

Tougher time awaits oil

LONDON, Dec 22: The oil market already has too much to drink and the new year has not even arrived, reports Reuters.

Brimming stocks, unabated supplies, more to come from Kuwait and Iraq plus a demand outlook turned even darker by this week's hike in German interest rates make 1992 a year to handle with care if 21 dollar a barrel is to be a credible goal for OPEC.

The group's meeting in Geneva on February 12 may provide belated pain relief for the supply hanger, but at this stage players in the 1992 oil price guessing game are lowering or thinking about lowering their forecasts.

Kleinwort Benson Securities, a London stockbrokerage whose oil price forecasts generally veer toward the top of the range of predictions, has cut its 1992 average from 22 dollar to 21 dollar. And that is based on North Sea Brent, which is usually around one dollar above OPEC's basket of seven crudes.

The market has stacked up badly and lost against OPEC in the past few weeks. The Brent price has fallen more than five dollar in the last eight weeks. It opened on Friday at 18 dollar a barrel for February delivery on the London futures market. And Saudi Arabia, the powerhouse of the Organisation of Petroleum

Exporting Countries, is unhappy.

"Saudi Arabia is definitely not content with today's price," said a Gulf industry source privy to Riyadh's policy making.

If that's true, the market is asking why Saudi Arabia is producing so much oil.

Saudi Arabia said it was going to produce 8.5 million barrels per day (BPD) from September through March, effectively pulling total OPEC output above 24 million BPD. That looks like a miscalculation.

Saudi Arabia's King Fahd likes stable, predictable oil prices, and the Ministry of Petroleum sees a comfort zone of 19 to 23 dollar. But OPEC's basket was 17.29 dollar last week.

Speculation that the Saudi's engineered lower prices as a favour to US President George Bush drew sharp denial from Riyadh, which has well-known reasons for keeping taps wide open.

Key inputs in Saudi policy were expectations that Russian oil exports would slow to a drip, Iraqi oil exports would take a long time coming back on the market and the US economy would beat a little stronger entering a presidential election year.

The market has lost patience on all counts. It thinks the Russian oil flow looks fairly

stable, Iraqi oil might be back sooner rather than later and the US recovery rate is too slow.

Oil analysts thus see reasons for OPEC to cut back.

If prices are like this in the dead of winter, spring and summer are bound to be worse unless OPEC takes some corrective action to support the market, analysts reckon.

"In 1991 the issue was supply capacity, in 1992 it will be adequacy of demand. OPEC will once again be in the position of having to manage the market. They will have to cut back supplies," said Keith Hamm, oil consultant at London's Petroleum Economics Ltd.

US Department of Energy Statistics on oil consumption make grim reading for the oil producers.

Demand in the four weeks through December 13 only averaged 16.1 million BPD, which compares with last year's unusually warm early winter which burnt 16.6 million BPD.

"Making the assumption of normal weather and normal economic growth rates demand should be between 17.1 and 17.5 million BPD that loss of one million BPD of demand makes a huge difference."

commented Adam Siciński of County Natwest Washington Analysis.

Add in Japan's stumbling economic performance and clouds cast over Europe by the Bundesbank's shock rate move and the demand outlook gets bleaker.

Economists at the Organisation of Economic and Development cut their economic growth forecast for the 24-nation group to 2.6 per cent from 2.9 per cent even before the surprise German rate rise.

The International Energy Agency, an OECD stakeholder, wiped 300,000 BPD of world demand estimates for the first half of 1992 when it issued its monthly report earlier this month.

Heavy inventories of refined products will handicap the market going into the second quarter, raising the pressure on OPEC to do something.

"The worry is that a first quarter stockpiling will dampen prices further," said Bahman Karbassian, a Vienna-based industry consultant.

The initiative must come from Saudi Arabia, as it controls 35 per cent of OPEC output and around 13 per cent of world output.

