

World Bank's view on Global Commodity Price movements

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Commodity prices are a quick indicator of the state of the economy and in this context their movements since March are significant. The world had gone in for a lockdown mainly from March onwards which affected growth as business activity had decelerated or come to a halt depending on the intensity of the measures invoked by different governments. There has been systematic opening of the economy subsequently. The IMF has revised its growth forecasts for 2020 and the indication given in the World Economic Outlook published this month is that there is a recovery taking place. Is this captured by the commodity price movements?

Typically, prices are driven by the twin forces of demand and supply. For agricultural products normally supply conditions determine prices relative to demand as the former drives their movements. For non-farm products, demand determines the price movement. When the world economy went for a lockdown in March prices tended to decline at different rates depending on how countries which drove demand fared. Metals and energy prices declined while farm products still held on being essential goods. To the extent global trade came to a halt there was a tendency for these prices to turn volatile. Otherwise it was more of business as usual for this class of goods.

The impact of the COVID-19 pandemic on commodity prices has varied. Oil prices have partially recovered as large production cuts helped bring the level of global supply closer to demand. In contrast, metal prices saw a particularly strong recovery and now are above their pre-pandemic levels. Agro based products have recovered in general.

The movements in prices over the period March to September is presented here for various categories of goods based on World Bank data. There has been in general a rising trend which augurs well for the recovery. Intuitively as countries got out of the lockdown and moved towards restoring normalcy business activity picked up and there was an increase in demand.

Energy

Table 1: Energy prices

Commodity	Units	March	September	Change
Crude oil, Brent	(\$/bbl)	32.98	41.09	24.6
Crude oil, WTI	(\$/bbl)	29.88	39.60	32.5
Coal, Australian	(\$/mt)	66.74	54.60	-18.2
Natural gas, Europe	(\$/mmbtu)	2.72	3.95	45.4
LNG, Japan	(\$/mmbtu)	10.21	6.34	-37.9
Natural gas index	2010=100	41.61	46.38	11.5

Oil prices declined by 60% between February and April 2020 as the pandemic led to a collapse in global oil demand and concerns about storage capacity increased. In March OPEC+ could not agree on supply cuts to restore order to the market, but as the oil price fall intensified, decided to curb production by 9.7 million barrels a day in May and June. This was extended until July by 7.7 million barrels a day until December 2020 and by 5.8 million barrels a day until April 2022. US crude oil producers were also hurt as the near month futures price for the WTI went to -\$37 in April. Protracted low oil prices led to reduced drilling activity and resulted in 2 million barrel a day decrease in US crude oil production in May 2020.

Due to supply reductions, from late April onward, oil prices recovered from the mid-\$10s to more than \$40 a barrel by early June. On the demand side, the COVID-19 outbreak drove oil prices sharply down as travel restrictions strongly reduced global demand for fuels in the first half of 2020.

In the natural gas market, spot prices have hovered around record lows in recent months amid large inventories left in place after a mild winter, weak demand, and subdued oil prices. This led oil producers to burn off large amounts of unwanted natural gas. In late August natural gas prices increased due to an expected rise in winter demand and supply uncertainty in Asia.

Coal has also witnessed downward price pressure. Demand for coal fell sharply in 2020 as the pandemic exacerbated an existing migration towards natural gas and renewables in electricity generation. However, supply disruptions in South Africa and strong demand from India supported South African coal prices. But Australian prices have been depressed by China's action of tightening of import restrictions and by Japan's intention to phase out inefficient coal-fired power plants by 2030.

The pandemic will have differential impacts on oil demand through changes in consumer and employment behaviour. Air travel could see a permanent reduction, as business travel is curtailed in favour of remote meetings, reducing demand for jet fuel. A shift to working from home could reduce gasoline demand but may be somewhat offset by increased use of private vehicles if people remain averse to using public transport.

According to World Bank, natural gas prices are expected to see a rebound in 2021 after a decline in 2020. The recovery is being driven by strong demand as global economic activity strengthens, while production is expected to increase only gradually. In contrast, coal prices are expected to stabilize near their current levels. Coal will continue to be impacted by the shift toward renewables and natural gas in electricity generation, although higher natural gas prices next year may increase its relative competitiveness.

