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## Recent developments, challenges and opportunities in commodity markets

### Note by the UNCTAD secretariat

*Summary*

This note contains a review of recent developments in key commodity markets and an analysis of factors that contributed to the trends in commodity prices observed in 2019. In January–September 2019, the prices of the different groups of commodities analysed in this note (food and agricultural commodities; minerals ores and metals; and energy) displayed varied patterns. The prices of food and agricultural commodities were relatively stable. The prices of minerals, ores and metals increased over the first seven months of 2019 partly due to strong demand and supply disruptions following the closure of iron ore mines. In the energy group, oil prices rose in the first four months of 2019 due to production cuts by members of the Organization of Petroleum Exporting Countries but trended downwards up to September 2019, partly due to falling demand.

Some policy issues are explored with regard to the large price variations observed in these commodity markets and recommendations suggested that could help commodity-dependent developing countries, both importers and exporters, to mitigate exposure to price fluctuations and achieve sustainable development and inclusive growth.

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# Introduction

1. The Accra Accord, in paragraph 208, gave a mandate to the Trade and Development Board of UNCTAD to establish a multi-year expert meeting on commodities. The mandate was reaffirmed in paragraph 17 of the Doha Mandate, which extended it to 2016. The mandate was further extended to 2020 in paragraph 100 (s) of the Nairobi Maafikiano.

2. This note contains an analysis of commodity market developments in 2019, with a focus on price trends and the underlying causes of price fluctuations. Some policy issues associated with recent market developments are highlighted and lessons are drawn in the form of policy recommendations, to assist commodity-dependent developing countries in their efforts to achieve sustainable development and inclusive economic growth. Commodities are grouped into three categories, namely, food and agricultural commodities (food, vegetable oilseeds and oils, tropical beverages and agricultural raw materials); minerals, ores and metals; and energy (crude oil, coal, natural gas and renewable energy).

# I. Recent developments in commodity markets

## A. Overview

3. The UNCTAD free market commodity price index [1] for all commodity groups averaged 112 points in January 2019 and was at about the same level in September 2019 (112.7 points; figure 1). However, in January–September 2019, the index exhibited short-term fluctuations, largely driven by high prices in the precious metals and petroleum subgroups exerting upward pressure on the index. During periods of weak petroleum prices, the index declined. Over the first three quarters, therefore, the index for all groups rose by less than 1 per cent, compared with a 13 per cent rise in the corresponding period in 2018.

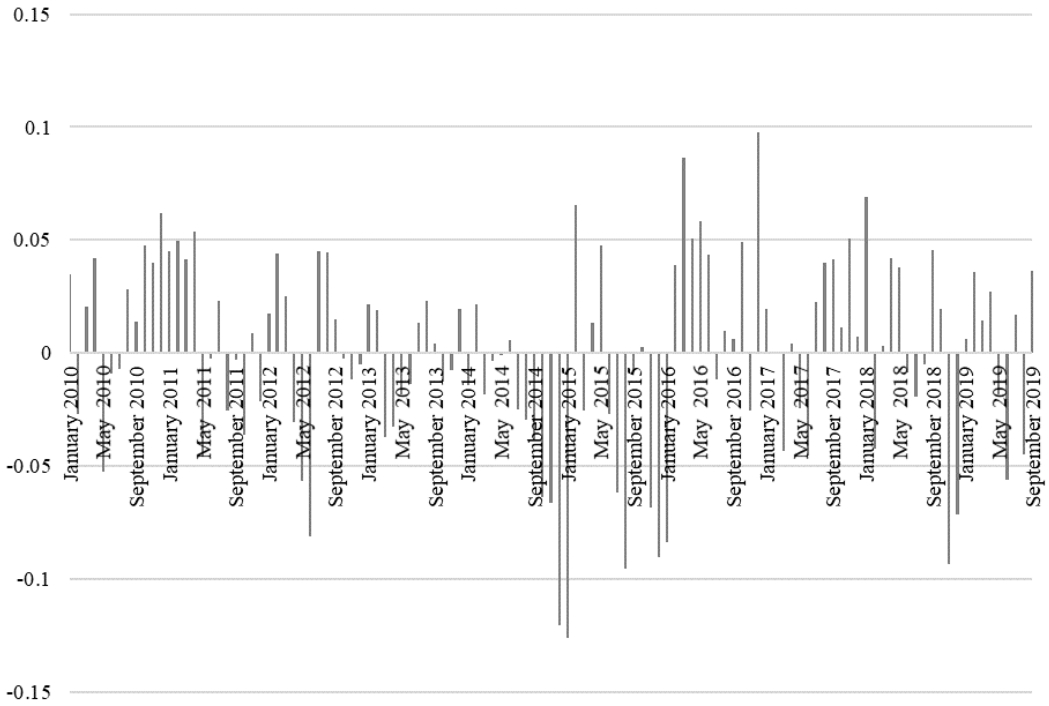
Figure 1
**UNCTAD free market commodity price index, all groups**
*(2015=100)*


*Source*: UNCTAD calculations, based on data from the UNCTADstat database.

[1] This index has been rebased to 2015=100, with new commodities added and new weights used, and including separate indices for the group of fuels and a subgroup of precious metals.
*Notes*: All websites referred to in this note were accessed in November 2019.
All prices are in United States dollars.

4. The monthly fluctuations of the commodity price index illustrate the degrees of variation in commodity prices (figure 2). In the first nine months of 2019, the index showed wide monthly variations due to a variety of factors (see chapter II). The highest and lowest percentage changes occurred in September (3.6 per cent) and June (-5.6 per cent). The following sections review market developments in major commodity groups.

Figure 2
**Monthly fluctuations of the UNCTAD free market commodity price index, all groups**



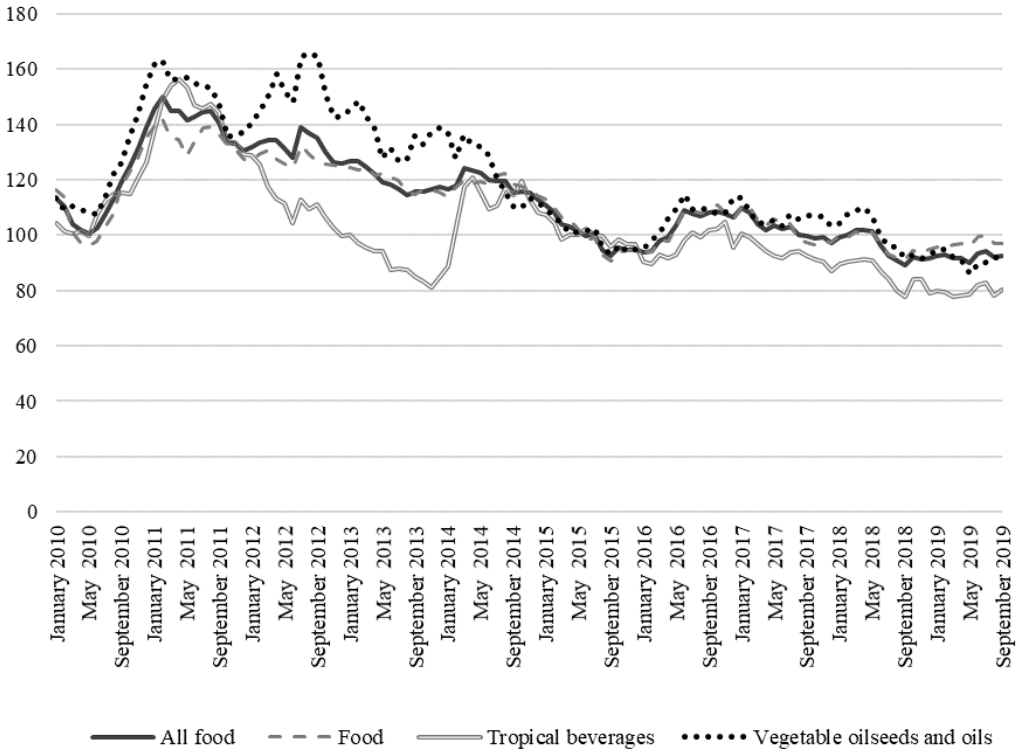

*Source*: UNCTAD calculations, based on data from the UNCTADstat database.

