Commodity markets: Recent trends and outlook

By

Janvier D. Nkurunziza
Commodities Branch, UNCTAD

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

Janvier D. Nkurunziza
Commodities Branch, UNCTAD
Background....
Volume Index and volume growth rate of merchandise imports

Developing countries excluding China

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Volume Index (2005=100)</th>
<th>Growth rate (%)</th>
<th>Year-on-year</th>
<th>Right Axis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2014</td>
<td>100</td>
<td>-1.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>95</td>
<td>3.4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q3 2014</td>
<td>102</td>
<td>2.1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q4 2014</td>
<td>110</td>
<td>5.6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q1 2015</td>
<td>105</td>
<td>1.8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>110</td>
<td>4.3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>108</td>
<td>1.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>105</td>
<td>0.4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>102</td>
<td>-0.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>100</td>
<td>1.8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>108</td>
<td>3.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q4 2016</td>
<td>110</td>
<td>5.6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q1 2017</td>
<td>105</td>
<td>2.1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q2 2017</td>
<td>110</td>
<td>4.3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q3 2017</td>
<td>108</td>
<td>1.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q4 2017</td>
<td>105</td>
<td>0.4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q1 2018</td>
<td>102</td>
<td>-0.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q2 2018</td>
<td>100</td>
<td>1.8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q3 2018</td>
<td>108</td>
<td>3.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q4 2018</td>
<td>110</td>
<td>5.6</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Volume Index and volume growth rate of merchandise imports
The big picture: 2 out of 3 developing countries are commodity-dependent
### UNCTAD Commodity price index - NEW

<table>
<thead>
<tr>
<th>ALL FOOD</th>
<th>AGRICULTURAL RAW MATERIALS</th>
<th>MINERALS, ORES AND METALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Food</td>
<td>- Fish meal fodder*</td>
<td>- Minerals, ores and non-precious metals*</td>
</tr>
<tr>
<td>Wheat</td>
<td>Tobacco</td>
<td>Phosphate rock</td>
</tr>
<tr>
<td>Maize</td>
<td>Cotton</td>
<td>Manganese ore</td>
</tr>
<tr>
<td>Rice</td>
<td>Wool</td>
<td>Iron ore</td>
</tr>
<tr>
<td>Sugar</td>
<td>Jute</td>
<td>Aluminium</td>
</tr>
<tr>
<td>Bovine meat</td>
<td>Hides and skins</td>
<td>Copper</td>
</tr>
<tr>
<td>Bananas</td>
<td>Tropical logs</td>
<td>Nickel</td>
</tr>
<tr>
<td>Pepper</td>
<td>Tropical sawnwood*</td>
<td>Lead</td>
</tr>
<tr>
<td>Soybean meal</td>
<td>Plywood*</td>
<td>Zinc</td>
</tr>
<tr>
<td>Crustaceans*</td>
<td>Rubber</td>
<td>Tin</td>
</tr>
<tr>
<td>Fish*</td>
<td></td>
<td>Tungsten ore</td>
</tr>
<tr>
<td>- Tropical beverages</td>
<td>Fish meal fodder*</td>
<td>- Precious metals*</td>
</tr>
<tr>
<td>Coffee</td>
<td>Tobacco</td>
<td>Gold*</td>
</tr>
<tr>
<td>Cocoa beans</td>
<td>Cotton</td>
<td>Silver*</td>
</tr>
<tr>
<td>Tea</td>
<td>Wool</td>
<td>Platinum*</td>
</tr>
<tr>
<td>- Vegetable oilseeds and oils</td>
<td>- Fish meal fodder*</td>
<td>Fuels*</td>
</tr>
<tr>
<td>Soybeans</td>
<td>Tobacco</td>
<td>Natural gas*</td>
</tr>
<tr>
<td>Soybean oil</td>
<td>Cotton</td>
<td>Coal*</td>
</tr>
<tr>
<td>Sunflower oil</td>
<td>Wool</td>
<td>Crude petroleum*</td>
</tr>
<tr>
<td>Groundnut oil</td>
<td>Jute</td>
<td></td>
</tr>
<tr>
<td>Copra</td>
<td>Hides and skins</td>
<td></td>
</tr>
<tr>
<td>Coconut oil</td>
<td>Tropical logs</td>
<td></td>
</tr>
<tr>
<td>Palm kernel oil</td>
<td>Tropical sawnwood*</td>
<td></td>
</tr>
<tr>
<td>Palm oil</td>
<td>Plywood*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rubber</td>
<td></td>
</tr>
</tbody>
</table>
Price trends....
Recent developments in global commodity markets