Beverages

Table 2: Beverages prices

Commodity	Units	March	September	Change
Cocoa	(\$/kg)	2.34	2.46	5.1
Coffee, Arabica	(\$/kg)	3.27	3.67	12.3
Coffee, Robusta	(\$/kg)	1.49	1.60	7.9
Tea, avg 3 auctions	(\$/kg)	2.13	3.10	45.3

The World Bank's Beverage Price Index gained 8% in Q3-2020 and is almost 11% higher than a year ago. The increase was led by coffee and tea prices. Prices of cocoa, coffee and tea which had declined between December and March also showed an increasing tendency subsequently. Here too the demand factor comes into play. The lockdown across the world had affected

business of airlines, hotels, restaurants, entertainment which are major users of these products. While beverages are essentials and are used at home, the consumption outside the houses tends to be larger especially in the higher income countries.

Cocoa prices have been broadly stable in the past six months, after declining in March on concerns about the impact of the virus on demand. Global grindings, a measure of demand, fell in Q2-2020 compared to the same quarter of 2019, as consumption of chocolate and other confectionary ingredients dropped during the lockdown.

Agro products

Following declines during the first half of the year, most agricultural commodity prices gained momentum in Q3-2020, driven by stronger demand due to easing lockdowns, supply shortfalls in some oils and meals, and a depreciation of the U.S. dollar.

Edible oils

Table 3: Edible oils prices

Commodity	Units	March	September	Change
Coconut oil	(\$/mt)	838	1032	23.1
Groundnuts	(\$/mt)	1520	1683	10.7
Groundnut oil	(\$/mt)	1413	1881	33.1
Palm oil	(\$/mt)	636	798	25.4
Palm kernel oil	(\$/mt)	691	767	11.0
Soybeans	(\$/mt)	373	424	13.7
Soybean oil	(\$/mt)	748	906	21.2
Soybean meal	(\$/mt)	377	406	7.7
Rapeseed oil	(\$/mt)	797	941	18.1
Sunflower oil	(\$/mt)	730	890	21.9

In case of the oil complex, groundnut and groundnut oil had witnessed a continued increase in prices while for the others it had come down in March before increasing again. Besides the demand factor world trade had come in the way of supply of these products which affected prices. The edible oil production outlook for the current season (October 2020 to September 2021) appears more promising than last season. Global output of the 10 major oils (including palm, soybean, and rapeseed, which together account for two-thirds of global output) is expected to grow by 1.7 % on top of 1.3% this season. Most of the output growth is expected to come from soybeans and palm oil.

Grains

Table 4: Grains prices

Commodity	Units	March	September	Change
Barley	(\$/mt)	115	80	-30.0
Maize	(\$/mt)	162	166	2.3
Sorghum	(\$/mt)	164	189	15.3
Rice, Thailand	(\$/mt)	494	507	2.6
Rice, Vietnam	(\$/mt)	373	463	24.2
Wheat, US SRW	(\$/mt)	228	220	-3.7

Food prices such as for wheat and rice rallied, initially driven by consumer stockpiling, but given ample supply, as the initial surge in demand passed, prices retracted. Overall, though, the price of rice is still up by 24.2%. Corn prices plummeted before rising by 2.3% over March.

Agricultural prices are expected to rise slightly in 2021 following an increase in 2020. Despite a modest increase in prices, concerns about food insecurity in several EMDEs have risen. In addition to lowering incomes, the pandemic has created bottlenecks in food availability at the local level due to supply chain disruptions.

Table 5: Plantation crops prices

Commodity	Units	March	September	Change
Sugar, EU	(\$/kg)	0.36	0.39	6.6
Tobacco, US	(\$/mt)	4,391	4,521	3.0
Cotton Index	(\$/kg)	1.49	1.56	4.6
Rubber, TSR20	(\$/kg)	1.21	1.37	13.3

The plantation crops witnessed the same trend except for tobacco where the prices increased all through the period. Cotton prices dropped 20% between January and April and have risen moderately since. Despite the gains, prices in Q3 were still lower than the previous year. The price collapse earlier in the year reflected a pandemic-related contraction in demand during the 2019- 20 season (August to July). Meanwhile, production increased marginally, thus exerting upward pressure on the stocks-to-use ratio. World Bank expects cotton prices to gain 3% in 2021 following a projected decline of almost 10% in 2020.

