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Commodity markets: Recent trends and outlook

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



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Commodity markets: Recent trends and outlook

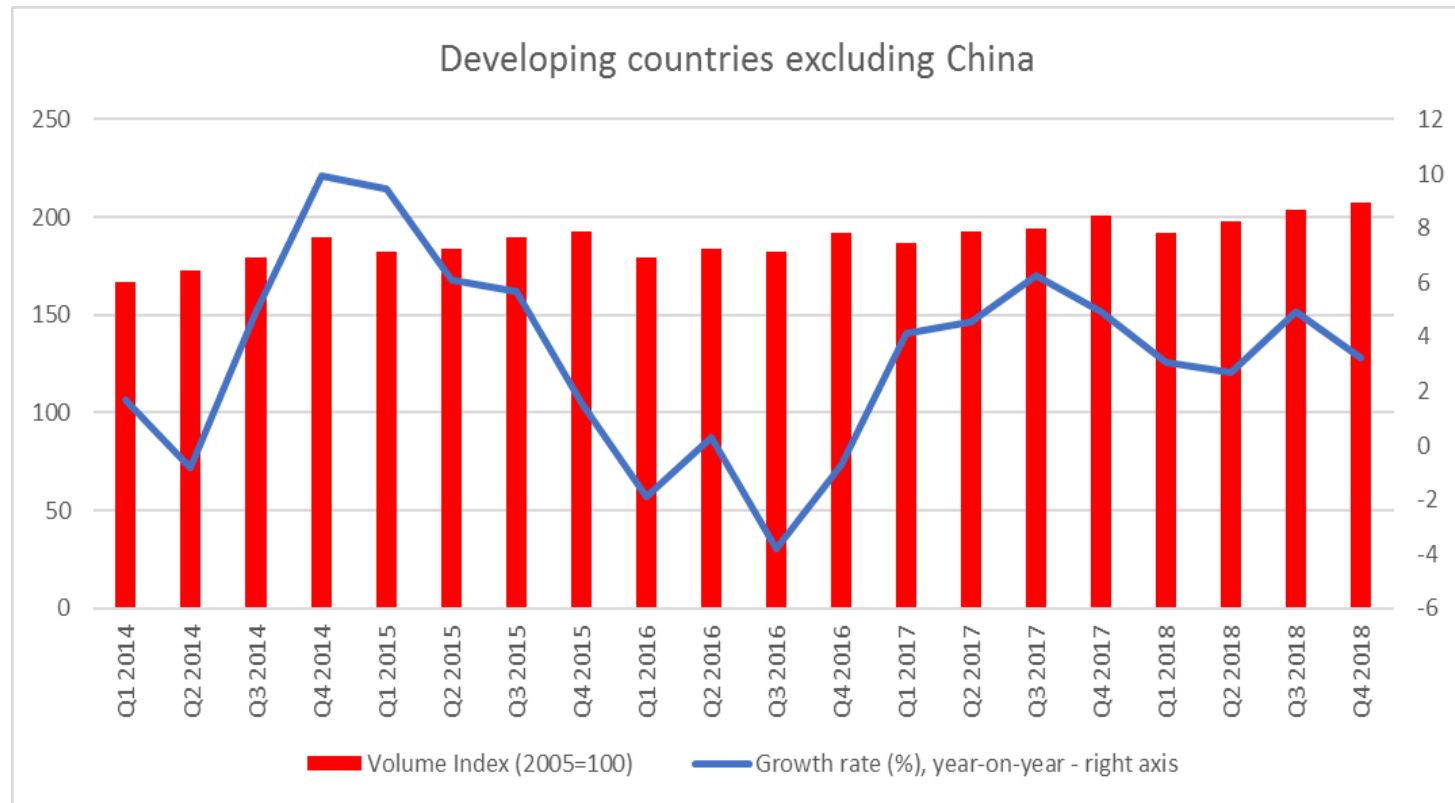
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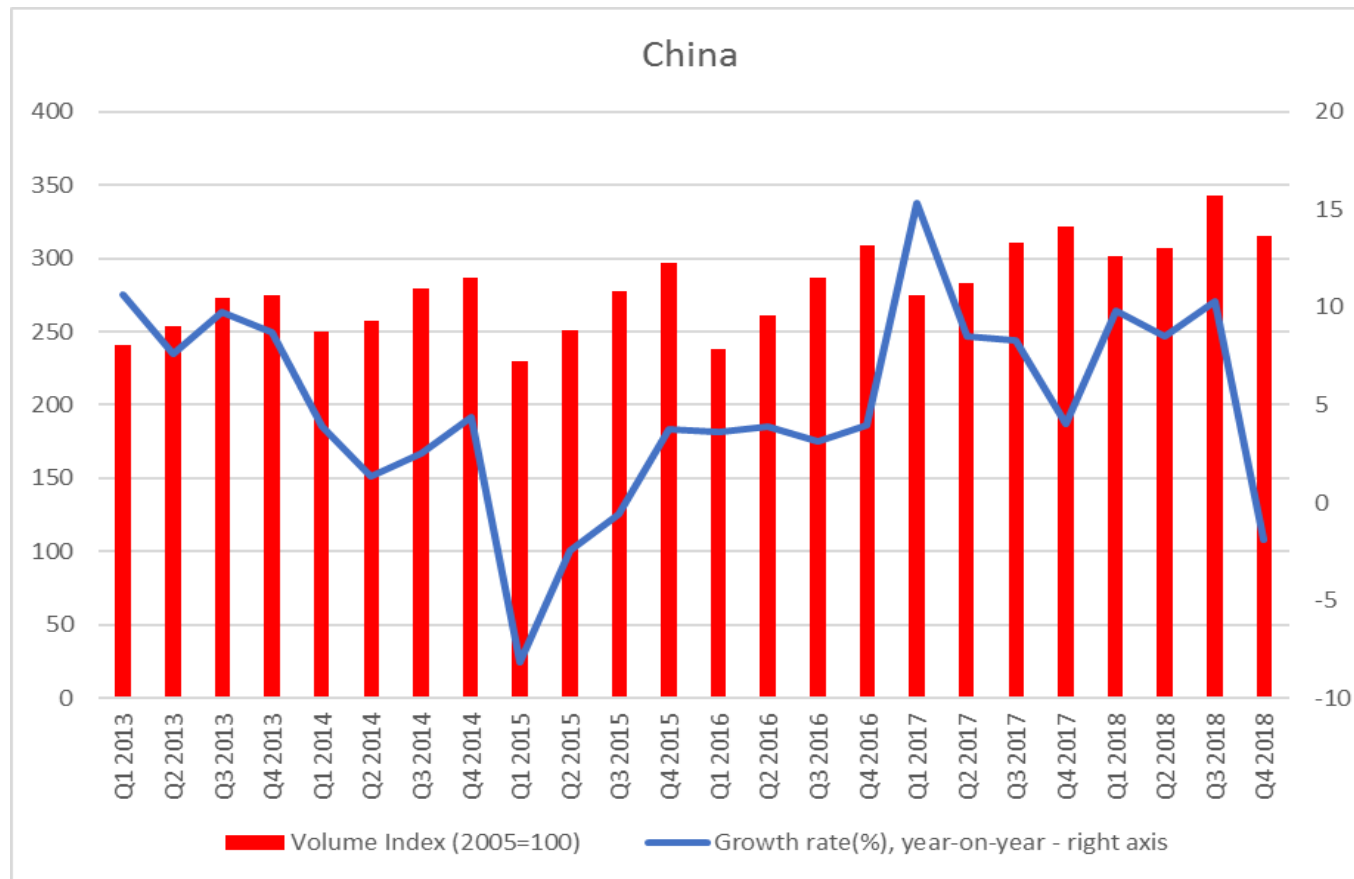
Background....



