

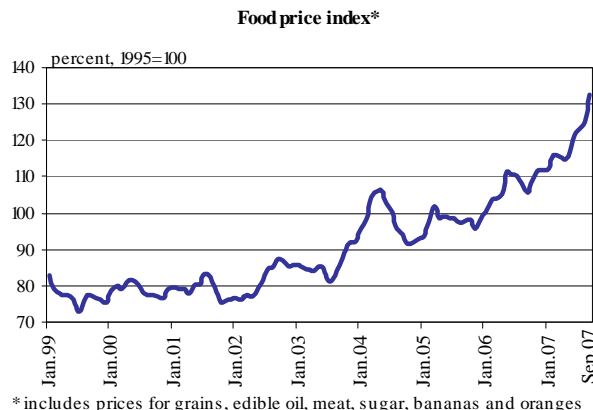
### Box: Recent developments in the main commodity markets

#### I. Agricultural commodities

World prices of agricultural commodities have followed a steady upward path since 2001, their rate of increase accelerating significantly in 2007.

According to the ECB<sup>29</sup>, price increases have mostly been driven by supply-side factors: higher energy and fertiliser prices, low levels of inventories and short crops caused by adverse weather conditions. However, considerable demand-side pressures have also

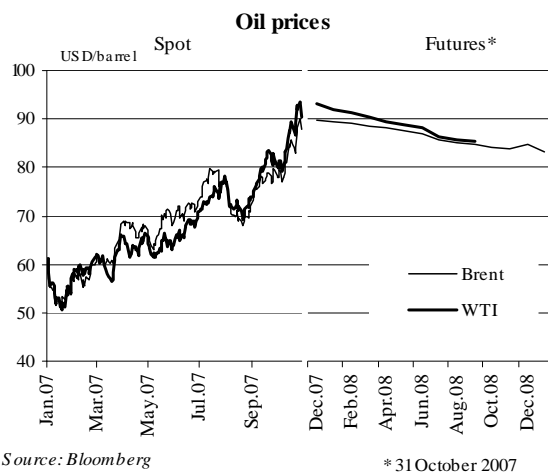
been manifest, generated by two types of factors: (i) change in consumption behaviour in several emerging economies (e.g. China, India) through the shift in focus towards foodstuffs with high value added (dairy and meat products), which indirectly caused the increase in fodder consumption; (ii) wider use of some agricultural commodities for the production of bio-fuels (primarily ethanol), based on government programmes and incentives. Consequently, farmers were encouraged to increase the production of such plants (maize, for instance), while they decreased the supply of other agricultural products, with a subsequent indirect impact on the prices of these products.



Source: IMF

Against the background of poor grain production in 2007, the price of wheat on the main international stock exchanges hit record highs in July-October 2007. The wheat price on the European stock exchanges stood at EUR 280 per tonne (compared with an intervention price<sup>30</sup> of EUR 101.3 per tonne established for EU Member States), while the price for maize advanced to EUR 246.7 per tonne in September (as compared with EUR 141.3 per tonne at end-2006). In these circumstances, the traditional wheat suppliers, including for Romania (e.g. Serbia, Ukraine), decided to cease or contain deliveries in order to slow down price increases on the domestic market, while the European Commission decided to remove customs duties on wheat imports from third countries by mid-2008.

#### 2. Oil



Oil price hit new record highs in October 2007, the average Brent oil price rising to USD 82.9 per barrel (as compared with USD 70.8 per barrel in August, against the background of fears surrounding a slowdown in economic growth, following the US sub-prime mortgage crisis). The OPEC decision taken on 11 September 2007 to increase oil production by 500,000 barrels per day starting in November did little to alleviate fears surrounding the low levels of inventories for the approaching cold season, taking into account the weather forecasts, according to which the temperature will be lower than in the winter of 2006, and the escalating tensions between Turkey and the Kurds in northern Iraq.

According to the analyses conducted by the US Department of Energy (Energy Information Administration), the recent hike in oil prices was generated by economic fundamentals: (i) scant inventories<sup>31</sup>, (ii) smaller spare production capacity, and (iii) greater geopolitical risks. Thus, the oil market operators were increasingly concerned with the build-up of larger prudential stocks, given the decline in surplus capacity, which may have

been used in case of disruptions on some platforms or higher geopolitical risks. However, such conclusions do not rule out the role of speculators in explaining the upward trend of prices. Moreover, OPEC accused speculators of exacerbating this tendency, the analysts explaining the presence of speculators by technical investment, which is made automatically when oil prices reach certain levels, as well as by the greater attractiveness of this asset, following the depreciation of the US dollar.

<sup>29</sup> Monthly Bulletin – September 2007.

<sup>30</sup> The intervention price is the minimum guaranteed price paid to farmers in EU Member States for the products sold on the domestic market.

<sup>31</sup> In October 2007, the International Energy Agency announced that the oil stocks of the main developed countries decreased below the average for the past five years.