End of Commodity Super-Cycle?
Introduction

By

Mr. Janvier Nkurunziza
Chief, Commodity Research and Analysis Section
Special Unit on Commodities
UNCTAD

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Introduction

Janvier D. Nkurunziza
Chief, Commodity Research and Analysis Section
Special Unit on Commodities, UNCTAD
Outline

• Long term trends in global commodity markets
• Main drivers of commodity prices over the last years
• Prospects in global commodity markets
• Concluding remarks
Historical trends in commodity prices

- Global commodity markets: succession of boom and busts since 70s
- 2003-2011: longest and broadest boom (commodity super-cycle)

Source: Data from UNCTADStat
Price indices of selected groups of commodities:
Agricultural products and Minerals, ores and metals

- 2003-2011: broad-based commodity cycle
- From 2011: prices are declining but remain high compared to long term trends

Source: Data from UNCTADStat
Price indices of selected groups of commodities
energy markets

Price indices for crude oil, coal and natural gas (2010 =100)

Source: Data from IMF, IFS
...Cycle with heightened volatility

Price volatility of selected groups of commodities (s.d. of annual price change)
Main drivers of commodities prices over the past years

- Market fundamentals: supply and demand

Wheat and maize prices vs. ending stock to use ratio

Source: Data from AMIS
Main drivers of commodities prices over the past years

- Global economic factors
- Growth led primarily by developing and emerging economies, especially China

GDP growth in groups of countries and China (2005 US dollars at constant exchange rate).

Source: Data from UNCTADStat
Main drivers of commodities prices over the past years

China, leading importer in global commodity markets

China's share in world imports for selected commodities (current dollars)

- Iron ore and concentrates
- Oil seeds and oleaginous fruits
- Nickel ores & concentrates
- Cotton
- Petroleum oils
- Coal
- Natural rubber
- Aluminium ore and concentrates
- Copper ores and concentrates
- Cereals (excl. wheat, rice, barley, maize)
- Milk, cream and milk products
- Natural gas
- Sugar
- Barley

Source: Data from UNCTADStat
Main drivers of commodities prices over the past years
Global industrial production

Industrial value added, % annual growth rates (2000-2013)

Source: Data from World Bank, WDI
Main drivers of commodities prices over the past years

US dollar exchange rate and monetary policy

**US$ Index vs. Non-oil Commodity price Index**

Source: Data from UNCTADStat and US Federal reserve
Main drivers of commodities prices over the past years

Other factors

- Macroeconomic policies in developed economies
  - Expansionary policies
- Financialization of commodity markets
  - Also underpinned volatility in the markets
- Energy prices transmitted to agricultural commodity and metals markets
- Exogenous shocks
  - Weather patterns
  - Environmental concerns
  - Trade policies (quota, exports ban)
Prospects in commodity markets (?)

Agricultural commodity markets

**Downside risk factors**
- Comfortable stocks helped by good crop conditions
- Monetary policies in US (strong US dollar, increase in interest rate following the end of US stimulus plan)
- Slower global economic growth
- Low energy prices

**Upside risk factors**
- Recovery in the US economy
- Increased demand from emerging economies
- Adverse weather patterns
Prospects in commodity markets (?)

Minerals, ores and metals

Downside risk factors
- Gloomy economic prospects of industrialized economies (esp. the Euro zone)
- Slower growth in emerging economies, esp. China
- Economic restructuring in China away from investment to consumption (downside risk for iron ores and copper prices)
- Strong US dollar, high interest rate (end of US stimulus plan)
- Low energy prices

Upside risk factors
- Recovery in the US economy
- Demand led by emerging economies such as India
- Export restrictions
- Economic restructuring in China away from I to C (upward pressure on zinc, aluminium, tin, lead prices)
Prospects in commodity markets

Energy

**Downside risk factors**;
- Gloomy economic prospects in industrialized economies;
- Slower growth in emerging economies, esp. China;
- Good supply of conventional and non-conventional oil;
- Strong US dollar;

**Upside risk factors**;
- Recovery in the US economy;
- Geopolitical tension disrupting oil production;
- Rebound in oil demand (?);
- Production disruption from OPEC and Non-OPEC countries (?);
- Slowing of shale production;
Concluding remarks

- Forecasting price trends in commodity markets: a challenge!
- Commodity prices have been easing but remain relatively high compared to their pre-2003 levels
- From short to medium run, much factors are likely to be downside risks in global commodity markets:
  - Oversupply
  - Gloomy global economic growth
  - Low energy prices
Concluding remarks (ctnd)

• Then, commodity prices are most likely to moderate further in coming months (short term)

• Declining prices have adverse effects on the terms of trade and macroeconomic performance of CDDCs

• From medium to long term... high uncertainty : balance or imbalances between downside/upside risks factors

• Long term policies in CDDCs should therefore prioritize economic diversification to face the uncertainty