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Recent trends and outlook of Commodity Markets

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Recent trends and outlook of Commodity Markets

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Background....
Commodity prices are closely related to per capita growth in developing countries

UNCTAD Non-oil Nominal Commodity Price Index and GDP per capita developing countries 1995-2016
(annual % changes)

Correlation coefficient = 0.79
Cointegration between per capita GDP growth in developing countries and commodity prices

- GDP per capita of developing countries and UNCTAD non-oil commodity price index from 1995-2016 follow I(1) processes

- The two series are cointegrated, hence close relationship between GDP in developing countries and commodity prices
# UNCTAD non-oil Commodity price index

## Recent developments in global commodity markets

### ALL FOOD
- **Food**
  - Wheat
  - Maize
  - Rice
  - Sugar
  - Bovine meat
  - Bananas
  - Pepper
  - Soybean meal
  - Fish meal
- **Tropical beverages**
  - Coffee
  - Cocoa beans
  - Tea
- **Vegetable oilseeds and oils**
  - Soybeans
  - Soybean oil
  - Sunflower oil
  - Groundnut oil
  - Copra
  - Coconut oil
  - Palm kernel oil
  - Palm oil

### AGRICULTURAL RAW MATERIALS
- Linseed oil
- Tobacco
- Cotton
- Wool
- Jute
- Sisal
- Hides and skins
- Tropical logs
- Rubber

### MINERALS, ORES AND METALS
- Phosphate rock
- Manganese ore
- Iron ore
- Aluminium
- Copper
- Nickel
- Lead
- Zinc
- Tin
- Tungsten ore
Price trends....
Commodity prices drop in 2017

- Commodity prices trended downwards during H1 2017, bringing the upwards trend of 2016 to a halt.

- From January to June 2017 the UNCTAD Non-oil Nominal Commodity Price Index decreased by 6%.

- In the first two months of Q3 2017, the UNCTAD commodity price index showed an upwards trend - mainly driven by minerals, ores and metals.
Commodity prices show a mixed picture in 2017

- Prices of agricultural raw materials decreased by 8.8% from January to August 2017
- Food prices decreased by 7.7% from January to August 2017
- Prices of Minerals, Ores and Metals trended downwards during H1, but increased steeply in Q3
Commodity prices show a mixed picture in 2017

- From January to August 2017 prices of major commodities showed no common trend
- Prices of minerals, ores and metals have generally fared better than other commodities
Commodity price developments 2016 vs. 2017

Monthly price, January vs. August (% change)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Jan-Aug 2017</th>
<th>Jan-Aug 2016</th>
</tr>
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<tbody>
<tr>
<td>Gold</td>
<td>-30%</td>
<td>-40%</td>
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<tr>
<td>Tin</td>
<td>-20%</td>
<td>-30%</td>
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<tr>
<td>Zinc</td>
<td>-10%</td>
<td>-20%</td>
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<tr>
<td>Lead</td>
<td>-10%</td>
<td>-20%</td>
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<tr>
<td>Nickel</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>Copper</td>
<td>10%</td>
<td>20%</td>
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<tr>
<td>Aluminium</td>
<td>20%</td>
<td>30%</td>
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<tr>
<td>Iron ore</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Rubber</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>Tropical logs</td>
<td>-40%</td>
<td>-50%</td>
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<tr>
<td>Cotton</td>
<td>-30%</td>
<td>-40%</td>
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<tr>
<td>Tobacco</td>
<td>-20%</td>
<td>-30%</td>
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<tr>
<td>Cottonseed oil</td>
<td>-10%</td>
<td>-20%</td>
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<tr>
<td>Palm oil</td>
<td>0%</td>
<td>10%</td>
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<tr>
<td>Coconut oil</td>
<td>10%</td>
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<td>Soybean oil</td>
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<tr>
<td>Soybeans</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Tea</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>Cocoa beans</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>Coffee</td>
<td>60%</td>
<td>70%</td>
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<tr>
<td>Sugar</td>
<td>-50%</td>
<td>-60%</td>
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<tr>
<td>Rice</td>
<td>-40%</td>
<td>-50%</td>
</tr>
<tr>
<td>Maize</td>
<td>-30%</td>
<td>-40%</td>
</tr>
<tr>
<td>Wheat</td>
<td>-20%</td>
<td>-30%</td>
</tr>
</tbody>
</table>
Recent developments in global commodity markets

Food and agricultural commodities

- Vegetable oilseeds and oils showed the steepest decrease losing 12.2% from January to August 2017.

