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Recent trends and outlook of Commodity Markets

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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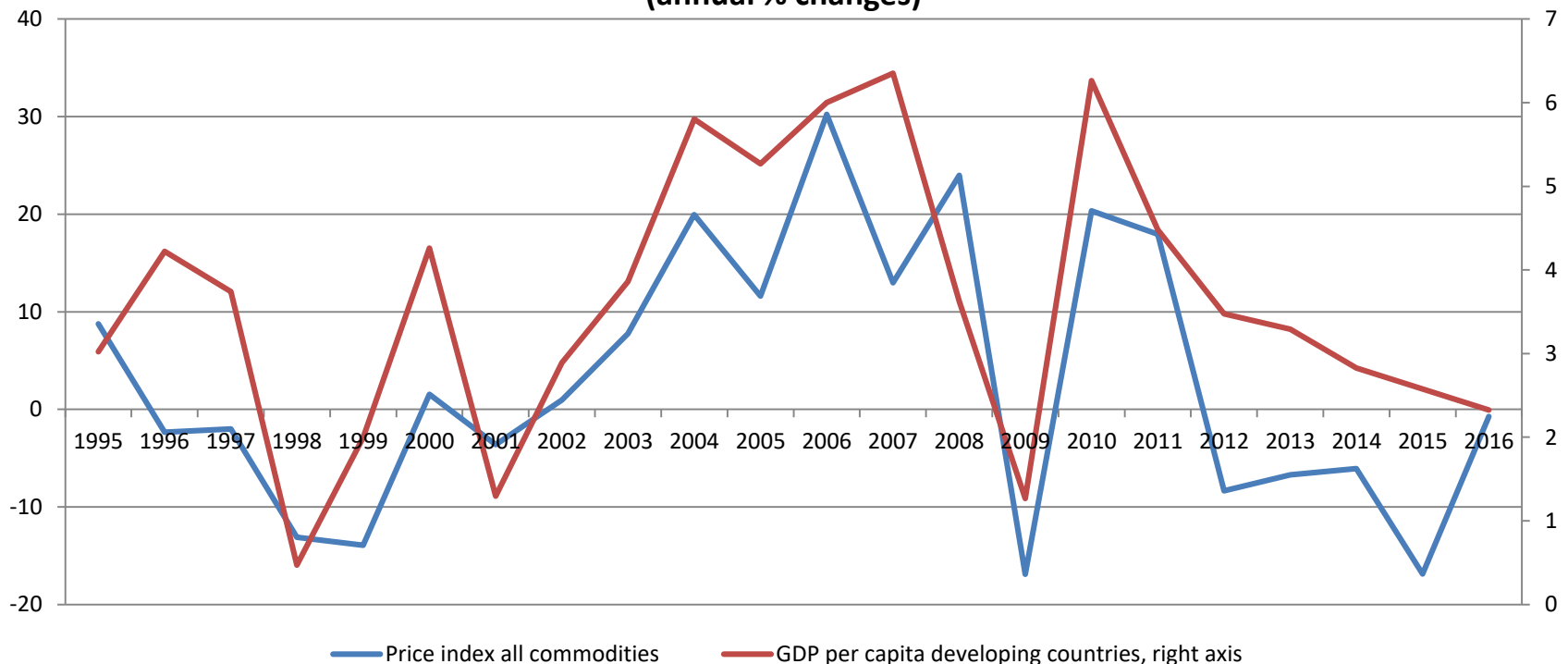
Special Unit on Commodities, UNCTAD

Background....



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

Cointegration between per capita GDP growth in developing countries and commodity prices

- GDP per capita of developing countries and UNCTAD non-oil commodity price index from 1995-2016 follow $I(1)$ processes
- The two series are cointegrated, hence close relationship between GDP in developing countries and commodity prices