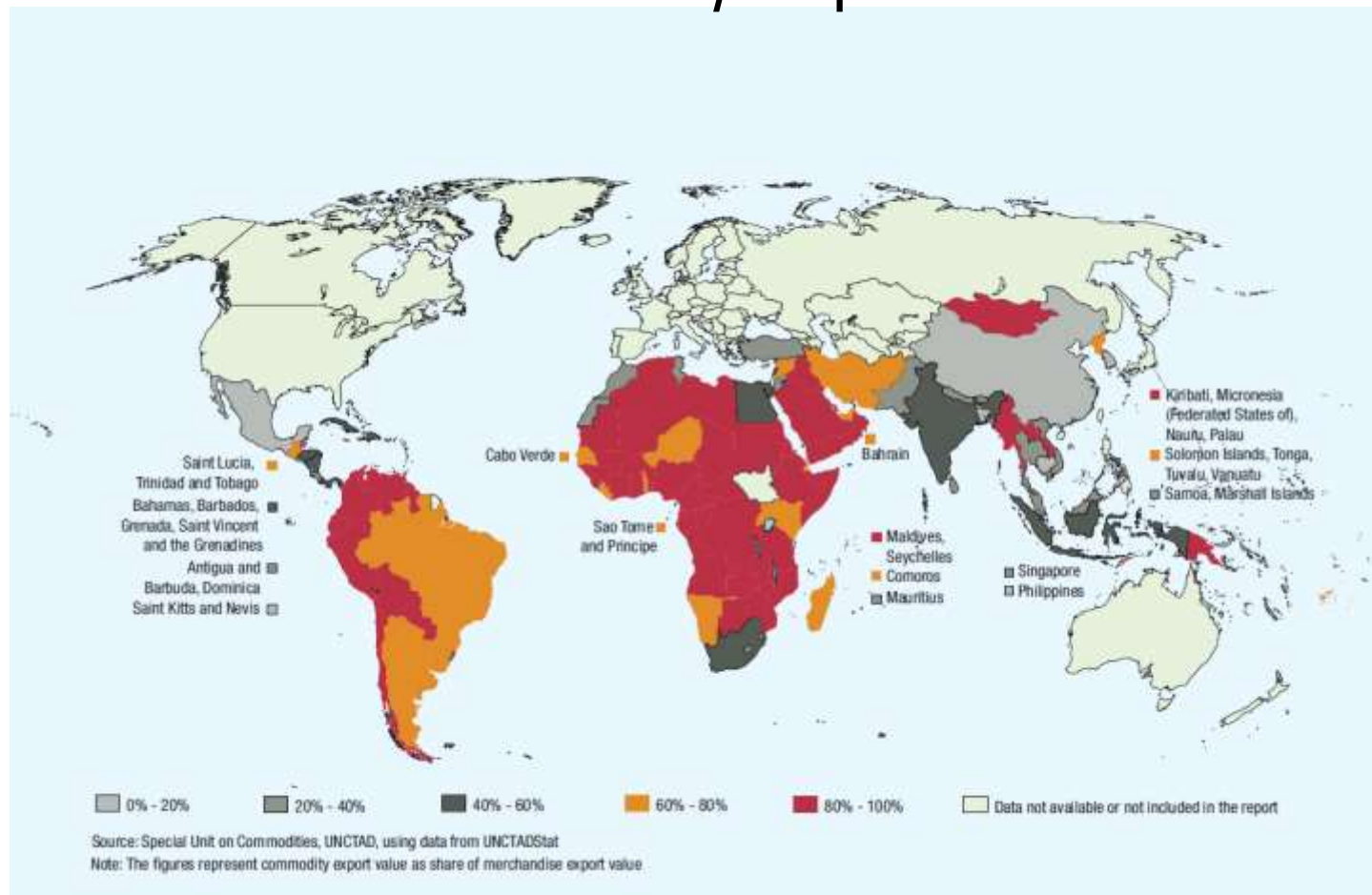
Volume Index and volume growth rate of merchandise imports



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

ALL FOOD

- Food

Wheat

Maize

Rice

Sugar

Bovine meat

Bananas

Pepper

Soybean meal

Crustaceans*

Fish*

- 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

Fish meal fodder*

Tobacco

Cotton

Wool

Jute

Hides and skins

Tropical logs

Tropical sawnwood*

Plywood*

Rubber

Fuels*

Natural gas*

Coal*

Crude petroleum*

MINERALS, ORES AND METALS

- Minerals, ores and non-precious metals*

Phosphate rock

Manganese ore

Iron ore

Aluminium

Copper

Nickel

Lead

Zinc

Tin

Tungsten ore

- Precious metals*

Gold*

Silver*

Platinum*



Price trends....