Japan's growth to slow down

TOKYO, Dec 22: Japan's government adopted its annual economic outlook Saturday, forecasting a modest slowdown in economic expansion to 3.5 per cent in the coming fiscal year, down from an estimated 3.7 per cent this year, reports AFP.

"The economy is in the process of shifting from somewhat overheated high growth to a sustainable growth path without inflation," said the outlook, approved at a cabinet meeting chaired by prime minister Kiichi Miyazawa.

The relatively upbeat assessment by the economic planning agency says growth in Gross National Product (GNP) in the year starting in April will be driven by stronger consumer spending and a sharp rebound in housing investment.

The main factor behind the loss of economic momentum is an expected slowdown in capital investment which has been a major engine of growth in recent years.

The economic outlook also forecasts a rebound in industrial production — three per

cent growth next year compared with this year's anemic 0.9 per cent.

Japan's current account surplus is forecast to resume shrinking after more ballooning to more than twice the previous year's level in the current year.

Budget

A later report adds: Japan's Finance Ministry submitted its draft budget to the Cabinet Sunday, seeking a sharp increase in public works expenditure while limiting defence spending to its smallest increase in more than three decades.

The overall budget is forecast to grow 2.7 per cent to 72,218 billion yen (564 billion dollar) in the fiscal year starting in April, down from an initial estimate of 6.2 per cent this year and the smallest rise in five years.

Japan's overseas aid to developing countries has meanwhile been targeted at 927 billion yen (7.2 billion dollar), up five per cent but remaining at less than 0.2 per cent of GNP.



Mr M Moyeedul Islam, Chairman, Bangladesh Insurance Association, addressing the Annual General Meeting of the Association held on Thursday, Dec 19. Seen, also in the picture, among others, are Maj Gen A Mannan Siddiqui (Retd), Mr M A Samad, Mr M Harunur Rashid and Lt Humayun Zahir.

Richest lottery rains \$1.3b winnings

MADRID (Spain), Dec 22: The lottery billed as the world's richest rained a record 1.3 billion dollar in tax-free winnings on thousands of ticket-holders Saturday in a holiday tradition dating back almost two centuries, reports AP.

The five-digit grand-prize number picked Saturday in the Christmas lottery, known as "El Gordo," or The Fat One, paid 300 million pesetas (3 million dollar) to holders of each of 95 tickets bearing the winning number: 47996.

The winning number, which was sold in Madrid, was picked at 11.23 am, more than two hours after the drawing began.

Since each of the 95 winning tickets cost 300 dollar, most of them were split among friends, families, work mates and club members.

The annual drawing showers its winnings on thousands across the country. It marks the start of the holiday season and is more popular in Spain than soccer or Santa Claus.

The jackpot is billed as the world's largest, although other lotteries offer larger single prizes.

The payoff for "El Gordo" was 10,000 to 1, meaning a one-dollar investment yielded 10,000 dollar to the grand-prize winners.

GATT talks face collapse

BRUSSELS, Dec 22: The United States and European Community ended two days of talks still wide apart over the issue of farm subsidies, the issue threatening to wreck prospects of a world trade accord, reports Reuters.

There are still substantial differences between the United States and European Community, European Farm Commissioner Ray Machary told a news conference after taking part in a meeting with US Agriculture Secretary Ed Madigan.

Dutch Prime Minister Ruud Lubbers, current EC President, said he was disappointed at

the failure of his efforts to broker a compromise since a November US-EC summit at which President George Bush and Delors pledged their backing for a GATT deal.

After Macsharry's Friday session with Madigan, billed as a last chance, Tétrishman said talks had broken down.

Asked if Saturday's session had improved things at all, he said, "They're even worse."

He explained this was because a compromise GATT Director-General Arthur Dunkel had published overnight was far less favourable than the EC had expected.

Madigan declined to give his assessment of US-EC talks or of the Dunkel plan, saying only: "We presume negotiations will continue in Geneva and we presume the US and the EC will be actively engaged."

