9 billion) in 2005 compared with the 1997 figure.
- Ashland Inc. has joined a growing list companies divesting of its coal interests. The company is exploring options for its 58% interest in Arch Coal Inc., the second largest US producer.
- Australia's coal exports are up 3.6% for the first five months of this year, following a sharp increase in May, according to an International Coal Report survey. Queensland exports are up over 6%, with large gains at the port of Abbott Point.
- In the first four months of 1999, Indonesian exports rose nearly 8%, Russian coal exports were up 2%, and Venezuelan exports fell 4.5%. For the first quarter, Colombian exports were up 2%, while South African exports fell 1.6%.

Production (million tons)

	1995	1996	1997	1998
China	1,360.7	1,396.7	1,372.8	1,235.6
US	858.6	885.2	910.4	936.0
India	273.4	285.6	297.2	303.1
S. Africa, Rep.	206.2	206.4	220.1	222.8
Australia	191.1	193.4	206.8	219.0
Russian Fed.	176.9	166.5	159.2	148.6
Poland	137.2	137.9	137.8	116.9
Ukraine	83.5	74.1	75.5	73.7
Kazakhstan	79.6	73.2	70.2	67.0
Indonesia	41.1	50.2	55.1	59.7
Germany	58.9	53.2	51.2	45.3
UK	54.6	50.2	48.5	41.3
Canada	38.6	40.0	41.3	38.3
Colombia	25.7	30.1	30.7	33.8
Korea, D. R.	26.0	24.1	24.1	24.1
Czech Rep.	17.7	17.5	16.6	16.1
Vietnam	6.6	11.2	13.1	13.1
Spain	13.7	13.7	13.8	12.5
Venezuela	4.6	3.5	5.6	6.8
World	**3,705.4**	**3,761.8**	**3,796.3**	**3,655.8**

Source: IEA

Exports (million tons)

	1995	1996	1997	1998
Australia	136.4	138.6	146.4	162.3
US	80.3	82.1	76.0	70.5
S. Africa, Rep.	59.7	60.2	63.4	67.1
China	28.6	36.5	30.7	32.3
Indonesia	31.3	36.4	41.5	46.9
Canada	34.0	34.4	36.5	34.2
Poland	31.9	28.9	29.5	28.1
Russian Fed.	26.3	25.3	21.2	23.5
Colombia	18.3	24.8	26.5	29.6
Kazakhstan	12.9	21.7	n.a.	n.a.
Czech Rep.	7.0	6.7	6.6	n.a.
Venezuela	4.3	3.5	4.2	n.a.
Netherlands	2.9	2.4	3.5	n.a.
Vietnam	1.8	4.4	4.2	3.5
Ukraine	2.4	2.0	n.a.	n.a.
New Zealand	1.3	1.6	1.2	n.a.
Belgium	0.8	1.2	1.5	1.3
UK	0.9	1.0	1.1	0.9
Germany	1.7	1.0	0.5	0.3
World	**464.6**	**483.9**	**496.7**	**519.2**

Source: IEA

Global Summary

	Actual						Annual Growth Rate (%)		
World Balance (mil. tons)	1970	1980	1990	1996	1997	1998	1970-80	1980-90	1990-97
Production	2,185	2,807	3,561	3,762	3,796	3,657	2.8	2.8	1.2
Consumption	2,175	2,783	3,516	3,744	3,777	3,630	2.8	2.9	1.3
Exports	167	263	401	484	497	519	4.4	4.9	3.5

	Actual				Forecast				
Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	39.17	37.21	36.39	34.38	33.25	33.00	33.50	35.50	38.00
Constant 1990	32.86	32.58	33.58	33.00	31.72	30.99	30.70	29.44	27.87

Source: IEA and World Bank forecasts.

Natural Gas – US

Prices rose sharply amid concerns about US supply and lower levels of storage injections. However, high stocks, rising imports, and increased upstream activity should prevent a spike in prices this year.

Natural gas prices rose 23% in the second quarter on concerns about diminishing domestic production and lower storage injections. However, the price increase was from very low levels in the first quarter when temperatures were generally mild and inventories high.

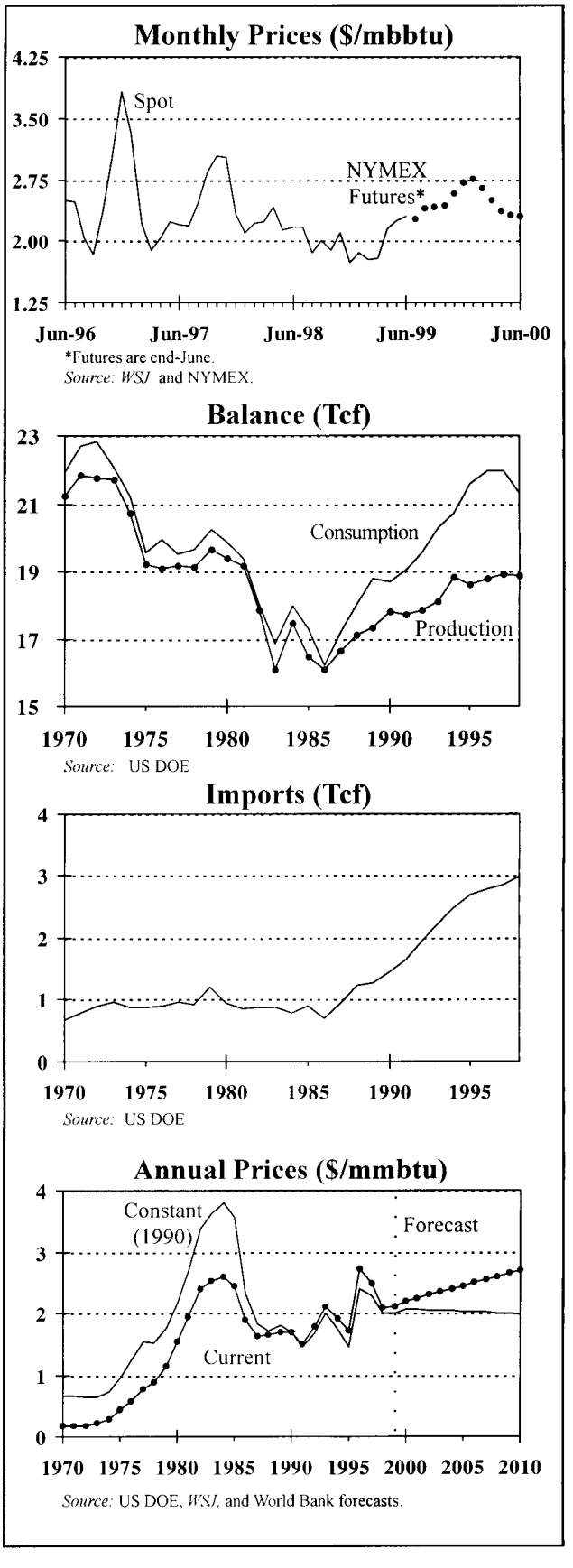
US gas production fell nearly 2% in the first quarter partly due to a drop in upstream drilling activity in the wake of the lengthy slump in oil and gas prices, but also because of high levels of inventories and weak natural gas demand. With the rebound in oil and gas prices, companies are increasing upstream capital expenditures and the rig count is rising.

Gas injections picked up in June and inventories ended the quarter near 2,170 billion cubic feet (Bcf), 3% higher than last year and the highest level since 1991. Hot summer weather could result in lower storage injections and cause the surplus to be reduced. Much will depend on the strength of power generation demand and the pace of supply developments, but inventories are expected to be above normal levels heading into the winter season.

Assuming normal weather, heating demand for gas is expected be fairly strong over the winter season, and the sector will account for much of the projected 2.5% growth in demand next year. The power sector will also contribute to higher demand, but a recovery in industrial demand will depend on the level of economic activity.

US production is expected to recover in 2000, but the growth is expected to be less than 1%. New pipeline capacity from Canada is slowly being filled, and Canadian imports are expected to reach 3.2 Bcf this year and 3.6 Bcf in 2000. New supplies of LNG are arriving from Trinidad, and during the upcoming winter season the first Atlantic Canadian gas will arrive from offshore Sable Island.

High inventories should keep prices fairly moderate this year, but stocks will be required to meet the projected growth in demand next year, and prices are expected to rise moderately.



Natural Gas – Europe

Continental gas prices continued to fall in the second quarter due to the lagged indexation to petroleum prices, but sustained recovery in the oil market will begin to lift gas prices.

European gas prices continued to decline in the second quarter due to the lagged indexation to petroleum prices in supply contracts. The European border price fell 5% to $1.89 per million btu (mmbtu), down nearly a third from average 1997 prices and to the lowest levels in 20 years. With the recovery in oil prices, gas prices are expected to recover during the second half of this year.

In the liberalized UK market, oversupply has pushed gas prices below 9 pence per therm during the second quarter and the weakness is expected to continue into the third quarter. However, prices are expected to rebound during the heating season, as futures prices for January 2000 were above 15 pence per therm at the end of June.

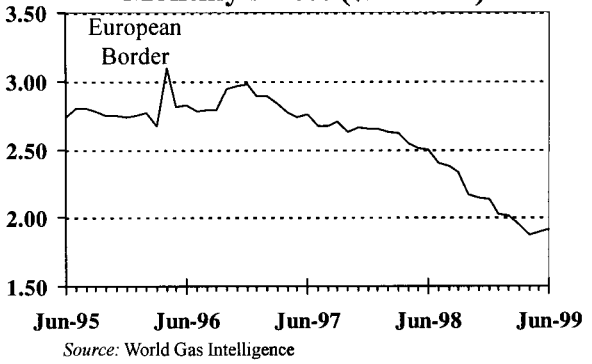
Gas markets on the European mainland open up to greater competition in August 2000 when the EU Gas Directive takes effect. Mainland electricity markets began liberalization in February of this year, while the UK market is now fully liberalized.

The reversible-flow Interconnector pipeline between the UK and Belgium has been in operation since last fall, and British spot prices – determined through gas-on-gas competition – now compete with Continental gas prices which have a non-seasonal time-lagged link to oil. When oil prices were down near $10/bbl, there was little incentive for spot purchases from the UK. But the recovery in oil prices will allow cheaper UK gas to move to the continent.

Demand is poised to grow strongly in the residential and commercial sectors and for power generation. Supplies are expected to grow from all sources, both domestic and import, but continental prices will be held up by oil-linked contracts.

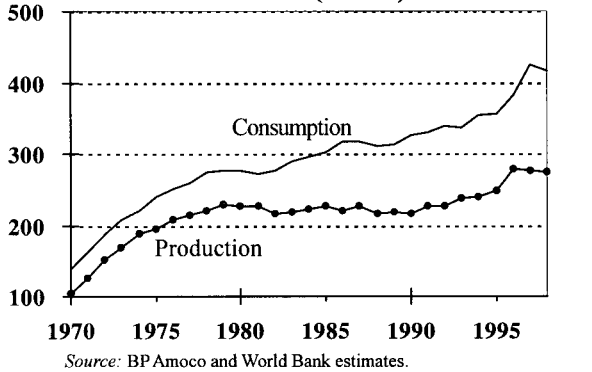
The availability of European gas supply, including contracted imports, will exceed demand for the next several years, and will lead to strong competitive pressures to sell spot or supplementary gas, notably from the UK. The extent to which countries will engage actively in spot markets in future will vary according to the volume of contractual commitments and the flexibility within contracts for minimum offtake.

Monthly Prices ($/mmbtu)



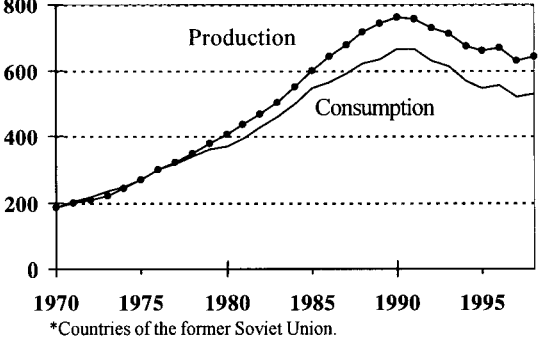
Source: World Gas Intelligence

Balance (BCM)



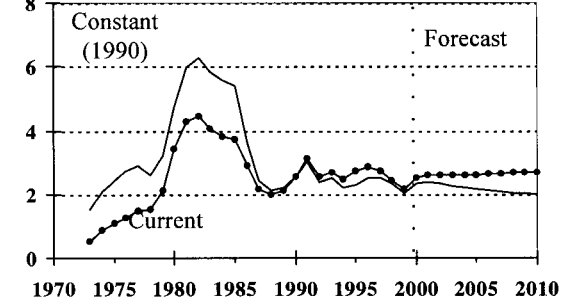
Source: BP Amoco and World Bank estimates.

FSU* Balance (BCM)



*Countries of the former Soviet Union.
Source: BP Amoco

Annual Prices ($/mmbtu)



Source: World Gas Intelligence and World Bank forecasts.

Petroleum

Prices rise sharply as production cuts are expected to reduce surplus inventories. The market will tighten increasingly this year and higher OPEC production may be required to prevent a spike in prices this winter.

Oil prices rose sharply in the second quarter on anticipation of declining inventories and tighter oil markets in the wake of OPEC production cuts. While average prices were 37% higher than in the first quarter, end-June prices were 70% above the lows in February. Crude oil stocks are declining from last year's levels but product stocks remain high. Nevertheless, surplus inventories are expected to decline and higher OPEC production may be required this winter to prevent a spike in prices. OPEC meets September 22, but there is little indication that it will lift production.

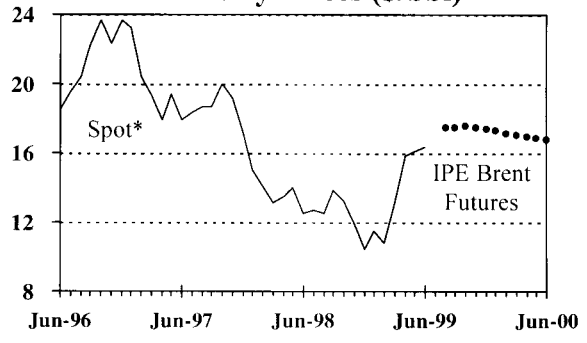
Oil inventories started to decline from year-earlier levels but still remain high – particularly product stocks (see graphs). Crude stocks, however, have begun to recede because of less OPEC oil arriving at refining centers and high refining runs to manufacture products. In the US, recent weekly data shows crude oil stocks falling well below last year's levels. Gasoline stocks have also dropped due to peak summer demand and refinery problems in California.

OPEC production (excluding Iraq) fell by 1.6 mb/d in the second quarter, as the organization began to implement new quotas in April (see table). The group was more than 0.5 mb/d above target during the quarter, with all countries over quota except Kuwait (includes Kuwait's and Saudi Arabia's half shares of Neutral Zone production). Indonesia, Iran, Nigeria and Saudi Arabia were each around 0.1 mb/d above quota, but by June Saudi Arabia fell very close to quota. Only Indonesia, Libya, Nigeria, were well short of meeting their targets.

OPEC was more than 90% compliant in June of meeting its cumulative pledge to reduce output by 4.3 mb/d – the organization negotiated three rounds of cuts in April and June of 1998 and April 1999, and these were augmented by 0.8 mb/d of pledged cuts from the non-OPEC producing countries of Mexico, Norway, Oman, and Russia.

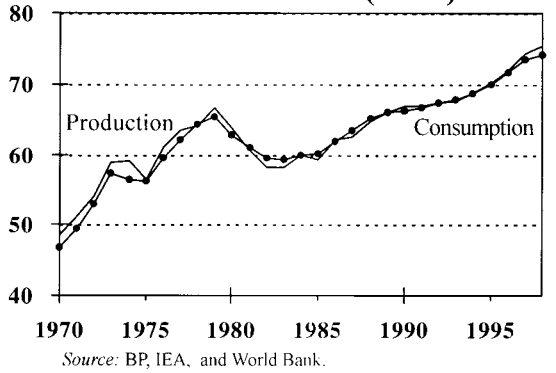
Since 1Q98, OPEC (outside Iraq) has reduced production by 3.5 mb/d. Over this period Iraq's

Monthly Prices ($/bbl)



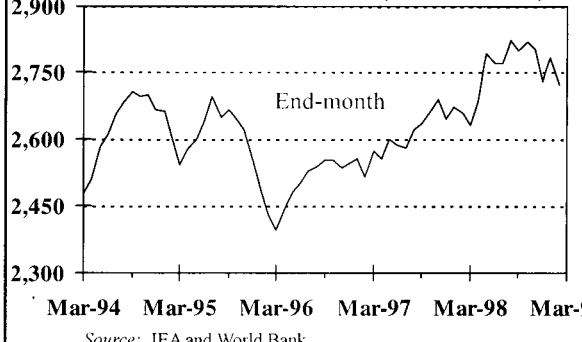
*World Bank average. Futures prices are end-June.
Source: Bloomberg and IPE.

World Balance (mb/d)



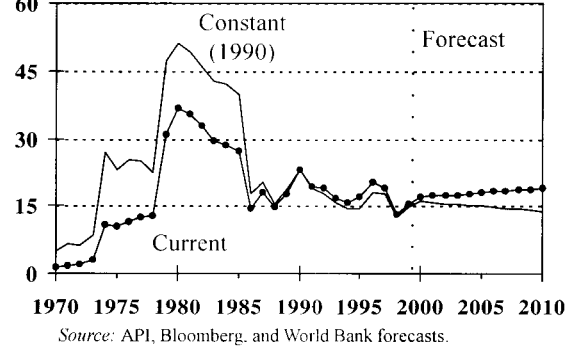
Source: BP, IEA, and World Bank.

OECD Total Stocks (million bbl)



Source: IEA and World Bank.

Annual Prices ($/bbl)



Source: API, Bloomberg, and World Bank forecasts.

Petroleum (continued)

production rose by nearly 0.9 mb/d for a reduction in total OPEC production of 2.7 mb/d. Compared with 3Q97, before OPEC raised quotas by 10%, June production including Iraq was lower by 1.5 mb/d.

Non-OPEC production fell by 0.6 mb/d in the second quarter, with most of the reduction due to planned maintenance in the North Sea, and to Mexico's pledge to reduce exports. Compared with the previous year, non-OPEC production is down nearly 0.6 mb/d, with OECD output lower by 1.0 mb/d. Production in the US and Canada fell a combined 0.6 mb/d, as lower prices significantly affected upstream revenues and investment. Production in Mexico and Norway are each down nearly 0.2 mb/d partly due to pledges to reduce exports. Declines were partly offset by gains in other countries, notably Angola, Brazil, Colombia, and Yemen.

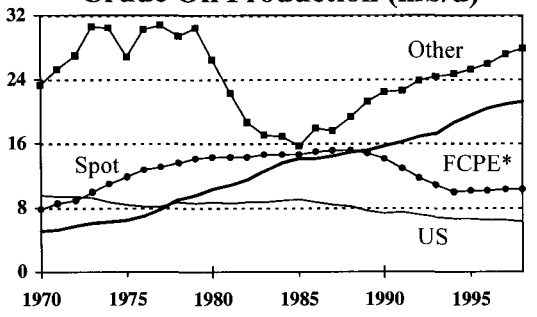
Production in the FSU has held up despite the economic crisis, partly due to depreciation of the rouble which lifted profitability of domestic oil companies. Net exports have surged to near 4 mb/d, with increases in both crude and products. Part of the increase is due to lower domestic demand that has freed up oil for export.

Oil demand appears to be growing faster than previously expected, helping to underpin the rise in prices. Upward revisions to US 1998 data and continued strength of the US economy is being augmented by economic recovery in Asia. Demand in the Republic of Korea rose by more than 10% during the first four months of the year, although a large portion was to rebuild depleted inventories. This was partly confirmed by a 6% reduction in demand in May. For the first half of the year, world oil demand outside the FSU is up an estimated 1.3 mb/d or nearly 2%.

If OPEC maintains a high rate of compliance to its quotas, surplus inventories will continue to fall and markets will tighten. IEA projections suggest that if OPEC crude oil production continues at its June level of 25.8 mb/d, it would require a very atypical stock draw of 1.6 mb/d in the third quarter and an extraordinary draw of 3.2 mb/d in the fourth quarter (see Table). This implies further extreme tightness into 2000.

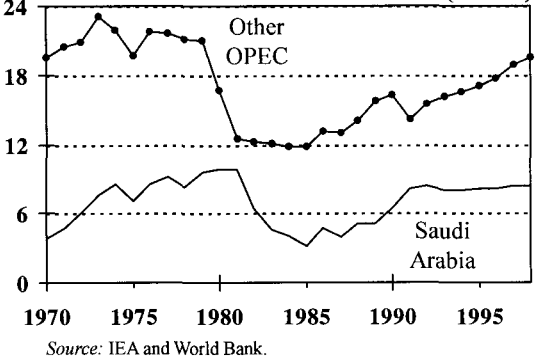
Actual draws may be well below these implausibly high levels, either because of unexpected changes in demand and supply, or an increase in OPEC production. When OPEC meets September 22, it will

Crude Oil Production (mb/d)



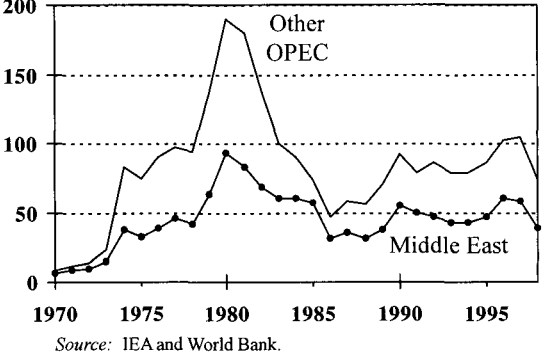
*Former Centrally Planned Economies.
Source: API and IEA.

OPEC Crude Oil Production (mb/d)



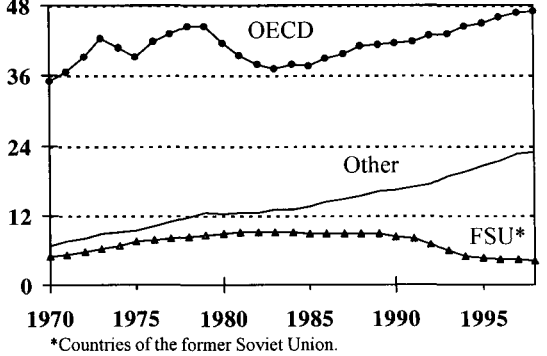
Source: IEA and World Bank.

OPEC Oil Export Revenues ($ billions)



Source: IEA and World Bank.

World Oil Demand (mb/d)



*Countries of the former Soviet Union.
Source: BP and IEA.

Petroleum (continued)

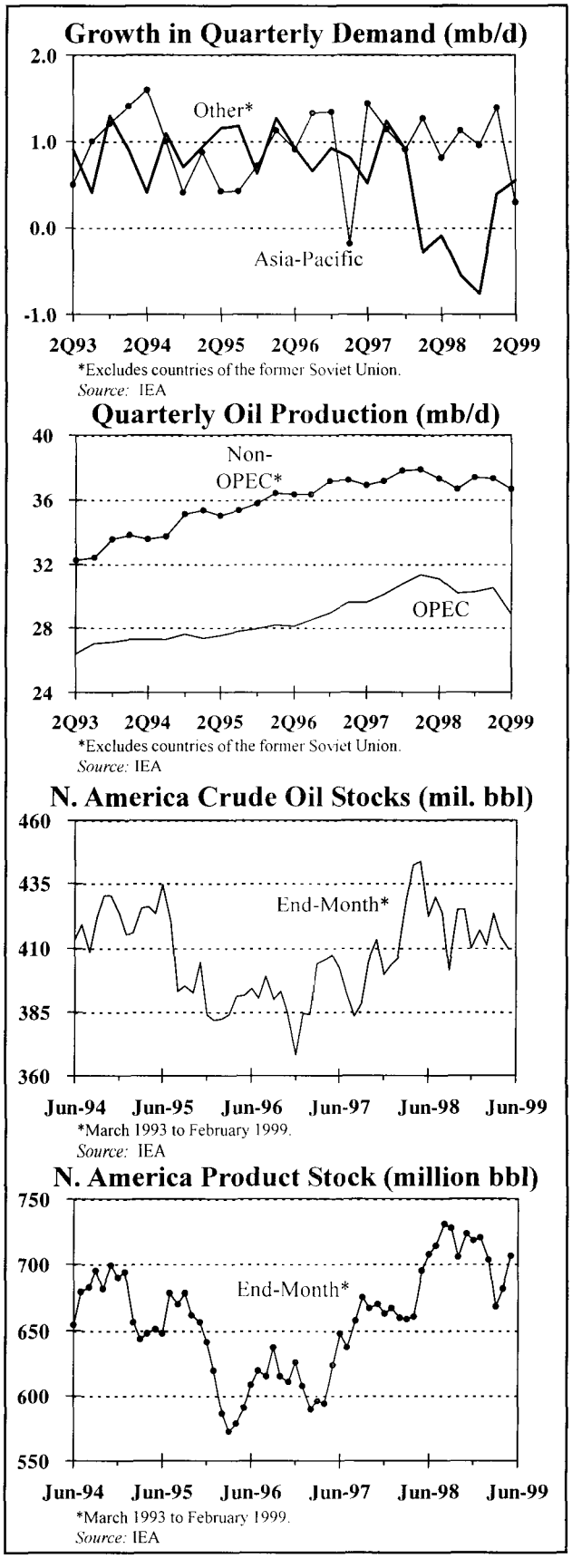
likely be faced with important decisions on when and how to raise quotas. The organization set current quotas in April for a full year, and a number of members have stated a preference for leaving quotas unchanged until its meeting in March 2000. If prices are significantly above $20/bbl, however, the possibility of raising quotas would need to be addressed.

Should OPEC consider raising quotas, it would want solid statistical evidence that more oil is required by the market, and not merely rely on prevailing price levels which can be greatly influenced by investment fund activity. The problem may be that sufficient statistical evidence will not be available in September. Only July inventory figures will be available, although US weekly estimates could give a good indication of the inventory situation in this key country. Much of the other numbers and forecasts will be estimates.

If prices are near $20/bbl, it is unlikely that OPEC will raise quotas, as the price would suggest a balanced market. But if oil prices were significantly higher, they may raise output to prevent an adverse affect on their market share. The risk is that demand may not be excessively exceeding supply, and that higher output will lead to much lower prices. If they choose to react slowly, as is historically the case, and leave production unchanged, the risk is that the market may indeed be under-supplied and prices could rise substantially, particularly if the weather is colder than normal and there are unforeseen disruptions to supply.

There are a number of market uncertainties that will affect OPEC's output decisions. Product stocks remain extremely high, thus a reduction in product inventories will largely depend on the robustness of demand. Should there be a slowdown in the US economy and global activity generally, it would delay reduction of the product overhang. On the supply side, higher prices will lead to greater upstream investment and ultimately higher non-OPEC production. And while higher non-OPEC supplies may not be felt until next year, OPEC will want to prevent prices from rising too high and threaten its market share. Finally, Iraq's production is expected to rise, but exports will continue to remain uncertain.

The forecast assumes that if the market tightens significantly, OPEC will raise production and extremely large inventory withdrawals will not materialize.



OPEC Crude Oil Production and Quotas
(Millions of barrels per day)

	1Q98	1Q99	2Q99	Quota	2Q99-Quota	Pledged Cutbacks
Algeria	0.87	0.82	0.73	0.731	0.00	0.137
Indonesia	1.31	1.29	1.28	1.187	0.09	0.193
Iran, Islamic R.	3.58	3.81	3.46	3.359	0.10	0.569
Iraq	1.58	2.48	2.55			
Kuwait*	1.94	1.72	1.56	1.836	-0.28	0.369
Libya	1.46	1.36	1.31	1.227	0.08	0.226
Neutral Zone	0.52	0.57	0.50			
Nigeria	2.26	2.01	2.00	1.885	0.12	0.373
Qatar	0.71	0.67	0.61	0.593	0.02	0.107
Saudi Arabia*	8.43	7.87	7.30	7.438	-0.14	1.310
UAE	2.45	2.18	2.03	2.000	0.03	0.382
Venezuela	3.36	2.93	2.74	2.720	0.02	0.650
Total Crude	28.47	27.71	26.06	22.976	0.534	4.316
Excluding Iraq	26.89	25.23	23.51	22.976	0.534	4.316
NGLs	2.82	2.78	2.76			
Total OPEC	**31.29**	**30.49**	**28.83**			

*Quota includes share of Neutral Zone production.
Source: IEA and OPECNA.

Non-OPEC Oil Supply
(Millions of barrels per day)

	1997	1998	1Q99	2Q99	Change 1Q99-2Q99
US	8.65	8.37	8.06	7.99	-0.07
Mexico	3.41	3.50	3.54	3.35	-0.19
Canada	2.57	2.67	2.50	2.49	-0.01
UK	2.74	2.84	2.98	2.80	-0.18
Norway	3.28	3.14	3.11	3.01	-0.10
Other OECD	1.42	1.36	1.31	1.35	0.04
Africa	2.73	2.73	2.73	2.74	0.01
China	3.19	3.19	3.21	3.19	-0.02
Other Asia	2.12	2.14	2.20	2.16	-0.04
FSU	7.20	7.29	7.36	7.36	0.00
Eastern Europe	0.20	0.19	0.19	0.19	0.00
Latin America	3.44	3.71	3.87	3.84	-0.03
Middle East	1.90	1.89	1.89	1.90	0.01
Processing gain	1.57	1.64	1.69	1.65	-0.04
Total non-OPEC	**44.42**	**44.65**	**44.63**	**44.00**	**-0.63**

Note: Includes natural gas liquids (NGLs), unconventional, and other supply sources.
Source: IEA

World Petroleum Demand and Supply
(Millions of barrels per day)

	1995	1996	1997	1Q98	2Q98	3Q98	4Q98	1998	1Q99	2Q99	3Q99	4Q99	1999
Demand													
OECD	**44.9**	**46.0**	**46.7**	47.3	45.5	46.7	48.1	**46.9**	48.7	45.9	47.5	49.2	**47.8**
FSU	**4.8**	**4.4**	**4.3**	4.6	4.2	4.1	4.1	**4.3**	4.2	3.6	3.8	4.0	**3.9**
Other	**20.2**	**21.3**	**22.4**	22.8	22.9	22.9	23.0	**22.8**	23.1	23.3	23.3	23.8	**23.4**
Total	**69.9**	**71.7**	**73.4**	74.7	72.6	73.7	75.2	**74.0**	76.0	72.8	74.6	77.0	**75.1**
Supply													
OECD	**21.1**	**21.7**	**22.1**	22.6	22.0	21.3	21.6	**21.9**	21.5	21.0	21.3	22.1	**21.5**
FSU	**7.1**	**7.1**	**7.2**	7.3	7.2	7.3	7.4	**7.3**	7.4	7.4	7.3	7.3	**7.3**
Other*	**14.3**	**14.8**	**15.1**	15.4	15.4	15.4	15.7	**15.5**	15.7	15.6	15.8	15.8	**15.8**
OPEC**	**27.6**	**28.4**	**29.9**	31.3	31.1	30.1	30.2	**30.7**	30.5	28.8	28.5	28.5	**29.1**
Total	**70.1**	**72.0**	**74.3**	76.5	75.7	74.1	74.9	**75.3**	75.1	72.8	72.9	73.7	**73.7**
Stock change													
OECD	**-0.3**	**0.0**	**0.3**	-0.3	1.7	0.4	-0.7	**0.3**	-0.9				
Other/misc.***	**0.5**	**0.2**	**0.5**	2.1	1.4	0.1	0.5	**1.0**	0.0				
Total	**0.2**	**0.3**	**0.9**	1.9	3.1	0.5	-0.2	**1.3**	-0.9	0.0	-1.7	-3.3	**-1.4**

*Includes processing gains (1.6 mb/d in 1998 and 1.7 mb/d in 1999). **Includes NGLs (2.8 mb/d in 1998 and 2.9 mb/d in 1999)
***Includes floating storage, oil in transit, and miscellaneous to balance.
Note: Includes natural gas liquids (NGLs), nonconventional, and other supply sources.
Source: IEA data and estimates, and World Bank forecasts.

Global Summary

	Actual						Annual Growth Rate (%)		
World Balance (mb/d)	1970	1980	1990	1996	1997	1998	1970-80	1980-90	1990-98
Production	48.5	63.9	66.9	72.0	74.3	75.3	2.9	1.0	1.6
Consumption	46.7	62.7	66.3	71.7	73.5	74.0	3.1	0.9	1.5
Stock Change and Misc.	1.8	1.2	0.6	0.3	0.8	1.3			

	Actual				Forecast				
Prices ($/bbl)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	17.18	20.42	19.17	13.07	15.50	17.00	17.25	18.00	19.00
Constant 1990	14.41	17.88	17.69	12.54	14.79	15.96	15.81	14.93	13.93

Source: BP and IEA, and World Bank forecasts.

Cocoa

Prices reached a 6-year low in May. Despite a partial recovery in June, they are still 35% lower than a year ago and, with good mid-year crop prospects, no recovery is expected for the rest of 1999.

Cocoa prices continued their year-long decline through May reaching a record low of 106.8¢/kg, although they gained 10¢ in June. The second quarter average was 113.6¢/kg, 18.5% lower than last quarter's average, and 34.8% lower than last year's second quarter average.

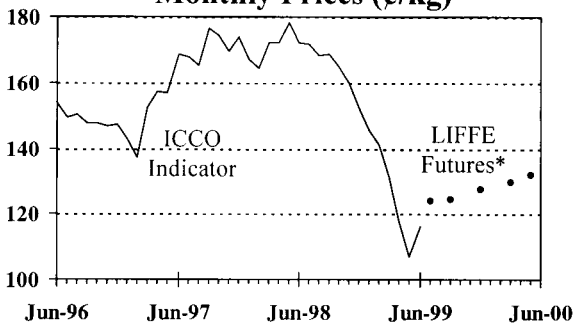
According to the most recent estimates by the International Cocoa Organization (ICCO), the current season's crop is expected to be 2.75 million tons, up 2% from 2.69 million tons in 1997/98 (October to September). Côte d'Ivoire's output is expected to be 1.15 million tons, which is much higher than earlier expectations mainly because of a good mid-year crop.

World grindings will be about 2.79 million tons, hence will not substantially effect the end-of-season stock position which is expected to be about 1.15 million tons. This season, Côte d'Ivoire occupied the third position for grinding, reaching 225 thousand tons, 60% higher than three seasons ago. This is a result of a concerted effort by the country to increase the cocoa industry's domestic value added.

Now that the 1998/99 crop is coming to an end, the market's attention has turned to the 1999/00 crop. Although official estimates regarding global supplies are not yet available, it appears that Côte d'Ivoire is expecting another large crop as farmers respond to the high prices during the current season and good weather conditions so far. Ghana's crop is also expected to be large. Currently, Ghanaian cocoa producers face high incentives as they receive about 85% of f.o.b., a much higher share than the 60% target announced by the government earlier this year.

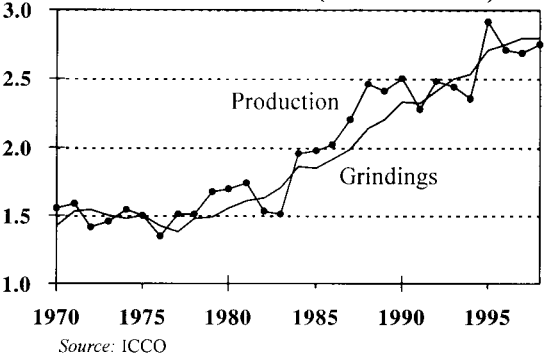
Following their recent plunge, prices for 1999 are expected to average about 120¢/kg. Given that no change in the net stock position is expected to take place this season in combination with a good crop for next season, the price prospects for the near-term depend on demand growth. With signs of recovery in East Asia and steady demand in North America and Western Europe, we expect prices to average 130¢/kg during 2000.

Monthly Prices (¢/kg)



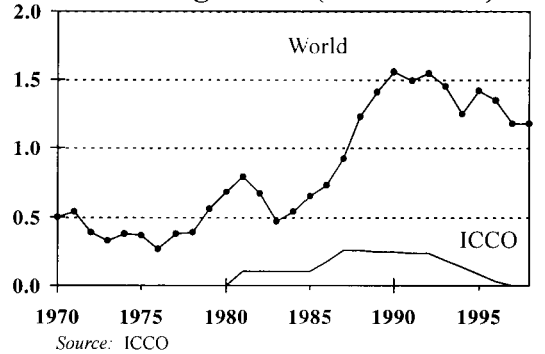
* Futures prices are end-June expressed in ¢/kg.
Source: ICCO and LIFFE.

World Balance (million tons)



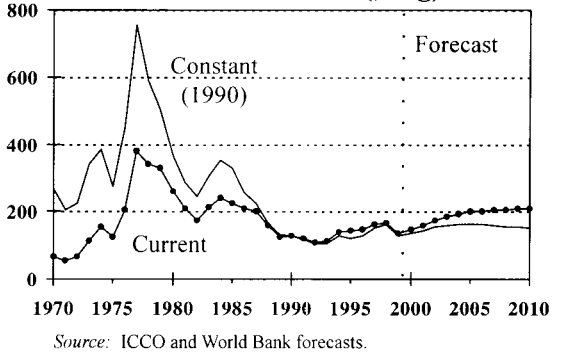
Source: ICCO

Ending Stocks (million tons)



Source: ICCO

Annual Prices (¢/kg)



Source: ICCO and World Bank forecasts.