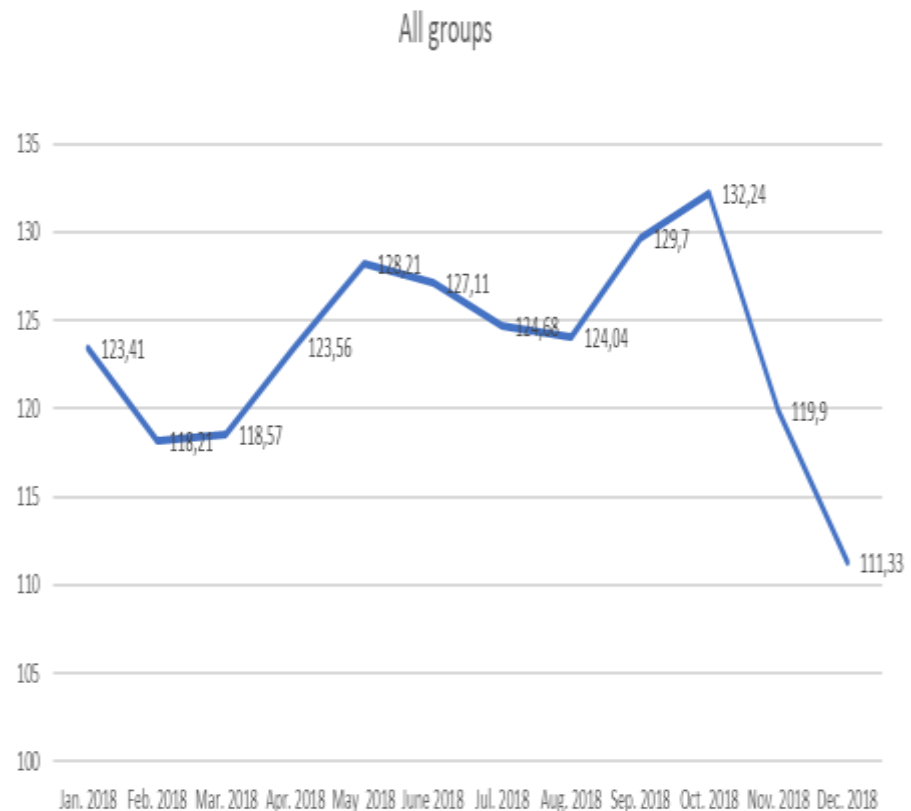


The big picture – All commodity groups



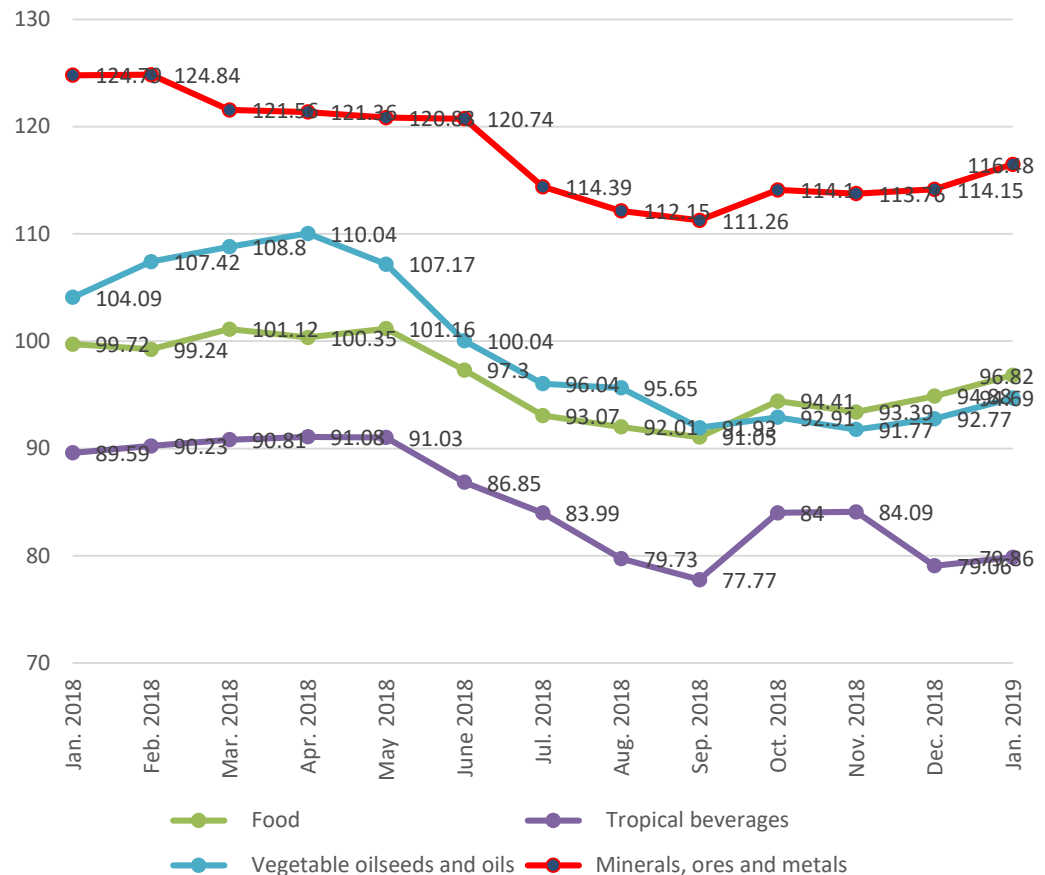
UNCTAD Free market commodity price index in 2018

- 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.