The big picture – All commodity groups
UNCTAD Free market commodity price index in 2018

- Commodity prices trended upwards during first 3 quarters of 2018;
- January to September 2018: Index increased by 7%
- Last quarter of 2018: downward trend driven mainly by energy commodities
- Overall the index fell by 10% in 2018.
Commodity price indices show a mixed picture in 2018

- Vegetable oilseeds and oils: from January to September index declined by 11.7%
- Food price index: from January to September decreased by 8.7%, but increased by 4.2% in last quarter
- Tropical beverages: decreased by 13.2% from January to September
- Minerals, Ores and Metals: trended downwards during the first three quarters
Commodity prices show a mixed picture in 2018
Monthly price, January 2018 vs December 2018 (% change)
Commodity price developments 2017 vs. 2018
Monthly price, December 2017 vs. December 2018 (% change)
Prices of most food commodities dropped in 2018

- Record output in India & Thailand exerted downward pressure on sugar prices from January to August;
  - Prices fell to 11.08 cents/lb in August 2018, the lowest since August 2015
  - Prices increased in last quarter to $12.65 cents/lb due to adverse weather

- Price of rice followed a volatile downward trend largely due to fluctuating demand.
  - From January to December 2018 price fell by 8.6%; but this was a marginal rise from previous year
  - Output for 2018/19 projected higher than demand; price increase unlikely.
Prices of most food commodities dropped in 2018 (cont’d)

- **Maize:**
  - rising prices in first 5 months due to strong demand and adverse weather conditions in growing regions (e.g. Argentina)
  - return to favourable weather in the latter part of the year helped to stabilise prices.

- **Wheat:**
  - prices volatile: increased from $227.3/mt in January to $245.3/mt in March due to adverse weather and strong global demand
  - fluctuated upwards and downwards until end of year to settle at $240.3/mt in December
  - A tight supply outlook is forecast in 2019 likely to exerted upward pressure on prices
Vegetable Oilseeds and Oils

• Prices of all individual oilseeds and oils trended downwards in 2018 except for groundnut oil.
  – Groundnut oil (11.0%)
  – Cottonseed oil (-28.4%)
  – Palm kernel oil (-41.6%)
  – Coconut oil (-42.8%)
  – Palm oil (-23.9%)
  – Soybean oil (16.3%)
  – Sunflower oil (-12.0%)

• Forecast: abundant supply for major oilseeds, so prices likely to remain low.
Tropical beverages

• Tea:
  — price declined from $2.95/kg in January to $2.29/kg in December
  — favourable weather conditions in growing regions boosted production

• Cocoa:
  — price increased from 88.5 cents/lb in January to 120.7 cents/lb in May
  — then downwards trend until October before rising slightly to end the year at 100.2 cents/lb
  — high prices driven by production levels falling in Côte d’Ivoire and Ghana.
  — Negative price developments fuelled by improved weather conditions and higher arrivals at ports of the cocoa-producing regions

• Coffee:
  — composite price indicator trended downwards
  — largely due to increased harvests for all coffee groups
  — Forecasts of healthy production for 2018/19 driven largely by recovery in Brazil
Agricultural raw materials

• Rubber:
  – prices increased from 172.2 cents/kg in January to $175.8 in March
  – Mainly due to agreement by major producers to reduce exports by 350,000 metric tons
  – prices returned to a downward trend after agreement elapsed; ended the year down by 17%
  – Demand growth expected to outpace production increases, hence mild price increases expected

• Cotton:
  – prices flat in 2018, fluctuating within a band of $2.01/kg in January to $1.90/kg in December
  – consumption forecast to outpace production in 2018/19 but prices expected to remain stable due to high stocks
Minerals, ores and metals price index (April 2010 - December 2018)