Other Developments

- The downward trend in Brazilian cocoa production continues. In 1998/99, Brazil's output is estimated at 133 thousand tons, the lowest level since 1963/64 according to *ED&F Man*. The "witches' broom" disease is mostly responsible for the decline and, when coupled with the low prices, offers little incentive to farmers to correct the problem.
- On June 30, the EU Commission approved a directive, that if adopted by the parliament, would allow chocolate manufacturers to replace up to 5% of the total weight of cocoa butter with vegetable fats. The directive brings to an end the 25-year old argument about what should be acceptable as chocolate. Both Côte d'Ivoire and Ghana have been strongly opposed to the directive. Some analysts estimate that because of this measure ACP (African, Caribbean, and Pacific) countries may incur financial losses of up to US$530 million.
- With high prices now being paid to cocoa producers in Ghana, cocoa traders from Côte d'Ivoire find it more profitable to smuggle the commodity across the border according to *The Public Ledger*.

Production and Grindings

	1995/96	1996/97	1997/98	1998/99
Gross Production (000 tons)				
Côte d'Ivoire	1,200	1,108	1,113	1,150
Ghana	404	323	409	370
Indonesia	285	325	325	350
Nigeria	158	160	165	175
Brazil	231	185	170	150
Cameroon	135	126	127	130
Malaysia	115	100	70	85
Ecuador	103	103	35	70
Dominican R.	55	52	58	48
Colombia	50	50	45	46
Mexico	42	45	35	30
PNG	36	29	29	30
World	**2,916**	**2,711**	**2,690**	**2,747**
Grindings (000 tons)				
Netherlands	385	402	425	435
US	342	394	399	395
Côte d'Ivoire	140	160	205	225
Germany	266	240	226	205
Brazil	205	180	185	195
UK	191	172	174	170
France	113	106	100	110
Malaysia	95	95	100	100
World	**2,713**	**2,751**	**2,785**	**2,795**

Source: ICCO

Trade

	1995/96	1996/97	1997/98	1998/99
Exports (000 tons)				
Côte d'Ivoire	1,038	929	964	977
Ghana	331	267	326	308
Indonesia	224	264	148	212
Nigeria	147	137	143	142
Cameroon	93	95	84	91
Dominican R.	50	41	54	48
PNG	35	28	29	31
World	**2,116**	**1,932**	**1,941**	**1,990**
Imports (000 tons)				
US	445	353	427	408
Netherlands	405	464	320	396
Germany	299	327	309	312
UK	248	176	193	206
France	117	111	108	112
Singapore	88	86	89	88
Russian Fed.	75	85	75	78
Italy	71	71	72	71
Bel-Lux	45	54	82	60
Spain	50	49	66	55
Estonia	5	65	78	49
Japan	49	54	43	49
Canada	39	34	53	42
World	**2,191**	**2,219**	**2,229**	**2,213**

Source: ICCO and World Bank.

Global Summary

	Actual				Est.		Annual Growth Rate (%)		
World Balance (000 tons)	1970/71	1980/81	1990/91	1996/97	1997/98	1998/99	1970-80	1980-90	1990-98
Gross Production	1,554	1,695	2,506	2,711	2,690	2,747	0.9	3.9	0.7
Grindings	1,418	1,556	2,335	2,751	2,785	2,795	0.9	4.1	1.4
Exports	1,186	1,126	1,733	1,932	1,941	1,990	-0.5	4.3	1.1
Ending Stocks	497	675	1,791	1,399	1,225	1,150	3.1	9.8	-3.5
	Actual				Forecast				
Prices (¢/kg)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	143.2	145.6	161.9	167.6	120.0	130.0	140.0	180.0	200.0
Constant 1990	120.2	127.7	149.4	160.9	114.5	122.1	128.3	149.3	146.7

Note: Quantities refer to cocoa beans. Crop year begins October 1.
Source: ICCO and World Bank.

Coffee

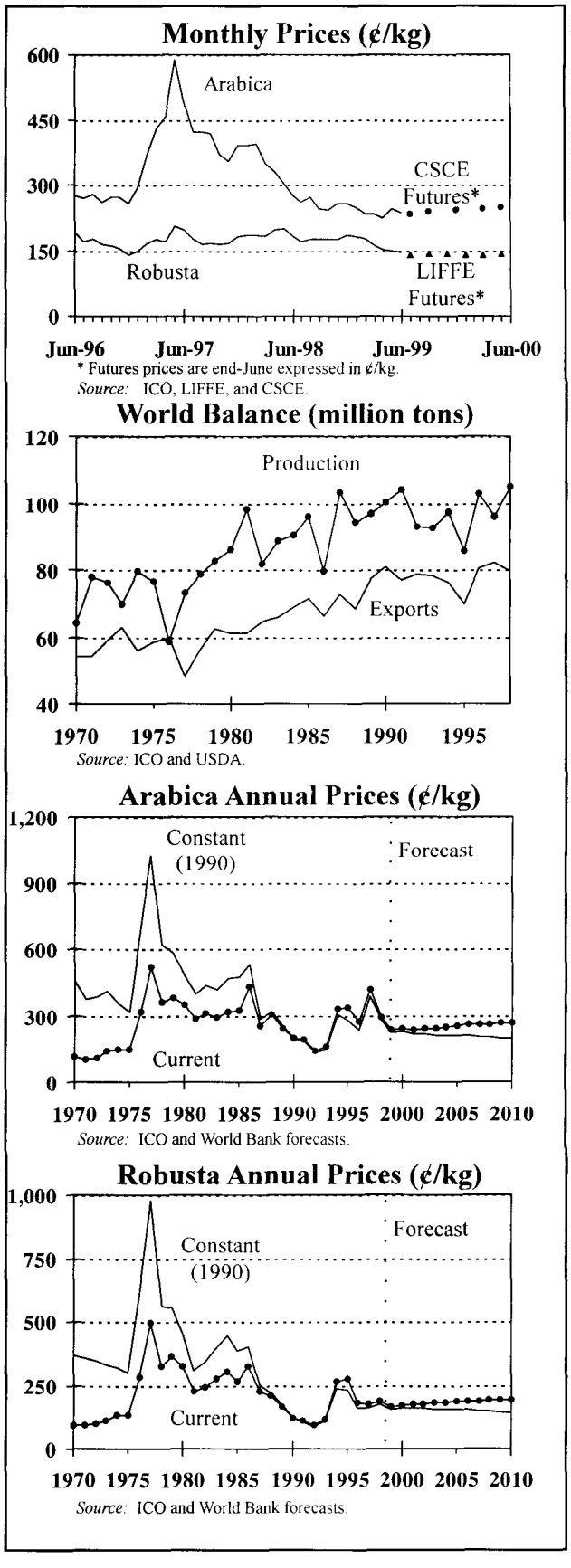
A rally due to fears of a frost in Brazil was short-lived and prices fell to new lows. The pressure on the market is expected to intensify with another surplus season on the horizon.

Coffee prices picked up following the news of a cold weather front in mid-May which marked the beginning of the Brazilian winter. But as soon as the prospects of frost disappeared, prices dropped to new lows. The arabica price indicator for April-June averaged 235.5¢/kg, three cents down from the previous quarter, but 22.4% lower than last year's second quarter average. Robusta prices had an even steeper decline, averaging 149.1¢/kg this quarter, down from 179.7¢/kg in the first quarter of 1999 and 22.7% lower than the same quarter of last year. By the end of the quarter both New York and London nearby futures had registered new lows.

The export market is still under pressure. Reports indicate that Brazil, the world's second largest coffee consumer, substantially reduced its coffee consumption following the devaluation and hence increased the availability in world markets. The real's devaluation caused domestic coffee prices to increase by almost 20%. The pressure was further intensified after Colombia, the world's second largest coffee producer, raised its intervention band on its currency last month and effectively devalued by 9%.

The latest forecasts released by the Association of Brazilian Coffee Exporters (Abecafe) put the country's 1999/00 crop at 26.6 million bags. With good production prospects in other coffee producing regions, global coffee production next season is expected to be 102.5 million bags. Consumption, on the other hand, is expected to be between 98 and 99 million bags.

Global production/consumption prospects point to yet another surplus year accompanied by a large stock build-up, and it is likely that neither arabica nor robusta prices will rebound any time soon. Unless frost damages Brazil's crop, arabica prices are expected to average about 230¢/kg this year with no appreciable change for next year. Robusta prices are expected to average 160¢/kg in 1999 and possibly gain a few cents in 2000.



Other Developments

- The 62 members of the International Coffee Organization (ICO) have yet to agree on the future of the ICO as the current 5-year International Coffee Agreement approaches its end on September 30. Triggered by the recent price declines, coffee producing countries concluded that the ICO should be more proactive in promoting coffee consumption in new markets and possibly establish a new fund for this purpose. Consuming countries, while not objecting to the scheme in principle, are skeptical of the idea that they will have to contribute to these coffee promotion activities.
- The Association of Coffee Producing Countries (ACPC) is arguing that its members should comply with its quota system in order to prop up coffee prices. But, if the recent history of the Association is any guide, such an attempt may not be successful. This season's quota for Brazil was 15 million bags, but responding to high domestic prices due to the bumper crop and the real's devaluation, Brazilian exports reportedly exceeded 21 million bags before the end of the season. ACPC's quota for the 1999/00 and 2000/01 seasons is set at 50 million bags.

Production (000 bags)

	1995/96	1996/97	1997/98	1998/99
Brazil*	15,784	27,664	22,756	34,547
Colombia*	12,878	10,876	12,191	12,500
Indonesia	5,865	8,296	7,756	6,600
Vietnam	3,938	5,705	6,893	6,200
Mexico*	5,527	5,374	5,073	4,400
Ethiopia*	2,860	3,270	2,916	3,867
India	3,727	3,469	4,578	3,833
Uganda	3,244	4,297	3,032	3,600
Guatemala*	4,002	4,524	4,218	2,800
Côte d'Ivoire	2,532	4,528	3,622	2,742
Honduras*	1,909	2,004	2,564	2,300
Costa Rica*	2,684	2,126	2,489	2,223
Peru*	1,871	1,802	1,887	1,930
El Salvador*	2,586	2,534	2,157	1,840
Venezuela*	1,364	1,381	923	1,400
Cameroon	663	1,432	889	1,333
PNG	1,002	1,089	1,074	1,255
Kenya	1,664	1,246	882	1,133
Congo, D. R.	1,046	775	729	1,000
Thailand	1,317	1,403	1,293	1,000
World	**85,584**	**102,637**	**96,028**	**105,091**

Source: ICO

Stocks and Consumption

	1995/96	1996/97	1997/98	1998/99
Ending Stocks (000 bags)				
Brazil	16,000	14,128	11,278	15,278
Colombia	6,328	4,420	3,929	3,669
Germany	2,400	2,200	2,400	1,800
US	2,608	1,611	2,294	1,680
Italy	1,259	1,327	1,257	1,133
Japan	1,350	1,083	1,067	1,067
Congo, D. R.	239	365	790	765
Costa Rica	1,149	1,200	1,050	760
Bel-Lux	731	434	1,192	755
World	**43,717**	**37,957**	**35,938**	**35,921**
Consumption (000 bags)				
US	18,138	17,847	18,194	18,290
Brazil	10,230	10,880	10,880	11,320
Germany	9,761	9,709	9,038	9,300
Japan	5,999	6,369	5,900	5,710
France	5,519	5,623	5,317	5,300
Italy	4,718	4,857	4,843	4,700
UK	2,452	2,296	2,565	2,419
Canada	2,800	2,960	2,920	2,291
World	**96,300**	**99,500**	**99,400**	**98,000**

Source: ICO and USDA.

Global Summary

	Actual					Est.	Annual Growth Rate (%)		
World Balance (000 bags)	1970/71	1980/81	1990/91	1996/97	1997/98	1998/99	1970-80	1980-90	1990-98
Production	64,161	86,174	88,749	102,637	96,028	105,091	2.9	0.3	1.4
Consumption	71,536	79,100	96,300	99,500	99,400	98,000	1.0	2.0	0.1
Exports	54,186	60,995	76,163	84,248	77,264	79,771	1.2	2.2	0.4
Ending Stocks	53,661	42,471	54,992	37,945	35,938	35,941	-2.3	2.6	-3.4
	Actual				Forecast				
Arabica Prices (¢/kg)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	333.2	269.4	416.8	298.1	231.0	231.5	235.9	254.0	265.0
Constant 1990	279.6	236.4	384.6	286.1	220.4	217.4	216.2	210.6	194.3
Robusta Prices (¢/kg)									
Current	277.1	180.6	173.6	182.3	159.0	163.1	167.6	186.1	192.0
Constant 1990	232.4	158.4	160.2	174.9	151.7	153.2	153.5	154.3	140.8

*Indicates that the country is primarily an arabica producer. One bag equals 60 kg. Quantities refer to country-specific crop years.
Source: ICO, USDA, and World Bank.

Tea

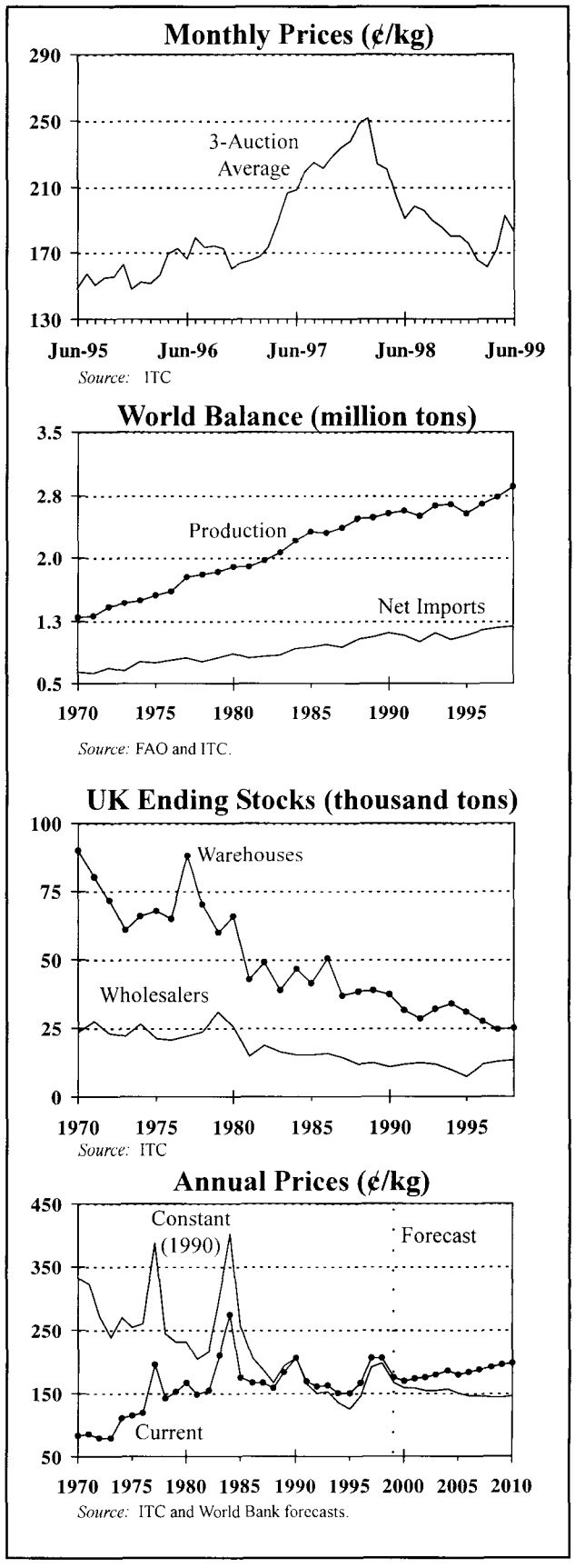
Despite production shortfalls in northern India and Kenya, tea prices are expected to remain low for the rest of 1999, due to subdued Russian imports.

Calcutta auction prices soared by 38.6% from the previous quarter following a substantial production loss in northern India due to the worst drought since 1904 and the arrival of the premium quality new crop tea. In the first five months, northern India produced 92,000 tons of tea compared to 142,000 tons for the same period last year. In contrast, southern India's tea prices weakened during the first six months with production volume at 94,000 tons, 9% lower compared to the same 6-month period last year. Prices in the Colombo and Mombasa auctions also fell, primarily due to lower purchases by FSU buyers.

Russia's tea imports from India declined 17% in the first five months of 1999 compared to the same period of 1998. This has especially hit tea producing regions in southern India which export mainly to Russia (historically about 55%). According to trade reports in India and Sri Lanka, Russian purchases have been concentrated on the plain qualities, thus contributing to the decline in prices. Sri Lanka's exports declined by 3.5% in January-May compared to the same period last year, again due to lower purchases by Russia. Export earnings fell 20% because of the lower prices.

The 1999 production outlook seems less promising than the 1998 crop since most producing countries are expected to have shortfalls. Parts of northern India have already experienced 30% to 50% production shortfalls. Preliminary reports indicate that this year's output in India will fall more than 50,000 tons – down 6% from 1998. Kenya is also expected to experience a shortfall of 40,000 tons due to prolonged drought. Crops are expected to be down in Bangladesh, Malawi, and Uganda. Sri Lanka is the only large producer expected to increase output (by an estimated 18,000 tons).

With weak demand from the former Soviet Union and the continued purchase of plain quality tea, we expect the 3-auction average tea price to remain low at 174¢/kg.



Other Developments

- Earlier this year, Russia's Tea and Coffee Association signed an agreement with India's Tea Board to purchase 100,000 tons of tea each year for the next five years under the debt repayment program. In June, the Reserve Bank of India worked out a program of consignment sales to Russia to expedite payments to Indian exporters.
- The North Bengal tea plantation workers' strike began on July 12 and ended on July 20. The strike will reduce production and exports from that region. It will also reduce the volume of premium crop, and increase the volume of plain and medium quality tea.
- On June 20th, Iraq announced that it will buy 6,000 tons of tea from Sri Lanka under the sixth phase of the UN's oil-for-food program. Before the Gulf War (1990), Iraq bought 30,000 tons of tea a year, about 10% of Sri Lanka's total production. For the first time, Kenya has also been allocated 2,000 tons.
- *Bloomberg* reported that three shipping lines from Russia to India and Iran plan to re-open. The lines will move container cargo, including tea, through the Caspian Sea and they are expected to reduce the cost of moving such cargo via the Baltic route by an estimated 30%.

Production and Yields

	1995	*1996*	*1997*	*1998*
Production (000 tons)				
India	756	780	811	870
China	588	593	613	625
Kenya	245	257	221	294
Sri Lanka	246	259	277	281
Indonesia	144	166	154	166
Turkey	103	115	140	115
Japan	85	89	91	82
Iran, Islam. R.	55	58	60	60
Bangladesh	48	53	53	56
Argentina	32	43	55	50
Malawi	35	38	44	40
Uganda	13	17	21	26
Tanzania	24	20	22	24
Vietnam	40	40	42	42
Taiwan, China	21	23	24	23
Zimbabwe	16	17	17	18
World	**2,521**	**2,639**	**2,724**	**2,856**
Yields of major producers (tons/hectare)				
Kenya	2.13	2.24	1.92	2.56
India	1.72	1.77	1.84	1.98
Indonesia	1.31	1.51	1.40	1.51
Sri Lanka	1.31	1.38	1.48	1.50
China	0.65	0.66	0.68	0.69
World	**1.08**	**1.13**	**1.16**	**1.22**

Source: ITC and FAO.

Trade

	1995	*1996*	*1997*	*1998*
Exports (000 tons)				
Sri Lanka	235	234	257	265
Kenya	237	244	198	263
China	167	170	202	217
India	164	160	203	206
Indonesia	79	102	67	70
Argentina	41	41	56	59
Malawi	33	37	49	41
Uganda	11	15	18	23
Bangladesh	25	26	25	22
Tanzania	21	18	19	22
World	**1,079**	**1,113**	**1,179**	**1,254**
Net Imports (000 tons)				
FSU	162	160	200	186
UK	136	148	151	146
Pakistan	116	111	87	112
US	83	89	81	97
Egypt	80	65	78	65
Japan	45	48	52	45
Iraq	1	2	18	40
Morroco	38	28	35	40
Iran, Islam. R.	30	31	30	29
Poland	31	32	30	27
Afganistan	22	48	38	24
World	**1,074**	**1,135**	**1,169**	**1,187**

Source: ITC

Global Summary

	Actual					*Est.*	*Annual Growth Rate (%)*		
World Balance (000 tons)	*1970*	*1980*	*1990*	*1996*	*1997*	*1998*	*1970-80*	*1980-90*	*1990-97*
Production	1,287	1,894	2,526	2,639	2,724	2,856	4.2	3.2	0.9
Net Imports	640	859	1,099	1,135	1,169	1,187	3.0	2.9	1.1
Yields (tons/hectare)	0.77	0.80	1.12	1.13	1.16	1.22	0.2	4.3	1.0

	Actual				*Forecast*				
Prices (¢/kg)	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Current	148.9	166.1	206.0	204.6	174.0	168.0	171.4	179.0	198.0
Constant 1990	124.9	145.4	190.1	196.4	166.0	157.7	157.1	148.4	145.2

Source: ITC, FAO, and World Bank forecasts.

Fats and Oils

The World Bank's oils index dropped to a record low of $450/ton in June. With ample supplies of most oils, price recovery is not expected to take place soon.

The World Bank's weighted oil price averaged $495/ton in the second quarter, down 12% from last quarter's average and 26% lower than for the same quarter of last year.

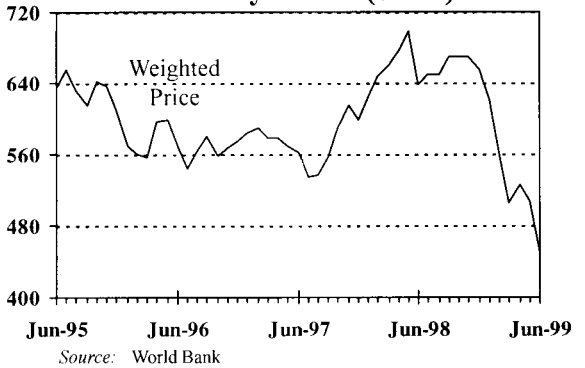
Global output of the 17 major fats and oils is expected to be 105.68 million tons in the 1998/99 season (October to September), up from 101.89 million tons in 1997/98. Despite growth in output, world trade is declining, with exports dropping to 32.93 million tons in 1998/99, from 33.13 million tons in 1997/98.

In an attempt to rely more on domestic oil supplies and imported oilseeds, China is reducing its oil imports. China imported 4.56 million tons of oils in the 1996/97 season while in 1998/99 it is expected to import 3.20 million tons, a 30% reduction. India, in contrast, has increased its oil imports markedly, expecting to reach 3.62 million tons in 1998/99, up from 2.18 million tons in 1997/98. India is currently the second largest oil importer following the EU. The Indian government, however, is under intense pressure by producer groups to impose some limit on imports. The recent surge in imports has greatly depressed domestic edible oil prices.

Preliminary estimates reported recently by *Oil World* indicate that the 1999/00 crop will be a record of 109.63 million tons. Soybean oil will lead with an expected 23% of global oil supplies due to favorable weather conditions and switching to genetically modified seeds are the main factors behind the surge in soybean oil production. The largest contribution to production growth, however, will come from palm oil, with an expected output of 20.10 million tons – up 9.7%. Despite recent low prices, palm oil is still considered to be a very profitable crop.

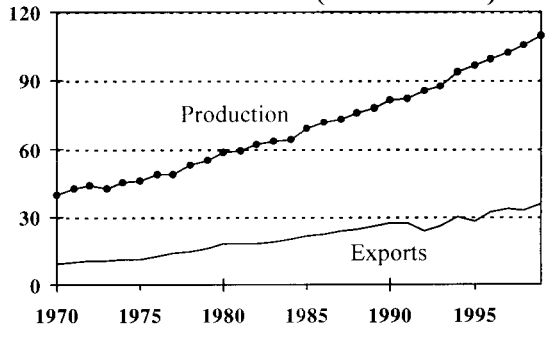
Good weather conditions in both hemispheres and ample supplies for virtually all oils are expected to lead to a stock build-up and eventually put even more pressure on prices. We expect the 1999 weighted average price to be around $495/ton and drop even further during 2000. A rebound is expected to take place no earlier than 2001.

Monthly Prices ($/ton)



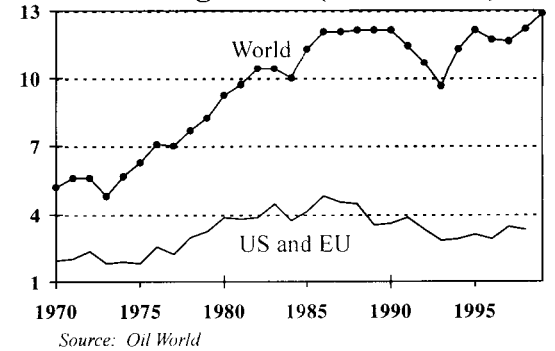
Source: World Bank

World Balance (million tons)



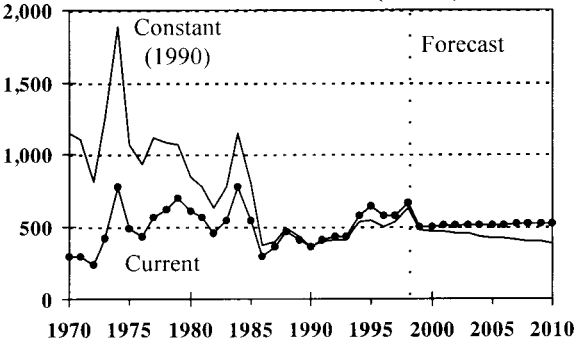
Source: Oil World

Ending Stocks (million tons)



Source: Oil World

Annual Prices ($/ton)



Source: World Bank

Other Developments

- China issued its import quotas for vegetables oils in early July. The State Planning Commission issued import licenses for 700-800 thousand tons of palm oil and 500 thousand tons of soybean oil.
- The Indian Government is expected to permit imports of all oilseeds under an open general license system following strong demand from the domestic oilseed industry.

Production of the 17 Major Fats and Oils (million tons)

	1995/96	1996/97	1997/98	1998/99
US	13.85	13.87	15.38	15.42
EU	13.76	14.71	15.54	15.30
China	10.41	10.56	11.08	12.08
Malaysia	9.45	10.26	9.74	10.82
India	7.50	7.88	7.58	7.59
Indonesia	5.77	6.37	6.30	6.52
Argentina	4.28	4.53	4.87	5.67
Brazil	4.93	4.71	4.80	5.11
World	**96.26**	**99.82**	**101.89**	**105.68**

Source: Oil World

Imports of the 17 Major Fats and Oils (million tons)

	1995/96	1996/97	1997/98	1998/99
EU	4.18	4.35	4.52	4.61
India	1.48	1.98	2.18	3.62
China	3.31	4.56	4.12	3.20
US	1.39	1.68	1.82	1.60
Pakistan	1.41	1.32	1.52	1.59
Iran, Islamic R.	0.83	0.79	1.05	1.04
Mexico	0.91	0.86	0.90	0.91
Turkey	0.86	0.86	0.90	0.89
World	**28.04**	**31.36**	**33.22**	**33.16**

Source: Oil World

Production, Exports, and Stocks of the 17 Major Fats and Oils

	Production (million tons)			Exports (million tons)			Ending Stocks (million tons)		
Fats and Oils	1997/98	1998/99	1999/00	1997/98	1998/99	1999/00	1997/98	1998/99	1999/00
Soybean	23.19	24.27	24.63	7.68	7.50	7.50	2.45	2.50	2.65
Palm	16.97	18.33	20.10	11.68	11.98	13.40	2.42	3.09	3.30
Rapeseed	12.22	12.84	13.72	2.09	2.02	2.20	1.15	1.19	1.30
Sunflower	8.64	9.22	9.16	3.00	3.23	3.20	0.87	0.93	0.95
Tallow	7.68	7.87	7.80	2.22	2.34	2.30	0.56	0.55	0.58
Lard	6.20	6.38	6.40	0.17	0.18	0.18	0.42	0.38	0.40
Butter	5.73	5.80	5.85	0.59	0.57	0.60	0.67	0.66	0.67
Groundnut	4.38	4.76	4.80	0.24	0.27	0.28	0.41	0.39	0.42
Cotton	4.07	3.84	3.93	0.22	0.18	0.19	0.29	0.26	0.29
Coconut	3.45	2.66	3.24	2.12	1.27	1.80	0.60	0.37	0.47
Palm Kernel	2.18	2.32	2.53	1.06	1.12	1.22	0.28	0.32	0.35
Olive	2.56	2.43	2.35	0.46	0.51	0.50	1.02	0.99	0.85
Corn	1.93	1.96	2.02	0.77	0.79	0.82	0.14	0.14	0.17
Fish	0.83	1.10	1.15	0.46	0.58	0.60	0.16	0.22	0.24
Linseed	0.68	0.73	0.76	0.12	0.13	0.14	0.09	0.10	0.11
Sesame	0.74	0.72	0.72	0.02	0.02	0.03	0.05	0.04	0.05
Castor	0.46	0.46	0.47	0.26	0.24	0.25	0.06	0.05	0.06
Total	**101.89**	**105.68**	**109.63**	**33.13**	**32.93**	**35.20**	**11.63**	**12.16**	**12.86**

Source: Oil World

Global Summary

	Actual					Est.	Annual Growth Rate (%)		
World Balance (mil. tons)	1970/71	1980/81	1990/91	1997/98	1998/99	1999/00	1970-80	1980-90	1990-99
Production	39.78	58.09	80.84	101.89	105.68	109.63	3.8	3.3	2.7
Consumption	39.82	56.80	80.77	102.34	105.38	108.86	3.6	3.5	2.7
Exports	8.83	17.76	26.89	33.13	32.93	35.20	7.0	4.1	2.4
Ending Stocks	5.18	9.25	12.15	11.63	12.16	12.86	5.8	2.7	0.5
	Actual				Forecast				
Weighted Price ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	638.8	569.7	574.0	658.6	494.5	491.2	506.9	507.6	520.2
Constant 1990	535.9	498.9	529.6	632.1	471.7	461.2	464.5	420.9	381.5

Note: Crop year begins October 1. The price is a trade weighted average of soybean, palm, coconut, and groundnut oils.
Source: Oil World and World Bank.

Coconut Oil

Low coconut oil supplies pushed prices to $847/ton, a 15-year high. A good crop due next season along with increased palm kernel oil availability are expected to soon reverse the bullish market sentiment.

Coconut oil prices averaged $832/ton in the second quarter, 13% higher than the first quarter's average, and 25.3% higher than for the same quarter of last year.

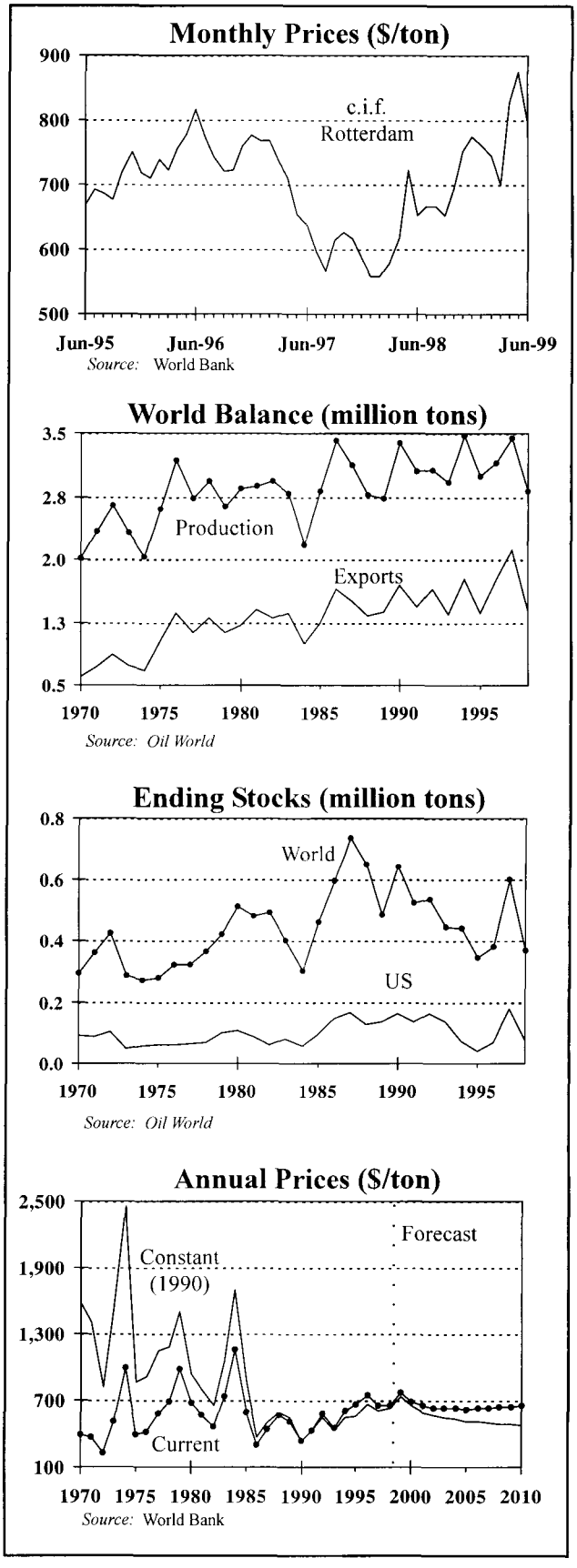
Prices reached a 15-year high in May at $874/ton. Prices for palm kernel oil, a close substitute to coconut oil, averaged $729/ton this quarter, up 3.5% from last quarter, and 3.2% higher than the second quarter of last year.

In 1998/99, coconut and palm kernel oils are expected to account for about 2.5% and 2.2% of world production of the 17 major fats and oils, respectively. About half of global production of both oils is expected to be internationally traded.

According to the most recent *Oil World* estimates, global coconut oil production is expected to be about 2.66 million tons in the 1998/99 season (October to September), down from last season's 3.45 million tons. Some preliminary estimates, however, put the 1999/00 crop at 3.24 million tons, reflecting the fact that the delayed El Niño effects, are expected to end soon. Global palm kernel oil production is expected to be 2.32 million tons, up 6% from last season's crop; an additional 9% increase is expected to take place next season.

The Philippines, the world's dominant coconut oil producer, is expected to produce 0.93 million tons, down from 1.63 million tons in 1997/98, an almost 45% reduction due to El Niño effects. A lesser decline (on the order of 13%) is also expected to take place in Indonesia. Production of palm kernel oil, on the other hand, is expected to increase by 4% in Indonesia and remain at the 1997/98 levels in Malaysia.

Following last quarter's price rally, we expect the 1999 average price to be around $775/ton. However, with the delayed El Niño effects no longer impacting production and an increased palm kernel oil production, we expect coconut oil prices below $700/ton in 2000.



Other Developments

- World trade of lauric oils is expected to surge next season not only in response to output growth (22% for coconut oil and 9% for palm kernel oil) but also because domestic consumption in Indonesia, Malaysia, and the Philippines, the main producers, is expected to be weak. Consequently, the premium of lauric oils over other vegetable oils is expected to shrink considerably.
- In April 1999, coconut and palm kernel oil were traded at $874/ton and $755/ton compared to $442/ton and $509/ton for soybean and palm oil. The respective figures for the January-December 1998 average were $658/ton and $6887/ton for coconut and palm kernel oil and $626/ton and $671/ton for soybean and palm oils.

Coconut Oil

	1995/96	1996/97	1997/98	1998/99
Production (000 tons)				
Philippines	1,772	1,257	1,628	926
Indonesia	675	756	652	565
India	380	419	438	431
Mexico	110	134	128	126
Vietnam	107	57	69	74
World	**2,996**	**3,151**	**3,450**	**2,664**
Ending Stocks (000 tons)				
US	38	68	178	74
Philippines	89	87	32	60
India	26	31	32	35
Indonesia	50	35	40	33
World	**346**	**382**	**598**	**368**
Exports (000 tons)				
Philippines	899	950	1,386	615
Indonesia	398	603	511	433
World	**1,358**	**1,753**	**2,119**	**1,267**
Imports (000 tons)				
EU	594	639	755	635
US	469	539	653	375
China	37	42	34	48
Korea, Rep.	42	44	40	39
World	**1,409**	**1,695**	**2,115**	**1,310**

Source: Oil World

Palm Kernel Oil

	1995/96	1996/97	1997/98	1998/99
Production (000 tons)				
Malaysia	1,088	1,157	1,127	1,226
Indonesia	508	506	543	565
Nigeria	169	181	179	184
Thailand	34	36	35	37
Colombia	39	33	33	34
World	**2,071**	**2,167**	**2,183**	**2,318**
Ending Stocks (000 tons)				
Malaysia	119	144	149	167
Indonesia	50	40	35	50
US	9	23	29	36
EU	21	15	18	25
World	**228**	**263**	**276**	**317**
Exports (000 tons)				
Malaysia	437	483	476	535
Indonesia	352	435	469	467
World	**862**	**1,036**	**1,064**	**1,123**
Imports (000 tons)				
EU	362	427	414	465
US	118	178	163	170
Japan	55	54	53	53
Brazil	33	51	45	50
World	**855**	**1,055**	**1,061**	**1,121**

Source: Oil World

Global Summary

	Actual					Est.	Annual Growth Rate (%)		
Coconut Oil (000 tons)	1970/71	1980/81	1990/91	1996/97	1997/98	1998/99	1970-80	1980-90	1990-98
Production	2,020	2,842	3,377	3,151	3,450	2,664	3.4	1.7	-1.9
Consumption	2,021	2,688	3,169	3,081	3,230	2,937	2.9	1.6	-0.6
Exports	608	1,215	1,701	1,267	2,119	1,267	6.9	3.4	-2.4
Ending Stocks	292	509	641	382	598	368	5.6	2.3	-4.4
Palm Kernel Oil (000 tons)									
Production	378	570	1,449	2,167	2,183	2,318	1.8	4.1	2.2
Consumption	387	528	1,375	2,168	2,167	2,275	1.3	4.2	2.5
Exports	160	402	907	1,036	1,064	1,123	4.0	3.5	0.9
Ending Stocks	45	134	256	263	276	317	4.7	2.8	0.4
	Actual					Forecast			
Prices - Coconut ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	669.7	751.6	656.8	657.9	775.0	690.0	650.0	620.0	650.0
Constant 1990	561.7	659.3	606.1	631.5	739.3	647.9	595.6	514.2	476.7

Note: Crop year begins October 1.
Source: Oil World and World Bank.