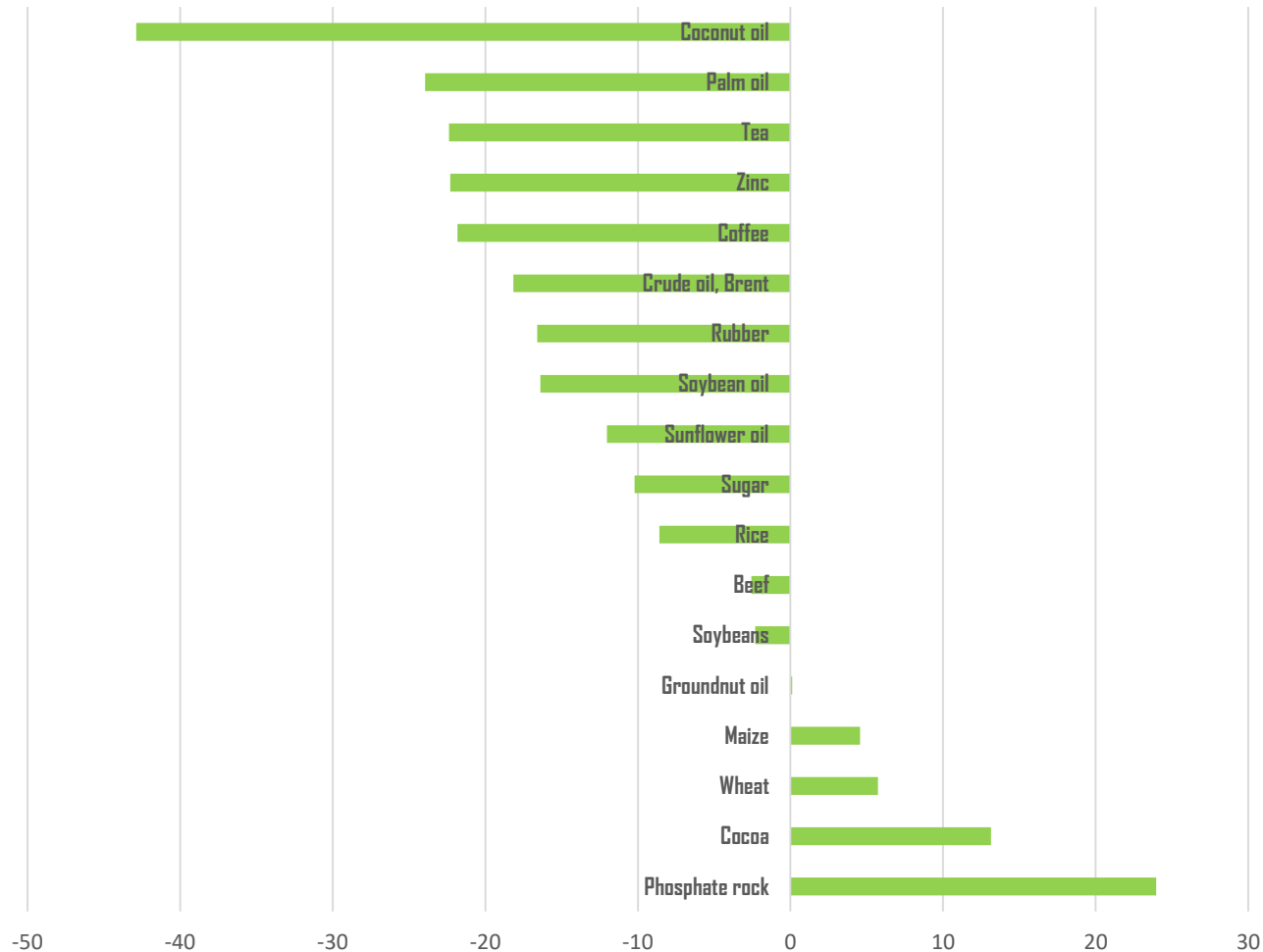
Commodity price indices show a mixed picture in 2018

- 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



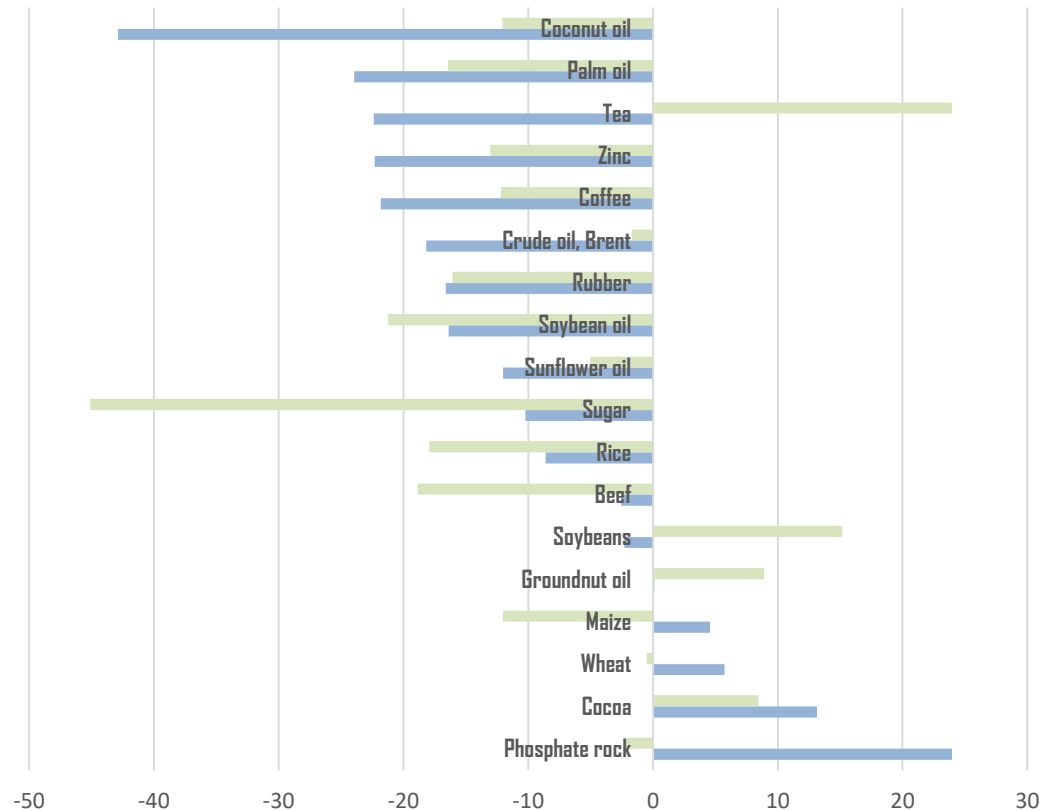
Commodity prices show a mixed picture in 2018