## B. Developments in key commodity sectors

### 1. Food and agricultural commodities

5. The UNCTAD monthly food index averaged 95.8 points in January 2019 and was largely unchanged in September 2019, at 97 points (figure 3). The relative stability of the index was largely due to the offsetting of the increase in rice and maize prices by a decline in sugar and wheat prices. In January–September 2019, the index rose slightly, by 1.2 per cent, in comparison with the falling trend in the corresponding period in 2018.

Figure 3
**Price indices of selected commodity groups**
*(2015=100)*




*Source*: UNCTAD calculations, based on data from the UNCTADstat database.

6. Maize prices continued on a rising path from the last quarter of 2018, increasing from $171.6 per metric ton in January 2019 to a five-year peak of $200.04 per metric ton in July 2019, but dropping by almost 19 per cent in September 2019, to reach $161.3 per metric ton (figure 4). The rise was largely due to tighter supplies, brisk demand and concerns about the impact of adverse weather on plantings of 2019 crops.[2] The decline was due in part to a larger than anticipated official crop estimate in the United States of America, with planted area and yield both well above trade expectations.[3] The forecast is that supply will outweigh growing demand and that prices will weaken in 2020, although stock levels are expected to decline.[4]

7. The international benchmark price of United States wheat (hard red winter No. 2; free on board) trended downwards from $241.22 per metric ton in January 2019 to $211 per metric ton in September 2019, largely driven by ample global supplies in key growing regions and weak demand (figure 4). In January–September 2019, the benchmark price fell by 6 per cent, a reversal of the 6 per cent rise observed in the corresponding period in 2018, which was linked to poor harvests in several major producing regions. The forecast is that there will be a modest recovery in prices in 2020 and 2021, but that a potentially large supply in the Russian Federation and other lower-cost producers is likely to limit the upside.

8. The benchmark price of Thailand rice (white, milled, 5 per cent broken; free on board) rose from $410 in January 2019 to $427 in September 2019, reflecting declines in

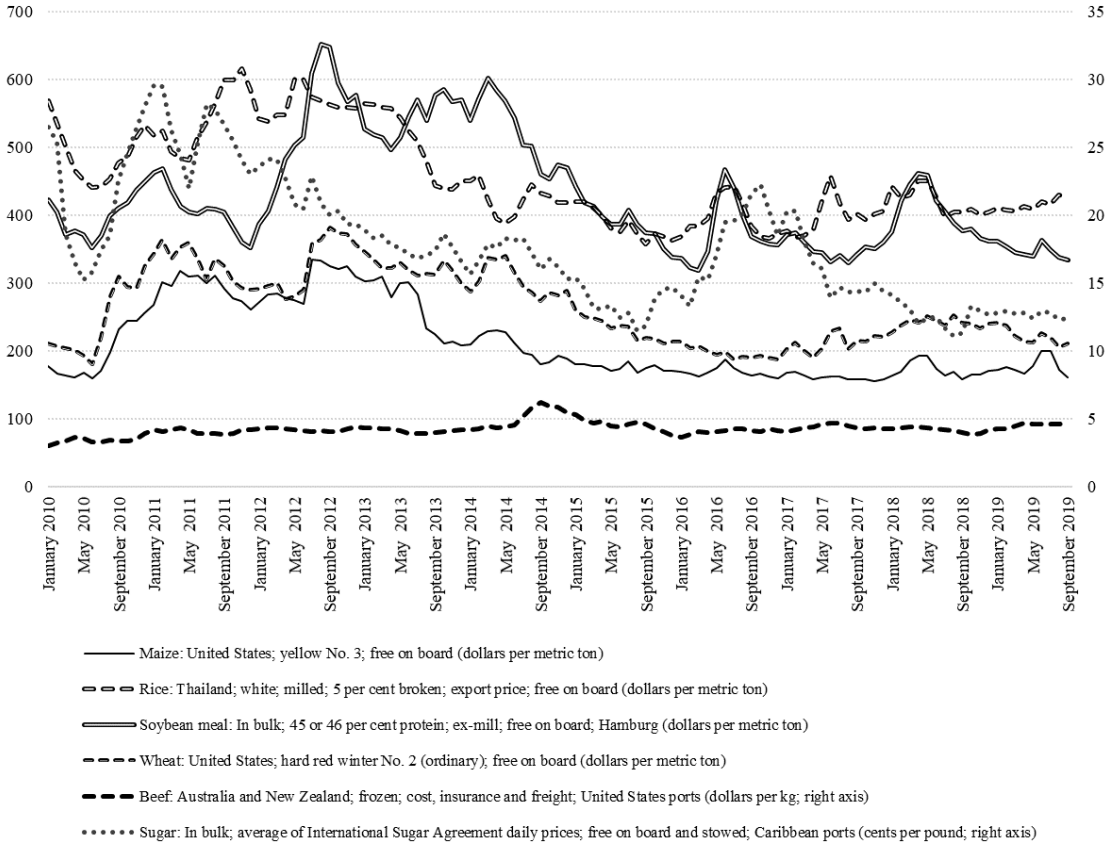
[2] Food and Agriculture Organization of the United Nations, 2019, Food price monitoring and analysis, Monthly bulletin No. 1, 12 February.
[3] Agricultural Market Information System, 2019, Market monitor No. 71.
[4] The Economist Intelligence Unit, 2019, Commodities: Maize, 1 September, available at http://www.eiu.com/industry/commodities/articlelist.

production and inventory levels (figure 4). The increase of 4.1 per cent was a reversal of the 8.4 per cent decline in prices observed in the corresponding period in 2018. The forecast is that rice consumption will exceed production in the 2019/20 and 2020/21 crop seasons and inventories are also expected to be reduced in this period. The combination of these factors is likely to lead to tightness in the market and a gain in prices.

9. The monthly average of the International Sugar Agreement daily prices fell slightly, from 12.8 cents per pound in January 2019 to 12.4 cents per pound in September 2019, largely due to declining consumption driven by heightened awareness of the health implications of excess sugar in diets (figure 4). The low global prices of sugar are expected to impact investment in the sector and this is likely to shrink supplies. As a result, prices are expected to rise modestly in 2020 as markets adjust to tighter fundamentals, but overall modest long-term demand and plentiful supply is likely to slow down price growth.[5]

10. The price of Australia and New Zealand beef (frozen; cost, insurance and freight) rose slightly, from $4.24 per kg in January 2019 to $4.7 per kg in September 2019, due in part to currency trends and strong demand for beef from Australia in key markets such as Japan, the Republic of Korea and the United States, as well as resurging growth in the market in China (figure 4).[6] A sharp seasonal decline in New Zealand beef production also contributed to pushing prices higher.[7]

Figure 4
**Price trends of selected food and agricultural commodities**




*Source*: UNCTAD calculations, based on data from the UNCTADstat database.

[5] The Economist Intelligence Unit, 2019, Commodities: Sugar, 1 October.

[6] See https://www.beefcentral.com/trade/march-beef-exports-sharply-higher-in-response-to-big-rates-of-kill/.