Palm Oil

Expectations for yet another record crop and Indonesia's decision to reduce its export tax forced prices below the $400/ton-mark in June. The bearish market sentiment is expected to persist throughout 1999 and possibly 2000.

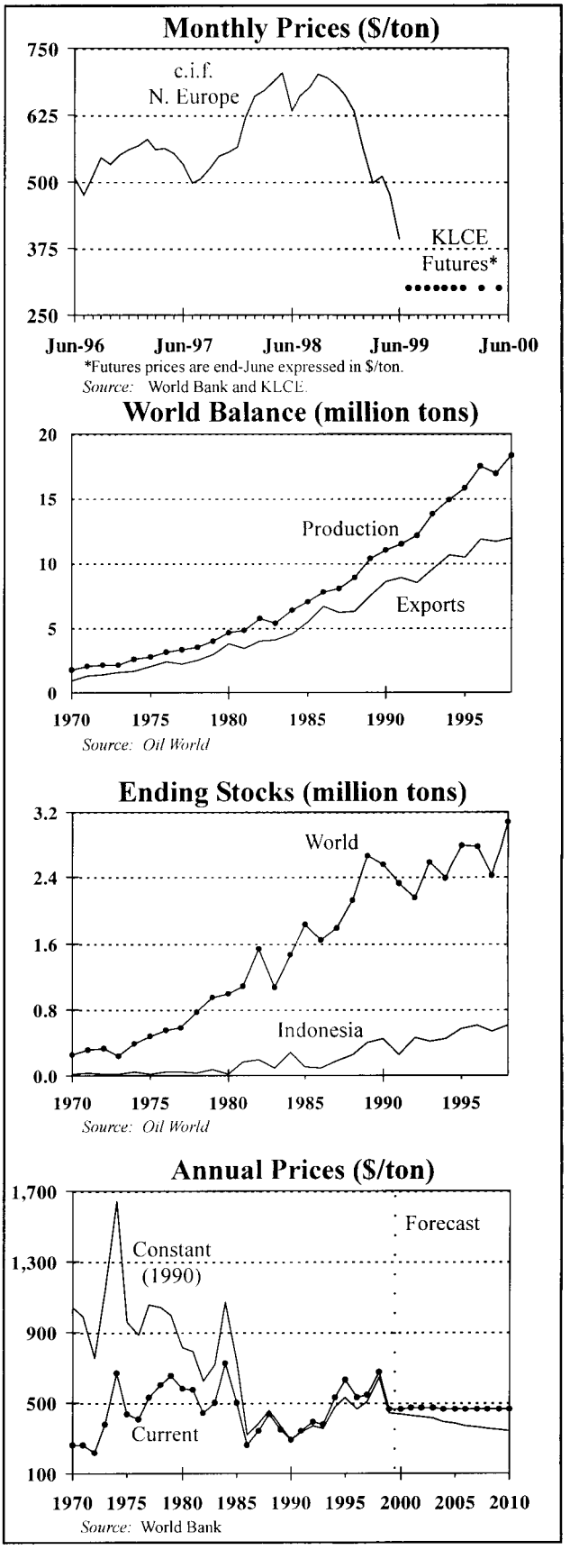
Palm oil prices averaged $458.7/ton from April to June 1999, 18.6% lower than the January to March 1999 average, and more than 32.1% lower than a year ago. Palm oil prices have dropped 44% from a high of $703/ton in September 1998 to a low of $392/ton in June 1999. Apart from favorable weather conditions, Indonesia's decision to reduce its export tax from 40% to 30% last month and to 10% on July 2 contributed to the decline.

Palm oil, which has been gaining importance in recent years, is expected to account for 18.3% of global production and 38% of global trade of the 17 major fats and oils. More than two-thirds of palm oil production will be internationally traded, making it the most highly traded oil. Palm oil is a close substitute to soybean oil, which accounts for about 22% of production and 30% of trade of fats and oils.

The most recent estimates by *Oil World* indicate that global palm oil production during the 1998/99 season (October-September) will be a record 18.33 million tons, which is almost 6% higher than the earlier forecast. The two leading palm oil producers (Malaysia and Indonesia) increased their output in 1998/99 by 11% and 6%, respectively and, with the exception of Colombia, all small producers (Côte d'Ivoire, Ecuador, Nigeria, PNG, and Thailand) increased production as well.

Palm oil exports are expected to be 11.98 million tons, up from last season's 11.68 million tons. Malaysia will export 8.10 million tons (or 68% of world exports), while Indonesia is expected to export 2.52 million tons (or 21% of world exports). The dominant palm oil importers, the EU and India, are expected to increase imports by 6% and 19%, respectively.

Following Indonesia's tax cut and the favorable production prospects, prices are expected to remain weak for the rest of 1999. We have therefore reduced our 1999/00 forecast to $460/ton and $465/ton, respectively.



Other Developments

- Indonesia's Trade and Finance Minister announced a further reduction in the palm oil export tax from 30% to 10% in early July. The tax had been cut from 40% to 30% in June. While the sharp tax cut is expected to put Indonesia back into the export market, it will not necessarily translate into higher domestic prices because of the recent decline in world prices. The announcement was consistent with an agreement with the IMF under which the tax had to be brought down to 10% by the end of 1999.
- Malaysian palm oil exporters are worried that importers may default on contracts following the sharp decline in prices reports *The Public Ledger*. December forward contracts for May/June delivery were signed at $635/ton. With a June spot less than $400/ton there is an incentive for importers to breach their contracts. Breaching forward contracts is not uncommon when sharp price changes take place. When grain prices increased sharply in 1996 many farmers in the Midwestern United States breached their contracts, causing some grain elevators that had hedged their position in futures, and in some cases banks, to go out of business.
- Preliminary estimates by *Oil World* indicate that palm oil will experience another production increase in 1999/00 to 20.10 million tons, an almost 10% increase over 1998/99. Exports are also expected to increase from 11.98 million tons in 1998/99 to 13.40 million tons in 1999/00. This increase in palm oil trade contrasts sharply with the stagnation in the trade of other major vegetable oils, especially soybean, rapeseed, and sunflower oils.

Production and Stocks

	1995/96	1996/97	1997/98	1998/99
Production (000 tons)				
Malaysia	8,264	9,000	8,509	9,480
Indonesia	4,405	5,078	5,086	5,370
Nigeria	622	678	688	705
Colombia	391	440	437	440
Thailand	366	386	375	393
Côte d'Ivoire	277	250	251	265
PNG	228	276	232	247
Ecuador	182	201	203	215
World	**15,871**	**17,487**	**16,965**	**18,325**
Ending Stocks (000 tons)				
Malaysia	894	907	719	1,165
Indonesia	565	605	535	600
India	190	285	180	340
China	220	280	160	100
World	**2,797**	**3,009**	**2,420**	**3,085**

Source: Oil World

Trade

	1995/96	1996/97	1997/98	1998/99
Exports (000 tons)				
Malaysia	6,896	7,794	7,847	8,100
Indonesia	1,972	2,419	2,416	2,520
PNG	229	281	228	242
Singapore	308	286	253	220
World	**10,463**	**11,875**	**11,675**	**11,980**
Imports (000 tons)				
EU	1,838	1,957	2,028	2,140
India	1,213	1,395	1,684	2,000
China	1,178	1,851	1,490	1,430
Pakistan	1,166	1,020	1,210	1,060
Egypt	387	374	374	400
Singapore	456	402	351	392
Japan	348	382	355	362
Myanmar	235	290	244	270
World	**10,462**	**11,729**	**11,821**	**11,935**

Source: Oil World

Global Summary

	Actual				Est.		Annual Growth Rate (%)		
World Balance (000 tons)	1970/71	1980/81	1990/91	1996/97	1997/98	1998/99	1970-80	1980-90	1990-97
Production	1,742	4,587	10,976	17,487	16,965	18,325	9.7	8.7	4.1
Consumption	1,685	4,822	11,041	17,296	17,700	17,614	10.5	8.3	3.7
Exports	920	3,793	8,639	11,875	11,675	11,980	14.2	8.2	2.6
Ending Stocks	247	992	2,551	3,009	2,420	3,085	13.9	9.4	1.5

	Actual				Forecast				
Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	628.0	530.9	545.8	671.1	460.0	465.0	470.0	460.0	460.0
Constant 1990	526.8	465.8	503.6	644.1	438.8	436.6	430.7	381.5	337.3

Note: Crop year begins October 1.
Source: Oil World and World Bank.

Soybean Oil

Plentiful supplies of soybeans and competing oils put more pressure on soyoil prices, sending them to a 7-year low in June. As with other oils, the bearish fundamentals are expected to persist throughout 1999.

Second quarter soybean oil prices averaged $427/ton, down 13% from last quarter, and almost 35% lower than the same quarter of 1997/98.

The latest *Oil World's* estimates of global soybean oil supplies for the 1998/99 season (October to September) will be 24.27 million tons, up almost 5% from the 23.19 million tons in 1997/98. The US, the world's dominant producer, is expected to produce 8.06 million tons, down from the 1997/98 record output of 8.27 million tons. Argentina and Brazil are expected to register 31% and 8% increases, respectively, because of good weather conditions in South America. China and India are also expected to register substantial increases. Some preliminary estimates for the 1999/00 season indicate than another small increase is expected on the order of 1% to 2%. The US is expected to harvest a record soybean crop.

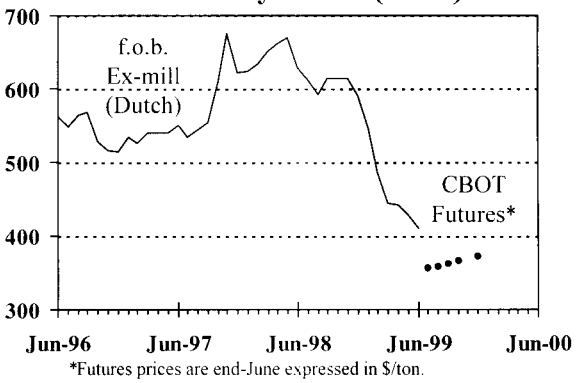
During the 1998/99 season, soybean oil accounted for more than 23% of global fats and oils output. About 30% was internationally traded, with Argentina, Brazil, and the US accounting for 38%, 19%, and 15% of world exports.

Exports are expected to be 7.50 million tons, down from 7.68 million tons last season. Responding to a good US soybean crop, Argentina is expected to increase its exports by 36%. Brazil is also expected to increase its exports due to high domestic prices received by exporters following the real's devaluation earlier this year. The US and EU, however, will both substantially reduce exports.

While imports are expected to increase by 100,000 tons, China, the leading soybean oil importer, will reduce its imports from 1.94 million tons in 1997/98 to 1.73 million tons in 1998/99, reflecting the country's switch from importing oils to importing oilseeds.

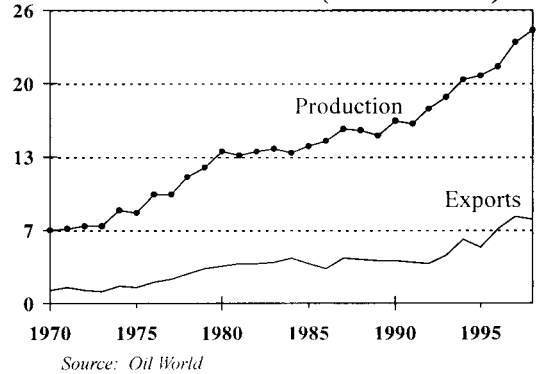
With yet another increase in soybean oil output expected in 1999/00, plentiful supplies of palm and other competing oils, even more pressure is to be expected on prices. For 1999, we expect prices to average $440/ton and some recovery to $450/ton in 2000.

Monthly Prices ($/ton)



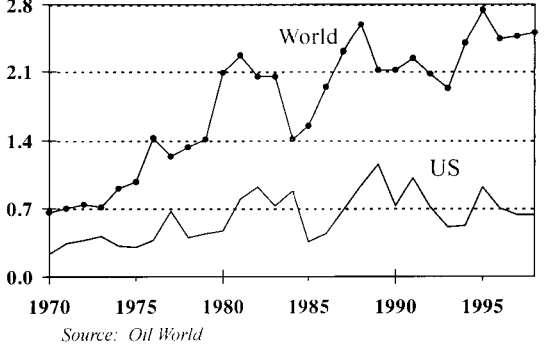
*Futures prices are end-June expressed in $/ton.
Source: World Bank and CBOT.

World Balance (million tons)



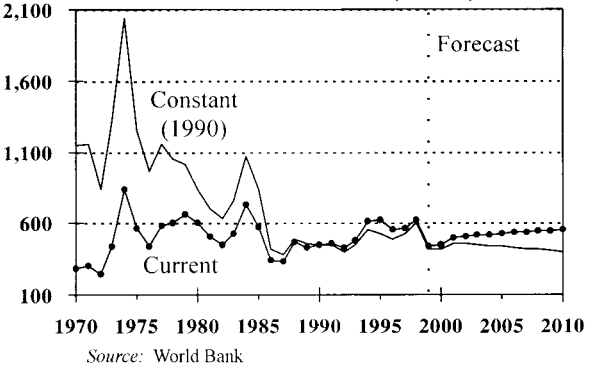
Source: Oil World

Ending Stocks (million tons)



Source: Oil World

Annual Prices ($/ton)



Source: World Bank

Other Developments

- Brazil lifted its ban on the cultivation of genetically modified (GM) crops allowing Monsanto, the large US biotechnology firm, to sell soybean seeds to producers. GM soybeans are expected to represent half of the Brazilian crop in the next three years.
- Many UK food processors no longer use soybean oil in order to satisfy consumers who have been opposed to GM products. Soybean oil is being substituted by rapeseed oil, which may also come under threat soon.

Soybean Oil

	1995/96	*1996/97*	*1997/98*	*1998/99*
Production (000 tons)				
US	6,913	7,145	8,227	8,154
Brazil	4,103	3,760	3,774	3,984
Argentina	1,828	1,966	2,281	2,909
EU	2,521	2,730	2,929	2,866
China	1,070	1,410	1,700	1,735
India	661	607	787	890
World	**20,265**	**21,028**	**23,156**	**24,131**
Ending Stocks (000 tons)				
US	914	690	627	610
Brazil	410	311	330	310
China	430	455	310	300
World	**2,846**	**2,436**	**2,403**	**2,400**
Exports (000 tons)				
Argentina	1,619	2,019	2,130	2,760
Brazil	1,639	1,297	1,228	1,400
US	450	924	1,487	1,220
EU	494	867	1,042	966
World	**4,968**	**6,679**	**7,750**	**7,624**
Imports (000 tons)				
China	1,445	2,041	1,936	1,730
Iran, Islamic R.	500	408	699	715
H.K., China	85	591	802	520
Bangladesh	187	279	235	390
India	73	84	254	370
World	**5,123**	**6,509**	**7,625**	**7,737**

Source: Oil World

Soybean Meal

	1995/96	*1996/97*	*1997/98*	*1998/99*
Production (000 tons)				
US	29,500	31,036	34,606	34,026
Brazil	16,976	15,640	15,582	16,472
Argentina	8,309	8,867	10,353	13,184
EU	11,075	11,998	12,795	12,569
China	5,250	7,069	8,480	8,642
India	3,030	2,787	3,611	4,085
World	**88,002**	**92,549**	**100,821**	**104,908**
Ending Stocks (000 tons)				
Brazil	1,220	759	1,083	900
Argentina	565	412	700	810
China	480	700	830	710
World	**4,368**	**4,031**	**4,624**	**4,558**
Exports (000 tons)				
Argentina	8,198	8,684	9,705	12,700
Brazil	11,682	10,927	9,818	11,100
US	5,446	6,345	8,472	7,120
India	2,504	2,156	2,771	2,970
World	**29,687**	**30,515**	**33,805**	**37,145**
Imports (000 tons)				
EU	12,461	11,040	12,963	15,050
China	1,644	3,750	3,609	3,950
East Europe	2,343	2,080	2,369	2,274
Thailand	673	1,059	949	1,030
Korea, Rep.	1,059	818	881	1,020
World	**29,700**	**30,610**	**33,728**	**37,201**

Source: Oil World

Global Summary

	Actual					*Est.*	*Annual Growth Rate (%)*		
Soybean Oil (000 tons)	*1970/71*	*1980/81*	*1990/91*	*1996/97*	*1997/98*	*1998/99*	*1970-80*	*1980-90*	*1990-98*
Production	6,477	13,417	16,141	21,033	23,186	24,266	7.3	1.8	3.3
Consumption	6,245	12,730	16,149	21,310	23,050	24,386	7.1	2.4	3.3
Exports	1,140	3,303	3,800	6,662	7,675	7,495	10.6	1.4	5.4
Ending Stocks	653	2,094	2,119	2,441	2,454	2,500	11.7	0.1	1.3
Soybean Meal (000 tons)									
Production	29,265	59,379	70,528	92,567	100,933	105,644	3.1	0.7	1.2
Consumption	29,012	57,744	69,653	92,748	99,640	105,780	3.0	0.8	1.2
Exports	5,636	18,201	26,649	30,510	33,804	36,121	5.1	1.7	0.8
Ending Stocks	602	1,992	3,217	4,049	4,893	5,030	5.2	2.1	1.5
	Actual					*Forecast*			
Soybean Oil Prices ($/ton)	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Current	625.0	551.5	564.8	625.9	440.0	450.0	500.0	525.0	550.0
Constant 1990	524.3	483.8	521.1	600.8	419.7	422.5	458.2	435.4	403.3

Note: Crop year begins October 1.
Source: Oil World and World Bank.

Soybeans

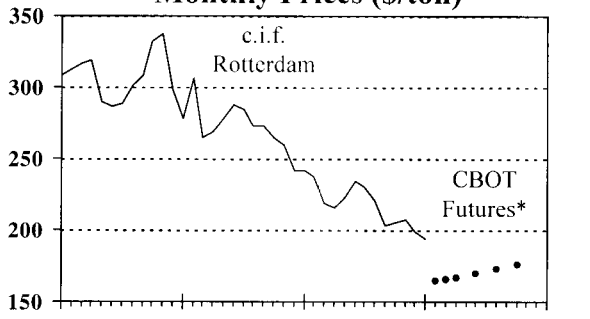
An expected record US crop sends prices to 26-year lows and stocks to all-time highs. However, a late season drought in the US may stop the fall and possibly send prices higher.

Soybean prices fell to $194/ton (c.i.f. Rotterdam) in June, down more than 40% from their 1997 highs amid forecasts of record US and world production. The 1999/00 world soybean crop is expected to be up only 1.1% over the previous year, but the increase since 1990/91 is a staggering 53%. US and world soybean stocks are expected to reach record levels by the end of the 1999/00 marketing year. The US is expected to produce 50% of the worlds soybeans and account for 60% of exports. Production in Brazil and Argentina, the second and third largest exporters, is expected to be lower in 1999/00.

Global total oilseed production is projected to be a record 301 million tons, up 3% from last year, with palm oil production expected to be up 7%. Soybean prices are expected to remain weak, unless the late season drought in the Midwestern US severely curtails production. Even if the drought lowers production, soybean prices should still remain relatively weak because of abundant supplies of oil and meal substitutes. Soyoil prices are expected to be held down by large supplies of palm oil and total oilseeds. Soymeal prices will be influenced by large supplies of maize and weak maize prices. The USDA predicted in the July *Oilseeds: World Markets and Trade* that the US soybean price will be between $3.90/bushel and $4.70/bushel in the 1990/00 marketing year compared to $5.00/bushel in the 1998/99 marketing year.

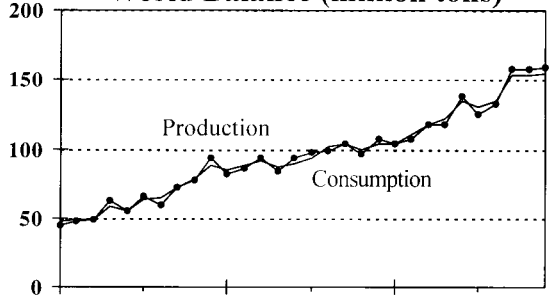
Global demand is beginning to recover after the Asia crisis, but not enough to consume this year's record production. Imports of soybeans are expected to rise about 3 million tons due to the combination of lower prices and improved economic conditions in Asia as well as continued strong imports into Latin America. China is expected to increase imports by 800,000 tons over last year due to a smaller crop in 1999/00. Total demand is expected to total 154.2 million tons but this will still leave nearly 5 million tons of soybeans to go into stocks.

Monthly Prices ($/ton)



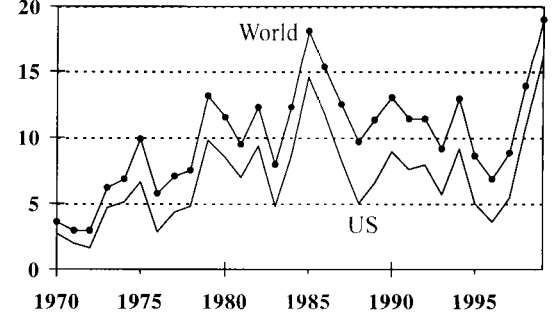
*Futures prices are end-June expressed in $/ton.
Source: USDA historical prices

World Balance (million tons)



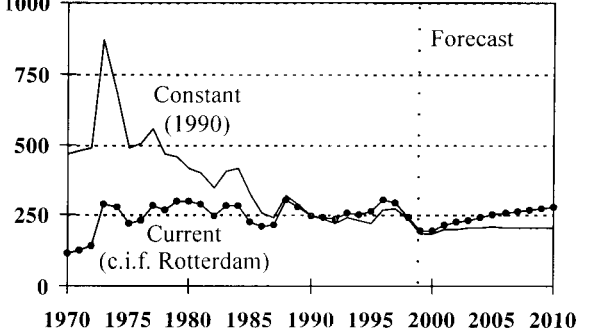
Source: USDA

Ending Stocks (million tons)



Source: USDA

Annual Prices ($/ton)



Source: USDA historical data and World Bank forecasts.

Other Developments

- The battle over genetically modified (GM) foods continues, with consumers in Europe strongly opposed and producers in the US supportive. Companies which have developed the new seeds claim they can improve productivity by up to 20% because the crops grown with GM seeds require less fertilizers and pesticides. Soybeans are right in the middle of the controversy, with more than half of US soybeans grown with genetically modified seeds from just one company – Monsanto.
- Brazil, the world's second largest soybean exporter after the US, has approved commercial production of genetically-modified soybeans from Monsanto. However, the approval by the Brazilian Ministry of Agriculture has led to fierce debate from opponents according to the *Financial Times*. Argentina, the third largest soybean exporter, is expected to have 60% of its soybeans planted to GM seeds this year according to *The Public Ledger*.
- Japan, has seen mixed reaction to GM crops and appears to be favoring labeling crops produced with GM seeds.

Production and Crush

	1996/97	1997/98	1998/99	1999/00
Production (000 tons)				
US	64,780	73,176	75,028	79,878
Brazil	27,300	32,500	31,000	30,500
Argentina	11,200	19,200	18,300	17,000
China	13,220	14,728	13,800	13,000
India	4,100	5,350	6,000	6,100
Paraguay	2,771	2,988	3,100	2,850
EU	1,144	1,570	1,535	1,413
Indonesia	1,460	1,306	1,300	1,300
World	**132,193**	**157,741**	**157,190**	**159,045**
Crush (000 tons)				
US	39,080	43,464	43,001	45,042
Brazil	18,910	21,800	20,900	20,600
Argentina	10,550	16,800	16,000	14,860
China	8,690	10,728	10,450	10,600
India	3,650	4,770	5,400	5,400
Mexico	2,690	3,600	3,600	3,685
Japan	3,810	3,720	3,680	3,620
Taiwan, China	2,362	2,043	1,700	1,800
Korea, Rep.	1,246	1,100	1,000	1,100
World	**113,853**	**131,651**	**130,063**	**132,227**

Source: USDA

Trade and Ending Stocks

	1996/97	1997/98	1998/99	1999/00
Exports (000 tons)				
US	23,999	23,687	21,364	25,311
Brazil	8,340	9,300	9,400	9,200
Argentina	750	3,231	2,800	2,500
Paraguay	2,150	2,390	2,500	2,250
World	**36,886**	**40,976**	**39,220**	**42,230**
Imports (000 tons)				
EU	15,311	16,297	17,125	17,478
Japan	5,043	4,873	4,700	4,700
China	2,274	2,940	3,600	4,400
Mexico	2,680	3,479	3,460	3,600
Taiwan, China	2,632	2,387	2,000	2,100
Korea, Rep.	1,486	1,340	1,300	1,400
Brazil	1,450	500	700	900
Indonesia	684	810	940	900
World	**37,135**	**38,825**	**40,147**	**42,486**
Ending Stocks (000 tons)				
US	3,588	5,438	10,739	16,067
Brazil	475	585	430	455
Argentina	266	307	254	284
World	**6,814**	**8,769**	**13,869**	**18,991**

Source: USDA

Global Summary

	Actual					Est.	Annual Growth Rate (%)		
World Balance (mil. tons)	1970/71	1980/81	1990/91	1997/98	1998/99	1999/00	1970-80	1980-90	1990-98
Production	44.3	81.0	104.2	157.7	157.2	159.0	7.1	2.5	5.3
Consumption	48.0	84.3	104.0	153.6	153.0	154.2	6.7	2.3	4.9
Ending Stocks	3.6	11.5	13.0	8.8	13.9	19.0	14.3	1.6	-2.7
Crop Area (mil. hectares)	30.0	49.9	54.3	69.0	70.7	70.5	5.4	1.2	3.3
Yields (tons/hectares)	1.48	1.63	1.92	2.29	2.22	2.26	1.6	1.3	2.0

	Actual				Forecast				
Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	259.3	304.8	295.4	243.3	200.0	194.0	196.0	250.0	275.0
Constant 1990	217.3	267.4	272.6	233.5	185.1	184.0	197.0	207.3	201.7

Note: All quantities are in local marketing years. Prices are for US soybeans, c.i.f. Rotterdam in calendar years.

Source: USDA historical data and World Bank price forecasts.

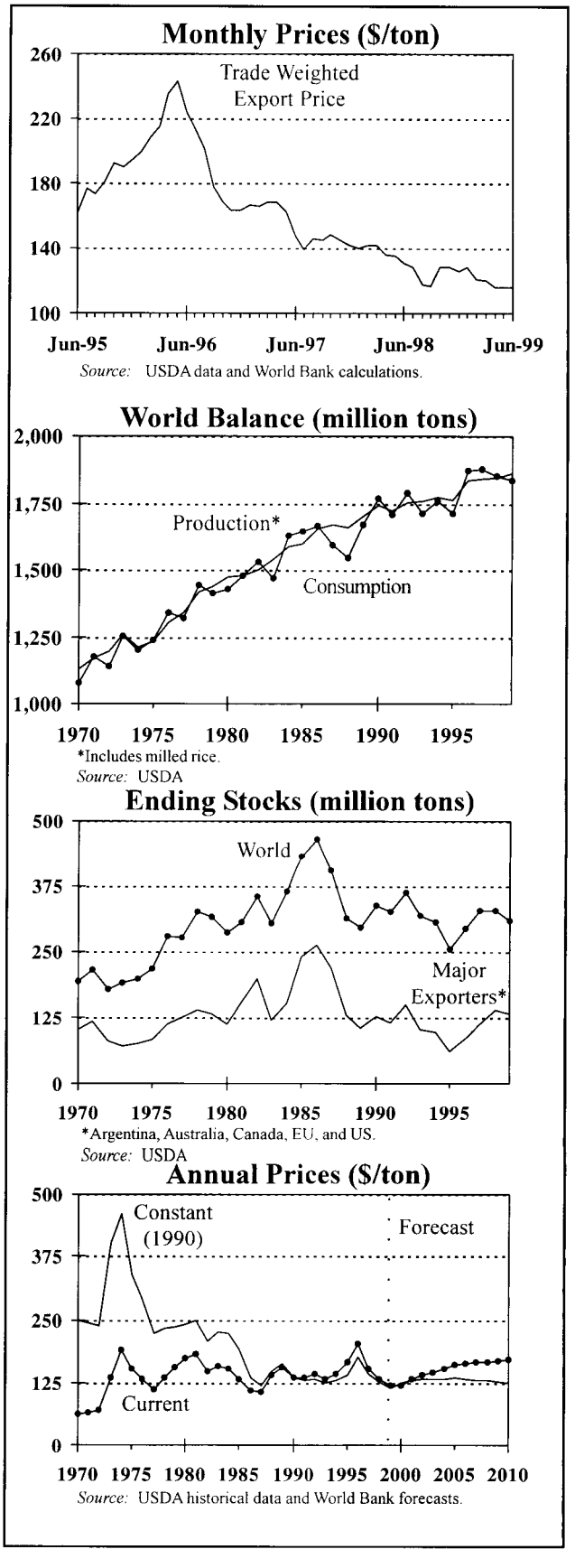
Grains

Large production, weak total and import demand growth, and adequate stock levels probably ensure another year of low prices. However, rice and wheat stocks are near historic lows and prices could rise if production fails in a major producer.

The world grains markets appear likely to face another year of adequate stocks and low prices unless a late-season drought strikes a major producer. With only two months remaining in the Northern Hemisphere grain growing and harvesting season, it appears that most major producers are on schedule for good crops. Total grain imports are expected to remain within the range of recent years, but perhaps increase slightly from last year. The five major grain exporters (Argentina, Australia, Canada, EU, and US) are expected to see ending-year stock levels decline, but not enough to pressure grain prices.

Global grain stocks are estimated to be 17.8% of total use in the marketing year now ending (1998/99). This is the average of the decade and is up sharply from the recent low of 14.5% in 1995. However, 17.8% is not high when viewed from an historical perspective. During the 1980s, stocks averaged 22.3% of total use. Since then policy changes in major exporters such as the US and EU have reduced the average level of stocks held. Stocks of individual grains vary greatly, with rice stocks at 26-year lows while coarse grains stocks are the highest since 1992. Wheat stocks are near the lows of the decade and a poor harvest could cause prices to rise.

The slowing of global economic growth over the past two years has contributed to the decline in grain prices. However, excess grain production capacity relative to demand continues to be the major factor causing prices to fall. Global crop area planted to grains is now the lowest since 1972 – down 60 million hectares from the high reached in 1981. For the five largest grain exporters, which account for nearly 90% of global exports, grain area planted is the lowest in at least 40 years and down 36 million hectares from the peak. Yields in these countries continue to rise at nearly 2% per year causing prices to fall. Global grain demand has grown at only 1.3% per annum since 1980 which is less than the rate of population growth over the same period.



Other Developments

- Future Harvest is a new website aimed at boosting agriculture's profile in development. The new site at http://www.futureharvest.org is part of a public awareness campaign by the 16 international agricultural research centers supported by the Consultative Group on International Agricultural Research (CGIAR). The site shows how agriculture is linked to a range of issues such as peace and conflict, environmental renewal, economic growth, and health and population.
- EU reform of the Common Agricultural Policy, called Agenda 2000, makes the following important changes to the cereals sector: EU cereal price supports will fall 15% by the 2001/02 marketing year. The set-aside will be maintained at 10% during 2000-2006, which will remove about 6 million hectares of crop land from production. Total expenditures for farm programs will be frozen at current levels.

Production and Stocks

	1995/96	*1996/97*	*1997/98*	*1998/99*
Production (000 tons)				
China	356,369	388,458	378,443	378,650
US	275,073	333,154	333,937	347,101
EU	175,954	203,991	205,362	210,084
India	174,870	177,758	182,602	182,376
Canada	49,159	57,995	49,395	50,896
Russian Fed.	61,100	66,799	85,265	46,065
Brazil	41,580	46,260	39,405	43,462
Indonesia	39,215	38,034	36,334	38,600
Australia	26,809	34,839	29,861	30,578
Argentina	23,255	35,611	40,125	30,225
Turkey	25,085	26,110	26,270	29,207
Mexico	27,566	29,865	26,931	27,925
Poland	25,910	25,296	25,402	27,146
World	**1,712,728**	**1,871,889**	**1,875,822**	**1,848,318**
Ending Stocks (000 tons)				
China	81,684	96,261	87,190	80,340
US	25,484	39,949	58,717	76,645
EU	21,676	27,514	38,933	45,008
India	23,420	17,520	21,301	22,378
World	**255,035**	**293,344**	**327,581**	**328,373**

Source: USDA

Trade

	1995/96	*1996/97*	*1997/98*	*1998/99*
Exports (000 tons)				
US	99,469	81,333	76,352	84,488
EU	52,563	62,472	55,553	60,936
Australia	17,963	24,295	19,368	19,697
Canada	20,506	24,899	23,880	16,920
Argentina	13,187	22,525	24,941	16,850
China	951	5,884	11,076	5,550
Thailand	5,431	5,296	6,474	5,625
World	**206,620**	**214,150**	**214,500**	**210,920**
Imports (000 tons)				
EU	43,200	41,580	43,888	41,648
Japan	27,016	27,469	27,653	27,090
Korea, Rep.	12,784	12,185	11,591	12,230
Egypt	8,178	10,167	10,387	10,775
Mexico	10,366	7,634	10,454	10,520
Brazil	7,025	7,258	9,431	8,250
Saudi Arabia	5,258	7,633	5,145	6,975
Iran, Isl. Rep.	5,789	10,077	7,307	4,250
Taiwan, China	7,139	7,057	5,786	5,778
Algeria	4,296	4,859	6,339	5,490
World	**206,620**	**214,150**	**214,500**	**210,920**

Source: USDA

Global Summary

	Actual					*Est.*	*Annual Growth Rate (%)*		
World Balance (mil. tons)	*1970/71*	*1980/81*	*1990/91*	*1996/97*	*1997/98*	*1998/99*	*1970-80*	*1980-90*	*1990-97*
Production	1,078.7	1,429.6	1,768.8	1,871.8	1,875.8	1,848.3	2.8	1.6	0.9
Consumption	1,130.8	1,475.5	1,743.2	1,833.6	1,841.6	1,847.5	2.6	1.7	0.9
Exports	109.6	214.7	202.1	214.2	214.5	210.9	6.6	0.1	0.1
Ending Stocks	192.8	287.9	339.0	293.3	327.7	328.4	6.0	1.0	-2.2
Crop Area (mil. hectares)	663.0	722.1	694.3	702.4	688.9	680.2	0.9	-0.5	-0.1
Yields (tons/hectare)	1.78	2.16	2.79	2.93	2.99	2.99	1.9	2.3	1.1

	Actual				*Forecast*				
Prices ($/ton)	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Current	166.5	201.0	153.7	131.0	120.4	131.7	142.6	161.0	170.6
Constant 1990	139.7	176.0	141.8	125.7	114.9	123.7	130.6	133.5	125.1

Note: Quantities are in local marketing years. Production and yields are based on milled rice. Prices are the trade weighted average of US maize, US HRW wheat, and Thai 5% broken white rice in calendar years.

Source: USDA historical data and estimates and World Bank price forecasts.

Maize

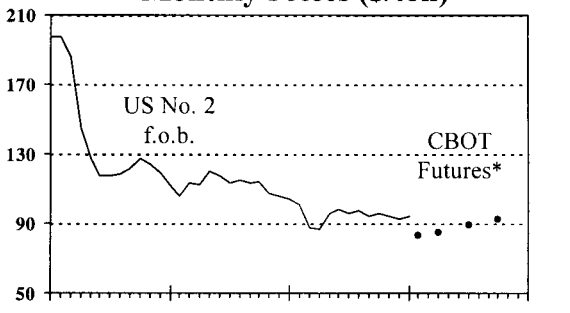
A record world maize crop is expected to add to already large stock levels and keep prices near current levels. World import demand remains stagnant and unlikely to increase enough to lift prices.

Maize prices held firm during the quarter, but that may not last much longer as a record world maize crop is expected in the next few months. The US export price averaged $93.6/ton, f.o.b. Gulf during the second quarter compared to $95.9/ton during the first quarter. However, towards the end of the quarter, prices were showing weakness as good growing conditions in the US added to the concerns about large carryover stocks and weak export demand.

The US is expected to account for 70% of world exports in the coming 1999/00 marketing year and current estimates are for an increase of about 3% in US ending stocks. This would suggest another year of low prices. However, with good growing conditions, low fertilizer prices, and the historical trend of maize yield increases of 2% per year in the US, a record US crop seems possible and could increase the stock carryover substantially. If this occurs, prices could dip in the third and fourth quarters as the US crop is harvested.

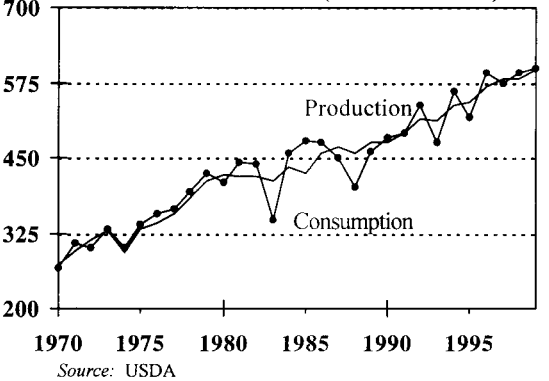
Global maize import demand in 1999/00 is expected to remain unchanged from the previous year at 66 million tons and is unlikely to increase enough to absorb another year of record production. Despite rapid economic growth in most developing countries during the early part of the decade, import demand for maize has not increased significantly. Asia remains the largest importing region, accounting for about half of global imports. The economic slowdown in the region reduced import demand from about 36.3 million tons in 1995/96 to an estimated 31.4 million tons in 1999/00. Without a return to rapid growth, demand is not expected to return to the earlier highs for several more years. Imports from the oil exporting countries of the Middle East are expected to increase along with higher crude oil prices, but imports to these countries are relatively small at about 10% of world imports. Latin America has shown substantial and continuing growth of maize imports, but they have not been enough to offset slower Asian demand growth.