Monthly price, January 2018 vs December 2018 (% change)

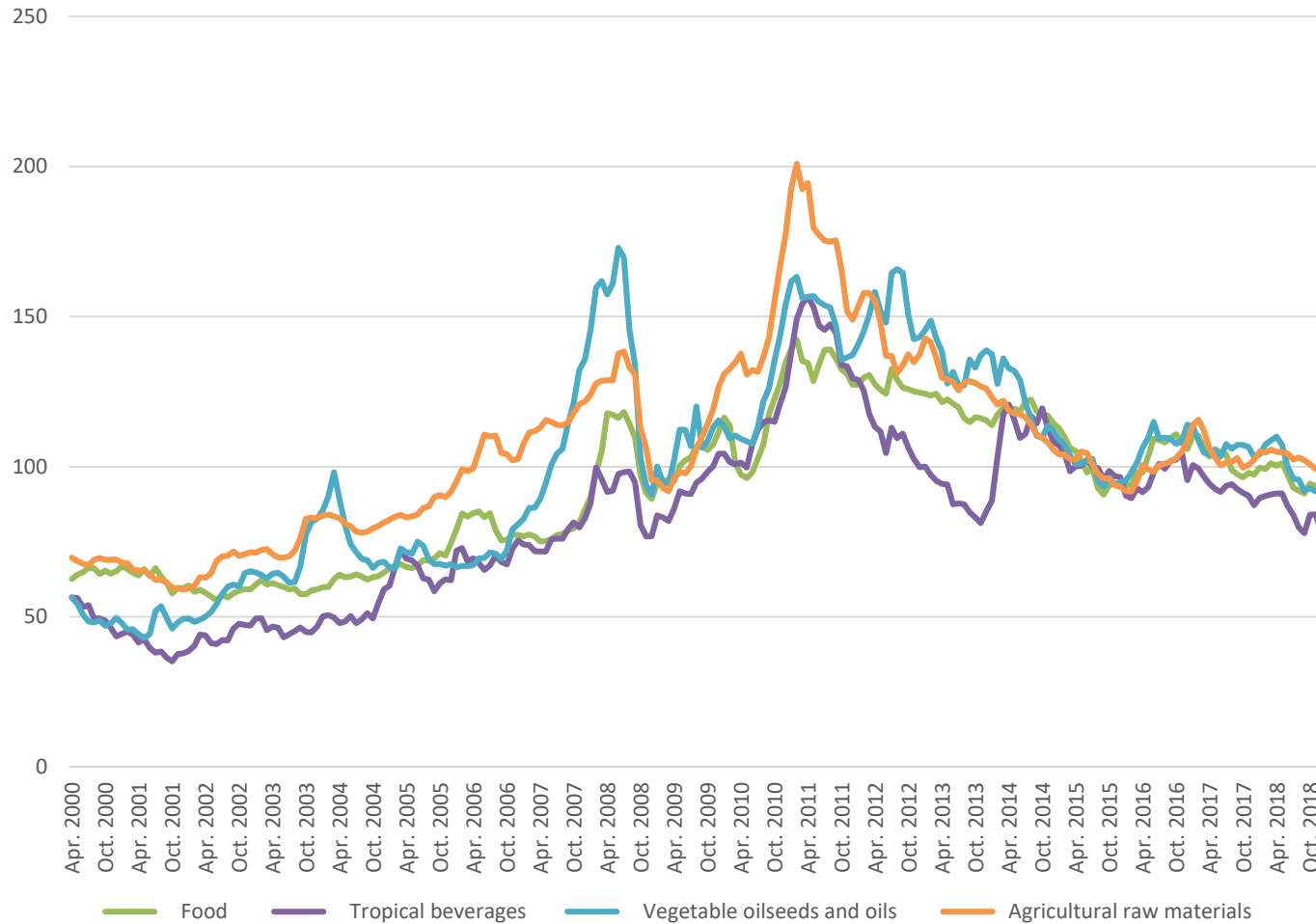


Commodity price developments 2017 vs. 2018

Monthly price, December 2017 vs. December 2018 (% change)