- Agricultural Raw materials decreased by 8.8%.

- Prices of food commodities and tropical beverages dropped by 7.2% and 6.0%, respectively.

Price indices of food and agricultural commodity groups
July 2010 – August 2017 (2000=100)
Prices of most food commodities dropped in 2017

• 2016 sugar price hike triggered an expansion of supply:
  – brought price down to 14.4 c/lb in August 2017 (-29.3% since January)
  – price increase unlikely for the upcoming season unless adverse weather

• Price of rice rallied in May and June due to strong demand
  – has since adjusted downward to 382 $/t in August (-7.9% Y-o-Y)
  – Output for 2017/18 projected higher than demand; price increase unlikely

• Price of maize reached its lowest in more than 7 years at 158 $/t in April (159 $/t in August)
  – strong demand forecast projected to lead to a reduction of stocks
  – mild price increase expected
Vegetable Oilseeds and Oils

• Prices of all individual oilseeds and oils trended downwards in 2017
  – Palm kernel oil (-33.8%)
  – Cottonseed oil (-22.6%)
  – Palm oil (-16.7%)
  – Copra (-13.3%)
  – Coconut oil (-11.6%)

• Forecasts predict abundant supply for major oilseeds, so prices are likely to remain low.
Tropical beverages

• Tea: price averaged 362 c/kg in August, up 33.0% Y-o-Y
  – Expected to remain volatile as weather-related risks in main growing regions make supply forecasts difficult

• Cocoa: in April price of beans stood at 89 c/lb, its lowest level in almost a decade
  – In Q2 price of beans showed no signs of recovery
  – Negative price development fuelled by significant production increases in West Africa and a record supply surplus

• Coffee: in July 2017, coffee price averaged 127 c/lb, down 4.3% Y-o-Y
  – Forecasts of healthy production for 2017/18
  – Price increase unlikely over the medium-term unless unfavourable weather
Agricultural raw materials

• Prices showed a mixed pattern in 2017

• Rubber: price surged 21.8% from 223 c/kg in December 2016 to 271 c/kg in February 2017
  – Supply constrictions due to floods in Thailand and Malaysia
  – Prices receded to 188 c/kg in August
  – Demand growth expected to outpace production increases, hence mild price increases seem likely

• Cotton: average monthly cotton price during H1 2017 was 86 c/lb, 24.2% higher than the 69 c/lb average in H1 2016
  – Market outlook tentatively predicts a production increase as well as a continuation of Chinese government auctions of stockpiles
Minerals, ores and metals

- UNCTAD Minerals, Ores and Metals Price Index was down 5.5% in H1 2017

- From June 2017 to August 2017 the Price Index increased by 13.9%
Minerals, ores and metals

- **Nickel:** mine shutdowns in Philippines drove price up to 11,010 $/t in December 2016
  - receded to 8,928 $/t in June 2017
  - strong demand and supply uncertainty in Philippines and Indonesia pushed price to 10,849 $/t in August

- **Iron ore:** price almost doubled between Jan. & Dec. 2016
  - In Q2 2017, weakening demand for steel in China & concerns over oversupply caused a drop to 76 $/t in August
  - Low inventory & high demand for steel in China during H2 led to price increases in September and next few months

- **Copper:** price fluctuated around an upward trend in H1
  - In August 2017, price at 6,477 $/t, 12.6% higher than in Jan. 17
  - Latest projections: deficit in 2017/18 so price increases likely
Recent developments in global commodity markets

Energy

Crude oil (petroleum), coal and natural gas prices, January 2007-June 2017

- Crude oil, average ($/barrel)
- Coal, Australian thermal ($/ton)
- Natural Gas, Henry Hub ($/btu), right axis
Crude oil

• Crude oil prices highly volatile over the past decade:
  – Between Jan and May 2017: price fluctuated between 133.9 and 30.8 $/barrel
  – Between June 2014 and Jan. 2015: price dropped from 107.0 to 48.4 $/barrel.