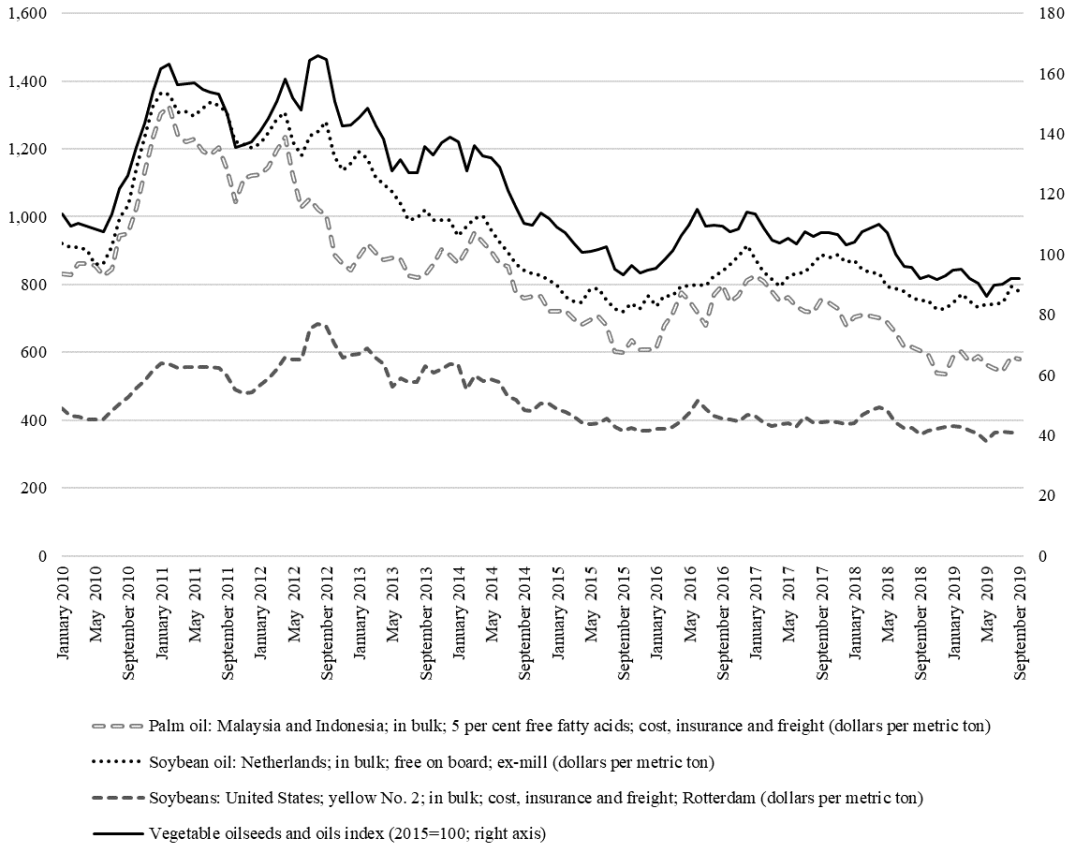
[7] See https://www.beefcentral.com/trade/export-grinding-meat-prices-continue-to-soar-to-record-levels/.

11. The UNCTAD vegetable oilseeds index fell from an average of 94.7 points in January 2019 to an average of 92.1 points in September 2019, largely due to the influence of declining soybean prices due to weak demand and abundant supply (figure 5). In January–September 2019, the vegetable oilseeds and oils index fell by 2.7 per cent, almost 5 percentage points lower than in the corresponding period in 2018.

12. Soybean prices fell from $382.35 per metric ton in January 2019 to $366.1 per metric ton in September 2019, largely due to abundant global supply, record high stocks in the United States and weak demand from the largest importer, China, due to ongoing trade tensions between China and the United States (figure 5). Abundant global supply is expected to continue to exert a downward pressure on prices, unless there is a major shortfall in a key producing region. Tariff waivers by China for importers to buy United States soybeans may contribute to stabilizing prices. Soybean oil prices rose from $747.8 per metric ton in January 2019 to $779.3 per metric ton in September 2019. This was largely driven by rising demand in soybean oil for human consumption because of growing health consciousness among consumers and the ease of availability.[8]

13. Palm oil prices were volatile in 2019 but, overall, declined marginally, from $584.58 per metric ton in January 2019 to $580.3 per metric ton in September 2019, largely driven by an oversupply that exerted downward pressure on prices in the first two quarters of 2019 and by rising demand in the third quarter of 2019 (figure 5). As global demand picks up, in part from the biodiesel industry, prices are forecast to rise and reach $600 per metric ton by the end of 2020.[9]

Figure 5
**Price trends of selected vegetable oilseeds and oils**




*Source*: UNCTAD calculations, based on data from the UNCTADstat database.

[8] See https://www.marketwatch.com/press-release/soybean-oil-market-price-trends-growth-analysis-report-forecast-2019-2024-2019-09-27?mod=mw_quote_news.

[9] The Economist Intelligence Unit, 2019, Commodities: Palm oil, 1 September.

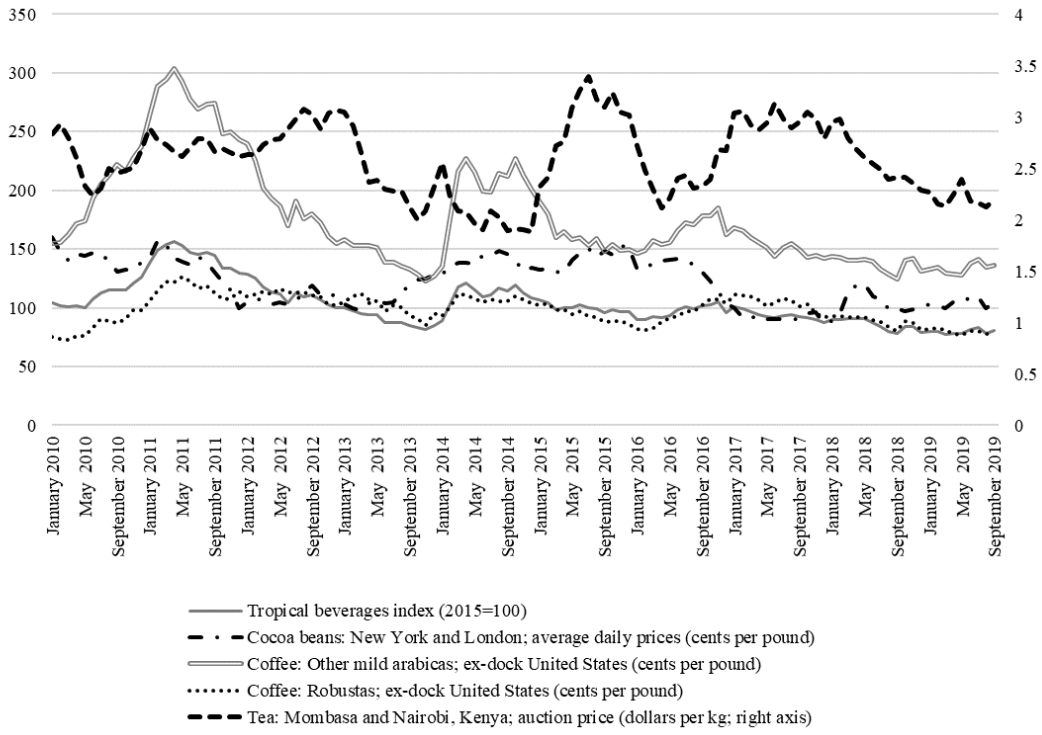
14. The UNCTAD tropical beverages index was relatively flat in the first three quarters of 2019, in comparison with a 13 per cent drop in the corresponding period in 2018 (figure 6). The prices of commodities making up the index registered upward and downward movements due to fluctuating supplies from key producers. Consequently, the overall impact on the index was negligible.