Food and agricultural commodity price indices



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

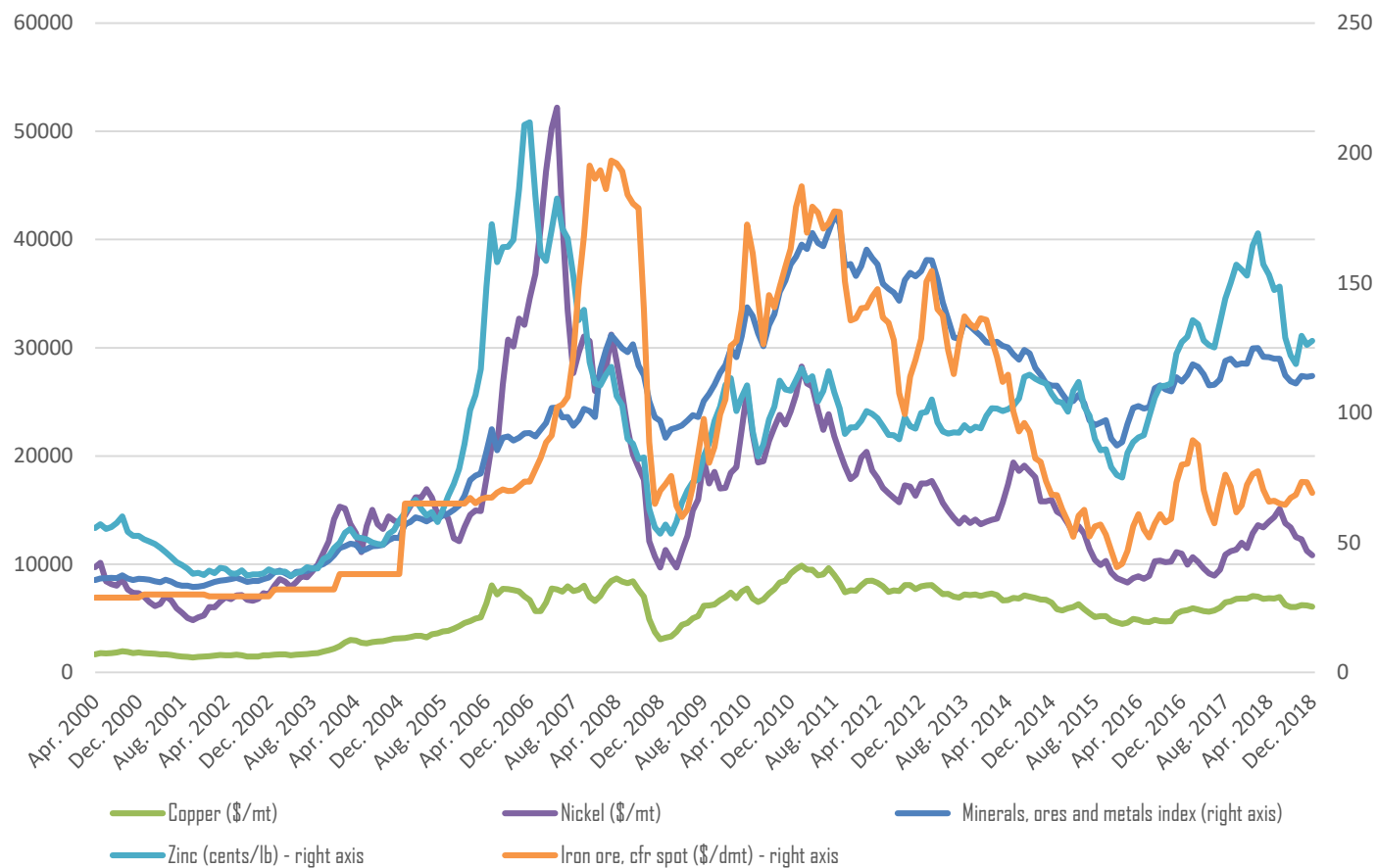


Minerals, ores and metals price index (April 2010 - December 2018)

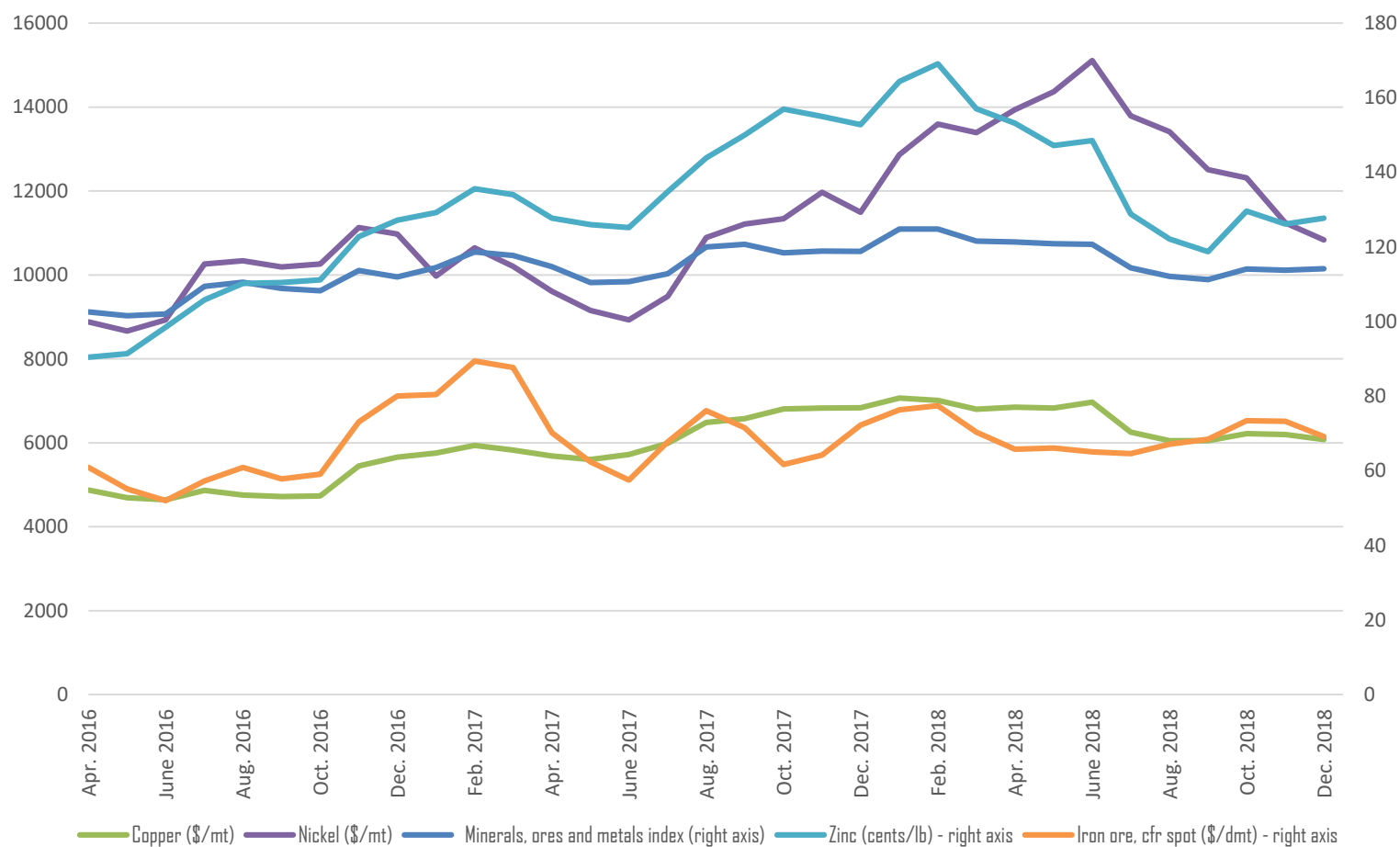
- Price Index fell by 10.8% in the first three quarters of 2018 before rising in the last quarter by 2.6%
- Overall, the index declined by 8.5% in 2018