United States trade representative Carol Hills had talks with European Trade Commissioner Frans Andriessen. Asked if there was still the political will to achieve an accord, she said: "Certainly on the US side there is."

She said that as far as she was concerned, the aim of the Group of Seven summit to reach broad agreement by the year end had been achieved with the publication of Dunkel's paper.

"The G-7 deadline has been done, but the fruits of the effort have not been harvest by any means and there's a lot more work to be done," she said.

She added that in her opinion, there was no chance of an overall GATT accord without an agreement on agriculture. Third World countries with nothing to steel except farm produce to earn hard currency would not give their backing to such a deal.

Executive Tips

By Shahabuddin Mahtab
All paper work

I was in Japan some three decades back on a training programme under a Ministry situated in a busy downtown area. In the course of my training I was attached with various branches/sections of the Ministry. So I could see and understand their working method, disposal of cases/files, etc. In all three months I stayed in Japan, I could not discover any fat file. All the files that I saw in the tables were slim. In the erstwhile Pakistan (which included the present day Bangladesh) from the day I joined the public service, I became acquainted with very fat files. In Bangladesh of today, we are fond of doing even more paper work than ever before, and miss the woods for the trees.

Japan is now one of the most developed countries in the world, and their per capita income is also one of the highest. As I saw, in the Japanese system action was taken at the operational level and responsibility taken at each level of the administration. Many of the decisions were taken simply on the basis of telephonic conversation. This system however, worked well, because of mutual trust and understanding at every level of the management.

Quite like Japan, there is far less paper work in the USA, Germany and the UK. In our country there are voluminous files in all our offices, and simple cases are referred to the highest level, because we do not trust each other, and like to hold onto power. The productivity of each of us, therefore, is thus very much low.

The productivity climate can be created by overhauling the archaic rules and poor methods. The people at the senior levels of XXX administration, most of whom have been abroad, must take the plunge, if we want to raise the quality and quantity of government work for a better future.

Business Briefs

2m tourists visit Indonesia: Almost two million foreign tourists visited Indonesia in the first ten months of 1991, the Antara news agency said here Sunday, reports AFP from Jakarta.

Antara cited statistics of the Post, Telecommunication and Tourism Ministry showing that 1,995,811 tourists had entered the country in the first 10 months of the year, bringing in 1.69 billion dollar in foreign exchange.

Greek budget okayed: Parliament on Saturday narrowly approved Greece's 1992 budget, which foresees spending of 6.57 trillion (36.8 billion dollar) drachmas and revenue of 5.47 trillion drachmas (30.7 billion dollar), reports AP from Athens.

The budget was approved by 152 votes in favour and 145 against in the early morning hours after a five-day debate in the 300-member unicameral Parliament. Three deputies were absent.

Japan slates trade accord: The Japanese government on Saturday criticized a draft accord reached in international trade talks which would force Japan to end its ban on rice imports, reports AP from Tokyo.

Chief government spokesman Koichi Kato called the draft, which would require that all import limits be replaced with tariffs, "truly regrettable."

French aid to IJO: French government has given an amount of 1.50 lakh US dollar as grant to the committee on projects of the International Jute Organisation (IJO), reports UNB from Dhaka.

The money will be credited to the special account of the committee in order to enable the financing of one or several projects chosen by the government of France.

LONDON, Dec 22: With few exceptions, commodity prices slumped during 1991 as recession or slowdown in the leading industrial economies and the consequences of the disintegration of the Soviet Union dominated markets, reports AFP.

Industrially-used commodities were the worst affected as recession in the English-speaking countries deepened and prolonged itself in a way that nobody had predicted.

To make matters worse, by the end of the year, the problems of the US-British and Australasian economies were compounded by a marked slowdown in Japan, Germany and continental Europe.

On the London Metal Exchange (LME), the fragility of world automobile and construction industries was reflected in stocks which soared to record levels — aggravated in the case of aluminium and nickel by a flood of Soviet exports — and a slide in prices, of ten to unprecedented lows.