• Drivers of price collapse were oversupply due to:
  – Massive increase of shale oil production in North America
  – Increasing production in other non-OPEC producers
  – Slowdown of growth in crude oil demand

• Agreement between OPEC and non-OPEC oil exporters to cut production had short-lived effect:
  – Producers outside of agreement stepped up production
  – Inventories remain large
Natural gas

• Markets for natural gas regionalized due to physical limits to transport and different contractual arrangements

• Henry Hub natural gas price reached lowest level in more than 20 years in 03/2016 at 1.70 $/million btu:
  – Prices volatile in 2017 - $2.94 $/million btu in 06/2017
  – Demand forecasts to outpace supply in 2017 & 2018 leading to lower inventory levels
  – Hence, increase of natural gas price seem likely.

• Over medium to long term, rapid expansion of liquefied natural gas:
  – Likely to lead to a higher global market integration
  – Current global liquefaction capacity almost double its value in 2005 & capacity is still increasing
  – In 2015, LNG accounted for 32.5% of global trade in natural gas; increased LNG capacities could contribute to a convergence of natural gas prices
Coal

- Coal is primary fuel for electricity generation at global level:
  - Responsible for 45 per cent of energy-related carbon emissions
  - But share of coal in power generation is on a downward trajectory and is expected to drop from 41% in 2014 to 36% in 2021.

- Coal prices fluctuating around downward trend early-2014 to mid-2016:
  - Mainly driven by persistent oversupply and sluggish import demand from China
  - Given ample supply capacity a further downward movement of the coal price seems likely
Renewable energy

- Renewables are now the largest source of global electricity capacity and expected to account for 60% of global power capacity growth through 2021.

- Solar PV with highest growth rate followed by wind.

- China accounts for largest share of global renewables expansion, but renewables also growing in EU, US and India.
Markets to watch....
Commodity prices: role of emerging economies

- Iron ore
- Copper

China | United States | EU28

Commodity prices: high demand from China

- Iron ore
- Nickel ores
- Copper ores
- Aluminium ores
- Natural rubber
- Cotton
- Coal
- Petroleum oils, crude

2005
1995
2016

[Graph showing commodity prices for 2005, 1995, and 2016 across various commodities.]
Recent developments in global commodity markets

Volume Index and volume growth rate of merchandise imports

![Graph showing volume index and growth rate for China from Q1 2013 to Q2 2017. The graph includes a bar chart and a line chart. The bar chart represents the volume index (2005=100) for each quarter, while the line chart indicates the growth rate over the corresponding period of the previous year. The graph highlights fluctuations in both indices over time.]
Recent developments in global commodity markets

Volume Index and volume growth rate of merchandise imports

Developing countries excluding China

- Volume Index (2005=100)
- Volume growth rate over corresponding period of previous year
Conclusion....
Summary and outlook

• The general upwards trend in commodity prices that started at the beginning of 2016 came to a halt in early 2017

• Individual commodity markets have shown a mixed pattern in the first half of 2017
  – All sub-indices of the UNCTAD Index decreased between Jan. & June 2017
  – Prices of Minerals, Metals, and Ores picked up in Q3 2017

• Overall, unlikely that commodity prices will return to anywhere close to their peak levels of 2011 in the near future
In Conclusion...

• Adopt countercyclical fiscal policies and precautionary savings to shield public budgets from impacts of price volatility
  – Adopt & respect spending rules that are not too tied to price cycles
  – Learn from successful country experiences

• Lower the effect of volatility through:
  – Long term measures: diversification
  – Short term measures: use risk management instruments such as hedging

• Embark on sustainable energy bandwagon and cash in on its benefits
Thank you.

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