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

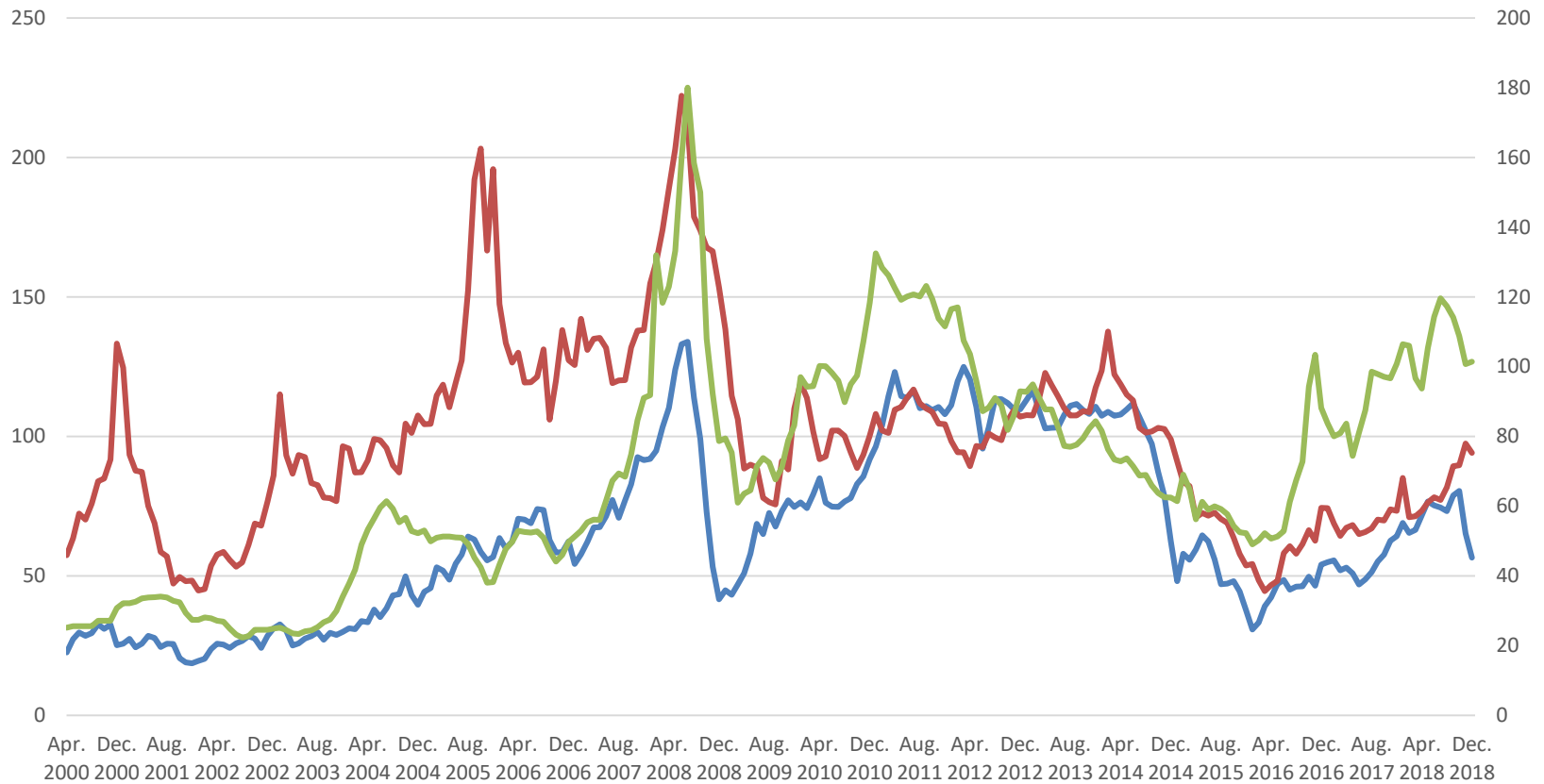


Minerals, ores and metals (cont'd)