Despite the apparent entry of the US economy into the second phase of a "double-dip" recession at the end of the year, major metal groups, such as Germany's Metallgesellschaft, expect base metals of recover in 1992 as producers cut output in reaction to low prices and Soviet exports are reduced because of production problems, notably energy shortages.

Overall demand is also expected to pick-up. Billion throne Metals expect average growth in the OECD countries to be two per cent in 1992 and three per cent in 1993, lifting demand for base metals.

Soviet developments dominated gold markets. Initially weakened by Soviet selling, the market recovered as it emerged that Moscow's reserves had fallen significantly below western estimates.

Oil meanwhile defied all expectations, slumping in reaction to the launch of Desert Storm, the US-led allied strike against Iraqi forces in Kuwait, on January 17 and marking the cease-fire six weeks later by firming.

The slump in Soviet oil exports later brought support but the year finished on an uncertain note, analysts predicting a surplus in the spring of 1992 as Kuwait and eventually Iraq

1991: A bad year for world commodity trade

resume exports. For soft commodities, the imminent disappearance of the centralised import agencies of the USSR, brought a degree of instability but grains were supported by hopes for an upturn in aid-financed buying by the newly-independent republics to meet chronic food shortages.

Apart from grains, only cocoa, coconut oil and palm oil finished the year ahead of the levels which prevailed at the end of the previous year. Cocoa was lifted by forecasts of the first deficit of production against consumption for eight years in 1991-92.

Petroleum: Brent crude, the benchmark for North Sea oil slumped to 16.5 dollars barrel, a seven-month low, in reaction to the early successes of the allied forces in the Gulf War. But once the war ended in February prices moved back towards 20 dollar in reaction to the slump in Soviet exports and reduced North Sea output. The failed coup in the Soviet Union sparked a brief surge to 22.2 dollar but prices quickly returned to pre-coup levels.

The autumn trend was supported by a seasonal upturn in demand, the problems of the Soviet oil sector and by the absence of any spare capacity to cover demand in the event of unexpected developments.

Gains were trimmed at the end of the year as analysts predicted a spring 1992 surplus due to lower demand, the return of Kuwaiti exports and an eventual re-start of Iraqi exports.

Saudi Arabia's refusal to cut its production, now at 8.5 million barrels per day (MBD) against 5.4 MBD before the Gulf crisis, added to these concerns.

Gold: Immediately before the Gulf war, gold passed the 400 dollars/ounce mark for the first time in three months. But the rapid victory of the allies triggered a slide which lasted into September, its lowest level for 15 months.

The recession, a lack of investor-interest and extensive forward selling by the major producers were all factors in the weakness. But it was fears of Soviet selling, which intensified after the failed coup

that dominated the market in 1991.

But from the end of September, these fears receded as a series of Soviet officials issued statements indicating that Moscow's reserves were much lower than western estimates. Total reserves on Soviet territory are thought to be around 240 tonnes with a further 150 tonnes held abroad as collateral against loans.

Silver: prices started the year at a 17-year low, depressed by massive world stocks and weak demand. But after a slide to 3.5 dollars ounce at the end of February, prices picked up on good demand from India and Italy. The Silver Institute even forecast a deficit of production in 1991 for the second year in row. After a second slump in August, prices recovered hesitantly despite the delayed recovery in the US.

Platinum: Platinum fell for most of the year, touching a six-year low of 331.75 dollars/ounce at the end of August. The weakness of the world automobile market undermined demand for catalytic converters, the main use of platinum. Research into a platinum-free converter, carried out by the major car manufacturers, increased soviet exports and planned expansion in South African production all contributed to losses.

Western credit to the USSR at the end of the year encouraged hopes that Soviet selling would ease. An anticipated increase in demand for converters — due to tighter environmental regulation in Europe and the US — and strikes in South Africa allowed a partial recovery from September, metals group Johnson Matthew estimated that the western supply surplus in 1991 was its largest for eight years at 210,000 ounces.

