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Recent trends and outlook on commodity markets

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Background....
Two out of three developing countries are commodity dependent
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
## UNCTAD non-oil Commodity price index

### 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....
The big picture

- 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 second half of 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 8.7% from January to December 2017
- Food prices decreased by 6.2% from January to December 2017
- Prices of Minerals, Ores and Metals trended downwards during H1, but increased steeply in H2 - up 11.1% from July to December 2017
Recent developments in global commodity markets

Commodity prices show a mixed picture in 2017

- In 2017 prices of major commodities showed no common trend

- Prices of minerals, ores and metals generally fared better than other commodities
Commodity price developments 2016 vs. 2017

Recent developments in global commodity markets

Monthly price, January vs. December (% change)

- Rubber
- Sugar
- Cottonseed oil
- Coconut oil
- Coffee
- Palm oil
- Cocoa
- Iron ore
- Tobacco
- Maize
- Tin
- Soybeans
- Tea
- Soybean oil
- Cotton
- Rice
- Gold
- Wheat
- Tropical logs
- Lead
- Nickel
- Aluminium
- Zinc
- Copper

Jan-Dec 2016  Jan-Dec 2017
Food and agricultural commodities

- Tropical beverages showed the steepest decrease losing 12.8% from January to December 2017.

- Prices of vegetable oilseeds and oils decreased by 11.9%.

- Prices of food commodities and agricultural raw materials dropped by 4.6% and 8.7%, respectively.
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 December 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
  – adjusted downward to 394 $/t in December (+7.1% Y-o-Y)
  – Output for 2017/18 projected higher than demand; price increase unlikely

• Price of maize reached its lowest in more than a decade at 156 $/t in November (157 $/t in August)
  – strong demand forecast projected to lead to a reduction of stocks
  – mild price increase possible
Vegetable Oilseeds and Oils

• Prices of all individual oilseeds and oils trended downwards in 2017
  – Cottonseed oil (-28.4%)
  – Palm kernel oil (-25.9%)
  – Copra (-21.8%)
  – Coconut oil (-19.8%)
  – Palm oil (-16.9%)

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

• Tea: price averaged 350 c/kg in December, down 5.5% from January
  – Expected to remain volatile as weather-related risks in main growing regions make supply forecasts difficult

• Cocoa: in December price of beans stood at 87 c/lb, its lowest level in more than a decade
  – Negative price development fuelled by significant production increases in West Africa and a record supply surplus

• Coffee: in December 2017, coffee price averaged 114 c/lb, down 13.4% yoy
  – Forecasts of healthy production for 2017/18
  – Price increase unlikely over the medium-term unless unfavourable weather
Agricultural raw materials

• Prices showed a mixed picture in 2017

• Rubber: after a brief surge at the beginning of the year due to floods in Thailand and Malaysia, the rubber price dropped to 169 c/kg in December 2017 (-33.9% from January)
  – Demand growth expected to outpace production increases, hence mild price increases seem likely

• Cotton: the cotton price stood at 85 c/lb in December, 3.5% higher than in January
  – Price could increase in 2018 due to strong demand forecasts and falling inventories
Minerals, ores and metals

- UNCTAD Minerals, Ores and Metals Price Index was down 5.5% in H1 2017
- From June 2017 to December 2017 the Price Index increased by 17.2%
Minerals, ores and metals

- Nickel: price surged 27.8% between June and December 2018
  - Further price increases likely in 2018 due to continued demand growth

- Iron ore: concerns over oversupply caused a drop to 62 $/t in August
  - Prices expected to remain low due to favorable supply conditions

- Copper: price increased 18.1% from January to December 2017
  - Latest projections: deficit in 2017/18 so further price increases likely
Crude oil

• Crude oil prices highly volatile over the past decade:
  – Between 01/2007 and 12/2017 spot price of Brent crude fluctuated between 133.9 and 30.8 $/barrel.
  – Agreement of OPEC and non-OPEC oil exporters to cut production has contributed to recent rise in oil prices
Natural gas

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

• The 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 - $2.76 $/million btu in 12/2017
  – Demand forecast to outpace supply in 2017 as well as 2018 leading to lower inventory levels
  – Hence, an increases of the natural gas price is possible

• Over the medium to long term:
  – rapid expansion of liquefied natural gas likely to lead to higher market integration
  – global liquefaction capacity at 340 MTPA in 01/2017, almost double its value in 2005
  – construction of over 100 MTPA on the way in 2017
  – in 2016, LNG accounted for 32% 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% of energy-related carbon emissions
  - however, share of coal in the power generation is on a downward trajectory and expected to drop from 41% in 2014 to 36% in 2021

- Coal prices volatile in 2017; stood at $102 per metric ton in December 2017 from $74.5 in May 2017

- Tight supply (strikes in Australia & bad weather in Indonesia) & high demand in China contributed to price increase

- In 2018, price decline resulting from ample supply capacity

- Overall, a downward movement of the coal price seems likely
Renewable energy

- Renewables are expected to account for 60% of global power capacity growth through 2021
- Record growth in renewable electricity capacity in 2015. 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

![Bar chart showing commodity prices for iron ore and copper in China, United States, and EU28 for the years 1995, 2005, and 2016.](chart.png)
Volume Index and volume growth rate of merchandise imports

China

- Volume Index (2005=100)
- Volume growth rate over corresponding period of previous year
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 had started at the beginning of 2016 came to a halt in early 2017

• Individual commodity markets have shown a mixed pattern in 2017
  – Prices of food and agricultural raw materials decreased
  – Prices of minerals, metals, and ores have increased

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

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