Monthly Prices ($/ton)



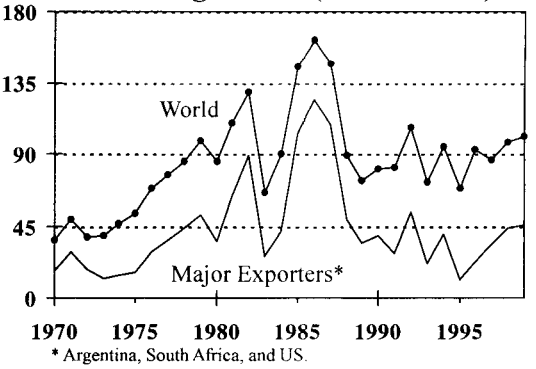
*Futures prices are end-June expressed in $/ton.
Source: USDA

World Balance (million tons)



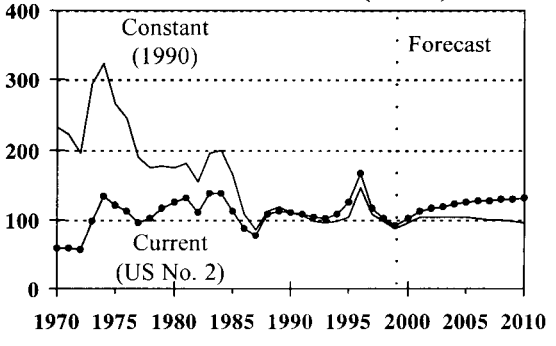
Source: USDA

Ending Stocks (million tons)



* Argentina, South Africa, and US.
Source: USDA

Annual Prices ($/ton)



Source: USDA historical data and World Bank forecasts.

Other Developments

- Poultry feed suspected of being contaminated with PCBs and dioxins were discovered in Belgium in May. No illnesses were linked to the contamination, but concern that products from animals and poultry which ate the feed may be unsafe for human consumption led to widespread bans across Europe. The extent of the problem is still unclear, but there was an immediate reduction in meat consumption in some member states of the European Union. The US halted imports of eggs, egg products, animal feed, and other food products from European countries where animals may have eaten the contaminated feed.
- Production of total world coarse grains is projected to total 880 million tons in 1999/00 according to the USDA's June forecast. This would about equal last year's production of 878 million tons and maintain stock levels. Barley production is projected to fall about 3% and account for about 15% of total coarse grains production. Sorghum production is projected to fall 3.6% and total 7% of total production.

Production and Stocks

	1996/97	1997/98	1998/99	1999/00
Production (000 tons)				
US	234,518	233,864	247,943	239,914
China	127,470	104,300	124,000	130,000
EU	34,794	38,602	34,497	35,533
Brazil	35,700	30,020	32,500	33,000
Mexico	18,922	16,934	17,500	18,500
Argentina	15,500	19,360	14,000	15,500
India	10,612	10,852	9,800	10,500
Romania	9,610	12,680	8,500	10,000
Canada	7,380	7,180	8,900	8,500
S. Africa, Rep.	10,136	7,544	6,300	8,000
World	**591,791**	**573,624**	**592,593**	**600,491**
Ending Stocks (000 tons)				
US	22,433	33,220	43,865	45,262
China	45,000	26,000	30,000	35,000
EU	3,280	4,375	3,628	2,938
Brazil	2,633	749	1,349	1,349
S. Africa, Rep.	2,450	1,550	1,300	1,250
Argentina	750	1,612	1,113	1,114
Thailand	222	134	284	134
World	**93,114**	**86,520**	**97,473**	**101,576**

Source: USDA

Trade

	1996/97	1997/98	1998/99	1999/00
Exports (000 tons)				
US	46,579	37,697	47,500	47,000
Argentina	10,203	12,756	9,000	9,000
China	3,892	6,173	3,000	4,000
Hungary	1,157	1,289	1,500	2,000
S. Africa, Rep.	2,200	1,041	750	500
World	**67,082**	**63,478**	**65,160**	**65,895**
Imports (000 tons)				
Japan	15,963	16,422	16,000	15,900
Korea, Rep.	8,336	7,528	7,250	8,000
Mexico	3,141	4,376	4,750	4,750
Taiwan, China	5,741	4,472	4,500	4,200
Egypt	3,179	3,141	3,500	3,500
EU	2,595	2,065	2,500	2,500
Malaysia	2,485	2,099	2,100	2,100
Brazil	383	1,324	1,400	1,200
Colombia	1,495	1,569	1,700	1,800
Saudi Arabia	1,272	1,234	1,300	1,500
Venezuela	1,234	1,161	1,200	1,250
Peru	820	1,227	1,150	1,200
World	**67,082**	**63,478**	**65,160**	**65,895**

Source: USDA

Global Summary

	Actual					Est.	Annual Growth Rate (%)		
World Balance (mil. tons)	1970/71	1980/81	1990/91	1997/98	1998/99	1999/00	1970-80	1980-90	1990-98
Production	268.1	408.5	482.4	573.6	592.6	600.5	4.2	1.2	2.6
Consumption	273.0	421.9	475.0	580.2	581.6	596.4	4.1	1.6	2.7
Exports*	32.2	84.9	64.5	72.2	72.5	75.2	9.5	-0.7	1.4
Ending Stocks	36.1	85.5	80.9	86.5	97.5	101.6	10.8	-0.7	1.0
Crop Area (mil. hectares)	112.5	131.1	128.5	135.3	136.9	138.9	1.5	-0.1	0.9
Yields (tons/hectare)	2.38	3.12	3.75	4.24	4.33	4.32	2.7	1.3	1.8
	Actual				Forecast				
Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	123.5	165.8	117.1	102.0	92.0	102.0	112.0	125.0	130.0
Constant 1990	103.6	145.5	108.0	97.9	87.8	95.8	102.6	103.7	95.3

*Includes intra-EU trade.

Note: Quantities are in local marketing years. Prices are for US No. 2 maize, f.o.b. US Gulf in calendar years.

Source: USDA historical data and estimates and World Bank price forecasts.

Rice

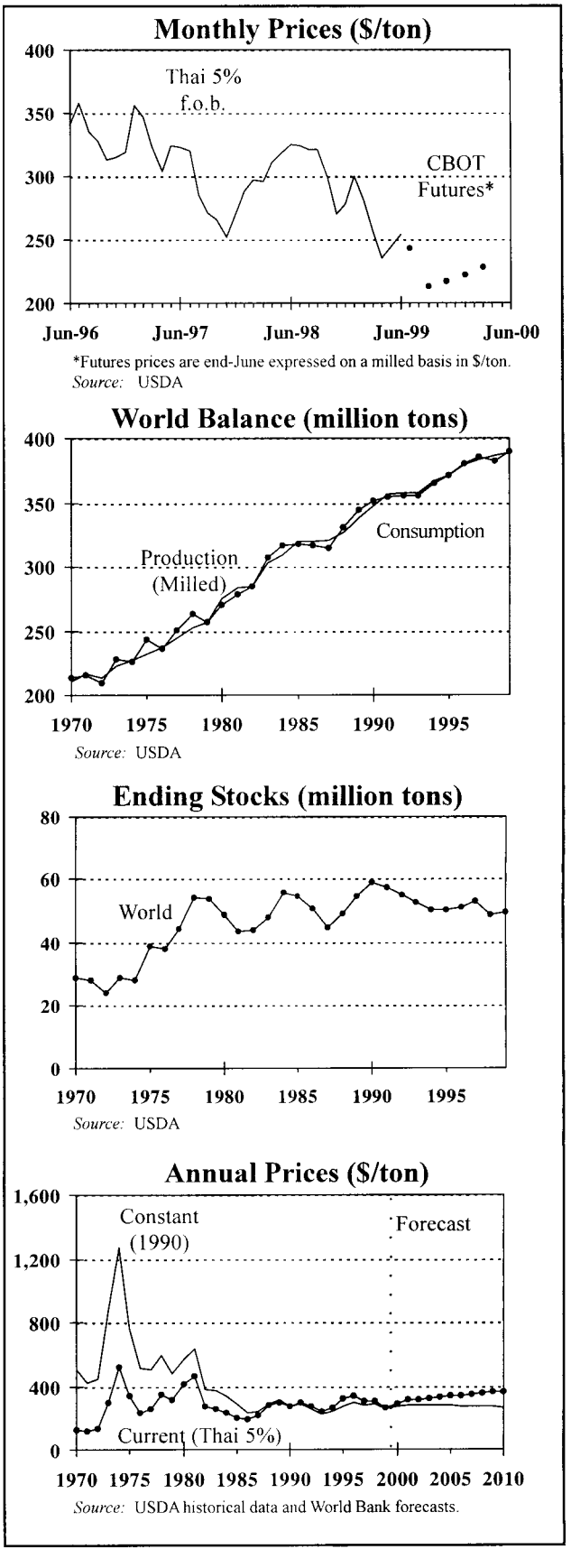
The early indications are for a record 1999 rice crop and continued weak prices despite stocks near 26-year lows. Trade is expected to remain strong at about 23 million tons, but not strong enough to lift prices.

Rice prices fell to 5-year lows in April, with Thai 5% broken white rice selling for $236/ton (f.o.b.) compared to $300/ton as recently as January. The declines have been caused by weak import demand from Asia and the Middle East and aggressive competition among exporters. Prices recovered from April lows and averaged $254/ton in June due to anticipation of increased Indonesian imports. However, early indications are for a record global rice crop in 1999 and continued weak prices.

The 1998/99 crop is now estimated to be near a record at about 570 million tons of paddy or 382 million tons of milled rice. Both the USDA and FAO are expecting a record 1999/00 crop based on very early estimates. China is projected by FAO to have a 2% higher rice harvest in 1999/00 compared to 1998/99, while India is projected to face a smaller crop following last year's record harvest. Indonesia, the world's third largest producer and the largest importer in recent years, is expected to continue to increase production following disruptions of the last two years due to El Niño and economic turmoil.

Price spreads between higher and lower quality rice have narrowed along with the overall decline of prices and strong demand for lower quality rice. Thai broken rice prices (A1 Special) have averaged 77.5% of Thai 5% broken rice during the first half of 1999 compared with an average of 70% during the previous two years. This reflects the normal compression of price spreads as prices fall, the relatively strong demand from African importers, and the weak demand from the Middle Eastern and Asian importers.

Stocks remain near 26-year lows, with the stocks-to-use percentage at about 12.5% compared to an average of 14.4 for the rest of the decade. This extremely low reserve of rice leaves the market vulnerable to a sharp price increase. However, this is not expected unless a major producer or exporter faces a crop shortfall.



Other Developments

- Australian rice producers are expecting to harvest 10,000 tons of Opus, a short grained variety developed for the Japanese market according to the *Rice Journal*. This variety has been 12 years in development, and can be used in sushi since it stays soft and tasty after it cools. It was developed partly due to collaborative efforts made by Japanese immigrants according to the report.
- The International Rice Research Institute (IRRI), with help from donor funding, is developing a site-specific nutrient management project according to an article in *Fertilizer*. The project measures fertilizer in the soil, determines the recommended levels, and then monitors and modifies the level of nitrogen during critical growth periods in order to optimize yield and nitrogen efficiency. The program is expected to raise yields by 10-15%.

Production and Stocks

	1995/96	*1996/97*	*1997/98*	*1998/99*
Production (000 tons of paddy)				
China	185,214	195,100	200,700	190,000
India	119,442	121,980	123,462	126,013
Indonesia	51,100	49,360	48,472	50,791
Bangladesh	26,533	28,326	28,296	28,653
Vietnam	26,792	27,277	28,592	28,030
Thailand	21,800	20,700	22,800	21,667
Myanmar	17,000	15,517	15,345	16,034
Brazil	10,026	9,504	8,551	11,250
Japan	13,435	12,930	12,532	11,201
Philippines	11,174	11,177	9,982	10,231
US	7,887	7,783	8,300	8,529
Pakistan	5,951	6,461	6,500	6,976
World	**551,163**	**563,770**	**571,431**	**567,544**
Ending Stocks (000 tons)				
China	21,732	25,556	26,723	21,523
India	11,000	9,500	10,500	11,000
Philippines	1,670	1,590	1,273	1,678
Indonesia	2,615	1,530	2,204	1,600
Korea, Rep.	245	390	805	980
Thailand	852	708	789	889
World	**50,264**	**51,099**	**52,851**	**48,464**

Source: USDA

Trade

	1996	*1997*	*1998*	*1999 (Est.)*
Exports (000 tons)				
Thailand	5,281	5,216	6,367	5,500
Vietnam	3,040	3,327	3,776	3,500
US	2,624	2,292	3,165	2,750
India	3,549	1,954	4,491	2,500
Pakistan	1,677	1,982	1,800	2,000
China	265	938	3,734	1,750
Uruguay	597	640	639	725
World	**19,667**	**18,788**	**27,428**	**22,010**
Imports (000 tons)				
Indonesia	1,029	808	6,081	2,500
Bangladesh	655	44	2,499	1,300
Philippines	768	814	2,187	1,200
Brazil	786	845	1,457	850
Nigeria	350	731	800	800
Saudi Arabia	814	660	775	750
Japan	446	546	479	725
EU	895	839	800	700
Iraq	234	684	610	700
Iran, Islamic R.	1,344	973	500	650
Malaysia	573	645	593	650
World	**19,667**	**18,788**	**27,428**	**22,010**

Source: USDA

Global Summary

	Actual					*Est.*	*Annual Growth Rate (%)*		
World Balance (mil. tons)	*1970/71*	*1980/81*	*1990/91*	*1996/97*	*1997/98*	*1998/99*	*1970-80*	*1980-90*	*1990-98*
Production (milled)	213.0	270.0	352.0	380.4	385.4	382.2	2.6	2.5	1.3
Consumption	210.6	275.0	347.4	379.6	383.6	386.6	2.5	2.3	1.3
Exports*	8.4	11.0	14.9	21.4	27.6	21.7	4.9	2.6	7.0
Ending Stocks	28.8	48.5	59.1	51.1	52.9	48.5	8.4	1.8	-2.0
Crop Area (mil. hectares)	132.7	144.5	146.6	149.8	150.8	149.2	0.9	0.2	0.2
Yields (tons/hectare)	2.35	2.75	3.55	3.76	3.79	3.80	1.7	2.3	1.0

	Actual				*Forecast*				
Prices ($/ton)	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Current	321.0	338.9	303.5	304.2	265.0	290.0	310.0	335.0	365.0
Constant 1990	269.2	297.3	280.0	291.9	252.8	272.3	284.0	277.8	267.7

*Milled basis in calendar years.

Note: Production and yields are paddy in marketing years. Consumption and stocks are on a milled basis in marketing years. Trade is on a milled basis in calendar year. Prices are for Thai 5% broken WR, milled, f.o.b. Bangkok in calendar years.

Source: USDA historical data and estimates and World Bank price forecasts.

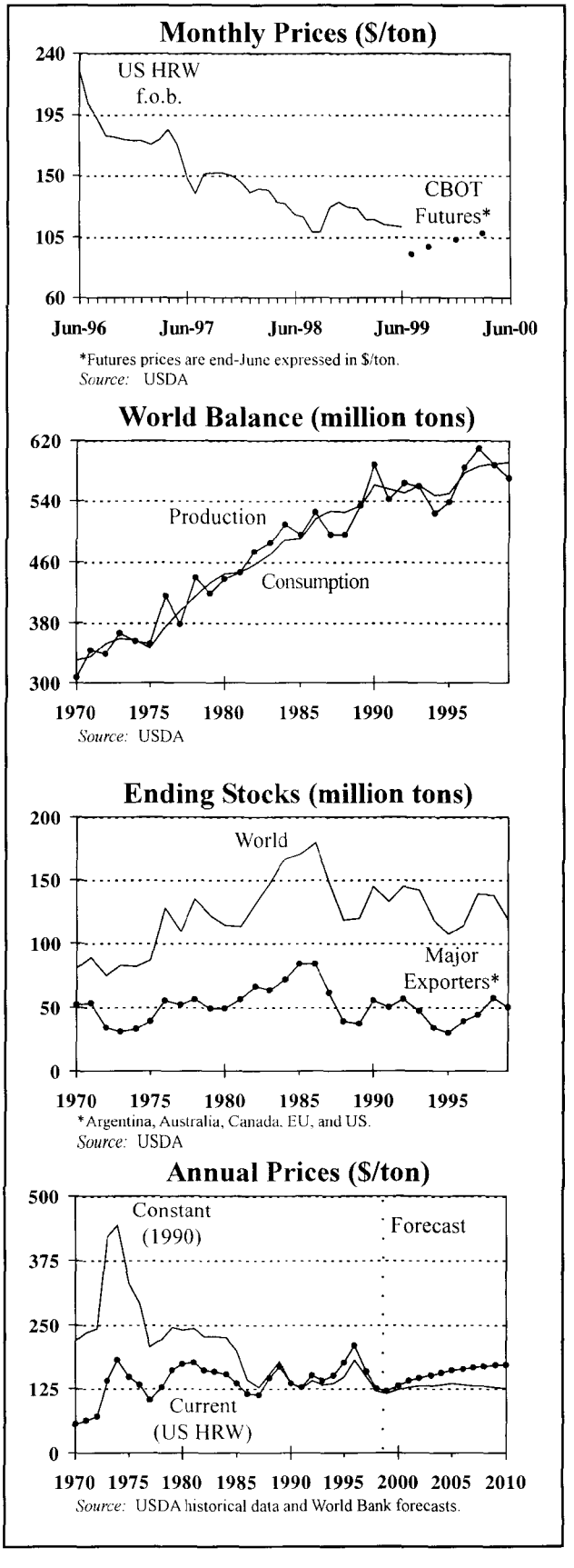
Wheat

Reduced plantings for the 1999/00 crop should lower production and cause stocks to fall next year. This could lead to higher prices later in 1999. But, there is a significant chance of another year of low prices and large stocks.

Wheat prices barely held above the earlier lows of $108/ton hit last August. Further weakness over the next several months are expected as the new crop is harvested in the Northern Hemisphere. Beyond that, prices should firm as demand begins to increase and stock levels fall. Futures prices show continued weakness in the near-term and then higher prices next year.

The USDA has revised its estimate of world wheat ending stocks for the current (1998/99) marketing year from 127.4 million tons in March to 137.7 million tons in June. The increase brings the global stock-to-use percentage to 23%, which is also the average for the decade. However, stocks of the major exporters are at the highest levels of the decade and this largely accounts for weak prices. A reduction in both global stocks and stocks of the major exporters is projected by the USDA for the coming year (1999/00). Global area planted to wheat is projected to fall about 2.2% in 1999/00 and, assuming normal yields, this would result in a less than proportionate decline in production because of the expected 1.5% increase in trend yields. The USDA estimates a 3% decline in production, which seems unlikely given reports of good crop prospects in most regions. If global production is equal to or larger than last year's crop, then we would face another year of large stocks and weak prices.

The prospects for improved prices next year appear to rest largely on the level of yields in a few major producers and exporters. The three largest exporters (the US, EU, and Canada) have reduced wheat area planted by 5.3% compared to last year, while production is projected by the USDA to fall more than 8%. If these implied yield declines do not occur, then lower prices can be expected. Major importers which are expected to harvest smaller crops than in the previous year include China, the Islamic Republic of Iran, and Pakistan.



Other Developments

- The worst drought in decades hit the Near East according to FAO's *Foodcrops and Shortages*. Iraq, Islamic Republic of Iran, Israel, Jordan, and Syria are severely affected. In Afghanistan, precipitation is the lowest in 40 years. Wheat production is expected to fall sharply in Morocco. In contrast, Algeria and Egypt have experienced good crops.
- India is faced with burdensome wheat stocks which its policies helped to create according to the USDA's July *Grain: World Markets and Trade*. A combination of generous government policies and extraordinary weather have led to record accumulations of wheat stocks – 50% higher than desired at the end of June. The buildup of stocks occurred because of 1) the boost in procurement prices in recent years and 2) the increase in prices of wheat sold through the public distribution system according to the USDA report.

Production and Stocks

	1996/97	1997/98	1998/99	1999/00
Production (000 tons)				
China	110,570	123,300	110,000	106,000
EU	98,506	94,181	103,536	96,565
India	62,097	69,350	65,907	71,500
US	61,980	67,534	69,410	61,006
Russian Fed.	34,900	44,200	26,900	33,500
Canada	29,801	24,280	24,400	23,500
Australia	23,702	19,417	21,000	22,000
Pakistan	16,907	16,650	18,700	18,000
Turkey	16,000	16,000	18,500	17,500
Ukraine	13,550	18,406	14,937	14,500
Argentina	15,900	14,800	10,750	12,000
Kazakhstan	7,700	8,950	4,700	6,000
Mexico	3,107	3,639	3,250	3,100
World	**583,544**	**609,875**	**587,938**	**570,104**
Ending Stocks (000 tons)				
US	12,073	19,663	26,366	23,552
China	24,166	33,366	27,616	21,116
EU	14,758	16,050	20,363	16,366
India	7,000	10,081	10,638	13,388
Canada	9,047	5,989	6,889	7,889
Australia	2,395	1,348	1,578	1,503
World	**113,846**	**139,846**	**137,660**	**117,969**

Source: USDA

Trade

	1996/97	1997/98	1998/99	1999/00
Exports (000 tons)				
US	27,039	28,090	29,000	31,500
Australia	18,223	15,398	15,500	17,000
Canada	18,167	21,283	13,500	16,500
EU	17,834	14,196	16,000	16,000
Argentina	10,073	9,566	8,000	7,500
Turkey	967	1,306	3,000	2,500
Kazakhstan	2,250	1,889	1,000	1,800
World	**101,318**	**100,794**	**97,883**	**100,661**
Imports (000 tons)				
Egypt	6,897	7,156	7,200	7,400
Japan	6,264	6,200	6,000	6,200
Brazil	5,573	5,682	6,900	5,800
Iran, Islamic R.	7,048	3,587	3,000	5,500
Korea, Rep.	3,465	3,917	4,700	4,500
China	2,692	1,914	1,000	4,000
Algeria	3,628	5,221	4,000	3,500
Pakistan	3,012	3,562	3,200	3,500
Russian Fed.	2,548	2,631	3,000	2,700
Yemen, Rep.	2,292	2,366	2,400	2,500
Mexico	1,940	2,166	2,350	2,500
Iraq	1,135	2,707	2,500	2,500
World	**101,318**	**100,794**	**97,883**	**100,661**

Source: USDA

Global Summary

	Actual					Est.	Annual Growth Rate		
World Balance (mil. tons)	1970/71	1980/81	1990/91	1997/98	1998/99	1999/00	1970-80	1980-90	1990-98
Production	306.5	436.3	588.0	609.9	587.9	570.1	3.3	2.2	0.6
Consumption	329.5	444.0	561.9	584.6	589.4	589.8	3.0	2.4	0.7
Exports	55.0	94.1	101.1	100.8	97.9	100.7	4.7	0.6	-1.1
Ending Stocks	80.5	113.9	145.0	139.2	137.7	118.0	5.3	1.1	-1.4
Crop Areas (mil. hectares)	207.0	237.1	231.4	228.3	224.9	219.9	1.2	-0.7	0.1
Yields (tons/hectare)	1.48	1.84	2.54	2.67	2.61	2.59	2.0	2.9	0.5
	Actual				Forecast				
Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	177.0	207.6	159.5	126.1	120.0	130.0	140.0	162.0	172.0
Constant 1990	148.5	182.1	147.2	121.1	114.5	122.1	128.3	134.4	126.1

Note: Quantities are in local marketing years. Prices are for US HRW No. 2 wheat, f.o.b. US Gulf in calendar years.
Source: USDA historical data and estimates and World Bank price forecasts.

Bananas

The EU Commission is expected to submit its final proposal on the reform of the banana regime by September. While Costa Rica has rejected all three options under consideration, Ecuador has taken a more accommodating stance.

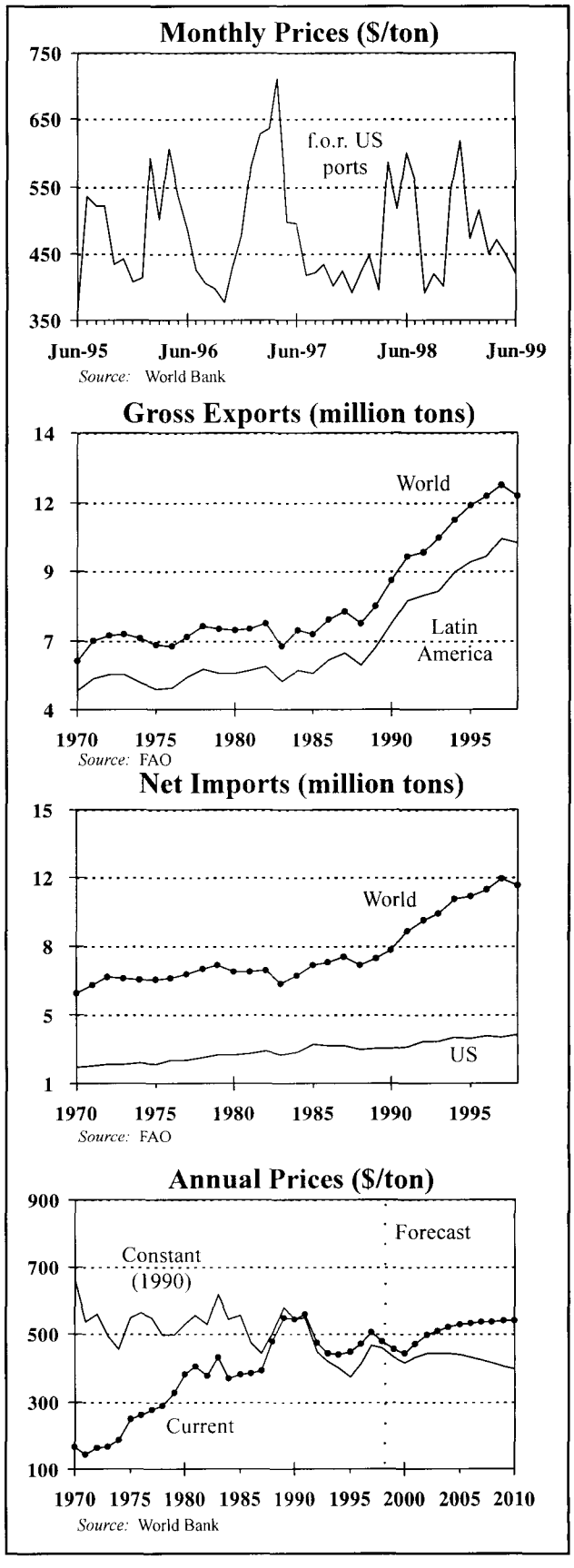
Banana prices averaged $444/ton during the second quarter, down from last quarter's average of $479.3/ton, and 21.8% lower than the second quarter of 1998. Prices followed the typical cyclical decline which takes place during the spring of the Northern Hemisphere.

According to the most recent FAO estimates, world gross banana exports in 1988 declined 3% (from 12.13 to 11.74 million tons). Most of the decline came from Ecuador which experienced a 13.5% reduction (from 4.45 to 3.85 million tons). The country took an additional hit of 8.2% during the first quarter of 1999 (from 1.08 to 0.99 million tons).

Global net imports experienced a similar decline, from 11.45 million tons in 1997 to an estimated 11.07 million tons in 1998. Substantial declines took place in China (36%), the Russian Federation (29%), and former Yugoslavia (20%). The demand in OECD countries, however, where most of banana imports take place, have held relatively well. A small increase took place in the US (from 3.35 to 3.50 million tons) while imports in the EU remained at their 1997 levels. Some preliminary statistics for 1999 indicate that imports in the US will be higher. For example, *Sopisco News* reported that shipments of bananas from Ecuador to the US (West Coast) for the first quarter of 1999 were 8% higher than for the same quarter of last year.

Following the WTO ruling last April, the EU Council invited the Commission to submit its final proposal on the reform of the banana regime by September – the Commission has already submitted a communication to the Council identifying three options for further reform. While Costa Rica has rejected all three options, Ecuador is willing to accept a system which is not based solely on custom duties.

Prices are expected to remain weak during the remainder of 1999 and average $450/ton. The weakness is expected to extend into the year 2000. Prices are expected to pick up later in the new year.



Other Developments

- Ecuador is seeking at least $200 million in compensation from the EU for the damage caused by the controversial banana regime.
- The Association of European Banana Producers (APEB) has formally taken a position against an exclusively tariff-based import regime in the EU reported *Sopisco News*. In a statement issued by its General Assembly, APEB said that such a system would prove disastrous for banana growers in Algarve, the Azores, the Canaries, Guadeloupe, Madeira, and Martinique.
- From May 4-8, the Intergovernmental Group of Bananas met in the Gold Coast of Australia. During the conference, which was co-sponsored by the FAO and the Australian Bananas Growers' Council, several issues were discussed ranging from the production and trade outlook to the development of disease-resistant banana varieties. On the latter issue, one speaker noted that while a Black Sigatoga-resistant variety is under development for cooking bananas, it will be awhile before a similar variety will be developed for fruit bananas.
- The International Finance Corporation, the private sector leg of the World Bank, announced a credit of US$15 million to Favorita Fruit Company, the second largest banana producer/exporter of Ecuador.

Gross Exports (000 tons)

	1995	1996	1997	1998
Ecuador	3,737	3,842	4,446	3,848
Costa Rica	2,033	1,933	1,835	2,099
Colombia	1,336	1,407	1,509	1,436
Philippines	1,213	1,253	1,154	1,128
Guatamela	646	611	659	855
Panama	693	634	602	463
Honduras	522	637	557	433
Mexico	110	163	240	280
Cameroon	171	191	180	220
Côte d'Ivoire	173	193	191	200
Nicaragua	54	78	70	103
Saint Lucia	113	102	74	71
Brazil	13	30	40	69
Dominican R.	94	80	64	65
Jamaica	85	86	79	63
Belize	52	65	63	60
China	47	57	52	52
Venezuela	32	40	62	45
St. V. & Gren.	44	50	35	43
Suriname	34	27	38	33
Malaysia	35	27	26	30
Dominica	32	40	35	29
World	**11,364**	**11,701**	**12,128**	**11,736**

Source: FAO and World Bank.

Net Imports (000 tons)

	1995	1996	1997	1998
US	3,266	3,368	3,354	3,498
EU	3,125	3,164	3,139	3,094
Japan	874	819	885	868
Russian Fed.	503	307	658	470
Canada	400	408	417	417
China	160	513	565	360
Poland	227	238	242	282
Saudi Arabia	173	156	156	170
Argentina	202	248	241	230
F. Yugoslavia	117	155	194	155
Czech, Rep.	158	148	147	151
Chile	145	151	137	134
Iran	120	120	120	120
Turkey	88	97	111	103
Korea, Rep.	122	124	136	83
Switzerland	75	74	74	73
New Zealand	72	70	74	72
UAE	60	69	70	66
Hungary	66	35	44	63
Slovakia	56	77	63	60
Norway	60	61	58	58
Syria	53	48	60	54
World	**10,567**	**10,867**	**11,455**	**11,077**

Source: FAO and World Bank.

Global Summary

	Actual					Est.	Annual Growth Rate (%)		
World Balance (000 tons)	1970	1980	1990	1996	1997	1998	1970-80	1980-90	1990-98
Production	31,777	36,969	47,177	56,688	58,778	58,618	1.5	2.4	1.7
Gross Exports	5,731	6,886	11,364	11,701	12,128	11,736	1.8	5.0	0.3
Net Imports	5,585	6,680	10,567	10,867	11,455	11,077	1.8	4.6	0.4

	Actual				Forecast				
Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	445.1	469.6	502.7	491.6	452.0	440.9	468.5	529.1	540.1
Constant 1990	373.4	412.0	463.8	471.8	431.2	414.0	429.3	438.8	396.1

Source: FAO and World Bank.

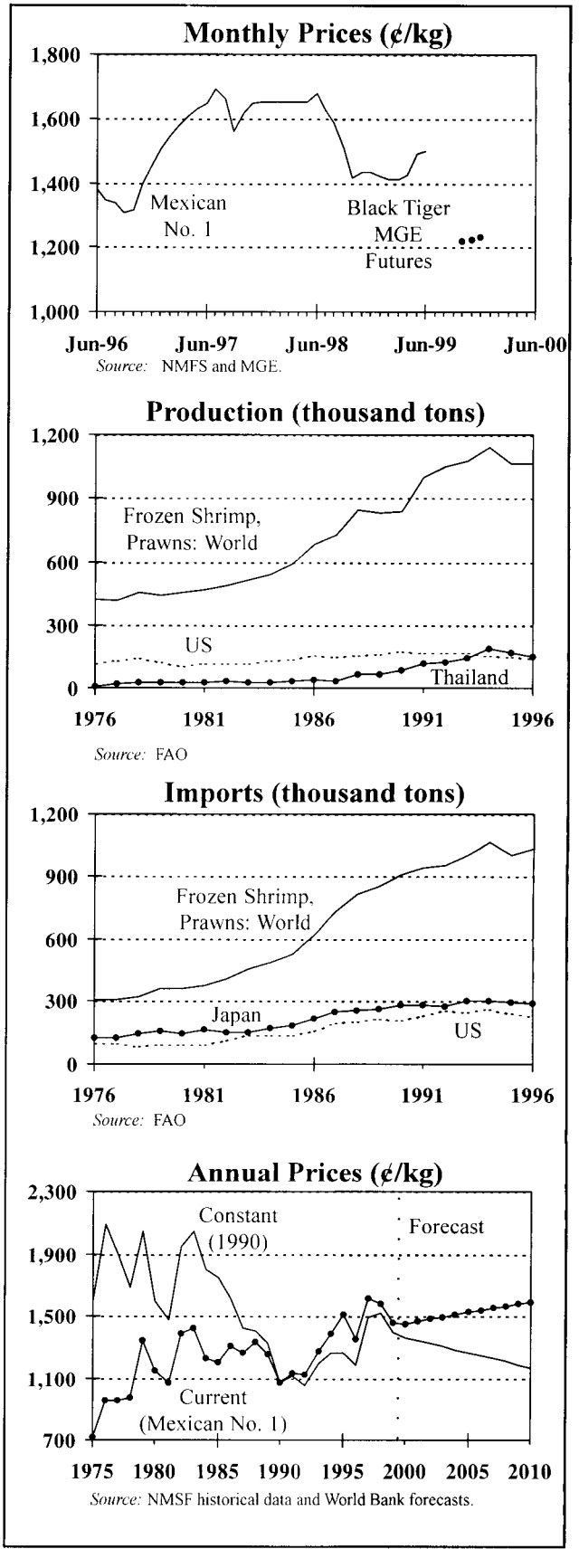
Shrimp

Shrimp prices have increased on continued strong US demand, but large supplies from Asian producers are expected to send prices lower. A recovery in Japan would improve the longer term outlook for shrimp prices.

Shrimp prices rose in the second quarter, with the prices of Mexican, frozen, white 26/30 count rising to 1,499¢/kg in June from a low of 1,411¢/kg in February and March. The strengthening of prices is not expected to continue. The US remains the strongest market for shrimp while demand in Japan remains weak.

The world shrimp market has remained weak for the past two years due primarily to weak import demand from Japan. Traditionally, Japan has been the largest importer followed closely by the US. However, the lingering recession has cut imports by Japan from slightly more than 300,000 tons in 1994 to 268,000 tons in 1997 and 239,000 tons in 1998. However, the trend may be changing as Japanese imports in the first quarter of 1999 were up 12% over the first quarter of 1998. This decline in Japanese imports has been offset by continued growth in US imports, but the growth has not been enough to strengthen overall import demand. US imports rose to 315,400 tons in 1998 from 294,100 in 1997 according to *Globefish*. This has led to a reallocation of exports away from the Japanese and European market and into the strong US market. Europe has remained the third largest import market, but the weak euro and sluggish economic conditions have keep demand from growing rapidly.

Large supplies of shrimp are expected as both Asian and Latin American producers increase output and this is expected to weaken prices. Thailand is the major suppliers of US shrimp imports, followed by Ecuador and Mexico. Thailand is expected to see lower production in 1999 due to a ban on inland shrimp farming in some provinces, the stronger baht, and changes in EU tax treatment of Thai shrimp. Ecuadorian shrimp production reached a record in 1998, making shrimp the third largest export. Ecuadorian producers are concerned that the white spot disease could spread from Central America. Mexico's shrimp production grew 16.7% in 1996 and an additional 4% in 1997 according to *Globefish*.



Other Developments

- Exporters facing weak global demand have turned to value added processing to enhance the value of shrimp exports. Such processing involves labor intensive activities such as peeling, peeling with the tail on, and butterfly shaped shrimp. These activities can increase the sale price of shrimp by an additional 20 to 25 percent for sales to Europe, Japan, and the US.
- Thailand's exports of frozen shrimp to the EU fell sharply after Thailand lost its special treatment for shrimp under the Generalized System of Preferences. Thai frozen shrimp are taxed at 14.4% compared to 9.7% in 1997 and 1998 and 4.5% previously, according to the *Bangkok Post*. EU importers shifted to other countries which had retained lower tariffs according to the report.