Copper: Industrially-sensitive copper rallied as optimism about the world economy rose in the aftermath of the Gulf crisis but saw its gains wiped out by the end of the year as the US headed for prolonged recession. After dipping under 1,200 pounds per tonne, a three-year low, in January prices surged to a high of

1,500 pounds for cash metal in April on forecasts that depressed economies in the English speaking world would recover in the second half.

Despite a year of relatively few supply problems and mounting stocks, the markets excessive optimism not fully corrected until the end of the year when prices were again close to the 1,200 pounds mark and expected to fall further.

Lead: The trend in the lead market mirrored that of copper, three-month prices rising to a peak of 388 pounds per tonne in April after recovering from a three-year low at the end of 19.

The correction in the second half of the year led just under 300 pounds in early November, its lowest level since March 1987, before the northern hemisphere winter brought a degree of seasonal relief in the form of increased demand from car-battery manufacturers. The slump in world automobile markets had only a limited affect-lower sales of new cars being compensated by increased demand for replacement batteries.

Zinc: Zinc prices also registered their highest point of the year in April. The background of rising confidence in recovery in the key metal-consuming industries (automobile, construction) a number of unexpected supply disruptions and technical-tightness caused by a major player holding options on large amounts of LME stocks, saw cash prices surge to over 1,400 dollars tonne and a premium of over 100 dollars tonne on three-month zinc.

But the prolonged and deepening recession, soaring stocks attracted into LME warehouses by longer periods of premiums for cash metal, and continued world over production saw a prices LME collapse in October to their lowest point since the current LME contract was launched in September 1988. Prices recovered in November in reaction to a technical squeeze and limited cutbacks by producers

but by the end of the year were again under fresh pressure.

Tin: Legal wrangles which sharply cut production at the BOM Futuro mine Brazil (the world's largest) helped boost depressed tin prices in the first half of the year. Brazil told the Association of Tin Production Countries (ATPC) at would cut output 12.8 per cent in 1992.

But despite lower Brazilian production, ATPC attempts to cut the estimated 45,000-tonne stocks overhang were undermined by a collapse in exports to the Soviet Union and selling by the US defence logistics agency from its strategic stockpile. As a result, prices retreated from their June peak to a contract low (June 1989) in December.

Although the ATPC is head of schedule to meet its production targets, boosted by world number two producer China's decision to join the organisation, prices are expected to remain weak until visible signs of a recovery in demand emerge.

Aluminium: The deepening Anglo-Saxon recession, worldwide over-production, a surge in exports from the former Soviet Union and LME stocks which soared to unprecedented levels saw the aluminium market collapse. In early December, as the prospect slower growth in Japan and Germany added to market gloom, three-month metal traded at 1,100 dollars tonne, down from a peak to nearly 1,600 dollars in early January and, according to analysts, at its cheapest ever in real terms.

A round of cutbacks by producers in October, which took in excess of half a million tonnes per year out of the market, provided only temporary relief. Although large amounts of production, notably in Europe, are loss-making at current prices, producers are unwilling to close smelters because of the high cost involved in a temporary shut-down and prefer to ride out the storm.

Nickel: Nickel prices danced to the Soviet tune for most of the year, rising to a

peak above 9,000 dollar tonne in March on concerns about potential disruptions to supplies from Moscow and anticipation that demand would recover in the second half.

Strike fears at the western world's two largest producers, Inca and Falconbridge, helped keep prices firm into the summer. But by autumn it had been established that the political turmoil in the USSR had failed to lower exports. Rather, exports rose to an unprecedented 100,000 tonnes/year as demand, particularly from the stainless steel mills in Europe, continued to weaken. By November, prices had tumbled to a contract low (February 1988) just above 7,000 dollar per tonne.

Coffee: Depressed at the beginning of the year by a surplus of world supply, prices quickly recovered to 670 pounds/tonne at the end of March after Brazil, world number one producer, announced it was suspending registration of exports while it considered its position on a new international agreement.