15. Cocoa bean prices rose slightly, from 102.7 cents per pound in January 2019 to 104.5 cents per pound in September 2019 (figure 6). Short-term fluctuations were largely driven by adverse meteorological conditions in the growing regions in West Africa, which affected harvests between the main cropping season and increased demand for processing activities.[10] The forecast is for production to increase, leading to oversupply in the global market, and prices will be under downward pressure in 2020.[11]

16. In January–September 2019, tea prices fluctuated around $2 per kg (figure 6). Small upward and downward movements were largely generated by weather conditions leading to either oversupply or shortage due to a slowdown in the pace of harvests. The forecast is that prices will rise in 2020, as production prospects are uncertain in several major tea producing regions and demand is expected to outstrip production growth.[12]

17. With regard to the coffee market, the International Coffee Organization average monthly composite indicator price trended downwards, from 101.6 cents per pound in January 2019 to 97.7 cents per pound in September 2019, largely due to supportive weather conditions in growing regions that caused global production to increase and exceed consumption (figure 6). In January–September 2019, the composite indicator price fell by 3.8 per cent, compared with the 11 per cent drop in the corresponding period in 2018. The forecast is that global coffee production will decline and demand will increase in the 2019/20 coffee year, leading to higher prices in 2020.[13]

Figure 6
**Price trends of selected tropical beverages**




*Source*: UNCTAD calculations, based on data from the UNCTADstat database.

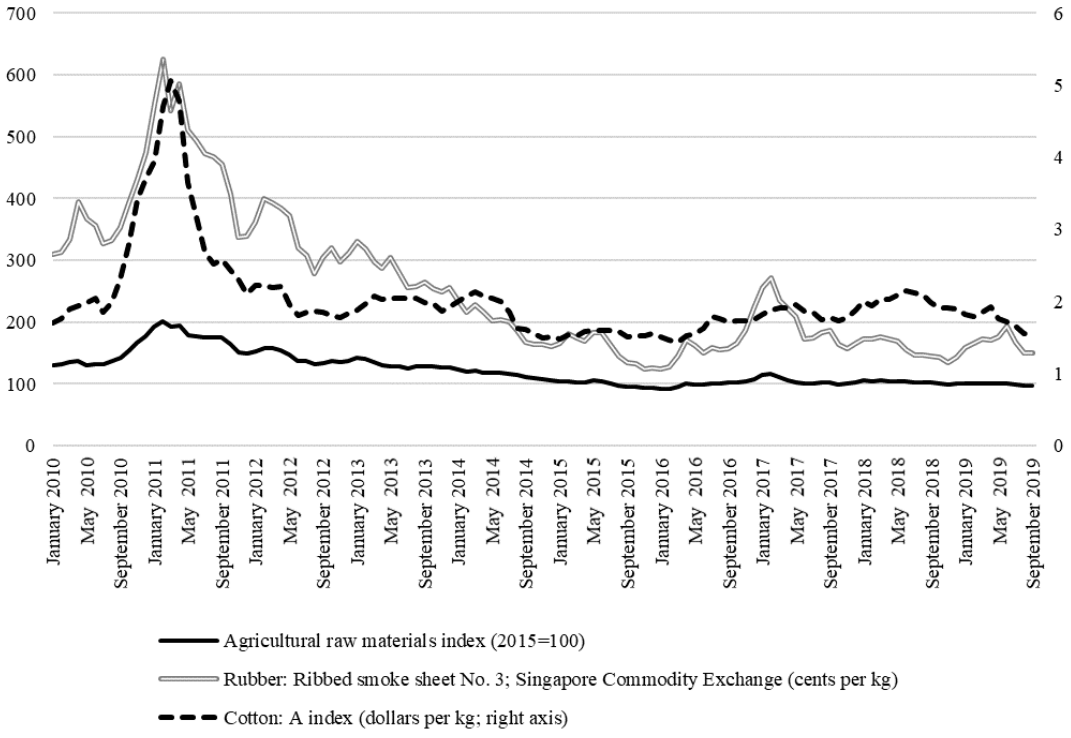
[10] International Cocoa Organization, 2019, Cocoa market review: March 2019.
[11] The Economist Intelligence Unit, 2019, Commodities: Cocoa, 1 December.
[12] The Economist Intelligence Unit, 2019, Commodities: Tea, 1 November.
[13] International Coffee Organization, 2019, Coffee market report: October.

18. The UNCTAD agricultural raw materials index declined from 101.41 points in January 2019 to 96.7 points in September 2019, as it came under pressure from falling rubber and cotton prices (figure 7). In January–September 2019, the index fell by 4.6 per cent, almost 2 per cent lower than the rate of decline in the corresponding period in 2018.

19. The cotton A index price, a benchmark for world cotton prices, trended downwards, from $1.82 per kg in January 2019 to $1.57 per kg in September 2019, due in part to tepid demand amid swelling global supply brought on in part by ongoing trade tensions between China and the United States, which also caused speculators to be more bearish with regard to prices (figure 7). The forecast is for cotton production to exceed consumption in 2020, with prices likely to decline.[14]

20. Natural rubber prices rose in the first half of 2019, from 159.25 cents per kg in January to 192.73 cents per kg in June, the highest price since May 2017, then declined, reaching 149.9 cents per kg in September (figure 7). The rise was largely due to a combination of factors, including interventions by the International Rubber Council to restrict exports,[15] weather-related supply disruptions and rallying oil prices, which makes natural rubber more attractive relative to synthetic rubber. The decline was largely due to a fall in oil prices and weak demand due to a slowdown in vehicle tire consumption, which accounts for about two thirds of the market. In January–September 2019, prices fell by almost 6 per cent compared with the higher drop of 16 per cent in the corresponding period in 2018, when the market was oversupplied. Prices are expected to recover in 2020 with a projected recovery in the vehicle tires market.[16]

Figure 7
**Price trends of selected agricultural raw materials**




*Source*: UNCTAD calculations, based on data from the UNCTADstat database.

[14] The Economist Intelligence Unit, 2019, Commodities: Cotton, 1 October.

[15] See https://ircorubber.com/2019/media-release-by-the-international-tripartite-rubber-council-itrc-on-1-july-2019/.

[16] See https://www.capitaleconomics.com/publications/commodities-overview/commodities-watch/it-can-only-get-better-for-natural-rubber/.

## 2. Minerals, ores and metals

21. The UNCTAD minerals, ores and non-precious metals index reversed its downward trend in the last quarter of 2018 and rose from 126.0 points in January 2019 to a peak of 147.9 points in July 2019, the highest level since December 2014, largely driven by rising iron ore prices (figure 8). In the following months, the index declined by 10 per cent, to an average of 135.1 points in September 2019, as it came under pressure from the falling prices of commodities in the group. Nickel prices rose in this period, yet the net effect on the index was minimal. In January–September 2019, the index rose by almost 6 per cent, compared with the 10.8 per cent decline in the corresponding period in 2018.