Production

	1994	1995	1996	1997
Production (000 tons)				
US	153.0	148.8	143.5	152.2
India	107.9	101.8	128.4	134.0
Ecuador	72.7	84.9	85.7	109.0
Thailand	191.0	165.7	152.0	79.4
Indonesia	88.7	78.2	79.6	77.6
Vietnam	63.1	38.7	38.8	41.6
Mexico	45.9	51.6	44.1	41.4
Greenland	35.0	33.0	34.7	30.8
Bangladesh	22.1	26.3	26.5	25.7
Spain	19.4	19.0	21.9	25.3
Pakistan	13.8	14.8	16.8	17.7
Iceland	31.2	35.1	38.7	15.6
Norway	25.0	16.1	17.8	15.2
Colombia	12.7	11.0	9.8	13.8
Panama	9.2	12.2	12.2	13.6
Australia	11.1	14.9	10.8	13.5
China, PR	61.0	48.0	56.9	13.5
Philippines	21.7	17.8	21.8	10.1
Korea, Rep	10.0	9.8	7.6	9.8
Mozambique	8.2	8.0	6.9	9.5
Myanmar	n.a.	4.5	8.7	9.1
Venezuela	4.7	5.2	7.0	8.6
Taiwan, China	4.3	2.6	2.1	7.5
Faeroe Islands	8.6	6.2	7.5	7.3
Nicaragua	3.3	4.7	4.9	7.2
Honduras	2.0	3.7	7.8	6.1
World	**1,143.3**	**1,060.7**	**1,063.7**	**n.a.**

Source: FAO

Trade

	1994	1995	1996	1997
Exports (000 tons)				
Ecuador	72.0	86.4	85.7	109.0
India	110.5	98.5	110.7	105.4
Thailand	178.5	165.7	152.0	79.4
Indonesia	83.8	76.6	79.6	77.6
Denmark	40.6	34.0	46.7	47.9
Vietnam	63.1	37.4	35.8	41.6
Mexico	24.4	35.9	35.8	35.7
Bangladesh	31.3	27.7	27.6	31.4
Greenland	34.3	33.0	34.7	30.8
Canada	18.2	21.2	17.7	21.8
Pakistan	15.5	14.9	15.6	17.7
Malaysia	12.9	14.6	14.9	16.6
World	**1,050.4**	**978.0**	**1,013.2**	**n.a.**
Imports (000 tons)				
Japan	303.5	293.1	289.0	267.6
US	263.1	245.2	230.3	259.5
Spain	108.2	80.5	82.7	77.0
Denmark	49.9	40.4	53.1	52.8
France	48.3	53.1	55.1	51.6
Canada	16.4	22.6	50.8	34.8
Italy	28.8	28.2	33.1	28.1
UK	27.8	26.6	25.1	25.9
HK, China	33.2	28.8	29.7	23.0
Belgium	19.7	22.2	21.2	20.7
Netherlands	14.5	17.2	14.3	14.4
Australia	8.3	7.9	8.1	13.5
World	**1,068.9**	**1,003.3**	**1,033.5**	**n.a.**

Source: FAO

Global Summary

	Actual						Annual Growth Rate (%)		
World Balance (000 tons)	1980	1985	1990	1994	1995	1996	1976-80	1980-90	1990-96
Production	451.4	593.2	838.9	1143.3	1,060.7	1,063.7	2.2	7.6	3.3
Imports	361.9	524.1	905.5	1068.9	1,003.3	1,033.5	5.1	10.6	2.4
	Actual				Forecast				
Prices (¢/kg)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	1,509.2	1,351.6	1,611.6	1,578.9	1,460.0	1,450.0	1,465.0	1,525.0	1,590.0
Constant 1990	1,266.1	1,183.6	1,487.0	1,515.4	1,392.9	1,361.5	1,342.4	1,264.7	1,166.0

Note: Production, trade, exports and imports are for the calendar year for frozen shrimp and prawns.
Source: FAO, NMFS historical data, and World Bank forecasts.

Sugar

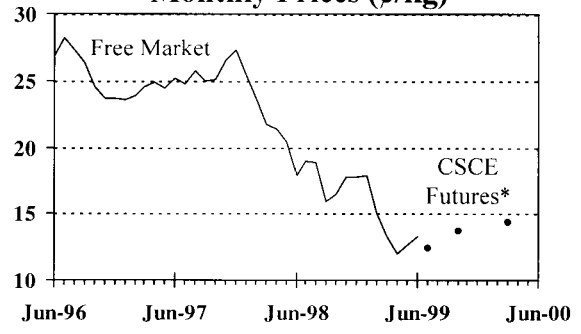
Increased imports lifted prices this quarter, but the prospects of a recovery of prices in the next year are slim. Early signs are for another record crop next year even while the current record crop is still being digested.

Sugar prices finally hit bottom in April and bounced higher in May and June. But, few are betting that prices are heading higher for long. An unexpected surge in imports caught the sugar market short and traders had to scramble to meet the demand from several buyers. By the end of June, prices had risen back above 6.0¢/pound (13.2¢/kg) after falling below 5.0¢/pound in April (11.0¢/kg). However, the fundamentals have not changed, and that is the problem.

World production for the 1998/99 marketing year (October/September) is projected to reach 130.4 million tons of raw sugar equivalent according to the latest estimates from the International Sugar Organization (ISO) while consumption is estimated at just under 128 million tons. The difference of about 2.5 million tons will go into stocks – the fourth consecutive increase in world stocks. Brazil, the world's largest producer, is expected to harvest a record 18.9 million tons of raw sugar and more of this sugar is likely to find its way into the international market because of the reduced use of sugar for Brazil's domestic alcohol for fuel production program. Add to that the devaluation of the Brazilian real in January and sugar prices don't appear to be heading higher.

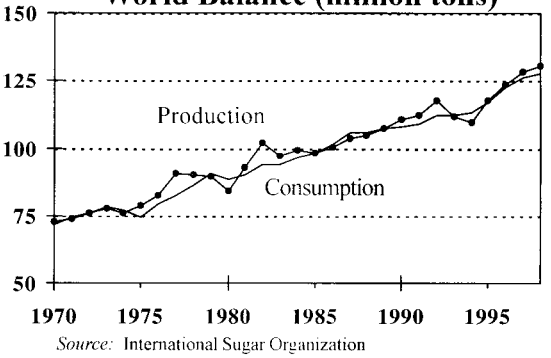
Imports are not expected to rise enough to deplete the surplus of sugar in the world market, but sugar trade got a boost this quarter when Russian importers bought to avoid a new tax on sugar imports. The Russian government has imposed a 45% import duty on sugar arriving after August 1st. This led to aggressive buying in order to deliver shipments prior to the tax increase. The unexpected surge in buying ahead of the import duty led to a shortage of refined white sugar in the European market and to an increase in raw sugar prices. Raw sugar prices rose 5.7% in May and an additional 5.5% in June. Other importers also emerged, including India and the Philippines. However, it is doubtful that prices can remain above 6.0 ¢/pound for long according to most sugar experts.

Monthly Prices (¢/kg)



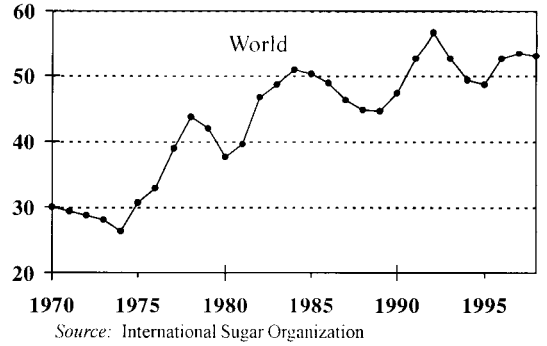
*Futures prices are end-June expressed in ¢/kg.
Source: International Sugar Organization

World Balance (million tons)



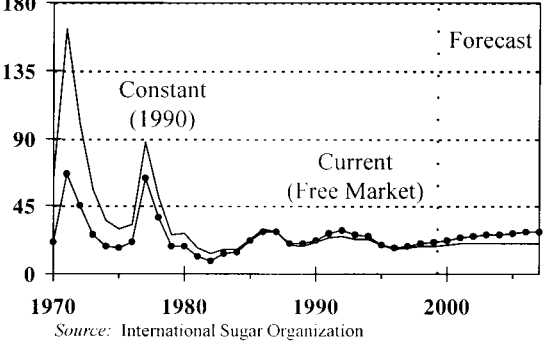
Source: International Sugar Organization

Ending Stocks (million tons)



Source: International Sugar Organization

Annual Prices (¢/kg)



Source: International Sugar Organization

Other Developments

- Depressed sugar prices are taking a toll on sugar producers and leading to pressure on governments to strengthen or introduce policies which provide protection for domestic sugar producers. *International Sugar and Sweetener Report* noted that the Indonesian State Enterprise Minister has pleaded for a temporary halt to sugar imports due to falling prices. In Thailand, representatives of the three sugar mills and the sugar trade association are pressing the government to raise domestic sugar prices to help offset the impact of low sugar prices. Hungary will introduce extra tariffs on sugar imports to protect the domestic industry from cheaper imports, according to the Ministry of Economic Affairs.
- F.O. Licht reports in its *International Sugar and Sweetener Report* (5/21) that the Russian government resolution to impose a 45% seasonal import duty on raw and white sugar will take effect August 1st and last until November 30th for raw and January 31, 2000 for white sugar.

Production and Consumption

	1995/96	*1996/97*	*1997/98*	*1998/99*
Production (000 tons)				
Brazil	14,625	15,269	18,134	18,900
EU	16,950	18,756	19,275	17,800
India	17,665	13,898	13,971	16,550
China	6,790	7,323	8,747	8,750
US	6,685	6,537	7,274	7,400
Thailand	6,379	6,099	4,325	5,475
Australia	5,350	5,793	5,480	5,200
Mexico	4,750	4,822	5,492	5,025
Pakistan	2,675	2,460	3,800	3,900
Cuba	4,635	4,316	3,200	3,700
World	**123,949**	**123,698**	**128,158**	**130,442**
Consumption (000 tons)				
India	14,325	15,195	15,975	16,250
EU	13,950	14,605	14,895	15,120
Brazil	8,475	8,800	9,200	9,300
US	8,685	8,838	8,923	9,140
China	8,100	8,050	8,555	8,625
Russian Fed.	5,300	5,325	5,350	5,350
Mexico	4,375	4,140	4,416	4,500
Pakistan	3,020	2,910	3,050	3,150
Indonesia	3,010	3,280	3,250	3,000
Japan	2,600	2,478	2,425	2,385
World	**118,003**	**122,231**	**126,274**	**127,981**

Source: International Sugar Organization

Trade

	1995/96	*1996/97*	*1997/98*	*1998/99*
Exports (000 tons)				
Brazil	5,435	5,995	8,483	8,500
EU	4,305	5,064	6,158	4,855
Australia	4,365	4,415	4,222	4,207
Thailand	4,758	4,129	2,570	3,470
Cuba	3,810	3,597	2,500	2,990
Guatemala	920	1,047	1,324	1,310
S. Africa, Rep.	674	939	1,078	1,100
Colombia	900	808	849	875
Mexico	425	742	1,137	825
Pakistan	25	0	500	650
World	**34,755**	**35,410**	**36,180**	**35,868**
Imports (000 tons)				
Russian Fed.	3,200	3,060	4,850	3,800
US	2,525	2,620	2,106	2,000
EU	4,305	1,902	1,896	1,825
Japan	1,790	1,726	1,605	1,565
Korea, Rep.	1,210	1,446	1,380	1,445
Iran, Islamic R.	890	1,390	1,150	1,170
Indonesia	735	1,690	770	1,150
Canada	1,105	1,064	1,068	1,150
Malaysia	1,050	1,122	1,010	1,000
Egypt	690	1,295	945	985
World	**34,024**	**35,425**	**35,921**	**35,211**

Source: International Sugar Organization

Global Summary

	Actual					*Est.*	*Annual Growth Rate*		
World Balance (mil. tons)	*1970/71*	*1980/81*	*1990/91*	*1996/97*	*1997/98*	*1998/99*	*1970-80*	*1980-90*	*1990-98*
Production	72.9	83.9	110.7	123.7	128.2	130.4	2.2	2.0	2.0
Consumption	71.9	88.6	107.9	122.2	126.3	128.0	2.2	2.1	2.3
Ending Stocks	30.0	37.7	47.3	52.6	49.3	48.8	4.4	1.2	0.5
	Actual				*Forecast*				
Prices (¢/kg)	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Current	29.3	26.4	25.1	19.7	13.2	13.2	14.3	22.0	25.0
Constant 1990	24.6	23.1	23.1	18.9	12.6	12.4	13.1	18.3	18.3

Note: Quantities are in marketing years (October/September), measured in raw value, except world ending stocks, which are in calendar years. Prices are in calendar years.

Source: Historical data from the International Sugar Organization and World Bank price forecasts.

Cotton

The latest forecasts for the US crop, in combination with good production prospects elsewhere, point to a more than 6% output growth in 1999/00. Despite a 0.5% to 1.0% growth in demand, pressure due to excess supply is an inevitable market outcome.

Following a short-lived recovery in May, the medium staple cotton price indicator (Cotlook A Index) declined in June following reports of a larger than expected US crop. The second quarter's average of 129.4¢/kg was 4.5% higher that the first quarter's, but still 11.5% lower than the same quarter of last year.

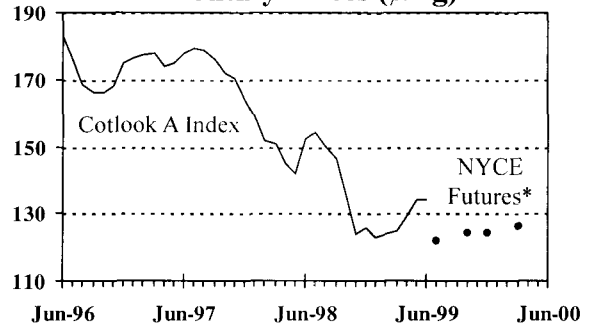
According to the most recent estimates released by the International Cotton Advisory Committee (ICAC), world cotton production for the 1999/00 season (August to July) will be 19.44 million tons, 6% higher than last season. Consumption is expected to be 18.96 million tons, thus pointing to another surplus year. Ending stocks are expected to be 9.82 million tons, up from last season's 9.44 million tons.

This quarter's end was dominated by news regarding the release of the latest USDA report which puts the 1999/00 US crop at 4.0 million tons, almost 8% higher than the previous estimate of 3.7 million tons and 30% higher than the 1998/99 crop. Following the report's release, the New York second position declined by almost 6%. With the exception of China's production, which is expected to decline by 9%, production in the rest of the world is expected to increase: in India 8%, Syria 16%, and Uzbekistan 10%. Argentina, Greece, and West Africa are also expected to register increases of 9%, 10%, and 7%.

Imports are expected to pick up. The East Asian major cotton importers are expected to increase their imports over the 1997/98 season (the crisis year) by 13% (Indonesia), 17% (Republic of Korea), 8% (Taiwan, China), and 3.5% (Thailand). Russian imports are also expected to return to the 1997/98 levels, following a 22% decline in the last season.

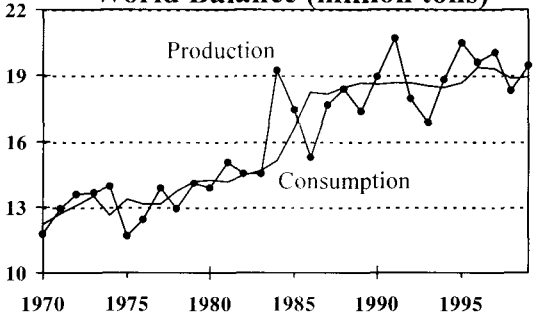
Despite modest growth in consumption (from 18.86 to 18.96 million tons), with production growth expected to exceed 6%, further pressure on the cotton market is the only likely outcome. The Cotlook A Index is expected to average about 128 ¢/kg in 1999 (down from 144.4 ¢/kg in 1998).

Monthly Prices (¢/kg)



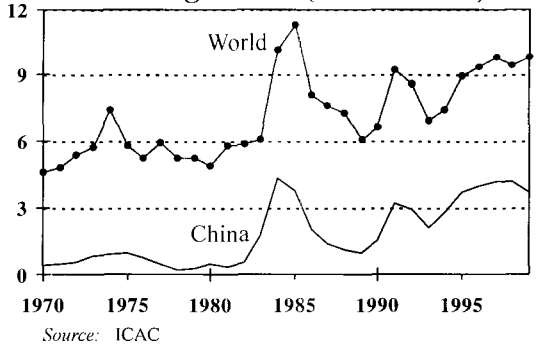
*Futures are end-June expressed in c/kg.
Source: Cotton Outlook and NYCE.

World Balance (million tons)



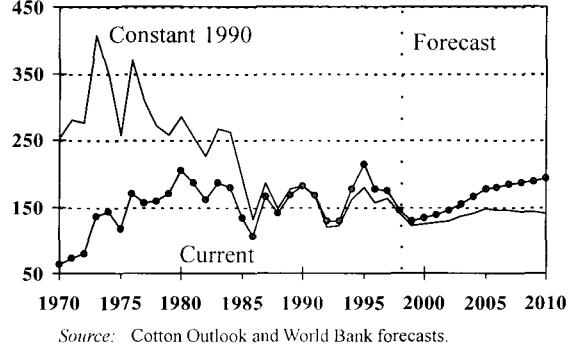
Source: ICAC

Ending Stocks (million tons)



Source: ICAC

Annual Prices (¢/kg)



Source: Cotton Outlook and World Bank forecasts.

Other Developments

- Recognizing that its cotton sector productivity is lagging behind, India announced an ambitious 5-year program which includes modernizing ginning facilities, improving marketing, and efficient delivery of inputs. India's cotton yield is 321 kg/hectare compared to the world average of 575 kg/hectare.
- The Textile Monitoring Body (part of the WTO) overruled Washington's attempt to impose quotas on yarn imports from Pakistan according to *Cotton Outlook*. Inexpensive yarn from Asian suppliers has been a very contentious issue on both sides of the Atlantic and often subject to intense lobbying favoring antidumping duties, especially in the EU. Moreover, European spinners' purchasing power has been further undermined recently due to the euro's recent weakness. Since its inception in January 1, 1999 the euro has depreciated 13% against the US$.
- The authorized guarantees under the GSM-102 export guarantee program of the US was US$ 3,937 million, of which 220 million has already been used for cotton exports. The distribution of funds is (in millions of US$): Central America 14.8, Indonesia 8.3, Mexico 143.9, Republic of Korea 12.1, South America 21.9, and Turkey 19.5.

Production and Stocks

	1996/97	1997/98	1998/99	1999/00
Production (000 tons)				
China	4,100	4,600	4,500	4,100
US	4,803	4,092	3,048	4,000
India	2,351	2,450	2,635	2,850
Pakistan	1,800	1,530	1,450	1,500
Uzbekistan	1,198	1,150	1,000	1,100
West Africa	716	956	954	1,020
Turkey	792	795	858	865
Australia	552	681	615	630
Greece	400	348	345	380
Brazil	368	370	370	366
Syrian Arab R.	223	355	303	350
Argentina	230	275	250	272
World	**19,622**	**20,015**	**18,308**	**19,441**
Ending Stocks (000 tons)				
China	4,438	4,198	4,157	3,678
US	829	844	823	1,272
India	760	811	962	1,118
Pakistan	312	323	292	372
West Africa	242	255	306	323
Brazil	213	330	341	308
World	**9,419**	**9,825**	**9,440**	**9,815**

Source: ICAC

Trade

	1996/97	1997/98	1998/99	1999/00
Exports (000 tons)				
US	1,550	1,695	860	1,300
Uzbekistan	1,050	950	909	959
West Africa	690	815	850	897
Australia	467	625	666	522
Greece	251	200	215	217
Argentina	324	189	209	159
World	**6,076**	**5,982**	**5,192**	**5,540**
Imports (000 tons)				
Indonesia	475	425	456	479
Mexico	161	330	305	398
Brazil	493	380	366	366
Italy	356	350	343	348
Korea, Rep.	284	265	315	310
Turkey	243	280	211	303
Taiwan, China	300	275	275	297
Thailand	298	285	303	295
Japan	270	285	290	250
Russia Fed.	406	223	174	213
Portugal	164	172	160	170
Germany	153	155	140	150
World	**6,160**	**5,725**	**5,331**	**5,540**

Source: ICAC

Global Summary

	Actual					Est.	Annual Growth Rate (%)		
World Balance (000 tons)	1970/71	1980/81	1990/91	1997/98	1998/99	1999/00	1970-80	1980-90	1990-99
Production	11,740	13,832	18,970	20,015	18,308	19,441	1.6	3.2	0.2
Consumption	12,173	14,215	18,576	19,302	18,863	18,964	1.6	2.7	0.2
Exports	3,875	4,414	5,081	5,982	5,192	5,540	1.3	1.4	0.8
Ending Stocks	4,605	4,895	6,645	9,825	9,440	9,815	0.6	3.1	3.5
Yields (tons/ha)	369	411	574	590	551	575	1.1	3.3	0.0
	Actual				Forecast				
Prices (¢/kg)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	212.8	177.3	174.8	144.4	128.1	132.3	136.7	176.4	191.8
Constant 1990	178.5	155.6	161.3	138.6	122.2	124.2	125.3	146.3	140.7

Note: Crop year begins August 1.
Source: ICAC and World Bank.

Rubber

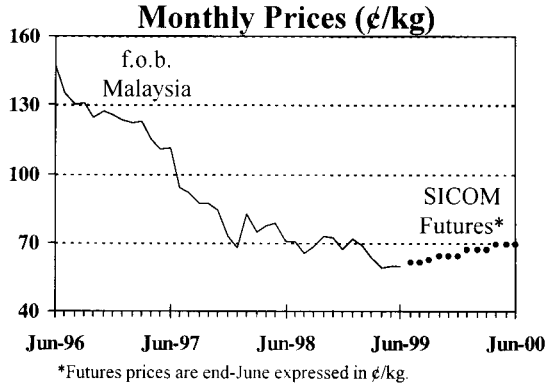
Despite INRO's sporadic purchases, rubber prices reached new lows. Sri Lanka is the third INRO member expected to leave the organization.

The Kuala Lumpur rubber indicator price reached a new low of 59.7¢/kg this quarter, which is 12% lower than last quarter's average and more than 20% lower than a year ago. Both New York and Singapore prices reached new lows, 77.5¢/kg and 59.9¢/kg, respectively (7.4% and 8.6% lower than last quarter and 15.8% and 18.4% lower than a year ago).

The latest statistics published by the International Natural Study Group (IRSG) indicate that global natural rubber production reached 6.67 million tons in 1998 (up 4.5% from 1997, which is higher than the 3-decade trend annual growth of 3.2%). Thailand and Indonesia, the world's two dominant natural rubber producers, increased production by 8% and 16%, respectively last year, mainly in response to high domestic currency prices received by producers as a result of the East Asian crisis. Global natural rubber consumption increased by 1.5%, all of which is attributed to the US (from 1,044 thousand tons in 1997 to 1,157 thousand tons in 1998).

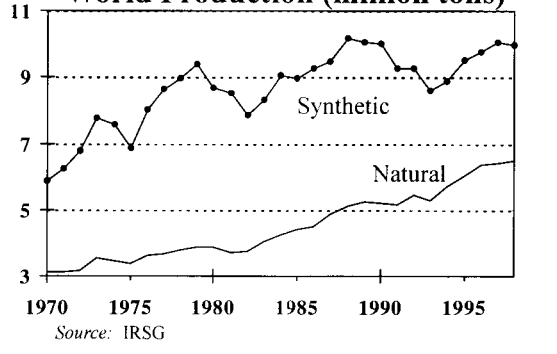
Production of synthetic rubber dropped to 9.95 million tons from 10.04 tons in 1997. While production of synthetic rubber during the 1970s and 1980s grew by 7.7% and 1.3% annually, it has been stagnant during the 1990s. The largest cut back in synthetic rubber production was experienced by the Russian Federation (from 725 thousand tons in 1997 to 599 thousand tons in 1998). The Russian Federation also experienced the largest decline in synthetic rubber consumption (from 450 thousand tons to 420 thousand tons).

Given the uncertainty of INRO's future and the bearish demand-side fundamentals, it is unlikely that rubber prices will recover this year. We have therefore lowered our 1999 forecast to 62¢/kg (from our earlier figure of 66¢/kg). Some recovery is expected to take place in 2000 which may push prices up to 70¢/kg, but that will depend crucially on whether (and how much) Thailand and Malaysia will be able to cut back exports.



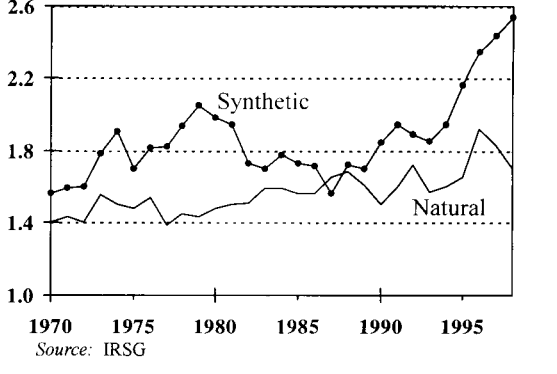
Monthly Prices (¢/kg)

*Futures prices are end-June expressed in ¢/kg.
Source: World Bank and SICOM.



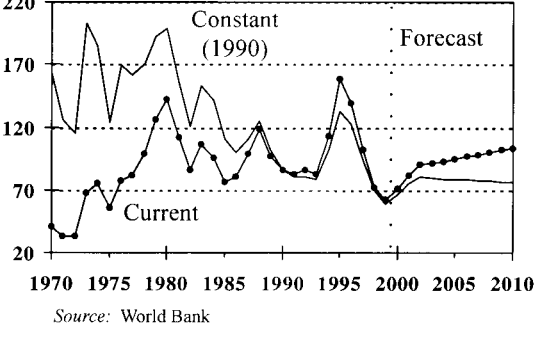
World Production (million tons)

Source: IRSG



World Ending Stocks (million tons)

Source: IRSG



Annual Prices (¢/kg)

Source: World Bank

Other Developments

- Following Malaysia's and Thailand's withdrawal notices to INRO (expected to be effective October 1999 and March 2000), Sri Lanka recently indicated that it will leave INRO. Although Sri Lanka accounts for less than 2% of the world's natural rubber production, its intention to leave INRO may trigger departures of other small producers which will eventually bring the Organization's end one step closer to reality. INRO's ability to intervene has been limited since the only significant contributor to the buffer stock manager's funds has been Indonesia.
- Malaysia and Thailand are considering establishing a joint buffer stock in order to reduce exports and prop up prices. The operation is expected to be formalized by August and will hold up to 300,000 tons of natural rubber. Following the recent price collapse, both countries initiated their own government-supported rubber purchasing mechanisms.

Natural Rubber

	1995	*1996*	*1997*	*1998*
Production (000 tons)				
Thailand	1,805	1,970	2,033	2,198
Indonesia	1,455	1,527	1,505	1,748
Malaysia	1,089	1,083	971	886
India	500	540	580	585
China	424	430	444	450
Vietnam	159	189	201	219
Côte d'Ivoire	74	91	108	109
Sri Lanka	106	113	106	96
World	**6,040**	**6,370**	**6,380**	**6,670**
Consumption (000 tons)				
US	1,004	1,002	1,044	1,157
China	780	810	910	839
Japan	692	715	713	707
India	517	558	572	575
Germany	212	193	212	248
World	**5,990**	**6,150**	**6,510**	**6,610**
Net Exports (000 tons)				
Thailand	1,636	1,763	1,837	1,839
Indonesia	1,324	1,434	1,404	1,648
Malaysia	778	710	587	425
Vietnam	117	141	151	165
World	**4,290**	**4,500**	**4,460**	**4,530**

Source: IRSG

Synthetic Rubber

	1995	*1996*	*1997*	*1998*
Production (000 tons)				
US	2,530	2,486	2,589	2,610
Japan	1,497	1,520	1,592	1,520
France	618	583	595	606
Russian Fed.	837	775	725	599
China	493	553	580	589
Germany	480	548	555	580
Korea, Rep.	372	516	540	530
Taiwan, China	365	376	408	428
World	**9,490**	**9,770**	**10,040**	**9,950**
Consumption (000 tons)				
US	2,172	2,187	2,323	2,354
Japan	1,085	1,125	1,163	1,116
China	760	870	995	1,000
Germany	426	478	501	529
Russian Fed.	424	438	450	420
World	**9,250**	**9,590**	**9,950**	**9,850**
Gross Exports (000 tons)				
US	667	732	769	742
France	481	462	507	497
Germany	389	403	423	456
Japan	451	477	494	490
World	**4,390**	**4,540**	**4,980**	**5,120**

Source: IRSG

Global Summary

	Actual						*Annual Growth Rate (%)*		
Natural Rubber (000 tons)	*1970*	*1980*	*1990*	*1996*	*1997*	*1998*	*1970-80*	*1980-90*	*1990-98*
Production	3,140	3,820	5,080	6,370	6,380	6,670	3.9	2.9	3.4
Consumption	3,090	3,770	5,190	6,150	6,510	6,610	4.0	3.2	3.0
Net Exports	2,820	3,280	3,950	4,500	4,460	4,530	3.0	1.9	1.7
Ending Stocks	1,440	1,480	1,500	1,910	1,780	1,840	0.5	0.1	2.6
Synthetic Rubber (000 tons)									
Production	5,880	8,640	9,840	9,770	10,040	9,950	7.7	1.3	0.1
Consumption	5,610	8,830	9,620	9,590	9,950	9,850	9.1	0.9	0.3
Gross Exports	1,460	2,320	3,370	4,540	4,980	5,120	9.3	3.7	5.2
Ending Stocks	1,560	1,740	1,890	2,350	2,440	2,540	2.2	0.8	3.7

	Actual				*Forecast*				
Prices-Natural (¢/kg)	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Current	158.0	139.4	101.8	72.2	61.0	70.6	81.6	94.8	103.6
Constant 1990	132.5	122.3	93.9	69.3	59.2	66.2	74.8	78.6	76.0

Source: IRSG and World Bank.

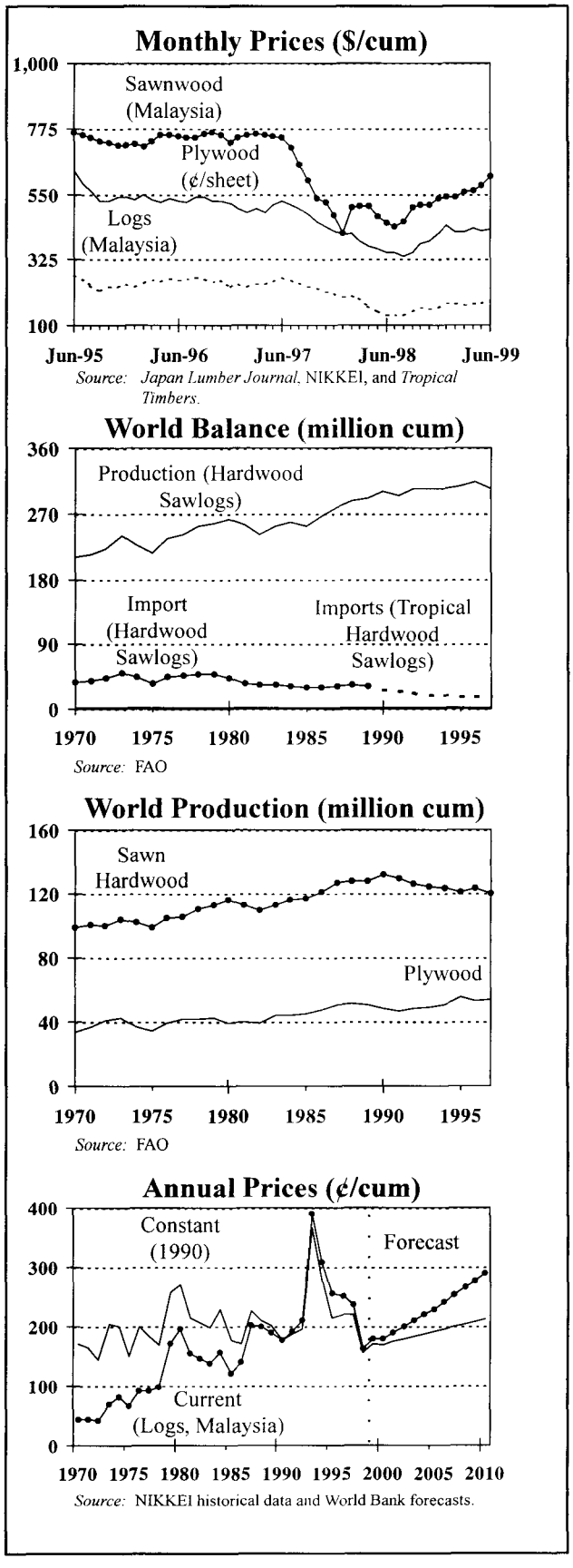
Tropical Timber

Malaysian Meranti timber prices continued to recover while African Sapele log and sawnwood prices fell from the pressure from the Southeast Asian markets and sluggish economic growth in Europe.

Malaysian Dark Red Meranti logs prices increased 12.3% in June compared to December 1998, and 36% compared to the lows which following the Asia crisis. In contrast, Cameroonian redwood Sapele logs fell 16.8% since December in lagged response to the decline in Asian timber prices. Similarly, Malaysian Dark Red Meranti sawnwood prices increased 13.7% since December and 39.1% since last July, while Cameroonian Sapele sawnwood lost 19.0% and 17.9%, respectively, since December and July.

Southeast Asian log and sawnwood prices firmed this quarter mainly due to low supplies caused by wet weather conditions which continued to hamper log harvesting, and partly due to improved demand conditions in the region. Political instability in Indonesia also limited log supplies. Demand has begun to improve in the region, but the prospects of economic recovery in the key Japanese market remains uncertain. Japan's housing starts rose 7.3% in June from the same month of 1998 according to *Agence France-Presse* (AFP). Japan's industrial production rose 3% in June from the previous month, the first upturn in three months, according to *Xinhua News*. However, Japan's unemployment rate rose in June. Given the mixed signals on Japan's current economic climate, plywood traders expect demand to remain relatively flat.

African Sapele timber prices declined due to the weak euro and sluggish economic growth in Europe. However, Sapele prices may be near bottom, with demand for the rest of the year expected to improve after the summer slowdown. Demand from France has remained strong due to the increase in French housing starts, up 16.7% in the second quarter compared to the second quarter of last year according to AFP. While the demand for Sapele timber in European countries is strong, the price pressure from Southeast Asian timber has contributed to the weakness in Sapele prices. The recent increase in ocean freight has also weakened the demand for timber. Sapele inventories in UK has been reported to be high up to now.



Other Developments

- USDA reports that the Malaysian construction sector contracted 25% in 1998. Malaysia exported 5,583 thousands cubic meters (cum) of hardwood logs in 1998, a decline of 15.3% from 1997. Sawn hardwood exports in 1998 totaled 2,702 thousands cum, a decline of 10.1%. Plywood exports in 1998 was 3,630 thousands cum, an increase of 0.4%.
- The Indonesian government announced in May, as part of its negotiation with the World Bank and IMF, a plan to increase the timber harvest tax from 6% to 10%. No date has been set for its implementation.
- The Japan South-Sea Lumber Conference's projection of Japan's demand in 1999 for hardwood logs from the Southeast Asia region is about 3.7 million cum, 6.7% down from 1998. Demand for plywood manufacture about 3.3 million cum, 4.4% less than 1998, and 377,000 cum for sawnwood, 23.1% less than 1998, *ITTO* reported.

Hardwood Logs (000 cum)			Sawn Hardwood (000 cum)			Plywood (000 cum)		
	1996	*1997*		*1996*	*1997*		*1996*	*1997*
Prod. of Sawlogs & Veneer			**Production**			**Production**		
US	70,116	70,721	US	29,650	29,972	US	16,975	15,897
Malaysia	33,980	33,980	India	14,960	14,960	Indonesia	9,575	9,600
Indonesia	32,250	32,250	Brazil	10,500	10,500	China, PR	4,900	7,580
Brazil	26,000	26,000	China, PR	10,211	10,211	Malaysia	4,100	4,100
China, PR	22,000	22,000	Malaysia	8,232	8,232	Japan	4,311	3,830
India	15,812	15,812	Indonesia	7,200	7,100	Brazil	1,900	1,900
World	**314,658**	**305,000**	**World**	**123,174**	**120,000**	**World**	**52,870**	**53,500**
Exports of Tropical Hardwood			**Exports**			**Exports**		
Malaysia	6,987	6,593	Malaysia	3,660	3,007	Indonesia	8,564	8,500
PNG	2,962	2,165	US	2,692	2,890	Malaysia	4,068	3,825
Gabon	2,231	2,082	Brazil	906	885	US	1,384	1,624
Cameroon	1,307	1,373	Canada	850	1,022	Canada	872	859
Solomon Isl.	765	755	France	844	684	Russian Fed.	612	615
World	**17,324**	**15,930**	**World**	**16,713**	**16,525**	**World**	**20,375**	**20,715**
Imports of Tropical Hardwood			**Imports**			**Imports**		
Japan	6,185	5,795	Thailand	2,200	1,360	Japan	5,381	5,422
Taiwan, China	1,600	1,600	Japan	1,954	1,789	US	1,866	1,868
Korea, Rep.	1,211	1,181	Taiwan, China	1,098	1,098	China, PR	1,775	1,607
Thailand	883	816	Canada	930	1,024	Germany	975	1,083
Philippines	776	680	China, PR	870	1,050	HK, China	962	1,074
World	**16,701**	**16,900**	**World**	**19,054**	**20,273**	**World**	**19,145**	**19,000**

Source: FAO and World Bank estimates.

Global Summary

	Actual					*Est.*	*Annual Growth Rate (%)*		
World Balance (mil. cum)	*1970*	*1980*	*1990*	*1995*	*1996*	*1997*	*1970-80*	*1980-90*	*1990-97*
Hardwood logs prod.*	210	262	300	308	315	305	2.1	1.8	0.6
Hardwood logs imports*	36.1	42.2	25.1	17.4	16.7	16.9	1.7	-2.0	-6.0
Sawn hardwood prod.	98.5	115.8	131.7	120.8	123.2	120.0	1.5	1.7	-1.2
Sawn hardwood imports	7.1	13.2	16.1	19.5	19.1	20.3	6.7	3.9	3.6
Plywood production	33.4	39.4	48.2	55.5	52.9	53.5	1.4	2.9	2.2
Plywood imports	4.9	6.0	14.9	19.0	19.1	19.0	2.2	10.1	4.1
	Actual				*Forecast*				
Prices ($/cum)	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Logs, current	255.6	252.1	238.3	162.4	179.0	180.0	190.0	230.0	290.0
Logs constant 1990	214.4	220.8	219.8	155.9	170.8	169.0	174.1	190.7	212.7
Sawn hardwood, current	740.0	741.4	663.8	484.1	570.0	580.0	600.0	720.0	900.0
Sawn hardwood constant	620.8	649.2	612.4	464.7	543.8	544.6	549.8	597.1	660.0

*Imports for 1970-89 and producton for all years refer to hardwood sawlogs and veneer logs. Imports from 1990 onwards are tropical hardwood sawlogs and veneer logs.