- 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



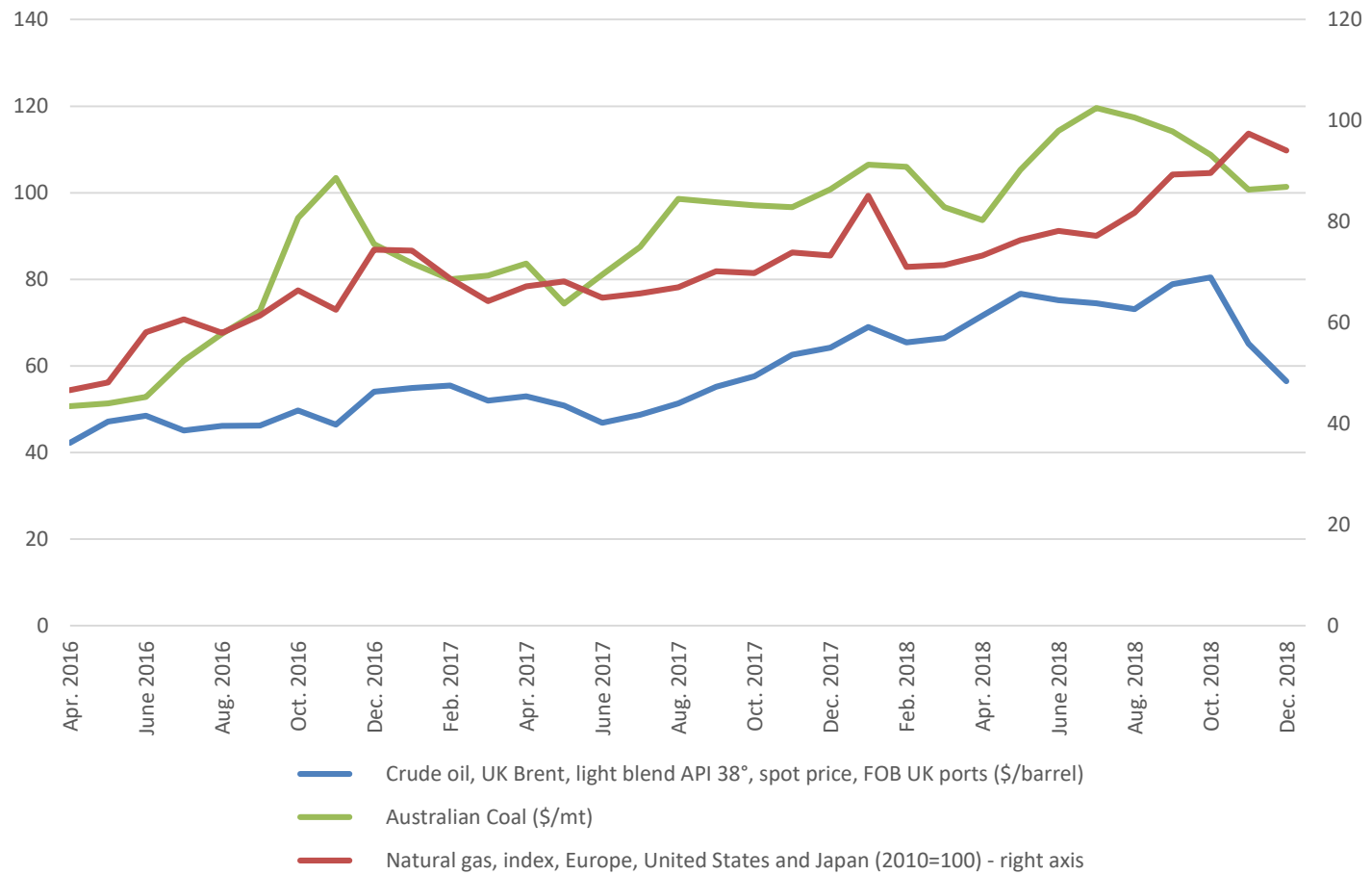
Energy prices - Crude oil (Brent), Australian coal, natural gas index



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



Energy - Crude oil (Brent), coal and natural gas prices, April 2016-December 2018



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

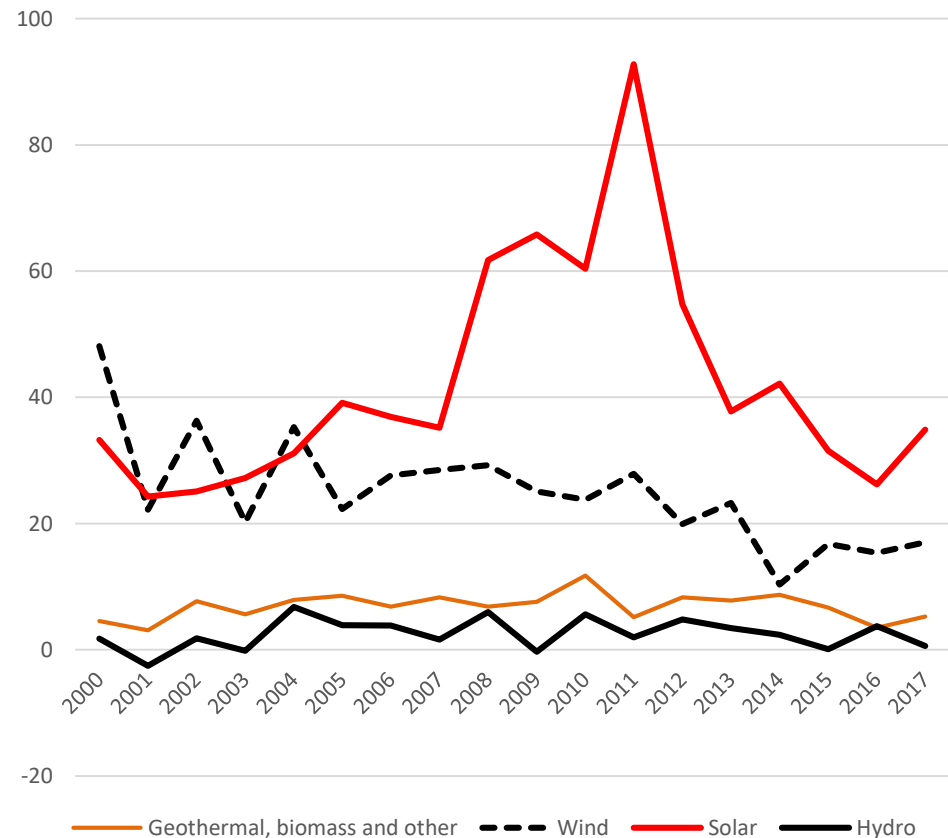
- Coal primary fuel for electricity generation:
 - use in power stations accounted for third of global energy related CO₂ emissions in 2018
 - demand declining in Europe and North America but growing across much of Asia due to its affordability and availability, thus offsetting declines in other regions.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

Annual growth rates of renewable energy consumption by type, 2000-2017



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.

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