22. Iron ore prices continued on an upward trajectory that began in April 2018, rising from $76.16 per dry metric ton in January 2019 to a peak of $120.24 per dry metric ton in July 2019, the highest price since 2014, largely driven by a combination of supply constraints and strong demand (figure 8). A major factor was the collapse of a tailings dam in Brazil on a site run by Vale, one of the largest mining companies in the world. This prompted a halt in production at many of the Vale mines in Brazil. Adverse weather conditions in Australia also forced some major iron ore mines to shut down production, which affected supply destined for global seaborne iron ore markets.[17] Iron ore prices came under downward pressure in August 2019 due in part to ongoing trade tensions between China and the United States, which contributed to dampening demand from mills in China responsible for producing more than half of the world's steel.[18] Iron ore prices fell by 22.5 per cent but, overall in January–September 2019, rose by 22.2 per cent. The forecast for 2020 is that prices will stabilize, as demand in China is expected to strengthen due to ongoing infrastructure projects.[19]

23. Copper prices trended down from $5,939.10 per metric ton in January 2019 to $5,759.25 per metric ton in September 2019, with short-term fluctuations largely driven by supply disruptions at mines in Chile and a 55 per cent decline in concentrate production in Indonesia because of a transition of the major two mines to different ore zones, leading to temporarily reduced output levels and low inventories (figure 8).[20] The downward trend was influenced by lower demand from China,[21] due to ongoing trade tensions between China and the United States, creating economic headwinds and a slowdown in consumption, and increasing warehouse inventories at the London Metal Exchange. Consumption is expected to rise, supported by growth in electric vehicles and new infrastructure projects. Underinvestment in new mine capacity is expected to impact supply and, as a result, prices are likely to rise in 2020/21 as the global copper market tightens.[22]

24. Aluminium prices continued their downward trend from 2018, falling from $1,853.72 per metric ton in January 2019 to $1,753.51 per metric ton in September 2019, largely due to ongoing trade tensions between China and the United States creating weak market conditions and subdued demand from the automobile sector, one of the largest consuming sectors (figure 8). Prices are expected to continue to fall in 2020 as trade tensions and market sentiment continue to exert a downward pressure.[23]

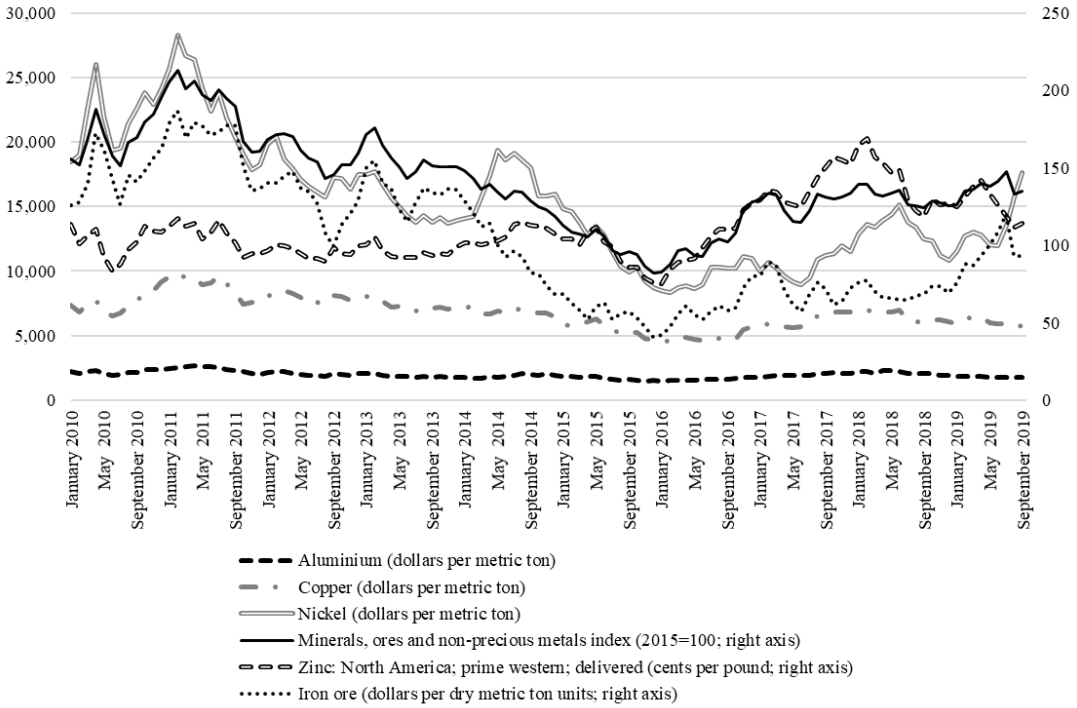
25. Zinc prices rose from 124.74 cents per pound in January 2019 to 142 cents per pound in April 2019 before falling by almost 20 per cent, to an average of 114 cents per pound in September 2019 (figure 8). The rise was largely driven by demand, tightness in the market and low levels of stocks at major metal exchanges such as the London Metal Exchange and the Shanghai Futures Exchange. In addition, production decline in China due to stricter environmental regulations for smelters contributed to accentuating the supply

[17] *Financial Times*, 2019, Supply squeeze in iron ore catches miners on the hop, 24 June.
[18] *The Wall Street Journal*, 2019, Chinese steel slowdown slams iron ore prices, 3 September.
[19] See https://www.mining.com/iron-ore-prices-have-peaked-will-lose-steam-report/.
[20] International Copper Study Group, 2019, Copper: Preliminary data for July 2019, Press release, 29 October.
[21] Ibid.
[22] The Economist Intelligence Unit, 2019, Commodities: Copper, 1 November.
[23] The Economist Intelligence Unit, 2019, Commodities: Aluminium, 1 November.

shortage in the market.[24] The decline was largely due to market sentiment significantly weakening, reflecting increasing headwinds facing the global economy due to ongoing trade tensions between China and the United States.[25]

26. Nickel prices rose from $11,523.09 per metric ton in January 2019 to a peak of $17,656.88 per metric ton in September 2019, the highest price since 2014 (figure 8). The rapid rise, particularly in the third quarter, was largely due to major importers stockpiling nickel to offset supply concerns due to ongoing trade tensions between China and the United States.[26] In January–September 2019, nickel prices rose by 53 per cent, a strong recovery in comparison with the 2 per cent decline in the corresponding period in 2018. The forecast is that prices will fall and settle at around $12,800 per metric ton in 2020 as stockpiling ends, although uncertainty with regard to trade tensions may keep prices at a higher level.[27]

Figure 8
**Price trends of selected minerals, ores and non-precious metals**




*Source*: UNCTAD calculations, based on data from the World Bank global economic monitor database.

27. The UNCTAD precious metals index trended upwards, from an average of 108.9 points in January 2019 to 127.4 points in September 2019, largely due to the rising prices of silver, platinum and gold (figure 9). There were periods of declining prices, yet the overall effect was not enough to subdue the rising trend in the index. In January–September 2019, the index rose by 17 per cent, a significant rise compared with the corresponding period in 2018, when prices remained relatively flat.