Natural rubber prices during this period took a similar path to those of cotton: a sharp drop due to the pandemic followed by a partial recovery. Demand for natural rubber fell following the pandemic as numerous tyre manufacturing facilities closed, first in China and later in Europe and South America. As demand for tyres rebounds, natural rubber prices are expected to increase by around 3% in 2021, following a projected marginal decline in 2020.

Fertilizers

Table 6: Fertilizers prices

Commodity	Units	March	September	Change
Phosphate rock	(\$/mt)	72	79	10.4
DAP	(\$/mt)	276	358	29.7
TSP	(\$/mt)	245	283	15.3
Urea	(\$/mt)	231	251	8.4
Potassium chloride	(\$/mt)	245	203	-17.3

World Bank's Fertilizer Price Index increased 7% in Q3 over Q2 after six consecutive quarterly declines. However, the increase has not been broad-based. Urea and phosphate prices jumped significantly, driven by robust demand and higher input costs. On the other hand, potash prices fell for the third consecutive quarter. Fertilizer prices are expected to average around 10% lower in 2020, while a modest increase of about 3% is forecast for 2021. Upside risks to the outlook include supply disruptions, especially the impact of labour immobility due to a prolonged second wave of COVID-19 infections, while downside risks include lower input costs.

Metals

Table 7: Metals prices

Commodity	Units	March	September	Change
Aluminum	(\$/mt)	1,611	1,744	8.2
Iron ore, cfr spot	(\$/mt)	89	124	39.1
Copper	(\$/mt)	5,183	6,705	29.4
Lead	(\$/mt)	1,734	1,873	8.0
Tin	(\$/mt)	15,291	17,951	17.4
Nickel	(\$/mt)	11,846	14,857	25.4
Zinc	(\$/mt)	1,904	2,442	28.3

Base metal prices tended to increase. Slow global industrial activity weighed heavily on prices in the first quarter of 2020. Since then several factors have been at play to push up prices.

- Supply disruptions in mining.
- Resurgence in industrial activity in China, which accounts for over half of base metal demand
- Unprecedented stimulus measures
- A stock market surge also boosted sentiment toward metals.

Factors Affecting specific metals:

- Precious metal prices continued to rise due to increasing demand for safe-haven assets amid concerns that a second wave of infections would cause protracted monetary policy stimulus.
- Copper prices increased amid growing optimism over China's economic recovery, falling inventories, and supply disruptions in key producing countries (Chile and Peru).
- Aluminum whose supply has been more insulated from the pandemic as it is mostly sourced domestically, did not rally as global automotive sales slumped.

The possibility of a second wave of the disease, the sustainability of strong China demand, and tensions between China and the United States are the major risks to metal prices falling. These more than offset the risk of supply disruptions in major metal-producing countries. According to the World Bank metal prices are projected to increase modestly in 2021 following a slight fall in 2020, boosted by the recovery in the global economy and continued stimulus from China. Risks to this outlook are slightly to the downside, including a more prolonged global recession.

Forecasts of some selected commodities

Table 8: Price forecasts for 2020 and 2021

Commodity	Units	2019	2020	2021
Coal	\$/mt	77.9	57.2	57.8
Crude average	\$/bbl	61.4	41.0	44.0
Natural gas (Europe)	\$/mmbtu	4.8	2.8	4.0
Soy oil	\$/mt	765	815	828
Soybean	\$/mt	369	390	400
Palm oil	\$/mt	601	710	723
Rice	\$/mt	418	500	498
Wheat	\$/mt	202	205	207
Sugar	\$/kg	0.28	0.28	0.29
Cotton A	\$/kg	1.72	1.55	1.60
Rubber	\$/kg	1.64	1.62	1.68
DAP	\$/mt	306	310	318
Urea	\$/mt	245	230	236
TSP	\$/mt	295	260	268
Aluminium	\$/mt	1,794	1,660	1,680
Copper	\$/mt	6,010	6,050	6,300
Iron	\$/dmt	93.8	107	105
Gold	\$/toz	1,392	1,775	1,740
Silver	\$/toz	16.2	21.0	18.1
Platinum	\$/toz	864	875	870

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