Source: FAO, NIKKEI historical data, and World Bank estimates and forecasts.

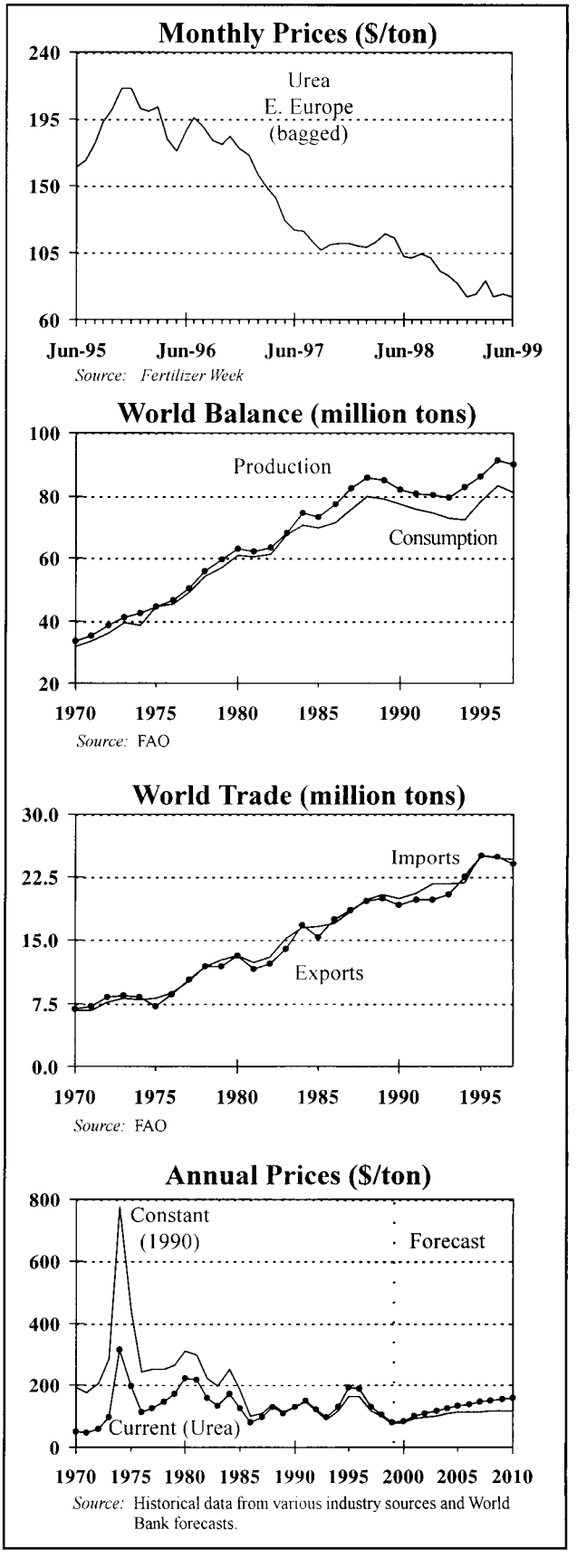
Nitrogen

Attempts to curtail exports have broken down, sending prices lower. Further weakness is expected as exporters vie for import business.

The brief rally in urea prices which added $10/ton in March has given way to increased production, aggressive export competition and rising stocks. Urea prices fell to new lows of $75/ton in June (bagged, f.o.b. Eastern Europe) as large supplies flooded the market. Bulk urea prices fell back to the January lows of $63/ton (f.o.b. Eastern Europe). Further weakness is expected at least through August as large export supplies remain available.

Attempts by Russia and Ukraine, which together account for 20% of world exports, to reach an agreement to curtail production and exports of urea fertilizer were unsuccessful and production increased sharply in the first quarter. Russian urea production rose 78% compared to the same quarter of 1998, from 475,000 tons in 1998 to 850,000 tons in 1999, according to *Fertilizer Week*. A similar increase occurred in Ukraine, as urea production in the five major export-oriented plants increased from 437,000 ton during the first quarter of 1998 to 777,30 tons during the first quarter of 1999. Ammonium nitrate production also increased in both Russia and Ukraine, but by lesser amounts than the increase in urea.

The demand side of the nitrogen fertilizer market has been stronger than expected. India has scheduled large imports, and demand from Mexico has also been strong. Imports in Mexico were used to replace lost production from Agro Nitrogenados de Mexico (Agromex), which was forced to stop production when its parent company filed for bankruptcy. However, hopes for China's return as a urea importer were dashed by the recent report that China's urea inventories rose 21% during the first quarter. Inventories are now about double the monthly production of 2 million tons. The increased stocks come after a period of declines following last year's floods and the heavy demand for urea to rebuild food grain supplies. Last year, China increased urea production capacity by 10% and this rate of increase will be continued in the early years of the next decade according to a government official speaking at the recent International Fertilizer Conference '99 held in Manila.



Other Developments

- Mexico's sole producer of urea, Agro Nitrogenados de Mexico (Agromex), was forced to stop production when its parent company filed for bankruptcy. The production stoppage occurred in mid-May as farmers were entering the peak demand season. It could take several months for Agromex to resolve its financial problems and resume production. This leaves an opportunity for imports to enter the market.
- The European Commission has agreed to begin a new anti-dumping investigation into exports of urea ammonium nitrate to the European Union from Algeria, Belaarus, Lithuania, Russia, Slovakia and Ukraine, according to *Fertilizer Week.*
- India's Cabinet Committee of Economic Affairs approved three large urea projects according to local sources as reported in *Fertilizer Week.* The approved projects are located in western India and each will have a capacity of 768,000/tons per year.
- The Islamic Republic of Iran has approved a new urea and ammonia complex which would be built in the Kermanshah region in western Iran. Planned capacity is around 1,750/tons/day of granular urea and 1,000/tons/day of ammonia.

Production and Consumption

	1994/95	1995/96	1996/97	1997/98
Production (000 tons)				
China	16,412	18,331	20,736	20,245
US	14,017	14,244	15,226	15,372
India	7,944	8,769	8,593	10,083
Russian Fed.	4,027	4,713	4,900	4,293
Canada	3,801	4,019	4,049	4,122
Indonesia	2,565	2,858	3,045	3,059
Ukraine	1,935	1,871	2,083	2,022
Netherlands	1,785	1,595	1,772	1,848
Pakistan	1,547	1,693	1,682	1,661
Poland	1,269	1,469	1,549	1,545
World	**82,746**	**86,004**	**90,973**	**90,092**
Consumption (000 tons)				
China	18,872	23,036	24,932	22,955
US	10,631	11,161	11,206	11,163
India	9,507	9,823	10,302	10,905
France	2,309	2,392	2,525	2,518
Pakistan	1,738	1,984	1,985	2,088
Indonesia	1,649	1,844	2,084	1,838
Germany	1,787	1,769	1,758	1,788
Canada	1,456	1,576	1,671	1,708
Brazil	1,225	1,151	1,197	1,306
UK	1,339	1,328	1,438	1,251
World	**72,247**	**77,986**	**83,017**	**81,177**

Source: FAO

Trade

	1994/95	1995/96	1996/97	1997/98
Exports (000 tons)				
Russian Fed.	2,814	3,661	3,646	3,122
US	2,902	2,997	2,989	3,038
Canada	1,955	2,179	2,090	1,878
Netherlands	1,480	1,457	1,505	1,435
Ukraine	1,301	1,231	1,464	1,418
Indonesia	740	914	711	1,087
Bel-Lux	1,001	978	1,043	1,074
Saudi Arabia	911	788	845	806
Poland	457	637	520	590
Germany	630	831	676	561
World	**22,433**	**25,157**	**24,894**	**23,957**
Imports (000 tons)				
US	4,702	4,569	4,132	4,697
China	2,517	4,834	4,374	2,935
India	1,473	2,008	1,156	1,375
Germany	1,249	1,218	1,165	1,224
France	1,218	1,306	1,222	1,112
Vietnam	903	785	937	952
Italy	679	600	736	787
Thailand	687	780	811	779
Brazil	494	426	495	686
Australia	428	493	628	679
World	**21,815**	**25,097**	**24,838**	**24,646**

Source: FAO

Global Summary

	Actual						Annual Growth Rate		
World Balance (mil. tons)	1970/71	1980/81	1990/91	1995/96	1996/97	1997/98	1970-80	1980-90	1990-96
Production	33.3	62.8	81.9	86.0	91.0	90.1	6.5	3.6	1.7
Consumption	31.8	60.8	77.2	78.0	83.0	81.2	6.8	3.0	0.9
Imports	6.8	13.2	20.0	25.2	24.9	24.0	6.5	5.7	5.1

	Actual				Forecast				
Urea Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	193.9	187.5	127.9	103.1	80.0	85.0	100.0	135.0	160.0
Constant 1990	162.7	164.5	118.0	98.9	76.3	79.8	91.6	112.0	117.3

Note: Quantities are for total nitrogen fertilizer in marketing years and prices are for urea, bagged, spot, f.o.b. Eastern Europe in calendar years.

Source: FAO historical data and World Bank forecasts.

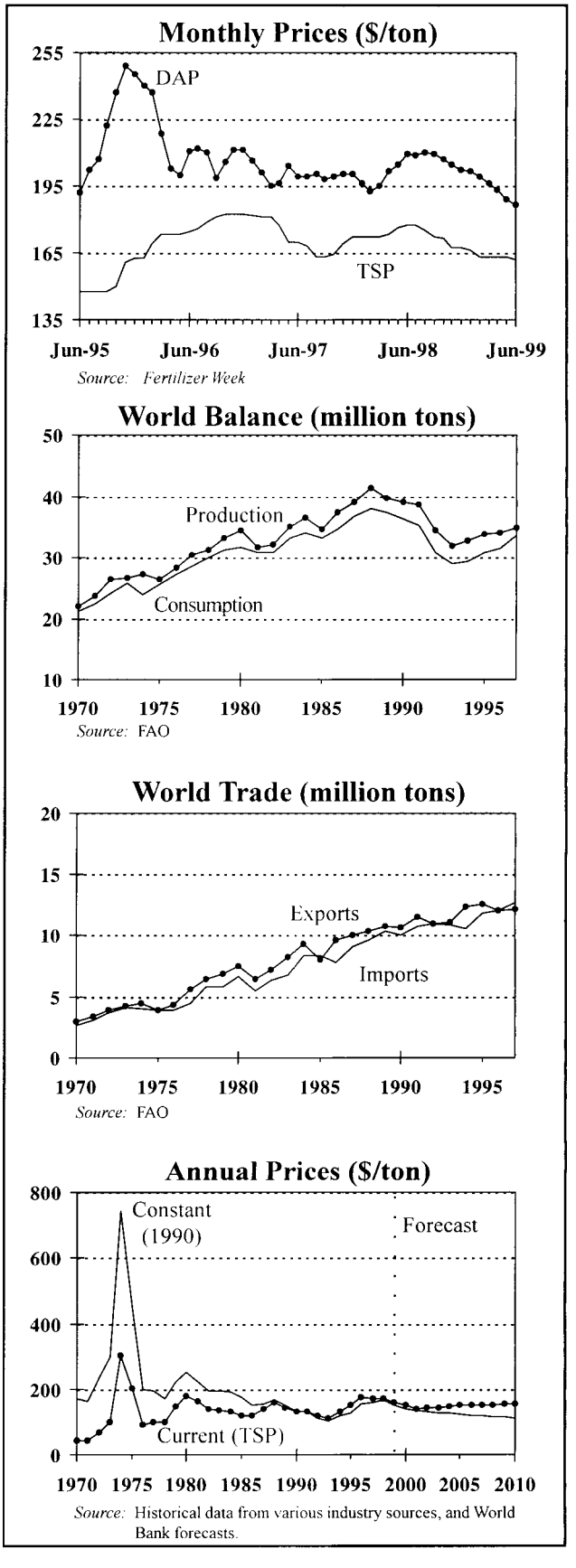
Phosphates

Phosphate fertilizer prices came under pressure from aggressive export competition. Further prices declines are expected due to new capacity coming on stream over the next year.

Phosphate fertilizer prices were lower during the quarter as surplus production capacity, building stocks, and strong export competition faced weak import demand. Triple super phosphate (TSP) prices fell to the lowest level since 1995, at $161.8/ton (f.o.b. US Gulf). Diammonium phosphate (DAP) prices fell to 5-year lows, at $186.6/ton, (f.o.b. US Gulf).

Strong competition from Russian exporters in the South American market weakened prices and led to plans for production cutbacks by major American exporters according to *Fertilizer Week*. Negotiations with Indian importers also led to lower prices, as the initial decision by the Indian government to lower the subsidy on DAP imports led to a brief halt in imports. The initial reduction in the subsidy on imported DAP (of about $9.50/ton) was to be born by domestic buyers since retail price ceilings remained unchanged. However, the subsidy was later increased by the government of India to leave buyers with an increase of about $4.75/ton on imported DAP. This price increase was eventually shared between major exporters and Indian importers, but in the process the international price of DAP fell $2-3/ton.

The phosphate fertilizer market appears to be heading for rough times as large increases in production capacity and aggressive competition among exporters are expected to drive prices lower. Major new production facilities in Australia and India are scheduled to come into operation within the next year and will add about 2.6 million tons to global production capacity (about 7.5% of current capacity). Approval has also been granted by Chinese authorities to develop a major new project which would become China's largest phosphate complex with 1 million tons of DAP. New production capacity in Pakistan will further to add to the increase in global production capacity. Most of this new capacity is being built to displace imports or add to world exports. The largest phosphate fertilizer exporter, the United States, is expected to respond by closing some plants and operating others at less than full capacity.



Other Developments

- The Indian government cut the subsidy on DAP imports in April and then restored some of the cuts in May. The government announced a reduction in the subsidy on imported DAP from Rs3,400/ton to Rs3,000/ton in mid-April according to *Fertilizer Week*. The reduction in subsidy (of about $9.50/ton) was to be born by the importers since the retail price of DAP was to remain unchanged. This was later revised by the government to a subsidy of Rs3,200/ton on imported DAP, and the subsidy on domestically produced DAP was also raised from Rs4,400/ton to Rs4,600/ton.
- Indo-Marco Phosphore, the joint venture between Morocco's Office Chérifien des Phosphates and Chambal Fertilisers & Chemicals Ltd of India is set for commissioning in the second half of 1999. The facility is located in Jorf Lasfar, Morrocco and is slated to produce 330,000 tons of phosphoric acid.
- The Fertilizer Institute in Washington, D.C. reports that US inventories of DAP and MAP were up 52% in May 1999 compared to May of the previous year. This may have promoted the decision by IMC-Agrico to stop DAP production at Taft, Louisiana from July 3rd due to market conditions.

Production and Consumption

	1994/95	1995/96	1996/97	1997/98
Production (000 tons)				
US	11,055	10,500	10,900	10,765
China	4,971	6,017	5,747	6,405
India	2,587	2,626	2,615	3,090
Russian Fed.	1,716	1,933	1,575	1,777
Brazil	1,429	1,265	1,305	1,353
Morocco	894	936	979	921
France	667	668	682	687
Tunisia	721	741	790	673
Spain	422	413	478	488
Mexico	373	427	433	469
World	**32,808**	**33,847**	**34,020**	**34,925**
Consumption (000 tons)				
China	6,946	8,839	8,446	9,262
US	4,014	4,107	4,184	4,195
India	2,932	2,898	2,977	3,917
Brazil	1,931	1,575	1,705	1,943
France	1,030	1,032	1,052	1,120
Australia	923	965	985	1,100
Canada	628	658	704	705
Japan	703	631	611	594
Turkey	444	580	578	592
Pakistan	429	494	419	551
World	**29,271**	**30,908**	**31,428**	**33,466**

Source: FAO

Trade

	1994/95	1995/96	1996/97	1997/98
Exports (000 tons)				
US	6,335	5,838	5,679	5,716
Russian Fed.	1,397	1,525	1,130	1,294
Morocco	769	811	858	846
Tunisia	674	686	703	637
Mexico	81	267	273	343
Bel-Lux	194	270	282	333
Netherlands	459	390	285	320
Jordan	318	318	328	256
Norway	179	207	207	208
Poland	91	175	135	197
World	**12,329**	**12,568**	**11,994**	**12,146**
Imports (000 tons)				
China	2,023	2,936	2,788	2,927
Australia	519	612	651	716
India	376	686	219	707
Brazil	517	341	446	703
France	600	568	561	568
Italy	500	538	524	508
Pakistan	283	272	381	416
Thailand	379	453	436	380
UK	377	349	343	345
Canada	286	292	377	343
World	**10,543**	**11,738**	**12,005**	**12,629**

Source: FAO

Global Summary

	Actual						Annual Growth Rate (%)		
World Balance (mil. tons)	1970/71	1980/81	1990/91	1995/96	1996/97	1997/98	1970-80	1980-90	1990-96
Production	22.0	34.5	39.0	33.8	34.0	34.9	4.1	2.3	-2.6
Consumption	21.1	31.7	36.3	30.9	31.4	33.5	4.0	2.1	-2.7
Exports	2.9	7.5	10.7	12.6	12.0	12.1	9.1	5.0	2.4

	Actual				Forecast				
TSP Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	149.6	175.8	171.9	173.1	160.0	150.0	140.0	150.0	155.0
Constant 1990	125.5	154.3	158.6	166.1	152.6	140.9	128.3	124.4	113.7

Note: Quantities are for total phosphate fertilizer in marketing years and prices are for TSP, bulk, spot, f.o.b. US Gulf in calendar years.

Source: FAO and World Bank.

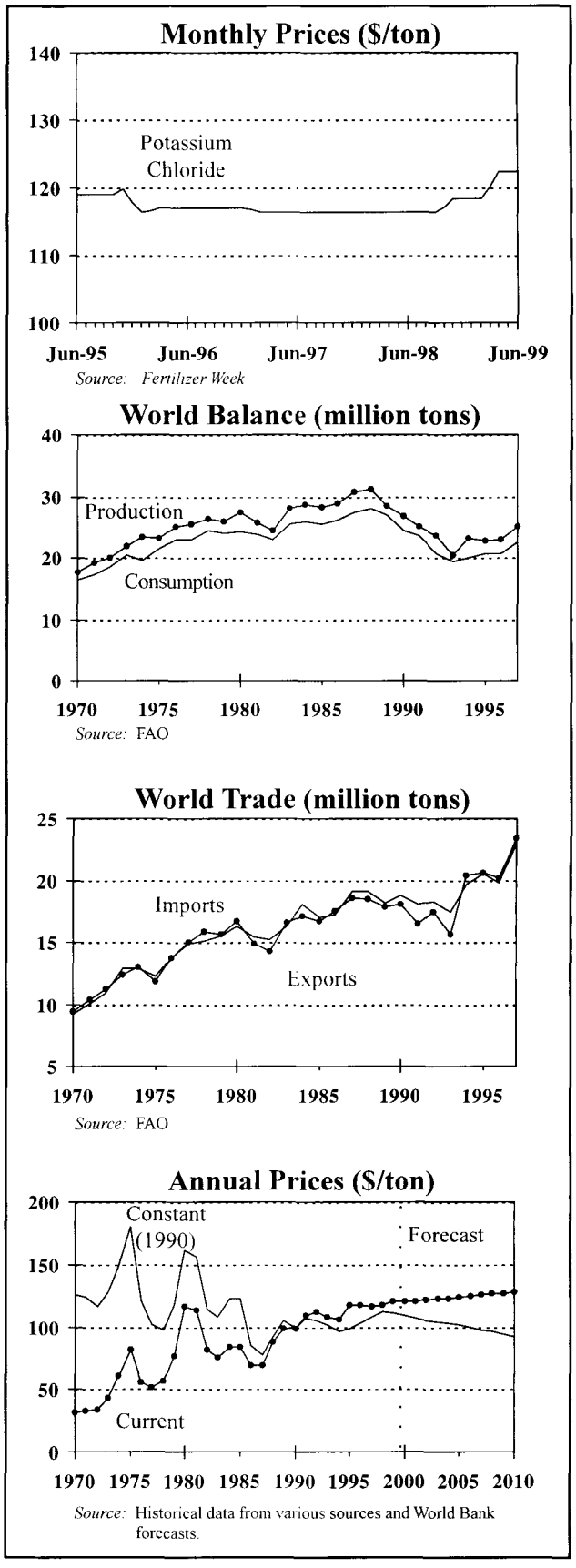
Potash

Potash prices remained firm due to supply control measures taken by major exporters. However, excess capacity and growing inventories threaten to stall further price increases.

Potash fertilizer prices held steady this quarter as no new contract negotiations were scheduled. Potassium chloride prices had previously been settled at $122.5/ton (f.o.b. Vancouver) for the first half of 1999 through negotiations between Canpotex, the Canadian potash exporters association, and major buyers. The price for the first half of 1999 had increased $3/ton over the second half of 1998 prices. However, with nitrogen and phosphate fertilizer prices both falling, it may be difficult for potash exporters to keep prices at current levels when price negotiations begin for the balance of 1999.

Canadian potash producers (which account for 40% of world exports) held 31% larger inventories at the end of May than in May of the previous year according to *Fertilizer Week*. Despite this building of stocks, attempts to match mine production with demand through mine closings and inventory control programs have been largely successful as prices have increased. How long this can continue is difficult to determine. The major Canadian potash producer, Potash Corporation of Saskatchewan (PCS), is expected to close most mines in July for inventory reduction, vacations and scheduled maintenance. PCS also added another month to its summer vacation/inventory reduction schedule at the Lanigan and Rocanville mines, and the Allan mine will close for four and one-half months for shaft work.

Demand has been firm, but depends on a number of future developments. Import quotas for China are yet to be announced but expected soon. The subsidies on muriate of potash (MOP) were raised in India, but are not enough to cover import duties according to importers. Brazilian imports of potash fertilizer are below last year's levels due to difficulties in obtaining credit, with first quarter imports down about 20% compared to the first quarter of 1998. European demand has been weaker than expected because of the weakness of the euro.



Other Developments

- Asia Pacific Potash Corp (APPC) and Norsk Hydro have signed a joint venture agreement to develop the Somboon potash mine in Thailand according to *Fertilizer Week*. The mine is expected to produce 2 million tons of potash per year. Construction could begin in early 2000. The reserves in the Somboon mine are estimated to total 300 million tons. The larger Udon mine, with triple the reserves of the Somboon mine, is undergoing feasibility studies.
- The Indian government raised the subsidy on MOP imports effective April 1st from Rs3,000/ton to Rs3,250/ton according to *Fertilizer Week*. The increase in subsidy of about $5.80/ton at prevailing exchange rates is not enough to cover importer's duties of $6.70/ton according to importers. The maximum retail price of MOP is set at Rs3,700/ton. A special interministerial group has been established to review the MOP/DAP subsidies quarterly.

Production and Consumption

	1994/95	1995/96	1996/97	1997/98
Production (000 tons)				
Canada	9,060	8,065	8,151	9,029
Germany	3,286	3,278	3,334	3,423
Russian Fed.	2,493	2,814	2,618	3,403
Belarus	2,510	2,789	2,716	3,247
Israel	1,260	1,326	1,500	1,488
US	827	843	834	883
Jordan	930	1,068	1,059	849
France	870	802	751	665
Spain	684	637	681	639
UK	580	582	618	565
World	**23,077**	**22,767**	**22,876**	**24,947**
Consumption (000 tons)				
US	4,652	4,770	4,921	4,847
China	2,339	2,782	2,231	3,284
Brazil	1,866	1,791	1,941	2,242
France	1,373	1,491	1,488	1,434
India	1,125	1,156	1,030	1,373
Malaysia	700	603	646	670
Germany	668	652	646	659
Spain	417	415	451	479
UK	475	473	485	450
Belarus	300	250	422	425
World	**20,084**	**20,690**	**20,675**	**22,611**

Source: FAO

Trade

	1994/95	1995/96	1996/97	1997/98
Exports (000 tons)				
Canada	8,216	7,851	8,077	9,015
Germany	2,802	2,446	2,549	2,838
Russian Fed.	2,027	2,317	1,947	2,830
Belarus	1,917	2,189	1,978	2,506
Israel	1,327	1,286	1,203	1,632
Jordan	910	1,058	1,052	861
US	538	523	597	846
France	596	538	538	588
Spain	410	489	470	498
UK	385	374	371	373
World	**20,348**	**20,634**	**20,128**	**23,370**
Imports (000 tons)				
US	4,759	5,181	5,073	5,784
China	2,156	2,745	2,094	3,106
Brazil	1,643	1,539	1,826	2,132
India	1,282	1,424	667	1,437
France	1,274	1,230	1,341	1,418
Malaysia	708	660	631	701
Poland	386	456	502	509
Italy	439	461	440	447
Japan	485	490	439	431
Korea, Rep.	333	353	417	407
World	**19,906**	**20,472**	**19,717**	**23,043**

Source: FAO

Global Summary

	Actual						Annual Growth Rate (%)		
World Balance (mil. tons)	1970/71	1980/81	1990/91	1995/96	1996/97	1997/98	1970-80	1980-90	1990-96
Production	17.6	27.5	26.7	22.8	22.9	25.0	4.3	1.1	-2.4
Consumption	16.4	24.2	24.5	20.7	20.7	22.6	4.2	1.2	-2.8
Exports	9.5	16.7	18.1	20.6	20.1	23.4	5.6	2.0	3.3

	Actual				Forecast				
Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	117.8	116.9	116.5	116.9	121.0	121.0	122.0	124.0	128.0
Constant 1990	98.8	102.6	107.5	112.2	114.4	113.6	111.8	102.8	93.9

Note: Quantities are for total potash fertilizer in marketing years and prices are for potassium chloride, f.o.b. Vancouver, in calendar years.

Source: FAO and World Bank.

Aluminum

Prices increased by 9% on lower stocks and improved market sentiment. However, the market appears poised to slip back into surplus in the third quarter unless underlying demand is genuinely strengthening.

Aluminum prices rose 9% in the second quarter, led by investment fund activity and a perception of improved market conditions. Both producer and LME stocks fell and demand appears to be improving in Asia. The market is believed to have been fairly balanced in the second quarter, and the International Primary Aluminum Institute reported that global production rose 2.8% during the first five months compared with the same period last year.

Asian demand picked up in the first half of the year, although much of the growth is thought to have been due to the rebuilding of inventories following the economic slump and destocking last year. Yet there are signs of genuine consumption growth in the Republic of Korea and in other countries.

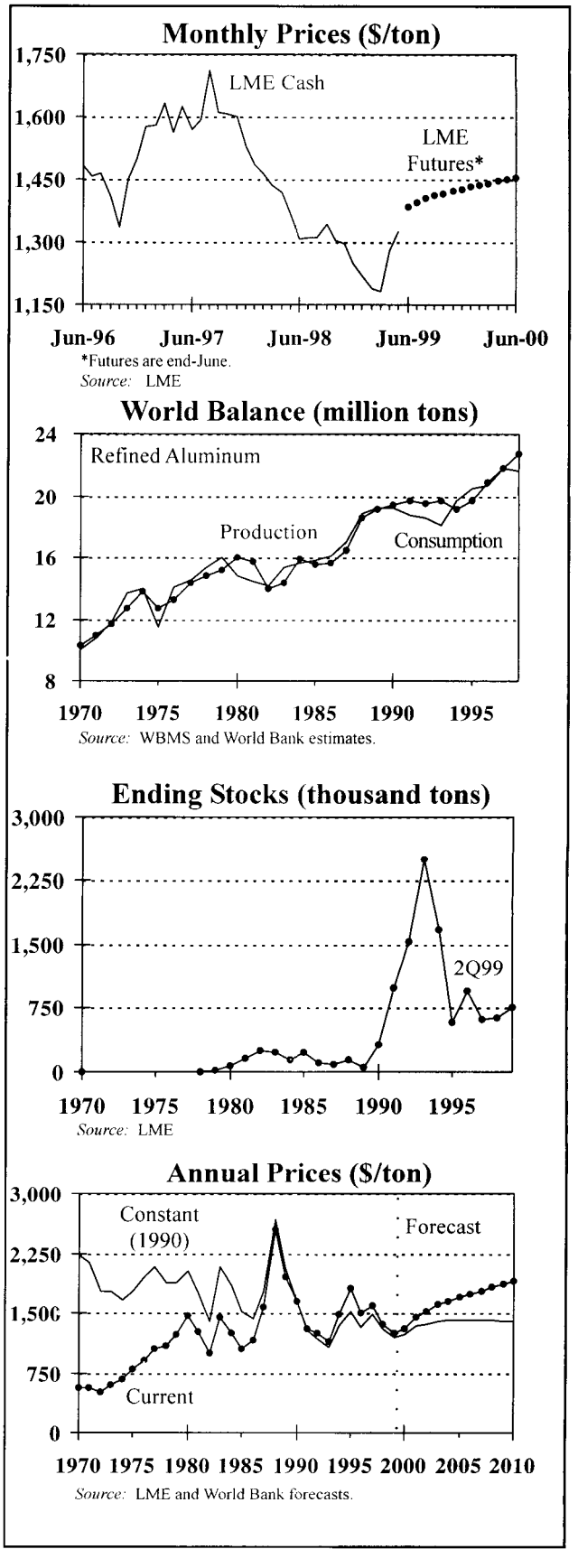
US demand remains strong with vehicle output up 6% for the first five months. European demand remains subdued, reflecting Germany's continued weakness in construction activity, however vehicle production and sales have been strong. In France, both housing starts and auto output have been booming, lifting the demand for aluminum products.

LME stocks fell by 65,000 tons from the peak in late March, however, stocks remain more than 40% above year earlier levels.

There are signs that the market may return to surplus in the third quarter. Higher supplies are expected, notably from the 140 kt/y expansion in Dubai. In addition, several smelters that were disrupted in 1998 are back on line, including Kaiser's 200 kt/y Mead smelter in the US.

On the demand side, there is uncertainty as to the strength of Asian demand, i.e., how much of the recovery in the first half of this year was due to restocking. In addition to the typical weakening of aluminum demand in the third quarter, there is increasing concern about an economic slowdown in the US and Europe.

A significant surplus is expected this year, and inventories could accumulate next year depending on the strength of demand.



Other Developments

- The $715 million Condor expansion project at the 390 kt/y Dubal aluminum smelter in Dubai began ahead of schedule in May with the startup of three of 240 new pots. A sixth potline is being added which will eventually raise capacity at the smelter to 530 kt/y. The rest of the expanded capacity will be commissioned progressively throughout the year.
- The New York Mercantile Exchange's COMEX Division debuted its aluminum futures contract on May 14, 1999, with first day volume of 1,750 contracts. The Exchange said that this ranked favorably with opening day turnover of other successful contracts. However, volumes have declined significantly since that strong start.
- General Motors, the world's largest auto manufacturer, expects to triple the amount of aluminum used in the next decade as vehicles become lighter and cheaper to run. The amount of aluminum used in every North American car could be as much as 850 pounds compared with the current 290 pounds.
- Venezuela's economic Cabinet approved a plan to break up and sell the country's four state aluminum companies, the fourth attempt after three efforts failed last year. The proposal now goes to the President for approval. The Venalum state smelter (420 kt/y) will be sold, while the loss-ridden Alcasa would be broken up into five or six units, which would then seek associations with other companies.

Production of Refined Aluminum (000 tons)

	1995	1996	1997	1998
US	3,375	3,577	3,603	3,713
Russian Fed.	2,724	2,874	2,906	3,005
China	1,676	1,771	2,035	2,418
Canada	2,172	2,283	2,327	2,374
Australia	1,293	1,370	1,490	1,626
Brazil	1,188	1,197	1,189	1,208
Norway	847	862	919	996
S. Africa, Rep.	233	617	683	693
Germany	575	577	572	612
Venezuela	627	635	641	584
India	537	531	547	542
Bahrain	454	461	493	501
Spain	362	362	360	360
UAE	247	259	381	387
New Zealand	273	285	310	318
Netherlands	216	227	232	264
UK	238	240	248	258
Tajikistan	230	198	189	196
Egypt	180	179	178	187
Other	2,225	2,335	2,501	2,455
World	**19,671**	**20,840**	**21,804**	**22,697**

Source: WBMS

Consumption of Refined Aluminum (000 tons)

	1995	1996	1997	1998
US	5,055	5,348	5,390	5,814
China	1,942	2,135	2,260	2,508
Japan	2,336	2,393	2,434	2,080
Germany	1,491	1,355	1,558	1,518
Italy	665	585	653	740
France	744	672	724	689
UK	620	600	619	668
Canada	612	620	642	587
India	581	585	553	554
Brazil	501	497	479	521
Korea, Rep.	675	674	666	506
Spain	350	360	410	416
Belgium	336	331	345	403
Australia	352	321	362	336
Taiwan, China	363	310	374	301
Russian Fed.	476	444	470	300
Greece	163	156	204	209
Chile	254	220	233	187
Sweden	116	129	142	185
Other	2,848	2,969	3,258	3,065
World	**20,478**	**20,703**	**21,777**	**21,587**

Source: WBMS

Global Summary

	Actual						Annual Growth Rate (%)		
World Balance (000 tons)	1970	1980	1990	1996	1997	1998	1970-80	1980-90	1990-98
Production	10,257	16,027	19,362	20,840	21,804	22,697	4.1	2.6	1.8
Consumption	9,996	14,771	19,244	20,703	21,777	21,587	4.1	3.3	2.1
LME Ending Stocks	n.a.	68	311	951	622	636	n.a.	-0.3	-1.5
	Actual				Forecast				
Prices ($/ton)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	1,806	1,506	1,599	1,357	1,250	1,300	1,450	1,700	1,900
Constant 1990	1,515	1,318	1,476	1,303	1,193	1,221	1,329	1,410	1,393

Source: WBMS and LME data, and World Bank forecasts.

Copper

A series of production cuts led to a sharp rise in prices late in the quarter. While a surplus remains, the reductions are sufficient to lift prices this year and in 2000.

Late in the quarter, a series of production cuts led to a sharp rise in copper prices. By early July prices exceeded $1,700/ton, up 20% from end-May. While a surplus remains, prices appear to have clearly bottomed, and our price forecast has risen.

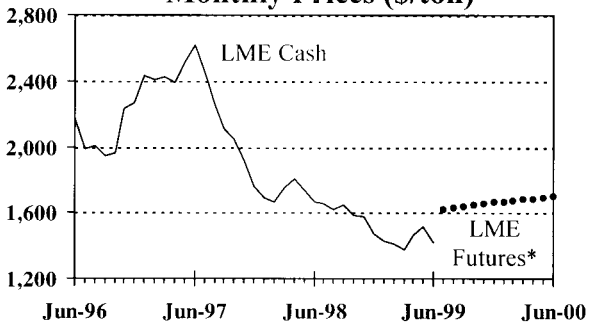
Given the chronic surplus this year, the market has been in dire need of large reductions in output to bring some semblance of balance back to the market. These began with the closure of the Canadian 170,000 t/yr. Highland Valley mine in mid-May, as the company was unable to reach agreement with the union on significant wage reductions. However, the mine could be reopened at a later date.

BHP's long awaited announcement on June 25 to close its US mines and smelter in Arizona and Nevada led to the upturn in prices. BHP's closures will take approximately 100,000 tons off the market this year and 200,000 tons next year. This was quickly followed by the Phelps Dodge announcement to reduce production by 68,000 t/y beginning in the third quarter by closing a New Mexico smelter and two Arizona concentrators. In early July, Asarco announced that it will reduce output by about 25,000 tons at its Arizona mines. And markets were further buoyed by a strike at Falconbridge's Kidd Creek plant in Canada.

LME stocks fell by 22,000 tons from a record high in late May, with draws occurring in Singapore, helping confirm a recovery of demand in Asia. Despite the drop, inventories remain very high, and further declines will be necessary to support higher prices.

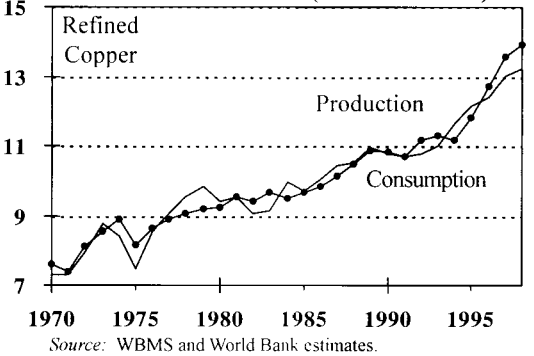
The cuts in output will help reduce the global surplus this year, but supply is still expected to exceed demand by a sizeable amount this year, and a smaller surplus is projected for 2000. Large increases in low-cost supply are expected over the next couple of years, and there is idle capacity that could be restarted if prices rise sharply. While global demand is recovering, there remains a risk of an economic slowdown in the US and Europe, and that Europe will not recover as expected.