28. Gold prices continued an upward path from the last quarter of 2018, rising from $1,291.75 per troy ounce in January 2019 to $1,510.58 per troy ounce in September 2019, the highest price since March 2013 (figure 9). The rise was driven by a number of factors, including the lowering of interest rates by the Federal Reserve Board of the United States

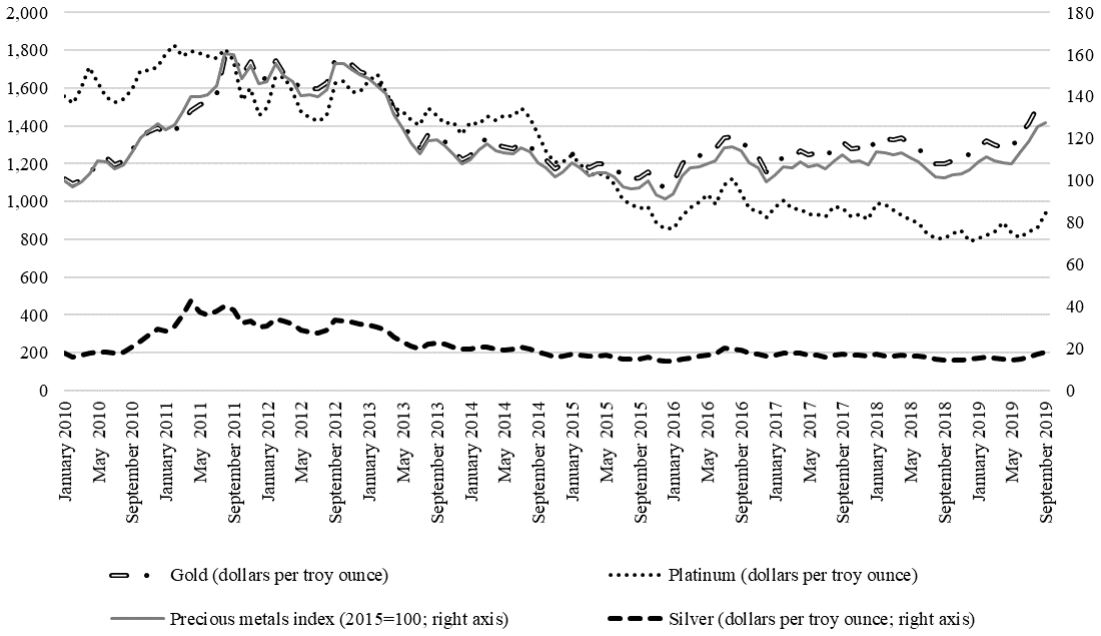
[24] See https://investingnews.com/daily/resource-investing/base-metals-investing/zinc-investing/zinc-price-update/.
[25] The Economist Intelligence Unit, 2019, Commodities: Zinc, 1 October.
[26] The Economist Intelligence Unit, 2019, Commodities: Nickel, 1 October.
[27] Ibid.

and uncertainty in global markets due to geopolitical tensions between the Islamic Republic of Iran and the United States, boosting the appeal of gold as a safe-haven asset.[28] Prices are expected to continue to rise, potentially reaching $1,600 per troy ounce in early 2020, due to a combination of monetary policy easing by many central banks and investor concerns over ongoing trade tensions between China and the United States.[29]

29. Silver prices rose from $15.62 per troy ounce in January 2019 to $18.16 per troy ounce in September 2019 due to various factors, including the strengthening of the United States dollar and a rebound in demand from industrial applications in the global solar photovoltaic industry and from global computer shipments, as well as new sources of demand such as in sensors used in organic light-emitting diodes (figure 9). Prices are forecast to rise in 2020 due to political and economic uncertainty, which supports the precious metals market.[30]

30. Platinum prices rose from $806.77 per troy ounce in January 2019 to $944.70 per troy ounce in September 2019 due to a variety of factors, including industrial action at mines in South Africa, a surge in electronic trading fund holdings and strong demand from different entities (figure 9). In January–September 2019, due to slowing demand, oversupply and speculative betting on lower prices, prices rose by 17 per cent, a reversal of the 18 per cent drop in the corresponding period in 2018. The forecast is that there will be abundant supplies in 2020 and that the strong demand from electronic trading funds is unlikely to be repeated. The overall impact will be a fall in prices in 2020.[31]

Figure 9
**Price trends of selected precious metals**




*Source*: UNCTAD calculations, based on data from the UNCTADstat database and the World Bank global economic monitor database.

*Note*: Cobalt prices are not reflected as they are not included in the UNCTAD free market commodity price index.

[28] *Bloomberg*, 2019, Gold jumps to highest in six years as rising risks boost havens, 25 June.
[29] The Economist Intelligence Unit, 2019, Commodities: Gold, 1 October.
[30] See https://currency.com/features/2019/11/21/silver-price-forecast-2020-2025.
[31] *Business Day*, 2019, Platinum investment demand expected to drive market into deficit, 21 November.

31. Cobalt prices continued on a downward trajectory, falling from $36,500 per metric ton in January 2019 to $25,584 per metric ton in July 2019, largely due to supply outweighing demand. The downward trend in prices reversed in August 2019, when prices rose by 42 per cent to reach $36,484 per metric ton in September 2019, following an announcement by Glencore, an international mining company, that it would close its Mutanda mine in the Democratic Republic of the Congo, one of the leading cobalt and copper mines in the world.[32] The forecast is that prices will continue to rise in 2020, due in part to expectations of a supply deficit driven by the closure of this mine.[33]

## 3. Energy

32. The UNCTAD fuel index showed a reverse of the declining trend in the last quarter of 2018, rising from 115.2 points in January 2019 to 127.7 points in April 2019, largely driven by strengthening crude oil prices due to tighter supply and increased oil supply risks (figure 10). Falling inventories and declining production in the United States in this period also contributed to the rise. In May 2019, the upward trend reversed and the index fell by 13 per cent, to an average of 111.7 points in September 2019, as it came under pressure from lower oil, coal and natural gas prices. In January–September 2019, the index declined by 3 per cent, compared with the 13.3 per cent rise in the corresponding period in 2018.

### *Crude oil*

33. Crude oil prices continued on a declining path from the last quarter of 2018, but an agreement in December 2018 between the Russian Federation and the Organization of Petroleum Exporting Countries to reduce production in the first six months of 2019 contributed to supply tightening and a reversal of the downward trend in prices. The Brent benchmark price rose from $59.27 per barrel in January 2019 to $71.20 per barrel in April 2019 (figure 10). However, in the following months, prices were under downward pressure, and reached $62.33 in September 2019, due in part to ongoing trade tensions between China and the United States. Oil supply from the shale industry in the United States is expected to decline in 2020, as weaker demand and falling global prices depress investment, but the market is forecast to have a surplus due to weakening demand from slower global economic growth. Prices are largely expected to remain at $60–70 per barrel in 2020–2021.[34]

### *Coal*

34. Australian thermal coal prices declined sharply, from $98.56 per metric ton in January 2019 to $65.75 per metric ton in September 2019, in comparison with the rise of 7.2 per cent in the corresponding period in 2018 (figure 10). The price reached in September 2019 was below $66 per metric ton for the first time since August 2016. The main drivers of this downward path include falling demand in major consuming regions, a significant shift away from coal in developed countries and an increase in renewable energy consumption. Global demand is forecast to remain flat in 2020, but production is expected to increase slightly. Prices are forecast to remain depressed in 2020.[35]

### *Natural gas*

35. Natural gas is predominantly traded in three distinct markets in the United States, Asia and Europe. The United States Henry Hub market and the market in Europe facilitate trade in natural gas mainly through pipelines and the market in Asia is dominated by the shipping of liquefied natural gas. The monthly average price of natural gas in the United States Henry Hub market fell from $3.08 per million British thermal unit in January 2019 to $2.58 per million British thermal unit in September 2019, a drop of 16.2 per cent, due to strong growth in domestic production (figure 10). The downward trend followed a similar

[32] See https://www.glencore.com/media-and-insights/news/2019-Half-Year-Report-release.