But registrations were reopened two weeks later and prices fell again, reaching a 16-year low of 480 pound/tonne in September. Members of the International Coffee Organisation (ICO) finally agreed to extend the current agreement until September 1993. The agreement has been purely administrative since export quotas were suspended in 1989. The ICO is currently looking at a potential new price-supporting agreement with economic clauses.

Cocoa: Prices also fell to a 16-year low (588 pound/tonne in May). Brief rallies were registered occasionally in reaction to rumours of Soviet buying, but it later emerged that Moscow's imports during the year were actually lower than in recent years.

The market later took heart from forecasts for the 1991-92 season of the first deficit of production against consumption for eight years. These predictions compensated the lack of progress towards a new international agreement by the ICCO. African producers have

proposed the introduction of export quotas backed up by a buffer stock.

Sugar: Prices fell to a three-year low early in the year, depressed by the largest production surplus in 1990-91 for eight years.

But the market started to recover in June thanks to a slowdown in Cuban exports. Speculation on a potential breakdown in Cuba-Soviet trade arrangements dominated the market at the year-end. If western credits are large enough, traders now expect an increase in Soviet buying on world markets. While some players expect a better balance in the market next year, others anticipate another production surplus.

Rubber: The fall in rubber prices which began in 1989 continued as the depressed car industry impacted on tyre manufacturers, in February prices touched a nine-year low in London.

A fall in stocks and production levels sparked a recovery in the spring but the decline was resumed in the second half as the recession endured. Support-buying by the International Natural Rubber Organisation failed to bring lasting support to the market and prices finished in Kuala Lumpur at a five-year low. The International Rubber Study Group forecast production would rise faster than consumption next year, increasing the surplus.

Vegetable oils: Coconut oil nearly doubled in price, lifted by a slump in exports from the main producer, notably the Philippines where drought, hurricanes and the eruption of Mount Pinatubo reduced output. Soy oil was supported by an expected 27 per cent fall in Brazilian production due to drought, but gains were reduced at the end of the year.

After a weak start, palm oil was lifted by a brief drop in Malaysian production and stocks. Specialist reviews of world forecast that world vegetable oil stocks would fall next year and prices would rise. Buying from the ex-USSR should increase, providing sufficient credits are delivered. **Grains:** Reduced world de-

mand weakened prices earlier in the year, but wheat gained ground in spring as the major exporters restricted their subsidised sales. Barley meanwhile was lifted by Soviet and Saudi buying.

Wheat then weakened again on the prospect of a 1991 harvest only slightly down on the 1990 record, barley proved more resilient as world supply of coarse grain was relatively light and world stocks fell.

Both grains were lifted at the end of the year by major purchases by the Soviet Union following credits delivered after the failed coup in August.

The International Wheat Council said a significant upturn in world grain production was possible next year.

Tea: Prices were depressed by a downturn in world demand due to the absence of Iraq during the Gulf crisis and a slump in Soviet purchases due to a shortage of hard currency. An upturn in Middle-Eastern buying after the Gulf War was insufficient to absorb increased production. Prospects for 1992 remain uncertain due to difficulties in predicting what will happen in the former USSR.

Cotton: After a steady first half of the year, prices turned down as world production caught up with and exceeded consumption. Cotton finished at a three-year low after the US harvest increased 14 per cent to the highest level since the 1930's. The Economist Intelligence Unit forecast that world production would remain higher than consumption until the end of 1993-94.

Wool: The highlight of the wool year was Australia's abandoning of a costly price supporting system. Prices slumped 30 per cent after the move but recovered in the summer. Australian stocks of some 4.8 million bales are to be liquidated over seven years.

Recovery was restricted by weakened demand from Japan and the USSR and the prolonged recession. Wool quarterly forecast a seven per cent fall in the world clip in 1991-92 to a four-year low. It realised. This will represent a second season of contraction after seven years of strong growth. But any recovery in prices will be restricted by world stocks which currently exceed a full year of consumption.