Monthly Prices ($/ton)



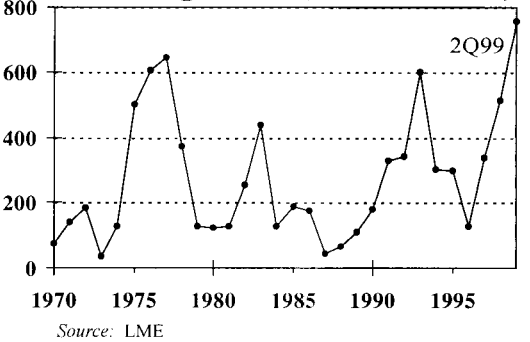
*Futures are end-June.
Source: LME

World Balance (million tons)



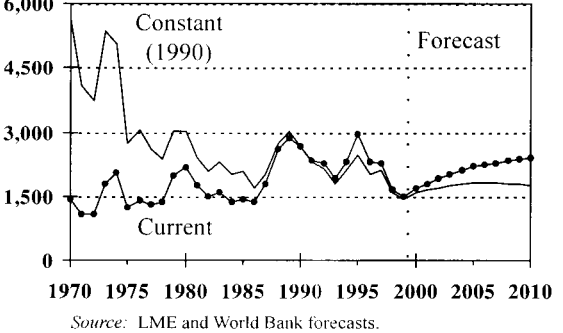
Source: WBMS and World Bank estimates.

Ending Stocks (thousand tons)



Source: LME

Annual Prices ($/ton)



Source: LME and World Bank forecasts.

Other Developments

- BHP will close its 105kt/y San Manuel mine in Arizona and 70kt/y Robinson mine in Nevada by the end of August. In addition the 370kt/y San Manuel smelter/refinery is to be mothballed, while the company's Arizona SxEw facilities at San Manuel (18kt/y), Pinto Valley (10kt/y) and Miami (10kt/y) will continue until a transition plan is put in place. While the Robinson and San Manuel mines are relatively high-cost operations, the mothballed smelter is one of the lowest cost plants in the world, and it is believed that it will be reactivated at some point in the future.
- Phelps Dodge announced at end-June a wide ranging plan to reduce its output by 68,000t/y beginning in the third quarter by temporarily shutting down its Hidalgo smelter in New Mexico and two concentrators at the Morenci operations in Arizona. It will also close manufacturing plants in Ecuador, Kentucky, New Jersey, the Philippines, and Venezuela. The company plans to reduce its projected mining costs by 4 cents per pound and will eliminate 1,570 jobs, of which approximately 900 will in the mining sector.

Production of Refined Copper (000 tons)

	1995	*1996*	*1997*	*1998*
US	2,280	2,347	2,450	2,460
Chile	1,492	1,748	2,117	2,335
Japan	1,188	1,251	1,279	1,277
China	1,080	1,119	1,179	1,152
Germany	616	671	674	696
Russian Fed.	560	599	640	656
Canada	573	559	561	563
Poland	407	425	441	447
Peru	282	342	384	401
Korea, Rep.	233	246	265	369
Belgium	376	386	373	368
Mexico	208	246	297	345
Kazakhstan	256	267	298	325
Spain	164	264	292	304
Australia	266	311	271	285
Zambia	314	317	328	242
Brazil	165	172	177	167
Philippines	158	156	147	152
India	40	39	66	134
Other	1,162	1,264	1,350	1,260
World	**11,818**	**12,730**	**13,588**	**13,938**

Source: WBMS

Consumption of Refined Copper (000 tons)

	1995	*1996*	*1997*	*1998*
US	2,534	2,621	2,790	2,883
China	1,143	1,193	1,270	1,397
Japan	1,415	1,480	1,441	1,255
Germany	1,066	960	1,040	1,138
Italy	498	504	521	592
Taiwan, China	563	544	588	584
France	540	518	558	583
Korea, Rep.	540	598	621	560
UK	398	396	409	374
Belgium	362	332	329	324
Brazil	198	233	258	303
Mexico	172	192	230	280
Poland	213	226	230	266
Canada	190	218	225	245
Spain	175	191	203	230
Turkey	139	160	188	208
Sweden	143	144	158	167
Russian Fed.	187	165	165	165
India	116	140	160	160
Other	1,557	1,607	1,636	1,543
World	**12,147**	**12,421**	**13,018**	**13,256**

Source: WBMS

Global Summary

	Actual						*Annual Growth Rate (%)*		
World Balance (000 tons)	*1970*	*1980*	*1990*	*1996*	*1997*	*1998*	*1970-80*	*1980-90*	*1990-98*
Production	7,583	9,242	10,809	12,730	13,588	13,938	2.1	1.6	3.5
Consumption	7,294	9,400	10,780	12,421	13,018	13,256	2.9	1.8	3.0
LME Ending Stocks	72	123	179	125	338	511	11.3	-6.3	2.7

	Actual				*Forecast*				
Prices ($/ton)	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Current	2,936	2,295	2,277	1,654	1,500	1,700	1,800	2,200	2,400
Constant 1990	2,463	2,010	2,101	1,588	1,431	1,596	1,649	1,825	1,760

Source: WBMS and LME data, and World Bank forecasts.

Gold

Prices dropped sharply on the UK's announcement to sell more than half its gold reserves. Prices will likely remain under pressure from producer and speculative forward selling.

Gold prices fell 10% following the UK announcement May 7 that it would sell more than half its gold reserves, ending the quarter near $260/toz. Further sales are planned by the UK this year, which could cause prices to continue to drift lower.

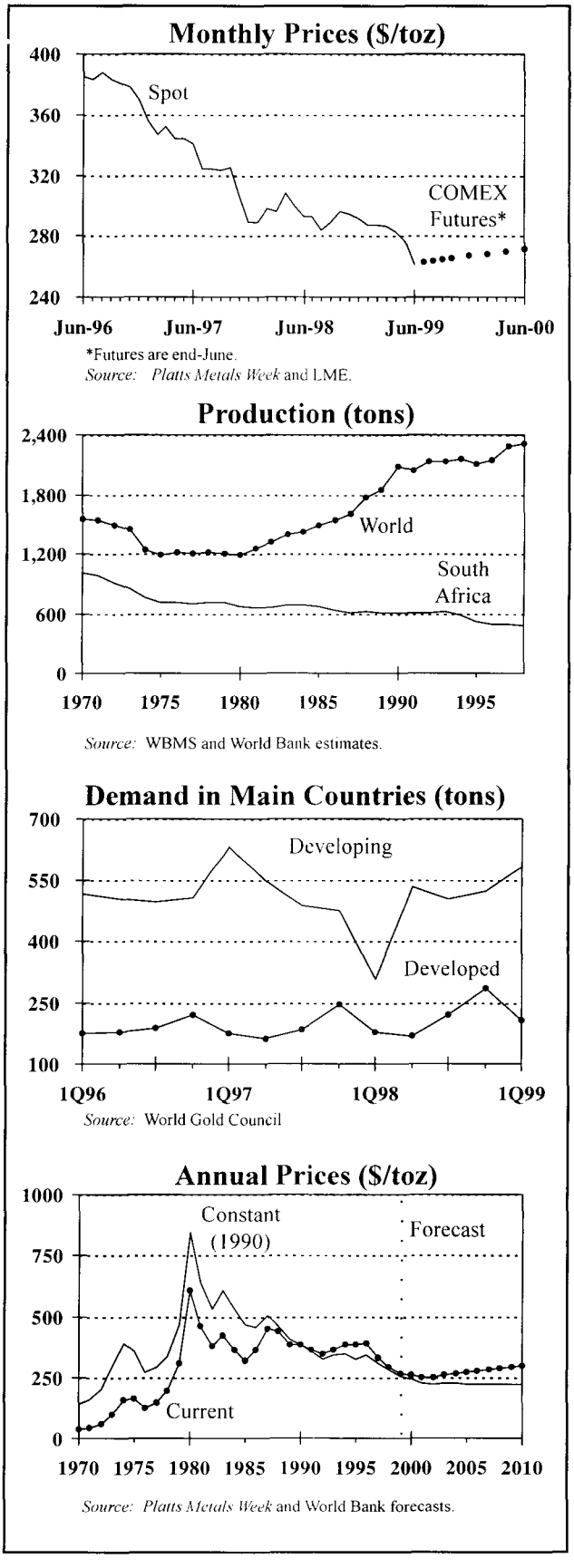
On July 6, the UK auctioned 25 tons at $261.20/toz, slightly below the spot price immediately prior to the bidding. Received bids were 5.2 times the gold on offer, and the price at which the gold was allotted was equal to the lowest accepted bid. The UK plans to auction 25 tons every other month until March 2000, with subsequent auctions to be announced nearer the time – for a total of 415 tons.

Earlier in April, Switzerland voted to revise its constitution effective January 1, 2000. It will permit the sales of gold reserves as early as March 2000. The Federal Council is committed to selling 1,300 tons or approximately half of its gold reserves.

The IMF is committed to selling 10 million ounces of its gold reserves to finance debt relief to the world's poorest countries, but is facing opposition from several African gold producing countries, as well as from several US elected officials. The IMF's executive board hopes to reach a decision on how to proceed with the sale before its annual meetings at end-September.

Gold demand in 1Q99 recovered from the large dishoarding in Asia in early 1998, with developing country demand up 88% or 272 tons year-on-year. Indian demand fell 24% from an exceptionally high level a year earlier, but continues to be the largest consumer accounting for nearly a quarter of world demand. In the developed world, demand was up strongly in the US and Japan.

Further central bank sales are expected to exert additional pressure on prices, enticing producers and speculators to sell forward. However lower prices will impact mining companies' revenue and investment, and supply constraints could eventually push prices higher. Much will depend on the extent of central bank sales and the pace of demand.



Other Developments

- South Africa's Chamber of Mines, which represents most of the industry, says that 40% of the country's mines are marginal at a gold price of $260/toz, and 80,000 jobs are threatened – about a quarter of the sector's mine workers.
- While many of the world's top producing mines in 1998 were in South Africa and the US, the two top producers were the Grasberg mine in Indonesia (2.8 million toz), and the Muruntau mine in Uzbekistan (1.8 million toz), according to *World Gold.*

Mine Production (tons)

	1995	1996	1997	1998
S. Africa, Rep.	522.4	494.6	492.5	473.8
US	313.0	312.0	338.0	362.6
Australia	253.5	289.5	311.0	310.9
Canada	150.9	166.4	171.4	165.9
China	136.4	120.6	149.6	158.2
Indonesia	63.3	83.6	90.0	108.6
Peru	56.5	65.1	74.3	93.8
Russian Fed.	131.9	123.4	123.0	85.8
Uzbekistan	63.6	71.0	82.0	82.0
Brazil	76.8	76.8	76.8	76.8
Ghana	53.1	49.3	54.7	63.1
PNG	51.7	51.6	48.5	60.3
Chile	44.2	51.8	47.8	43.8
Mexico	19.9	23.1	26.4	25.4
Zimbabwe	24.0	24.7	24.3	25.2
Kyrgyz Republic	4.0	4.1	15.6	20.1
Kazakhstan	10.9	10.2	9.7	18.0
Bolivia	14.4	12.6	13.3	14.4
New Zealand	12.1	11.5	11.4	11.3
Philippines	12.8	8.1	11.2	8.7
Japan	9.2	8.6	8.4	8.6
Mongolia	4.5	4.9	8.5	7.3
Venezuela	10.0	11.7	22.3	6.8
Sweden	6.5	6.1	6.8	5.9
Ecuador	7.4	7.2	6.6	n.a.
World	**2,104.7**	**2,143.6**	**2,283.5**	**2,311.7**

Source: WBMS

Consumption in Main Markets (tons)

	1995	1996	1997	1998
India	477.2	507.8	736.7	815.0
US	314.7	331.7	362.0	428.4
Saudi Arabia	193.1	184.9	199.0	208.4
China	223.9	210.7	213.8	191.6
Turkey	139.4	153.0	202.0	172.0
Italy	110.0	105.3	110.8	112.1
Japan	272.1	152.2	107.1	110.4
Taiwan, China	160.2	123.3	142.1	91.2
UAE	39.2	52.6	71.5	79.4
Germany	88.3	73.0	73.8	70.2
UK	46.2	47.1	58.8	66.8
Brazil	54.0	59.0	58.0	64.0
France	50.4	47.5	49.4	59.5
Mexico	31.0	41.0	49.0	55.0
Vietnam	36.0	41.0	45.0	44.0
Kuwait	35.1	34.7	35.4	33.0
H.K., China	43.2	40.4	51.0	31.8
Thailand	116.0	106.0	14.0	19.0
Oman	16.5	16.5	17.8	15.3
Malaysia	29.6	33.6	30.1	14.4
Singapore	24.1	20.0	22.4	14.1
Bahrain	7.8	8.0	10.6	10.5
Qatar	6.0	6.2	6.8	6.0
Indonesia	119.0	129.0	92.5	-40.0
Korea, Rep.	121.0	125.5	114.4	-162.5
World	**2,104.7**	**2,143.6**	**2,283.5**	**2,311.7**

Source: World Gold Council

Global Summary

				Actual					% p.a.
World Balance (tons)	1991	1992	1993	1994	1995	1996	1997	1998	1998-91
Jewelry	2,358	2,760	2,553	2,618	2,791	2,850	3,342	3,145	4.2
Other Fabrication	518	446	488	457	503	486	563	564	1.2
Bar Hoarding	252	282	162	231	306	182	323	155	-6.7
Other		30	239		6			260	n.a.
Total Demand	3,128	3,518	3,442	3,305	3,606	3,518	4,228	4,123	4.0
Mine Production	2,159	2,234	2,287	2,279	2,274	2,357	2,480	2,555	2.4
Net Official Sales	111	622	464	81	173	275	376	412	20.6
Old Gold Scrap	482	488	576	617	625	641	629	1,098	12.5
Forward Sales	66	174	116	163	535	125	472	58	-1.8
Other	310			173		119	271		n.a.
Total Supply	3,128	3,518	3,442	3,305	3,606	3,518	4,228	4,123	4.0

	Actual				Forecast				
Prices ($/toz)	1995	1996	1997	1998	1999	2000	2001	2005	2010
Current	384	388	331	294	265	260	250	270	300
Constant 1990	322	339	305	282	253	244	229	224	220

Source: Gold Fields Minerals Services and LME data, and World Bank forecasts.

Iron Ore and Steel

Steel prices rose steadily due to reduced exports following trade complaints. However, further price gains will depend on the recovery of Asian demand and output levels of major producing countries.

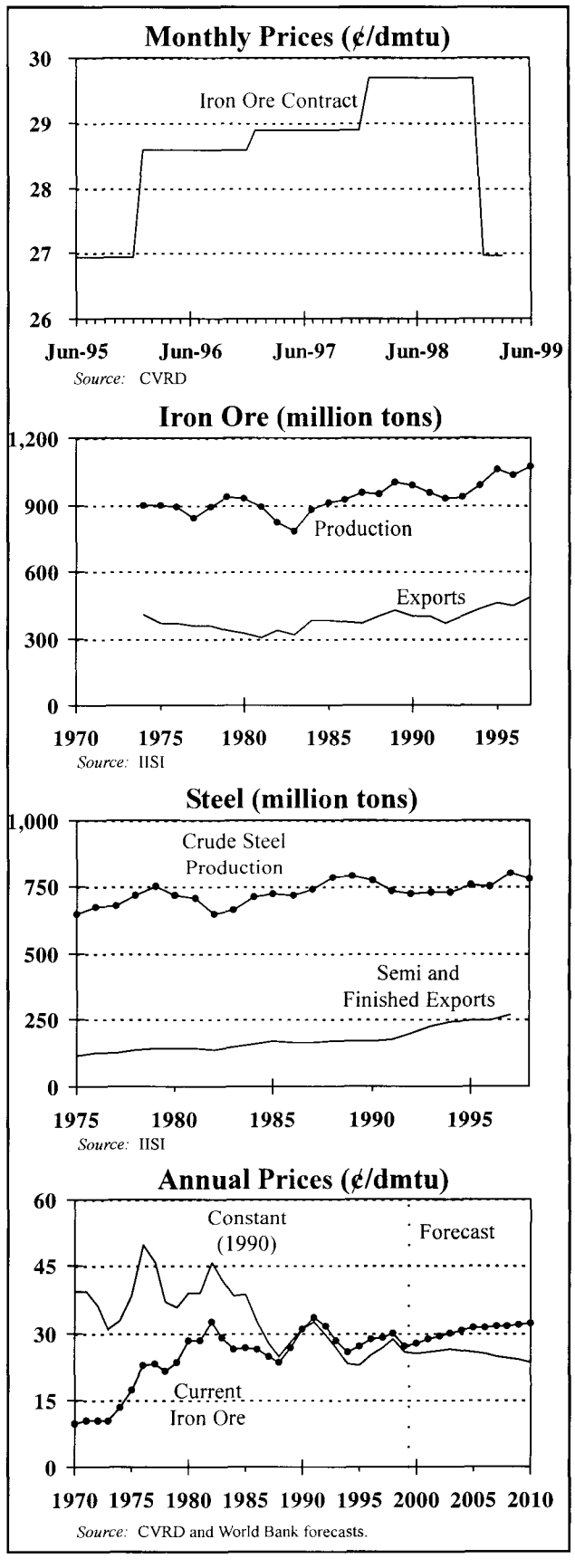
The steel product index rose steadily during the quarter, up 3.5% over 1Q99, due to reduced exports and production in the wake of a series of trade complaints in the US and other countries. However, the gains among products has been uneven, as those that were most heavily targeted had the largest price gains, such as hot rolled coilsheet which jumped 8%.

In North America, the consumer boom shows little signs of abating, with the auto and construction sectors generating strong demand for steel. In Europe, the auto sector also remains strong and the construction sector is recovering. Outside of Japan, Asian demand is showing signs of recovery, but the strength is mainly in the auto sector as the construction and shipbuilding sectors remain depressed.

World steel production fell more than 5% during the first five months of this year, following a drop of 2.8% in 1998. Declines of 10% were reported in the EU and South America while North America was down nearly 9%. Asian production was flat with declines in Japan and the Republic of Korea offset by increases in China and Taiwan, China. Output also rose in Russia and the Ukraine. The drop in steel production has been moderating this year, with May output down only 2%.

The outlook for steel prices will partly depend on recovery of demand in Asia, and in particular, Japan. As Asian steel production increases, rising protectionism remains a threat to export markets. US mills have filed trade complaints against cold-rolled coil imports from several Asian countries, and other countries have filed anti-dumping charges against various producing countries. Displaced shipments from FSU countries could be diverted to the Asian market and keep pressure on prices.

Iron ore prices, which fell 11% for this contract year, will only recover with an upturn in steel demand and prices, and improved profitability of steel producers. Spot iron ore prices remain under pressure and it may be difficult for producers to negotiate gains next year.



Iron Ore Production (000 tons)

	1994	1995	1996	1997
China	250,695	261,919	252,283	268,612
Brazil	167,810	178,380	179,870	187,950
Australia	128,662	139,067	147,200	160,889
Russian Fed.	73,259	78,348	72,136	69,906
India	58,390	62,000	67,264	69,400
US	58,382	62,645	62,132	63,000
Ukraine	51,464	50,741	47,745	52,541
Canada	37,710	37,629	37,042	37,313
S. Africa, Rep.	32,321	32,650	30,830	33,230
Sweden	19,909	21,663	21,288	21,893
Venezuela	18,216	19,452	18,720	18,660
Mexico	13,521	12,910	14,202	14,500
Iran, Islamic R.	4,600	9,080	9,850	12,750
Kazakhstan	24,915	36,512	25,000	12,627
Mauritania	10,443	11,330	11,400	11,700
Chile	7,600	7,950	8,480	8,090
Peru	6,943	5,975	4,740	5,030
Turkey	5,079	5,510	5,150	4,800
Egypt	2,460	2,099	2,700	3,000
New Zealand	2,480	2,570	2,600	2,500
Other	11,792	21,695	13,726	10,418
World	986,651	1,060,125	1,034,358	1,068,809

Source: IISI

Crude Steel Production (000 tons)

	1995	1996	1997	1998
China	95,360	101,237	108,911	114,347
US	95,191	95,535	98,485	97,653
Japan	101,640	98,801	104,545	93,548
Germany	42,051	39,793	45,007	44,046
Russian Fed.	51,589	49,253	48,442	43,822
Korea, Rep.	36,772	38,903	42,554	39,896
Italy	27,767	24,285	25,770	25,798
Brazil	25,076	25,237	26,153	25,760
Ukraine	22,309	22,332	25,627	24,445
India	22,003	23,753	24,579	23,863
France	18,100	17,633	19,767	20,126
UK	17,604	17,992	18,489	17,319
Taiwan, China	11,605	12,350	15,994	16,886
Canada	14,415	14,735	15,554	15,930
Spain	13,802	12,154	13,683	14,821
Mexico	12,147	13,172	14,254	14,211
Turkey	13,183	13,552	14,491	14,144
Belgium	11,606	10,818	10,784	11,425
Poland	11,890	10,432	11,591	9,916
Australia	8,460	8,415	8,831	8,801
Other	99,787	100,118	105,459	99,599
World	752,357	750,500	798,970	776,356

Source: IISI

Exports of Iron Ore (000 tons)

	1994	1995	1996	1997
Australia	119,285	130,223	128,606	144,914
Brazil	125,000	131,358	129,740	140,419
Canada	29,993	28,833	27,920	32,340
India	30,638	32,332	31,700	31,900
S. Africa, Rep.	19,605	21,847	19,300	20,700
Ukraine	21,135	21,015	20,570	20,000
Sweden	15,386	17,083	16,071	18,282
Russian Fed.	18,846	20,218	17,126	17,000
Mauritania	10,342	11,514	11,158	11,700
Venezuela	10,691	10,609	9,580	9,322
Kazakhstan		1,180	3,747	9,270
Chile	6,631	6,114	6,911	7,052
US	4,972	5,270	6,256	6,336
Philippines	4,329	4,744	4,546	4,500
Peru	6,547	6,008	4,029	3,712
Bahrain	3,000	3,200	2,800	3,000
New Zealand	1,279	1,316	1,382	1,300
France	2,443	2,185	1,297	580
Norway	2,064	1,018	611	271
Korea, D.R.	300	300	200	200
Other	2,056	2,388	1,766	209
World	434,542	458,755	445,316	483,007

Source: IISI

Exports of Semi-finished and Finished Steel (000 tons)

	1994	1995	1996	1997
Russian Fed.	25,645	27,371	26,994	26,120
Germany	19,785	20,324	20,437	23,663
Japan	22,407	22,129	19,262	22,892
Bel-Lux	14,926	14,190	14,673	16,459
France	12,826	12,796	13,124	14,884
Ukraine	11,638	11,653	11,780	14,406
Korea, D.R.	10,029	9,795	10,438	11,739
Italy	10,722	10,173	10,922	10,695
UK	8,829	8,896	9,336	9,371
Brazil	11,078	9,655	10,257	9,163
China	2,566	10,745	7,131	8,765
Turkey	8,340	6,211	6,697	7,227
Netherlands	6,609	6,317	6,481	6,819
US	3,656	6,623	4,641	5,568
Spain	5,994	4,947	5,486	5,556
Mexico	2,246	5,930	5,352	5,452
Taiwan, China	2,817	3,027	3,765	5,119
Canada	4,445	4,716	4,929	4,787
Poland	4,119	3,622	3,709	4,176
Czech Rep.	4,298	3,703	3,808	4,000
Other	45,982	45,654	47,039	48,796
World	238,957	248,477	246,261	265,657

Source: IISI

APPENDIX

APPENDIX

TABLE A1: Commodity Price Data

Commodity	Unit	Annual Averages Jan-Dec 1997	Annual Averages Jan-Dec 1998	Annual Averages Jan-Jun 1999	Quarterly Averages Apr-Jun 1998	Quarterly Averages Jul-Sept 1998	Quarterly Averages Oct-Dec 1998	Quarterly Averages Jan-Mar 1999	Quarterly Averages Apr-Jun 1999	Monthly Averages Apr 1999	Monthly Averages May 1999	Monthly Averages Jun 1999
Energy												
Coal, Australia	$/mt	35.10	29.23	26.10	30.49	27.76	26.43	26.10	26.10	26.10	26.10	26.10
Coal, US	$/mt	36.39	34.38	33.33	34.76	34.04	33.50	33.50	33.17	33.50	33.00	33.00
Crude oil, avg. spot*	$/bbl	19.17	13.07	13.94	13.36	13.01	11.85	11.79	16.10	15.86	16.06	16.39
Crude oil, Brent*	$/bbl	19.09	12.72	13.32	13.29	12.42	11.09	11.24	15.40	15.30	15.14	15.77
Crude oil, Dubai*	$/bbl	18.10	12.12	13.16	12.08	12.41	11.56	11.07	15.26	14.96	15.30	15.52
Crude oil, W. TX Int'l*	$/bbl	20.33	14.35	15.36	14.64	14.16	12.90	13.05	17.66	17.34	17.75	17.89
Natural gas, Europe	$/mmbtu	2.74	2.42	1.94	2.52	2.37	2.15	1.99	1.89	1.87	1.89	1.91
Natural gas, US	$/mmbtu	2.48	2.09	2.02	2.24	2.01	1.91	1.81	2.23	2.15	2.25	2.30
Non-Energy												
Agriculture												
Beverages												
Cocoa**	¢/kg	161.9	167.6	126.5	174.2	169.5	159.1	139.4	113.6	117.8	106.8	116.3
Coffee, arabica**	¢/kg	416.8	298.1	236.7	303.5	259.2	252.4	238.0	235.5	225.1	244.9	236.4
Coffee, robusta**	¢/kg	173.6	182.3	160.9	192.9	173.5	179.7	172.7	149.1	152.8	149.8	144.6
Tea, Calcutta auctions**	¢/kg	214.5	216.5	193.6	229.5	214.5	190.0	162.3	224.9	180.8	260.1	233.8
Tea, Colombo auctions**	¢/kg	202.0	207.5	153.3	215.3	197.3	181.4	160.3	146.3	147.4	145.8	145.7
Tea, Mombasa auctions**	¢/kg	201.5	189.9	177.7	169.0	171.2	164.6	180.3	175.1	186.7	171.0	167.7
Food												
Fats and Oils												
Coconut oil**	$/mt	656.8	657.9	784.2	664.3	662.0	740.3	736.0	832.3	827.0	874.0	796.0
Copra	$/mt	433.8	411.1	489.5	404.7	404.7	459.3	457.7	521.3	504.0	530.0	530.0
Groundnut meal	$/mt	221.0	116.2	102.5	114.3	108.0	105.0	102.3	103.0	103.0	n.a.	n.a.
Groundnut oil**	$/mt	1010.4	909.4	781.8	906.3	862.7	857.7	808.0	755.7	763.0	751.0	753.0
Palm oil**	$/mt	545.8	671.1	511.0	675.3	679.3	679.3	563.3	458.7	509.0	475.0	392.0
Palmkernel oil	$/mt	651.8	686.7	716.8	706.3	694.3	741.0	704.7	729.0	776.0	755.0	656.0
Soybean meal**	$/mt	275.8	170.3	142.8	162.0	149.0	160.7	145.7	140.0	141.0	140.0	139.0
Soybean oil**	$/mt	564.8	625.9	459.5	654.0	606.3	606.3	492.3	426.7	442.0	428.0	410.0
Soybeans**	$/mt	295.4	243.3	205.2	249.3	224.3	229.0	210.3	200.0	207.0	199.0	194.0
Grains												
Maize**	$/mt	117.1	102.0	94.8	105.8	91.6	96.5	95.9	93.6	94.1	92.5	94.2
Rice, Thai, 5%**	$/mt	303.5	304.2	261.6	318.4	322.3	282.2	278.7	244.5	235.5	244.3	253.8
Rice, Thai, 25%	$/mt	257.1	259.9	225.6	262.0	273.7	257.7	239.6	211.6	204.5	207.0	223.2
Rice, Thai, 35%	$/mt	246.8	249.7	219.4	249.7	262.1	251.6	232.9	205.9	198.5	201.8	217.4
Rice,Thai, A1.Special	$/mt	210.4	213.0	201.9	199.8	225.6	238.5	214.2	189.5	184.0	184.3	200.2
Sorghum**	$/mt	109.6	98.0	89.2	100.4	90.5	90.0	90.9	87.6	89.5	87.2	86.0
Wheat, Canada	$/mt	181.4	162.9	154.5	165.3	153.0	164.7	160.7	148.2	147.5	146.1	151.1
Wheat, US, HRW**	$/mt	159.5	126.1	116.3	126.6	111.6	127.7	119.9	112.8	113.9	113.0	111.4
Wheat, US, SRW	$/mt	143.7	111.5	97.9	112.6	95.3	109.0	99.5	96.4	99.7	96.6	92.9
Other Food												
Bananas**	$/mt	502.7	491.6	461.6	567.5	456.5	520.1	479.3	444.0	462.9	447.5	421.5
Beef**	¢/kg	185.5	172.6	176.3	176.1	166.7	166.2	177.1	175.6	174.4	176.0	176.2
Fishmeal	$/mt	606.3	661.9	398.3	681.3	670.3	601.3	453.3	343.3	348.0	337.0	345.0
Lamb	¢/kg	339.3	275.0	255.1	272.3	251.1	264.2	247.0	263.2	254.2	267.5	267.9
Oranges**	$/mt	459.0	442.4	439.5	450.1	516.3	415.1	420.3	458.6	447.1	444.3	484.4
Shrimp	¢/kg	1611.6	1578.9	1442.0	1660.8	1574.1	1427.1	1413.4	1470.5	1424.2	1488.1	1499.1
Sugar, EU, domestic**	¢/kg	62.72	59.75	59.25	59.59	58.59	60.88	59.72	58.78	58.89	59.08	58.36
Sugar, US, domestic**	¢/kg	48.36	48.64	49.66	49.15	49.10	48.27	49.45	49.88	49.82	49.93	49.89
Sugar, world**	¢/kg	25.06	19.67	14.02	19.85	17.92	17.34	15.40	12.63	11.95	12.63	13.32
Raw Materials												
Timber												
Logs, Cameroon	$/cum	284.8	286.4	268.8	282.7	279.4	295.9	282.3	255.3	269.3	251.3	245.2
Logs, Malaysia**	$/cum	238.3	162.4	176.9	150.2	140.7	162.0	175.3	178.4	175.2	176.5	183.6
Plywood	¢/sheet	485.0	376.1	428.2	361.1	344.3	395.2	426.4	429.9	434.0	425.7	430.1
Sawnwood, Cameroon	$/cum	563.6	526.3	442.9	523.6	519.2	532.0	461.5	424.4	424.3	429.7	419.2
Sawnwood, Malyasia**	$/cum	664.5	484.2	563.5	476.7	465.5	519.8	544.3	582.8	559.4	580.4	608.4
Woodpulp	$/mt	556.5	508.4	460.1	540.5	507.5	458.3	447.6	472.5	472.5	472.5	472.5

Continued

TABLE A1: Commodity Price Data (continued)

Commodity	Unit	Annual Averages Jan-Dec 1997	Annual Averages Jan-Dec 1998	Annual Averages Jan-Mar 1999	Quarterly Averages Apr-Jun 1998	Quarterly Averages Jul-Sept 1998	Quarterly Averages Oct-Dec 1998	Quarterly Averages Jan-Mar 1999	Quarterly Averages Apr-Jun 1999	Monthly Averages Apr 1999	Monthly Averages May 1999	Monthly Averages Jun 1999
Non-Energy (continued)												
Other Raw Materials												
Cotton**	¢/kg	174.8	144.5	126.7	146.2	150.2	127.5	123.9	129.4	127.3	132.1	129.0
Jute	$/mt	304.6	258.0	255.0	258.8	260.0	270.0	250.0	260.0	250.0	250.0	280.0
Rubber, Malaysia**	¢/kg	101.8	72.2	63.8	75.3	68.0	70.6	68.0	59.7	59.2	59.7	60.4
Rubber, US	¢/kg	121.6	89.5	80.6	92.0	86.1	87.0	83.7	77.5	77.1	78.9	76.4
Rubber, Singapore	¢/kg	101.0	70.9	62.7	73.4	68.3	69.0	65.5	59.9	58.3	60.2	61.1
Sisal	$/mt	776.6	820.8	755.4	805.0	850.0	850.0	779.2	731.7	750.0	750.0	695.0
Wool	¢/kg	430.3	336.3	304.3	350.8	313.0	307.2	301.4	308.7	309.7	307.7	n.a.
Fertilizers												
DAP	$/mt	199.9	203.4	194.5	205.3	209.5	204.4	199.3	189.7	193.4	189.1	186.6
Phosphate rock**	$/mt	41.0	43.0	44.0	43.0	43.0	43.0	44.0	44.0	44.0	44.0	44.0
Potassium chloride	$/mt	116.5	116.9	120.8	116.5	116.5	118.1	119.1	122.5	122.5	122.5	122.5
TSP**	$/mt	171.9	173.1	163.4	175.9	175.0	168.9	164.1	162.6	163.0	163.0	161.8
Urea, E. Europe, bagged	$/mt	127.9	103.1	77.7	111.7	102.3	88.0	79.5	75.9	75.6	77.1	75.0
Urea, E. Europe, bulk	$/mt	114.0	83.1	66.1	89.5	84.8	68.3	67.6	64.6	64.6	65.9	63.3
Metals and Minerals												
Aluminum**	$/mt	1599.3	1357.5	1250.6	1363.4	1320.8	1282.7	1195.6	1305.7	1278.2	1323.5	1315.3
Copper**	$/mt	2276.8	1654.1	1436.7	1731.3	1639.9	1544.6	1406.8	1466.6	1466.0	1511.2	1422.5
Gold	$/toz	331.1	294.2	280.1	299.9	288.7	293.9	286.8	273.5	282.6	276.4	261.3
Iron ore**	¢/dmtu	28.88	29.69	26.96	29.69	29.69	29.69	26.96	26.96	26.96	26.96	26.96
Lead	¢/kg	62.4	52.9	51.2	54.8	53.4	49.6	50.5	51.9	51.9	54.2	49.6
Nickel**	$/mt	6927.4	4629.5	4933.9	4963.2	4169.4	3960.7	4635.5	5232.3	5102.6	5399.3	5195.0
Silver	¢/toz	489.2	553.4	522.9	571.2	522.0	495.8	530.2	515.6	509.2	529.8	507.7
Steel products (8) index***	1990=100	89.1	74.9	65.2	76.7	73.4	69.0	64.1	66.4	65.1	66.5	67.5
Steel, cold rolled coilsheet	$/mt	448.2	370.8	317.5	386.7	360.0	320.0	306.7	328.3	320.0	330.0	335.0
Steel, hot rolled coilsheet	$/mt	337.3	279.2	215.0	293.3	270.0	236.7	206.7	223.3	215.0	220.0	235.0
Steel, rebar	$/mt	325.2	257.5	230.0	260.0	233.3	240.0	230.0	230.0	230.0	230.0	230.0
Steel, wire rod	$/mt	382.7	332.1	291.7	336.7	336.7	326.7	293.3	290.0	290.0	290.0	290.0
Tin**	¢/kg	564.7	554.0	534.1	585.3	561.0	538.9	524.6	543.6	539.3	564.9	526.6
Zinc**	¢/kg	131.6	102.5	100.7	105.6	102.3	95.6	99.3	102.0	101.9	104.0	100.1
World Bank's Commodity Price Indices for Low- and Middle-Income Countries (1990 = 100)												
Petroleum		83.8	57.1	61.0	58.4	56.9	51.8	51.5	70.4	69.3	70.2	71.6
Non-Energy Commodities		117.6	99.2	88.8	101.0	95.2	94.5	89.8	87.8	87.2	88.8	87.5
Agriculture		128.6	107.8	95.5	109.7	102.6	102.7	97.6	93.4	92.7	94.2	93.3
Beverages		170.7	140.6	112.7	144.2	129.0	124.9	116.0	109.3	107.0	111.3	109.7
Food		116.1	105.0	92.0	107.0	101.1	102.6	95.3	88.6	89.9	89.2	86.5
Fats and Oils		147.7	132.8	110.8	132.6	127.2	131.5	115.6	106.0	110.9	108.0	99.1
Grains		112.1	101.3	90.6	104.5	98.3	96.5	94.3	86.8	85.9	86.6	88.0
Other Food		92.4	84.2	77.3	87.3	81.4	82.4	79.3	75.3	75.0	75.4	75.4
Raw Materials		113.7	87.3	87.4	87.7	84.9	86.4	86.9	87.9	85.8	88.1	89.9
Timber		125.8	90.9	104.9	88.8	86.3	96.7	101.7	108.2	104.2	107.7	112.8
Other Raw Materials		105.5	84.9	75.5	87.0	83.9	79.4	76.8	74.1	73.3	74.7	74.2
Fertilizers		119.7	122.1	118.3	123.4	123.0	120.1	118.7	118.0	118.2	118.2	117.6
Metals and Minerals		90.2	75.7	69.4	77.4	74.5	72.0	67.7	71.2	70.5	72.5	70.5

*Included in the Petroleum Index

**Included in the Non-Energy Index

***Steel not included in the Non-Energy Index

$ = U.S. dollar ¢ = U.S. cent bbl = barrel cum = cubic meter dmtu = Dry Metric Ton Unit kg = kilogram mmbtu = million British thermal units

APPENDIX

Table A2: Commodity Prices and Price Indices, Current Dollars

Commodity	Unit	Actual					Projections				
		1970	1980	1990	1997	1998	1999	2000	2001	2005	2010
Energy											
Coal, US	$/mt	n.a.	43.10	41.67	36.39	34.38	33.25	33.00	33.50	35.50	38.00
Crude oil, avg. spot	$/bbl	1.21	36.87	22.88	19.17	13.07	15.50	17.00	17.25	18.00	19.00
Natural gas, Europe	$/mmbtu	n.a.	3.40	2.55	2.74	2.42	2.15	2.50	2.60	2.60	2.70
Natural gas, US	$/mmbtu	0.17	1.55	1.70	2.48	2.09	2.10	2.20	2.25	2.45	2.70
Non-Energy											
Agriculture											
Beverages											
Cocoa	¢/kg	67.5	260.4	126.7	161.9	167.6	120.0	130.0	140.0	180.0	200.0
Coffee, arabica	¢/kg	114.7	346.6	197.2	416.8	298.1	231.0	231.5	235.9	254.0	265.0
Coffee, robusta	¢/kg	91.0	324.3	118.2	173.6	182.3	159.0	163.1	167.6	186.1	192.0
Tea, 3-auction average	¢/kg	83.5	165.9	205.8	206.0	204.6	174.0	168.0	171.4	179.0	198.0
Food											
Fats and Oils											
Coconut oil	$/mt	397.2	673.8	336.5	656.8	657.9	775.0	690.0	650.0	620.0	650.0
Copra	$/mt	224.8	452.7	230.7	433.8	411.1	430.0	415.0	425.0	460.0	483.0
Groundnut meal	$/mt	102.2	240.3	184.8	221.0	116.2	150.0	213.0	215.0	230.0	258.0
Groundnut oil	$/mt	378.6	858.8	963.7	1010.4	909.4	800.0	800.0	800.0	820.0	850.0
Palm oil	$/mt	260.1	583.7	289.8	545.8	671.1	460.0	465.0	470.0	460.0	460.0
Soybean meal	$/mt	102.6	262.4	200.2	275.8	170.3	140.0	144.0	150.0	205.0	226.0
Soybean oil	$/mt	286.3	597.6	447.3	564.8	625.9	440.0	450.0	500.0	525.0	550.0
Soybeans	$/mt	116.9	296.2	246.8	295.4	243.3	194.0	196.0	215.0	250.0	275.0
Grains											
Maize	$/mt	58.4	125.3	109.3	117.1	102.0	92.0	102.0	112.0	125.0	130.0
Rice, Thai, 5%	$/mt	126.3	410.7	270.9	303.5	304.2	265.0	290.0	310.0	335.0	365.0
Sorghum	$/mt	51.8	128.9	103.9	109.6	98.0	89.0	98.9	108.6	121.3	126.1
Wheat, US, HRW	$/mt	54.9	172.7	135.5	159.5	126.1	120.0	130.0	140.0	162.0	172.0
Other Food											
Bananas	$/mt	166.1	377.3	540.9	502.7	491.6	452.0	440.9	468.5	529.1	540.1
Beef	¢/kg	130.4	276.0	256.3	185.5	172.6	176.4	180.8	185.2	200.0	220.0
Oranges	$/mt	168.0	400.2	531.1	459.0	442.4	460.0	525.0	535.0	566.1	605.9
Shrimp, Mexican	¢/kg	n.a.	1,152	1,069	1,612	1,579	1,460	1,450	1,465	1,525	1,590
Sugar, world	¢/kg	8.22	63.16	27.67	25.06	19.67	13.23	13.23	14.33	22.00	25.00
Raw Materials											
Timber											
Logs, Cameroon	$/cum	43.0	251.7	343.5	284.8	286.4	270.0	280.0	290.0	350.0	440.0
Logs, Malaysia**	$/cum	43.1	195.5	177.2	238.3	162.4	179.0	180.0	190.0	230.0	290.0
Sawnwood, Malyasia**	$/cum	175.0	396.0	533.0	664.5	484.2	570.0	580.0	600.0	720.0	900.0
Other Raw Materials											
Cotton	¢/kg	67.6	206.2	181.9	174.8	144.5	128.0	132.3	136.7	176.4	191.8
Rubber, RSS1, Malaysia	¢/kg	40.7	142.5	86.5	101.8	72.2	62.0	70.6	81.6	94.8	103.6
Tobacco	$/mt	1,076	2,276	3,392	3,529	3,342	3,000	3,000	3,000	3,250	3,300
Fertilizers											
DAP	$/mt	54.0	222.2	171.4	199.9	203.4	195.0	198.0	200.0	205.0	210.0
Phosphate rock	$/mt	11.0	46.7	40.5	41.0	43.0	44.0	44.0	44.0	44.0	46.0
Potassium chloride	$/mt	32.0	115.7	98.1	116.5	116.9	121.0	121.0	122.0	124.0	128.0
TSP	$/mt	43.0	180.3	131.8	171.9	173.1	160.0	150.0	140.0	150.0	155.0
Urea, E. Europe, bagged	$/mt	48.0	222.1	130.7	127.9	103.1	80.0	85.0	100.0	135.0	160.0
Metals and Minerals											
Aluminum	$/mt	556	1,456	1,639	1,599	1,357	1,250	1,300	1,450	1,700	1,900
Copper	$/mt	1,416	2,182	2,661	2,277	1,654	1,500	1,700	1,800	2,200	2,400
Gold	$/toz	36.0	608.0	383.5	331.1	294.2	265.0	260.0	250.0	270.0	300.0
Iron ore	¢/dmtu	9.84	28.09	30.80	28.88	29.69	26.96	27.00	28.00	31.00	32.00
Lead	¢/kg	30.3	90.6	81.1	62.4	52.9	50.0	51.0	54.0	60.0	64.0
Nickel	$/mt	2,846	6,519	8,864	6,927	4,630	4,800	4,900	5,000	6,000	6,640
Silver	¢/toz	177.0	2063.6	482.0	489.2	553.4	505.0	500.0	505.0	525.0	550.0
Tin	¢/kg	367.3	1677.5	608.5	564.7	554.0	530.0	530.0	550.0	590.0	610.0
Zinc	¢/kg	29.6	76.1	151.4	131.6	102.5	97.5	100.0	105.0	115.0	120.0

n.a. = not available

Note: Projections as of July 27, 1999.