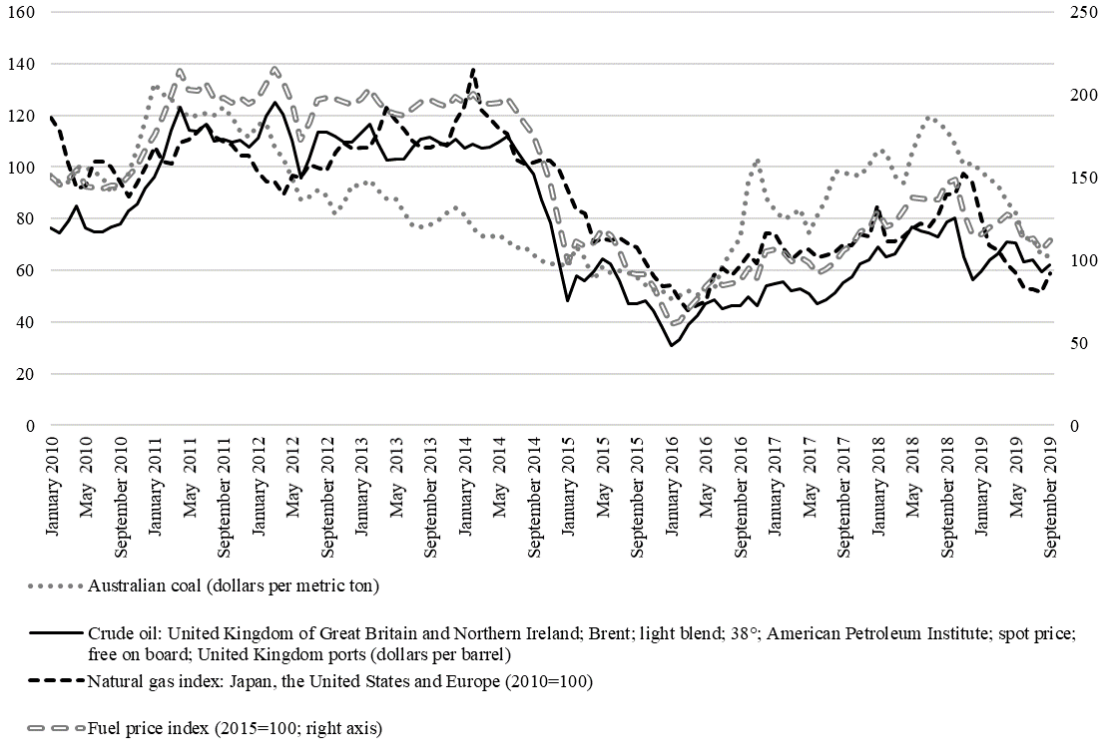
[33] See https://pages.marketintelligence.spglobal.com/consensus-commodity-price-forecasts-Oct-Confirmation-CD.html.

[34] The Economist Intelligence Unit, 2019, Commodities: Crude oil, 1 October.

[35] The Economist Intelligence Unit, 2019, Commodities: Coal, 1 October.

path as in the corresponding period in 2018, when prices declined by 23 per cent due to oversupply. Henry Hub spot prices are expected to fall in 2020, reflecting a decline in United States natural gas demand and slowing United States natural gas export growth, allowing inventories to remain at a higher level than the five-year average in 2020 even as production growth is forecast to slow.[36] Natural gas prices in the European market also followed a declining path. Prices declined from $7.26 per million British thermal unit in January 2019 to $4.21 per million British thermal unit in September 2019, a drop of 42 per cent, largely driven by abundant supply and slowing demand. Natural gas prices in Europe are at a 10-year low and are expected to drop further, as traders continue to ship liquefied natural gas to Europe amid above-average summer levels in storage facilities.[37] In the liquefied natural gas market in Asia, average monthly prices fell from $12.01 per million British thermal unit in January to $10.86 per million British thermal unit in September 2019, due in part to sluggish demand driven by mild winter temperatures, buoyant stocks and additional supply from Australia and the United States. In January–September 2019, liquefied natural gas prices declined by 9.5 per cent, compared with a rise of 21 per cent in the corresponding period in 2018 that had been driven by strong demand.

Figure10
**Price trends of selected fuels**




*Source*: UNCTAD calculations, based on data from the UNCTADstat database and the World Bank global economic monitor database.

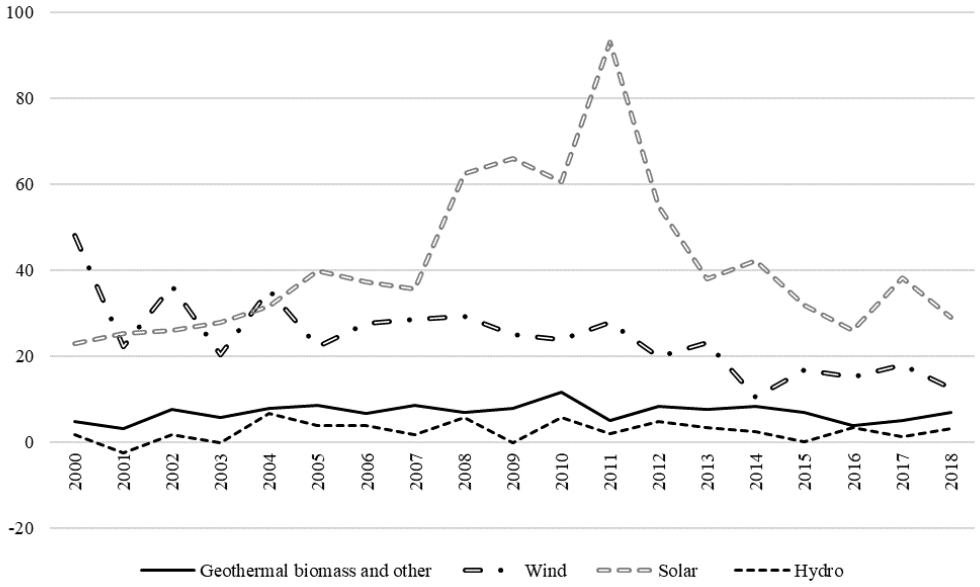
*Renewable energy*

36. Renewable energy accounted for almost one quarter of global energy demand growth in 2018. Most of this growth came from the power sector, with renewable energy-based electricity generation increasing at its fastest pace in the decade. Solar photovoltaics, hydropower and wind each accounted for about one third of the growth, with bioenergy accounting for most of the rest.[38] Globally, renewable energy covered almost 45 per cent of

[36] United States Energy Information Administration, 2019, Short-term energy outlook, 10 December.
[37] See https://oilprice.com/Energy/Energy-General/European-Gas-Prices-Plunge-To-10-Year-Low.html.
[38] International Renewable Energy Agency, 2019, *Global Energy and $CO_2$ Status Report 2019* (Paris).

world growth in electricity generation and close to 25 per cent of global power output.[39] Global renewable energy generation capacity also grew in 2018, by 171 gigawatts, to reach 2,351 gigawatts.[40] The largest share of this growth came from new capacity in wind and solar energy generation, together accounting for 84 per cent of total new capacity.[41] The world's total renewable energy-based power capacity will grow by 50 per cent, or 1,200 gigawatts, in 2019–2024,[42] largely driven by cost reductions and concerted government policy efforts. Of the expected growth, solar photovoltaics account for about 60 per cent, onshore wind accounts for 25 per cent and offshore wind accounts for 4 per cent.[43] The annual consumption growth rates of major renewable energy resources are shown in figure 11.

Figure 11
**Annual consumption growth rates of major renewable resources**




*Source*: UNCTAD calculations, based on data from BP, 2019, *Statistical Review of World Energy* (London).