- Price Index fell by 10.8% in the first three quarters of 2018 before rising in the last quarter by 2.6%

- Overall, the index declined by 8.5% in 2018
Selected minerals, ores and metals prices (April 2000 to Dec 2018)
Recent prices of selected minerals, ores and metals
Minerals, ores and metals

- **Nickel**: price dropped by 15.8% between June and December 2018
  - Supply chain disruptions due to growing concerns about trade tensions between US and China
  - Consumption forecast to exceed production in 2019 leading to stock reduction

- **Iron ore**: volatile fluctuating between $76.3 and $64.6/dmt. Why?
  - Concerns over oversupply led to price drop of 9.1% from January to December
  - Prices expected to remain low due to favorable supply conditions
Minerals, ores and metals (cont’d)

• Copper: price declined by 14% from January to December 2018
  – driven in part by trade tensions between US and China and resulting in a larger market surplus
  – rising future demand likely to tighten market and exert upward pressure on prices

• Zinc prices dropped by 22.3%
  – largely due to oversupply and rising inventories
  – prices forecast to remain flat in 2019 due to tightening fundamentals
Energy prices - Crude oil (Brent), Australian coal, natural gas index
Energy - Crude oil (Brent), coal and natural gas prices, April 2016-December 2018

- Crude oil, UK Brent, light blend API 38°, spot price, FOB UK ports ($/barrel)
- Australian Coal ($/mt)
- Natural gas, index, Europe, United States and Japan (2010=100) - right axis
Crude oil

• Volatility in crude oil markets continued in 2018:
  – Relaxation of constraints on crude oil production by OPEC+ helped to cool down prices between June and August 2018
  – Supply concerns from the Middle East and Venezuela exerted upward pressure on prices (currently back at $70 per barrel)
  – Price rose by 16.6% from January to peak at $80.5 $/bbl in October due to tightening market, but fell to $56.5 in December as OPEC+ raised production
  – The forecast is that prices will stabilize in 2019 due to greater production constraints
Natural gas in 2018

- Markets regionalized due to transport and different contractual arrangements

- Henry Hub: $4.14 /million btu in November; highest level since November 2014
  - high volatility: prices fluctuated between $2.67 and $4.14/million btu due to increased production and dwindling stocks
  - strengthening demand from LNG exporters expected to exert upward pressure 2019

- European market: $9.5/million btu in September 2018, highest since January 2015
  - high volatility: high prices due to late winter spell, demand for LNG in Asian market, heatwave in most part of northern hemisphere and maintenance of pipelines and facilities
  - entry of US into LNG market to exert downward pressure on European gas prices in 2019

- Asian LNG market peaked at $12/million btu in December, the highest level since April 2015:
  - steady rise in 2018 from $9.3 million btu in January to $12/million btu at the end of 2018
  - driven in part by rising imports into China
Coal

- Coal primary fuel for electricity generation:
  - Use in power stations accounted for third of global energy related CO2 emissions in 2018
  - Demand declining in Europe and North America but growing across much of Asia due to its affordability and availability, thus offsetting declines in other regions.
  - Global demand expected to rise for second consecutive year in 2018

- Coal prices volatile in 2018:
  - Rose from $106.5 per metric ton in January to $119.6 in July but down to $101.3 in December
  - Increase driven by robust demand from utilities in Asia, particularly China for industrial and residential cooling

- 2019: higher growth in production than consumption; downward pressure on prices
Renewable energy

- Recorded the highest growth rate of any energy source in 2017 (approx. 25% of global energy demand growth)

- IEA forecasts share of renewables to reach 12.4% of global electricity generation in 2023

- Forecast to meet more than 70% of global electricity generation growth by 2023

- Led by solar PV followed by wind, hydro and bioenergy
Conclusion....
Summary and outlook

• The general trend showed commodity prices falling in 2018

• Energy prices increased until late in the year; coal consumption rising in Asia

• Renewable energy growth continues dominated by solar and wind; but the growth rate has slowed relative to its peak level in 2011

• Continuing trade tensions between US and China likely to dampen prices of metals in 2019
Thank you.

Contact: janvier.nkurunziza@unctad.org