Source: World Bank, Development Economics, Development Prospects Group

Table A3: Confidence Intervals for Price Projections in Current Dollars (70% probability)

Commodity	Unit	1999	2000	2001	2005
Energy					
Coal, US	$/mt	30.50 - 36.00	26.50 - 39.50	25.75 - 41.25	24.25 - 46.75
Crude oil, avg. spot	$/bbl	13.75 - 17.25	12.75 - 21.25	11.50 - 23.00	10.75 - 25.25
Natural gas, Europe	$/mmbtu	1.90 - 2.40	1.90 - 3.10	1.85 - 3.35	1.70 - 3.50
Natural gas, US	$/mmbtu	1.85 - 2.35	1.70 - 2.70	1.60 - 2.90	1.50 - 3.40
Non-Energy					
Agriculture					
Beverages					
Cocoa	¢/kg	103 - 138	103 - 158	95 - 185	98 - 263
Coffee, arabica	¢/kg	193 - 270	178 - 286	154 - 319	134 - 373
Coffee, robusta	¢/kg	133 - 187	127 - 202	113 - 224	113 - 261
Tea, 3-auction average	¢/kg	146 - 202	134 - 202	120 - 223	98 - 260
Food					
Fats and Oils					
Coconut oil	$/mt	659 - 909	573 - 880	494 - 927	452 - 1050
Copra	$/mt	369 - 492	341 - 490	318 - 535	296 - 613
Groundnut meal	$/mt	135 - 165	185 - 242	172 - 259	165 - 296
Groundnut oil	$/mt	704 - 897	677 - 937	621 - 1009	583 - 1138
Palm oil	$/mt	405 - 530	400 - 567	370 - 644	333 - 733
Soybean meal	$/mt	123 - 168	112 - 179	108 - 198	133 - 291
Soybean oil	$/mt	388 - 502	390 - 561	401 - 684	396 - 823
Soybeans	$/mt	170 - 233	153 - 235	155 - 284	163 - 355
Grains					
Maize	$/mt	83 - 101	80 - 129	83 - 146	81 - 179
Rice, Thai, 5%	$/mt	228 - 313	220 - 377	223 - 419	201 - 503
Sorghum	$/mt	80 - 98	77 - 125	80 - 141	79 - 173
Wheat, US, HRW	$/mt	108 - 134	101 - 164	104 - 182	105 - 232
Other Food					
Bananas	$/mt	398 - 515	375 - 529	365 - 586	370 - 714
Beef	¢/kg	150 - 203	136 - 226	133 - 237	130 - 280
Oranges	$/mt	405 - 515	431 - 641	401 - 669	379 - 753
Shrimp, Mexican	¢/kg	1310 - 1606	1189 - 1797	1099 - 1835	1099 - 2044
Sugar, world	¢/kg	12 - 15	11 - 17	11 - 19	15 - 33
Raw Materials					
Timber					
Logs, Cameroon	$/cum	230 - 311	230 - 342	212 - 374	210 - 490
Logs, Malaysia**	$/cum	158 - 206	148 - 220	139 - 245	138 - 322
Sawnwood, Malyasia**	$/cum	496 - 656	476 - 708	438 - 774	432 - 1008
Other Raw Materials					
Cotton	¢/kg	111 - 145	112 - 153	102 - 171	114 - 238
Rubber, RSS1, Malaysia	¢/kg	55 - 68	61 - 80	65 - 99	66 - 124
Tobacco	$/mt	2700 - 3300	2400 - 3600	2220 - 3780	2178 - 4323
Fertilizers					
DAP	$/mt	176 - 215	154 - 250	148 - 260	133 - 277
Phosphate rock	$/mt	40 - 48	37 - 51	35 - 53	33 - 55
Potassium chloride	$/mt	109 - 133	99 - 143	90 - 159	81 - 167
TSP	$/mt	144 - 176	120 - 180	101 - 182	98 - 210
Urea, E. Europe, bagged	$/mt	72 - 92	68 - 111	72 - 133	95 - 196
Metals and Minerals					
Aluminum	$/mt	1125 - 1380	975 - 1625	975 - 1930	1020 - 2380
Copper	$/mt	1325 - 1675	1300 - 2100	1200 - 2400	1300 - 3100
Gold	$/toz	235 - 295	200 - 320	170 - 330	165 - 375
Iron ore	¢/dmtu	23 - 31	22 - 32	21 - 35	21 - 41
Lead	¢/kg	45 - 55	38 - 64	36 - 72	36 - 84
Nickel	$/mt	4300 - 5500	3700 - 6125	3300 - 6700	3600 - 8400
Silver	¢/toz	450 - 560	375 - 625	335 - 675	315 - 735
Tin	¢/kg	475 - 585	400 - 660	365 - 735	355 - 825
Zinc	¢/kg	88 - 107	75 - 125	70 - 140	69 - 161

Note: Projections as of July 27, 1999.
Source: World Bank, Development Economics, Development Prospects Group

APPENDIX

Table A4: Commodity Prices and Price Projections in Constant 1990 Dollars

		Actual					Projections				
Commodity	**Unit**	***1970***	***1980***	***1990***	***1997***	***1998***	***1999***	***2000***	***2001***	***2005***	***2010***
Energy											
Coal, US	$/mt	n.a.	59.88	41.67	33.58	33.00	31.72	30.99	30.70	29.44	27.87
Crude oil, avg. spot	$/bbl	4.82	51.22	22.88	17.69	12.54	14.79	15.96	15.81	14.93	13.93
Natural gas, Europe	$/mmbtu	n.a.	4.72	2.55	2.53	2.32	2.05	2.35	2.38	2.16	1.98
Natural gas, US	$/mmbtu	0.68	2.15	1.70	2.29	2.00	2.00	2.07	2.06	2.03	1.98
Non-Energy											
Agriculture											
Beverages											
Cocoa	¢/kg	269.1	361.7	126.7	149.4	160.9	114.5	122.1	128.3	149.3	146.7
Coffee, arabica	¢/kg	457.2	481.6	197.2	384.6	286.1	220.4	217.4	216.2	210.6	194.3
Coffee, robusta	¢/kg	362.8	450.6	118.2	160.2	174.9	151.7	153.2	153.5	154.3	140.8
Tea, 3-auction average	¢/kg	332.9	230.5	205.8	190.1	196.4	166.0	157.8	157.1	148.5	145.2
Food											
Fats and Oils											
Coconut oil	$/mt	1583.7	936.1	336.5	606.1	631.5	739.4	647.9	595.6	514.2	476.7
Copra	$/mt	896.5	629.0	230.7	400.2	394.6	410.2	389.7	389.4	381.5	354.2
Groundnut meal	$/mt	407.4	333.9	184.8	203.9	111.5	143.1	200.0	197.0	190.7	189.2
Groundnut oil	$/mt	1509.4	1193.0	963.7	932.3	872.8	763.2	751.2	733.1	680.1	623.4
Palm oil	$/mt	1036.9	810.9	289.8	503.6	644.1	438.9	436.6	430.7	381.5	337.3
Soybean meal	$/mt	409.0	364.6	200.2	254.4	163.5	133.6	135.2	137.5	170.0	165.7
Soybean oil	$/mt	1141.7	830.2	447.3	521.1	600.8	419.8	422.5	458.2	435.4	403.3
Soybeans	$/mt	466.2	411.5	246.8	272.6	233.5	185.1	184.0	197.0	207.3	201.7
Grains											
Maize	$/mt	232.9	174.0	109.3	108.0	97.9	87.8	95.8	102.6	103.7	95.3
Rice, Thai, 5%	$/mt	503.6	570.6	270.9	280.0	291.9	252.8	272.3	284.1	277.8	267.7
Sorghum	$/mt	206.5	179.0	103.9	101.2	94.1	84.9	92.9	99.5	100.6	92.5
Wheat, US, HRW	$/mt	218.9	240.0	135.5	147.2	121.1	114.5	122.1	128.3	134.4	126.1
Other Food											
Bananas	$/mt	662.2	524.1	540.9	463.8	471.8	431.2	414.0	429.3	438.8	396.1
Beef	¢/kg	520.1	383.4	256.3	171.2	165.6	168.3	169.8	169.7	165.9	161.3
Oranges	$/mt	670.0	556.0	531.1	423.5	424.6	438.9	493.0	490.2	469.5	444.4
Shrimp, Mexican	¢/kg	n.a.	1,600	1,069	1,487	1,515	1,393	1,362	1,342	1,265	1,166
Sugar, world	¢/kg	32.79	87.75	27.67	23.13	18.88	12.62	12.42	13.13	18.25	18.33
Raw Materials											
Timber											
Logs, Cameroon	$/cum	171.5	349.7	343.5	262.7	274.9	257.6	262.9	265.7	290.3	322.7
Logs, Malaysia**	$/cum	172.0	271.6	177.2	219.8	155.9	170.8	169.0	174.1	190.7	212.7
Sawnwood, Malyasia**	$/cum	697.8	550.2	533.0	613.1	464.7	543.8	544.6	549.8	597.1	660.0
Other Raw Materials											
Cotton	¢/kg	269.7	286.5	181.9	161.3	138.7	122.1	124.2	125.3	146.3	140.7
Rubber, RSS1, Malaysia	¢/kg	162.4	197.9	86.5	93.9	69.3	59.2	66.2	74.8	78.6	76.0
Tobacco	$/mt	4,290	3,162	3,392	3,256	3,207	2,862	2,817	2,749	2,695	2,420
Fertilizers											
DAP	$/mt	215.3	308.7	171.4	184.5	195.2	186.0	185.9	183.3	170.0	154.0
Phosphate rock	$/mt	43.9	64.9	40.5	37.8	41.3	42.0	41.3	40.3	36.5	33.7
Potassium chloride	$/mt	127.6	160.8	98.1	107.5	112.2	115.4	113.6	111.8	102.8	93.9
TSP	$/mt	171.5	250.4	131.8	158.6	166.1	152.6	140.9	128.3	124.4	113.7
Urea, E. Europe, bagged	$/mt	191.4	308.6	130.7	118.0	98.9	76.3	79.8	91.6	112.0	117.3
Metals and Minerals											
Aluminum	$/mt	2,217	2,023	1,639	1,476	1,303	1,193	1,221	1,329	1,410	1,393
Copper	$/mt	5,645	3,032	2,661	2,101	1,588	1,431	1,596	1,649	1,825	1,760
Gold	$/toz	143.5	844.7	383.5	305.5	282.3	252.8	244.1	229.1	223.9	220.0
Iron ore	¢/dmtu	39.23	39.02	30.80	26.65	28.50	25.72	25.35	25.66	25.71	23.47
Lead	¢/kg	120.8	125.8	81.1	57.6	50.7	47.7	47.9	49.5	49.8	46.9
Nickel	$/mt	11,348	9,056	8,864	6,392	4,443	4,579	4,601	4,582	4,976	4,869
Silver	¢/toz	705.7	2866.9	482.0	451.4	531.2	481.8	469.5	462.8	435.4	403.3
Tin	¢/kg	1464.7	2330.5	608.5	521.0	531.8	505.6	497.7	504.0	489.3	447.4
Zinc	¢/kg	118.0	105.8	151.4	121.4	98.3	93.0	93.9	96.2	95.4	88.0

n.a. = not available

Note: Projections as of July 27, 1999.

Source: World Bank, Development Economics, Development Prospects Group

Table A3: Confidence Intervals for Price Projections in Constant 1990 Dollars (70% probability)

Commodity	Unit	1999	2000	2001	2005
Energy					
Coal, US	$/mt	29.10 - 34.34	24.88 - 37.09	23.60 - 37.80	20.11 - 38.77
Crude oil, avg. spot	$/bbl	13.12 - 16.46	11.97 - 19.95	10.54 - 21.08	8.92 - 20.94
Natural gas, Europe	$/mmbtu	1.81 - 2.29	1.78 - 2.91	1.70 - 3.07	1.41 - 2.90
Natural gas, US	$/mmbtu	1.76 - 2.24	1.60 - 2.54	1.47 - 2.66	1.24 - 2.82
Non-Energy					
Agriculture					
Beverages					
Cocoa	¢/kg	98 - 131	97 - 148	87 - 170	82 - 218
Coffee, arabica	¢/kg	184 - 258	167 - 269	141 - 292	111 - 309
Coffee, robusta	¢/kg	127 - 178	119 - 189	103 - 206	94 - 217
Tea, 3-auction average	¢/kg	139 - 193	126 - 189	110 - 204	82 - 215
Food					
Fats and Oils					
Coconut oil	$/mt	628 - 868	538 - 826	453 - 850	375 - 871
Copra	$/mt	352 - 470	320 - 460	291 - 490	245 - 508
Groundnut meal	$/mt	129 - 157	174 - 227	158 - 237	137 - 246
Groundnut oil	$/mt	671 - 856	636 - 880	569 - 924	484 - 944
Palm oil	$/mt	386 - 505	376 - 533	339 - 590	276 - 608
Soybean meal	$/mt	118 - 160	105 - 168	99 - 181	111 - 241
Soybean oil	$/mt	370 - 479	366 - 526	367 - 626	328 - 683
Soybeans	$/mt	162 - 222	144 - 221	142 - 260	135 - 294
Grains					
Maize	$/mt	79 - 97	75 - 121	76 - 133	67 - 148
Rice, Thai, 5%	$/mt	217 - 298	207 - 354	205 - 383	167 - 417
Sorghum	$/mt	76 - 93	72 - 117	74 - 129	65 - 144
Wheat, US, HRW	$/mt	103 - 128	95 - 154	95 - 167	87 - 192
Other Food					
Bananas	$/mt	379 - 492	352 - 497	335 - 537	307 - 592
Beef	¢/kg	143 - 194	127 - 212	122 - 217	108 - 232
Oranges	$/mt	386 - 491	404 - 601	368 - 613	315 - 624
Shrimp, Mexican	¢/kg	1,250 - 1,532	1,116 - 1,687	1,007 - 1,682	911 - 1,695
Sugar, world	¢/kg	11.1 - 14.1	10.6 - 15.5	9.8 - 17.7	12.2 - 27.4
Raw Materials					
Timber					
Logs, Cameroon	$/cum	219 - 296	216 - 321	194 - 343	174 - 406
Logs, Malaysia**	$/cum	150 - 196	139 - 206	127 - 225	114 - 267
Sawnwood, Malyasia**	$/cum	473 - 625	447 - 664	401 - 709	358 - 836
Other Raw Materials					
Cotton	¢/kg	106 - 138	105 - 144	93 - 157	94 - 198
Rubber, RSS1, Malaysia	¢/kg	53 - 65	57 - 75	60 - 90	55 - 103
Tobacco	$/mt	2,576 - 3,148	2,254 - 3,380	2,034 - 3,464	1,806 - 3,585
Fertilizers					
DAP	$/mt	167 - 205	145 - 234	136 - 238	111 - 230
Phosphate rock	$/mt	38 - 46	35 - 48	32 - 48	27 - 46
Potassium chloride	$/mt	104 - 127	93 - 134	83 - 145	67 - 139
TSP	$/mt	137 - 168	113 - 169	92 - 167	81 - 174
Urea, E. Europe, bagged	$/mt	69 - 88	64 - 104	66 - 122	78 - 162
Metals and Minerals					
Aluminum	$/mt	1,073 - 1,317	915 - 1,526	893 - 1,769	846 - 1,974
Copper	$/mt	1,264 - 1,598	1,221 - 1,972	1,100 - 2,199	1,078 - 2,571
Gold	$/toz	224 - 281	188 - 300	156 - 302	137 - 311
Iron ore	¢/dmtu	22 - 29	20 - 30	19 - 32	17 - 34
Lead	¢/kg	43 - 52	36 - 60	33 - 66	30 - 70
Nickel	$/mt	4,102 - 5,247	3,474 - 5,751	3,024 - 6,139	2,986 - 6,966
Silver	¢/toz	429 - 534	352 - 587	307 - 619	261 - 610
Tin	¢/kg	453 - 558	376 - 620	334 - 674	294 - 684
Zinc	¢/kg	84 - 102	70 - 117	64 - 128	57 - 134

Note: Projections as of July 27, 1999.
Source: World Bank, Development Economics, Development Prospects Group

APPENDIX

Table A6. Weighted Indices of Commodity Prices, and Inflation

	Actual					Projections*				
	1970	*1980*	*1990*	*1997*	*1998*	*1999*	*2000*	*2001*	*2005*	*2010*
Current Dollars										
Petroleum	5.3	161.1	100.0	83.8	57.1	63.4	72.1	74.3	78.7	83.0
Non-Energy Commodities**	43.9	125.8	100.0	117.6	99.2	88.7	91.4	96.3	110.4	119.6
Agriculture	45.8	138.1	100.0	128.6	107.8	96.3	99.6	103.8	119.1	129.3
Beverages	56.9	181.4	100.0	170.7	140.6	113.0	118.4	119.8	133.4	139.9
Food	46.7	139.3	100.0	116.1	104.9	93.9	97.0	100.4	109.7	115.1
Fats and oils	64.4	148.7	100.0	147.7	132.8	108.1	108.5	111.3	120.4	128.6
Grains	46.7	134.3	100.0	112.1	101.3	97.9	104.5	111.8	119.9	128.0
Other food	32.2	134.3	100.0	92.4	84.2	80.0	83.4	85.2	95.3	96.8
Raw materials	36.4	104.6	100.0	113.7	87.3	87.0	88.9	96.2	120.6	139.7
Timber	31.8	79.0	100.0	125.8	90.9	102.7	103.0	111.9	134.4	169.8
Other Raw Materials	39.6	122.0	100.0	105.5	84.9	76.3	79.3	85.5	111.2	119.2
Fertilizers	30.4	128.9	100.0	119.7	122.1	116.7	111.9	107.1	111.9	116.1
Metals and minerals	40.7	95.1	100.0	90.2	75.7	67.2	69.4	77.0	88.7	96.2
Constant 1990 Dollars* **										
Petroleum	21.1	223.8	100.0	77.3	54.8	60.4	67.7	68.1	65.2	60.9
Non-Energy Commodities**	175.2	174.7	100.0	108.5	95.2	84.6	85.8	88.3	91.5	87.7
Agriculture	182.6	191.9	100.0	118.7	103.5	91.9	93.5	95.1	98.8	94.8
Beverages	226.8	252.1	100.0	157.5	134.9	107.8	111.1	109.8	110.6	102.6
Food	186.2	193.5	100.0	107.1	100.7	89.6	91.1	92.0	91.0	84.4
Fats and oils	256.6	206.6	100.0	136.3	127.5	103.1	101.9	102.0	99.8	94.3
Grains	186.3	186.6	100.0	103.4	97.2	93.4	98.1	102.5	99.4	93.8
Other food	128.5	186.6	100.0	85.2	80.8	76.4	78.3	78.0	79.0	71.0
Raw materials	145.2	145.3	100.0	104.9	83.8	83.0	83.5	88.2	100.0	102.5
Timber	126.7	109.8	100.0	116.1	87.3	98.0	96.7	102.5	111.4	124.5
Other Raw Materials	157.8	169.5	100.0	97.3	81.5	72.8	74.5	78.4	92.3	87.4
Fertilizers	121.2	179.1	100.0	110.5	117.2	111.4	105.1	98.1	92.8	85.2
Metals and minerals	162.2	132.1	100.0	83.3	72.6	64.2	65.1	70.5	73.6	70.6
Inflation Indices, 1990=100**										
MUV index*****	25.08	71.98	100.00	108.38	104.19	104.82	106.50	109.13	120.58	136.36
% change per annum		11.12	3.34	1.16	-3.87	0.61	1.60	2.47	2.53	2.49
US GDP deflator	32.69	64.53	100.00	119.20	120.41	122.45	124.66	127.40	138.71	153.75
% change per annum		7.04	4.48	2.54	1.01	1.70	1.80	2.20	2.15	2.08

*Commodity price projections as of July 27, 1999

**The World Bank primary commodity price indices are computed based on 1987-89 export values in US dollars for low- and middle-income economies, rebased to 1990. Weights for the sub-group indices expressed as ratios to the non-energy index are as follows in percent: agriculture 69.1, fertilizers 2.7, metals and minerals 28.2; beverages 16.9, food 29.4, raw materials 22.8, fats and oils 10.1, grains 6.9, other food 12.4; timber 9.3 and other raw materials 13.6.

***Computed from unrounded data and deflated by the MUV index.

****Inflation indices for 1998-2010 are projections as of April 6, 1999. Data for 1997, US GDP deflator is actual; MUV is a preliminary estimate. Growth rates for years 1980, 1990, 1997, 2005 and 2010 refer to compound annual rate of change between adjacent end-point years; all others are annual growth rates from the previous year.

*****Unit value index in US dollar terms of manufactures exported from the G-5 countries (France, Germany, Japan, UK, and US) weighted proportionally to the countries' exports to the developing countries.

Source: World Bank, Development Prospects Group. Historical US GDP deflator: US Department of Commerce.

Description of Price Series

Aluminum (LME) London Metal Exchange, unalloyed primary ingots, high grade, minimum 99.7% purity, cash price

Bananas (Central & South American), first-class quality tropical pack, importer's price to jobber or processor, f.o.r. US ports

Beef (Australian/New Zealand), cow forequarters, frozen boneless, 85% chemical lean, c.i.f. U.S. port (East Coast), ex-dock

Coal (Australian), thermal, 12,000 btu/lb, less than 1.0% sulfur, 14% ash, f.o.b. piers, Newcastle/Port Kembla

Coal (US), thermal, 12,000 btu/lb, less than 1.0% sulfur, 12% ash, f.o.b. piers, Hampton Road/Norfolk

Cocoa (ICCO), International Cocoa Organization daily price, average of the first three positions on the terminal markets of New York and London, nearest three future trading months

Coconut oil (Philippines/Indonesian), bulk, c.i.f. Rotterdam

Coffee (ICO), International Coffee Organization indicator price, other mild Arabicas, average New York and Bremen/Hamburg markets, ex-dock

Coffee (ICO), International Coffee Organization indicator price, Robustas, average New York and Le Havre/Marseilles markets, ex-dock

Copper (LME), grade A, minimum 99.9935% purity, cathodes and wire bar shapes, settlement price

Copra (Philippines/Indonesian), bulk, c.i.f. N.W. Europe

Cotton ("cotton outlook", "A" index), middling 1-3/32 inch, c.i.f. Europe

Crude oil (spot), average spot price of Brent, Dubai and West Texas Intermediate, equally weighed

Crude oil (spot), U.K. Brent 38' API, f.o.b. U.K ports

Crude oil (spot), Dubai Fateh 32' API, f.o.b. Dubai

Crude oil (spot), West Texas Intermediate (WTI) 40' API, f.o.b. Midland Texas

DAP (diammonium phosphate), bulk, spot, f.o.b. US Gulf

Fishmeal (any origin), 64-65%, c&f Hamburg, nfs

Gold (UK), 99.5% fine, London afternoon fixing, average of daily rates

Groundnut meal (Argentine), 48/50%, c.i.f. Rotterdam

Groundnut oil (any origin), c.i.f. Rotterdam

Iron ore (Brazilian), CVRD Southern System standard sinter fines (SSF), 64.2% Fe (iron) content (dry weight) ores, moisture content 6.5%, contract price to Europe, f.o.b. Tubarao. Unit dry metric ton unit (dmtu) stands for mt 1% Fe-unit. To convert price in cents/dmtu to $/dmt SSF (dry ore), multiply by percent Fe content. For example, 28.88 cents/dmtu is $18.54 /dmt SSF. To convert to wet mt SSF (natural or wet ore), multiply by percent Fe content by (1 minus percent moisture content). 28.88 cents /dmtu is $17.34 /Wet mt SSF. Iron ore in most countries is traded in terms of dry mt, and shipped in wet mt. For 1989-96, Fe content was 64.3% and moisture content 6.9%

Jute (Bangladesh), raw, white D, f.o.b. Chittagong/Chalna

Lamb (New Zealand), frozen whole carcasses, wholesale price, Smithfield market, London

Lead (LME), refined, 99.97% purity, settlement price

Logs (West African), sapele, high quality (loyal and marchand LM), f.o.b. Cameroon; beginning January 1996, LM 80 centimeter or more

Logs (Malaysian), meranti, Sarawak, sale price charged by importers, Tokyo; prior to February 1993, average of Sabah and Sarawak weighted by Japanese import volumes

Maize (US), no. 2, yellow, f.o.b. US Gulf ports

Natural Gas (Europe), average import border price

Natural Gas (U.S.), spot price at Henry Hub, Louisiana

Nickel (LME), cathodes, minimum 99.8% purity, official morning session, weekly average bid/asked price

Oranges (Mediterranean exporters) navel, EEC indicative import price, c.i.f. Paris

Palm oil (Malaysian), 5% bulk, c.i.f. N. W. Europe

Palmkernel Oil (Malaysian), c.I.f. Rotterdam

Phosphate rock (Moroccan), 70% BPL, contract, f.a.s. Casablanca

Plywood (African and Southeast Asian), Lauan, 3-ply, extra, 91 cum x 182 cum x 4 mm, wholesale price, spot Tokyo

Potassium chloride (muriate of potash), standard grade, spot, f.o.b. Vancouver

DESCRIPTION OF PRICE SERIES

Rice (Thai), 5% broken, WR, milled, indicative price based on weekly surveys of export transactions (indicative survey price), government standard, f.o.b. Bangkok

Rice (Thai), 25% broken, WR, milled indicative survey price, government standard, f.o.b. Bangkok

Rice (Thai), 35% broken, WR, milled, indicative survey price, government standard, f.o.b. Bangkok

Rice (Thai), 100% broken, A.1 Special, broken kernel obtained from the milling of WR 15%, 20%, and 25%, indicative price, government standard, f.o.b. Bangkok

Rubber (Malaysian), RSS no. 1, in bales, Malaysian Rubber Exchange & Licensing Board, midday buyers' asking price for prompt or 30 days delivery, f.o.b. Kuala Lumpur

Rubber (any origin), RSS no. 1, in bales, Rubber Traders Association (RTA), spot, New York

Rubber (Asian), RSS no. 1, in bales, Rubber Association of Singapore Commodity Exchange (RASCE)/ Singapore Commodity Exchange, midday buyers' asking price for prompt or 30 days delivery; prior to June 1992, spot, Singapore

Sawnwood (Cameroonian), sapele, width 6 inches or more, length 6 feet or more, f.a.s. Cameroonian ports

Sawnwood (Malaysian), dark red seraya/meranti, select and better quality, General Market Specification (GMS), width 6 inches or more, average 7 to 8 inches; length 8 inches or more, average 12 to 14 inches; thickness 1 to 2 inch(es); kiln dry, c. & f. UK ports

Shrimp , (Mexican), frozen, white, No. 1, shell-on, headless, 26 to 30 count per pound, wholesale price at New York

Silver (Handy & Harman), 99.9% grade refined, New York

Sisal (East African), UG (rejects), c.i.f. UK

Sorghum (US), no. 2 milo yellow, f.o.b. Gulf ports

Soybean meal (any origin), Argentine 45/46% extraction, c.i.f. Rotterdam; prior to 1990, US 44%

Soybean oil (Dutch), crude, f.o.b. ex-mill

Soybeans (US), c.i.f. Rotterdam

Steel products price index, 1990=100, (Japanese), composite price index for eight selected steel products based on quotations f.o.b. Japan excluding shipments to the United States and China, weighted by product shares of apparent combined consumption (volume of deliveries) at Germany, Japan and the United States. The eight products are as follow: rebar (concrete reinforcing bars), merch bar (merchant bars), wire rod, section (H-shape), plate (medium), hot rolled coil/sheet, cold rolled coil/sheet, and galvanized iron sheet

Sugar (EU), European Union negotiated import price for raw unpackaged sugar from African, Caribbean and Pacific (ACP) under Lome Conventions, c.I.f. European ports

Sugar (US), import price, nearest future, c.i.f. New York

Sugar (world), International Sugar Agreement (ISA) daily price, raw, f.o.b. and stowed at greater Caribbean ports

Tea (Calcutta auctions), leaf, include excise duty, arithmetic averages of weekly quotes

Tea (Colombo auctions), Sri Lankan origin, all tea, arithmetic averages of weekly quotes

Tea (Mombasa/Nairobi auctions), African origin, all tea, arithmetic averages of weekly quotes

Tin (LME), refined, 99.85% purity, settlement price

TSP (triple superphosphate), bulk, spot, f.o.b. US Gulf

Urea, (varying origins), bagged, spot, f.o.b. Eastern Europe

Urea, (varying origins), bulk, spot, f.o.b. Eastern Europe

Wheat (Canadian), no. 1, Western Red Spring (CWRS), in store, St. Lawrence, export price

Wheat (US), no. 1, hard red winter, ordinary protein, export price delivered at the Gulf port for prompt or 30 days shipment

Wheat (US), no. 2, soft red winter, export price delivered at the Gulf port for prompt or 30 days shipment

Woodpulp (Swedish), softwood, sulphate, bleached, air-dry weight, c.i.f. North Sea ports

Wool (Dominion), crossbred, 56's, clean, c.i.f. UK

Zinc (LME), special high grade, minimum 99.995% purity, weekly average bid/asked price, official morning session; prior to April 1990, high grade, minimum 99.95% purity, settlement price

Definitions and Notes

Constant prices are prices which are deflated by the Manufactures Unit Value Index (MUV), with a base of 1990=100. The MUV is the unit value index in US dollar terms of manufactures exported from the G-5 countries (France, Germany, Japan, UK, and US), weighted proportionally to the countries' exports to the developing countries.

Current prices are actual market prices which are not adjusted for inflation or exchange rate changes.

Dollars are US dollars unless otherwise specified.

Futures prices shown in this report are closing prices as of the date noted. The prices are converted to the same units as the monthly data for comparison purposes, however they are not adjusted for quality or transportation. Thus, the futures prices will often have a significant margin from the actual monthly prices, but this margin should not be interpreted as the expected direction of future price movements. Rather, it is the path of futures prices which is considered to have economic meaning by many commodity analysts.

Growth rates, except where noted, are computed by least squares regression.

Price indexes were computed by the Laspeyres formula. The Non-Energy Price Index is comprised of 33 commodities. U.S. dollar prices of each commodity are weighted by 1987-89 average export values. Base year reference for all indexes is 1990. Countries comprised of all low and middle income economies according to World Bank income classification. Details are shown in Table A1 Commodity Price Data.

Regions are classified according to World Bank analytical groupings.

Reporting period. Calendar vs. crop or marketing year refers to the span of the year. It is common in many agricultural commodities to refer to production and other variables over the twelve month period which begins with harvest. A crop or marketing year will often differ by commodity and also by country. Other commodities such as metals use a calendar year.

Tons refer to metric tons (1,000 kilograms) unless otherwise noted.

ACRONYMS AND ABBREVIATIONS

API	American Petroleum Institute
bbl	barrel
BP	British Petroleum
Bel-Lux	Belgium/Luxemburg
c.i.f.	cost, insurance, and freight
CBOT	Chicago Board of Trade
CSCE	Coffee, Sugar, and Cocoa Exchange
cum	cubic meter
CVRD	Companhia Vale do Rio Doce
dmtu	dry metric ton unit
dwt	dead weight ton
f.o.b.	free on board
f.o.r.	free on rail
FAO	Food and Agriculture Organization of the United Nations
FSU	Former Soviet Union
G-5	France, Germany, Japan, United Kingdom, and United States
G-7	G-5 plus Canada and Italy
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
ha	hectare
ICAC	International Cotton Advisory Committee
ICCO	International Cocoa Organization
ICO	International Coffee Organization
IEA	International Energy Agency
IGC	International Grains Council
IISI	International Iron and Steel Institute
IMF	International Monetary Fund
INRO	International Natural Rubber Organization
IRSG	International Rubber Study Group
ISO	International Sugar Organization
ITC	International Tea Committee
ITTO	International Tropical Timber Organization
kg	kilogram
KLCE	Kuala Lumpur Commodity Exchange
kt	thousand ton
lb	pound
LIBOR	London Interbank Offer Rate
LIFFE	London International Financial and Futures and Options Exchange
LME	London Metal Exchange
mb/d	million barrels per day
MGE	Minneapolis Grain Exchange
mmbtu	millions of British thermal units
mt	metric ton
mtoe	million tons of oil equivalent
MUV	Manufactures unit value
n.a.	data not available
NIKKEI	Nihon Keizai Shimbun, Inc.
nil.	data less than half the unit shown
NMFS	The National Marine Fisheries Service
NYCE	New York Cotton Exchange
NYMEX	New York Mercantile Exchange
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PNG	Papua New Guinea
SDR	Special drawing right
SICOM	Singapore Commodity Exchange
ton	metric ton
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US DOE	US Department of Energy
USDA	US Department of Agriculture
WBMS	World Bureau of Metal Statistics
WFP	World Food Programme
WHO	World Health Organization
WSJ	*The Wall Street Journal*
WTO	World Trade Organization

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