# II. Some policy issues arising from recent market developments

37. Market trends as analysed in this note show large price variations across different commodity groups, driven largely by supply and demand fluctuations. The implications of such price movements differ from the perspectives of commodity importers and exporters. In export-dependent countries, price fluctuations may lead to shortfalls of export and fiscal earnings, slow economic growth, a worsening balance of payments, challenges in debt sustainability and increased poverty, as well as high prices leading to greater revenues and currency appreciation. In import-dependent developing countries, which include many of the poorest countries in the world, low prices of fuels and basic foodstuffs such as cereals, grains and oilseeds translate into lower food and energy import bills and may lead to better terms of trade, while higher prices pose challenges in securing food and energy imports. Declining food and fuel prices may bode well for net importing countries pursuing food and energy security objectives, yet over the longer term, sustained low prices may discourage investment in production and lead to higher commodity prices. They may also delay the

[39] Ibid.
[40] International Renewable Energy Agency, 2019, *Renewable Capacity Statistics 2019* (Abu Dhabi).
[41] International Renewable Energy Agency, 2019, Renewable capacity statistics 2019: Highlights, available at https://www.irena.org/publications/2019/Mar/Renewable-Capacity-Statistics-2019.
[42] International Energy Agency, 2019, *Renewables 2019* (Paris).
[43] Ibid.

transition to renewable energy sources, as alternatives become more affordable compared with renewable energy sources, and may negatively affect the achievement of Goal 7 on affordable and clean energy under the 2030 Agenda for Sustainable Development.

38. Policy issues arising from the recent developments in commodity markets highlighted in this note are briefly discussed in this chapter and policy options suggested that are important in achieving sustainable development in commodity-dependent developing countries.

## A. Climate change and commodities

39. The influence of supply side factors on commodity prices has recently become more pronounced, due in part to the frequency of meteorological events such as extreme weather events and drought, as well as changes in average temperatures and varied precipitation patterns. Occurrences of extreme meteorological events are projected to increase due to atmospheric concentrations of greenhouse gases; it is very likely, for example, that heat waves will occur more often and last longer, and that extreme precipitation events will become more intense and frequent in many regions.[44] The impact is likely to be widespread across different economic sectors; with regard to commodities, changes in weather conditions are likely to lead to declines in the production of food and agricultural raw materials as a result of climate-induced crop yield losses. Such phenomena are also expected to cause disruptions in production activities in the extractive industries.

40. The potential risks to production in commodity-dependent developing countries reinforce the need to strengthen actions to mitigate the effects of climate change, such as by building technical capacity to improve resilience to such effects in commodity sectors. This may include adopting strategies such as climate-smart agriculture, which combines adaptation to climate change with the mitigation of greenhouse gas emissions to sustainably increase productivity and resilience, or the use of seed varieties that are tolerant to heat and dry spells for a range of major food crops, including maize, rice and wheat. In addition, commodity-dependent developing countries need to build regulatory capacities for the institutions expected to implement effective policies for climate change mitigation and adaptation. Developed countries need to meet their commitment under the Paris Agreement within the United Nations Framework Convention on Climate Change to transfer environmentally friendly technologies to developing countries to help them effectively participate in global efforts to mitigate and adapt to climate change.

## B. Price volatility and risk management

41. Market trends as analysed in this note highlight the significance of price volatility across different commodity groups in the first three quarters of 2019. Prices of agricultural food commodities such as rice trended upwards; maize prices rose to a five-year peak before declining; oilseeds, tropical beverages and fuel commodities generally trended down, with short-term fluctuations; metals and non-precious metals trended upward; and fuels generally trended downward, except for oil prices, which rose sharply in the first quarter, then followed a declining path. Commodity-dependent developing countries are particularly affected when exposed to price volatility, given the importance of the commodity sector in their economies. It is therefore crucial to mitigate such exposure, to achieve economic growth and poverty alleviation, as well as the Sustainable Development Goals.

42. Various policies and instruments can be used to support commodity-dependent developing countries in mitigating exposure to price risk. One strategy that has yielded substantive results, particularly in the agricultural sector, is vertical and horizontal diversification.[45] For example, Costa Rica diversified from traditional exports of coffee to non-traditional exports such as pineapples, of which it is has now become the world's

[44] Intergovernmental Panel on Climate Change, 2015, *Climate Change 2014: Synthesis Report* (Geneva).
[45] TD/B/C.I/MEM.2/42.

largest exporter.[46] The growth of the pineapple sector also led to exports of pineapple-based products such as frozen pineapple, dried pineapple, juices and concentrates. Costa Rica also diversified into non-commodity sectors such as tourism, medical instruments, the manufacturing of computer chips and information and communications technology.

43. Other options to mitigate exposure to price risk include purchasing crop insurance to stabilize incomes during times of loss, for example as done in Malawi, which hedged its maize imports, or using financial instruments to hedge against adverse price movements to guarantee revenues from exports, for example as done in Mexico, which hedged its oil export-related revenue.[47] In addition, recent low prices in the fuel sector and forecasts of further declines in oil prices due to an oversupplied market prompted the Ministry of Finance of Nigeria to lower forecasts for 2020 for the benchmark oil price of Nigeria, from $60 per barrel to $55 per barrel, in part to mitigate against unexpected price shocks.[48] Commodity-producing countries can also adopt revenue stabilization funds, not only to ensure macroeconomic stability and intergenerational equity, but also to minimize real exchange rate appreciation.[49] The risk of Dutch disease can also be addressed through other national policy measures, such as by enhancing linkages between the commodity sector and the rest of the economy, with a view to creating a more symbiotic relationship between the development of manufacturing and commodities sectors. Tapping the potential for upstream linkages, that is, the provision of inputs to commodity production, may be a promising route, particularly in extractive industries.

## C. Renewable energy

44. Renewable energy sources continued to make inroads into the global energy mix in 2019 and are contributing to efforts to mitigate greenhouse gas emissions, reduce air pollution and expand energy access. Photovoltaic and wind energy production technologies are leading the way in transforming the global energy system, and generation costs are falling rapidly. Solar photovoltaic generation costs are expected to decline by 35 per cent from current levels by 2024, thereby spurring further growth in the second half of the decade.[50]

45. Competition from well-established energy sources such as crude oil, coal and natural gas, the prices of which have been falling, may derail efforts to diversify the global energy mix and transition to renewable energy sources. If such low prices are sustained, this may lead to increased dependence on fossil fuels in the short and medium terms at the expense of other energy sources. Policies are therefore needed to foster the continued lowering of renewable energy production costs, provide innovative financing for renewable energy projects, overcome constraints in electricity distribution and phase out subsidies on fossil fuels that distort prices relative to renewable energy sources. Pursuing active strategies for developing renewable energy sources will not only promote energy diversification, but also contribute to reducing the health-related and environmental impacts associated with the use of fossil fuels.

[46] TD/B/C.I/MEM.2/45.

[47] TD/B/C.I/MEM.2/46.

[48] *Reuters*, 2019, Nigeria cuts benchmark crude oil forecast on signs of oversupply, 10 September.

[49] See UNCTAD, 2012, Excessive commodity price volatility: Macroeconomic effects on growth and policy options, available at https://unctad.org/en/pages/GDS/GDS.aspx?DO=46,5,,.

[50] International Energy Agency, 2019, Global solar PV[photovoltaic] market set for spectacular growth over next five years, 21 October.

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# Recent developments, challenges and opportunities in commodity markets

## Note by the UNCTAD secretariat

## Corrigendum

**Paragraph 30**

For the existing text *substitute*

30. Platinum prices rose from $806.77 per troy ounce in January 2019 to $944.70 per troy ounce in September 2019 due to a variety of factors, including industrial action at mines in South Africa, a surge in the buying of platinum-backed exchange traded funds and strong demand from different entities (figure 9). In January–September 2019, due to slowing demand, oversupply and speculative betting on lower prices, prices rose by 17 per cent, a reversal of the 18 per cent drop in the corresponding period in 2018. The forecast is that there will be abundant supplies in 2020 and that the strong demand from investors in platinum-backed exchange traded funds is unlikely to be repeated. The overall impact will be a fall in prices in 2020.[31]

[31] *Business Day*, 2019, Platinum investment demand expected to drive market into deficit, 21 November.

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