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



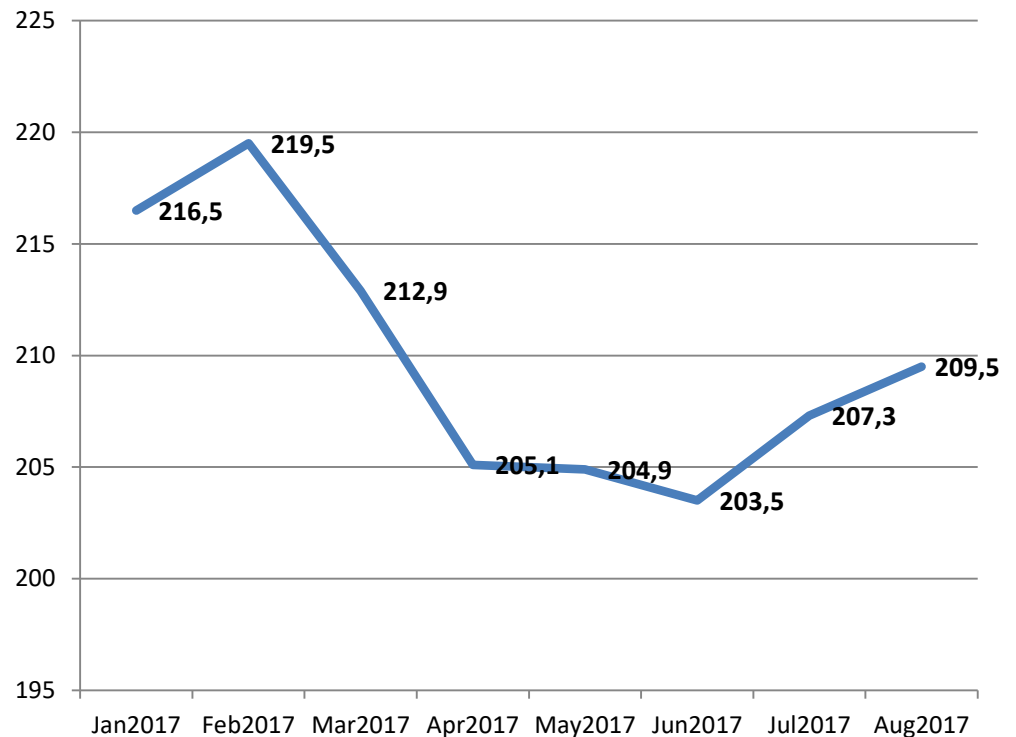
Price trends....



Commodity prices drop in 2017

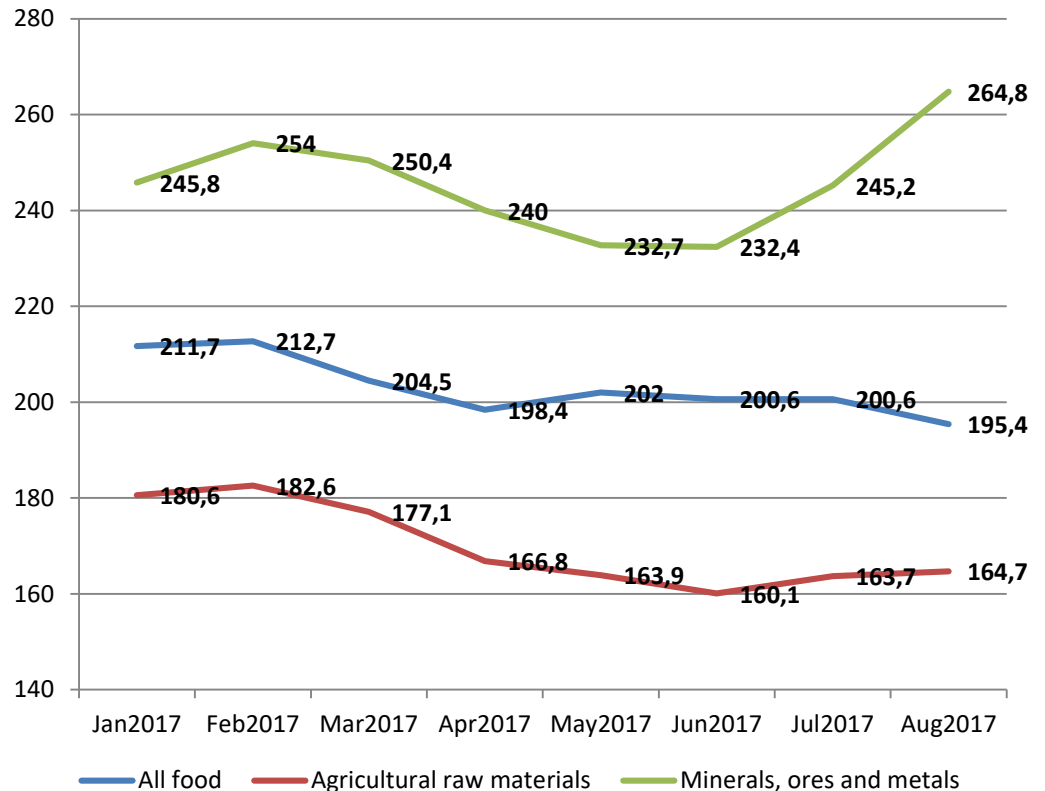
- Commodity prices trended downwards during H1 2017, bringing the upwards trend of 2016 to a halt
- From January to June 2017 the UNCTAD Non-oil Nominal Commodity Price Index decreased by 6%
- In the first two months of Q3 2017, the UNCTAD commodity price index showed an upwards trend - mainly driven by minerals, ores and metals

UNCTAD Non-oil Nominal Commodity Price Index (2000=100)



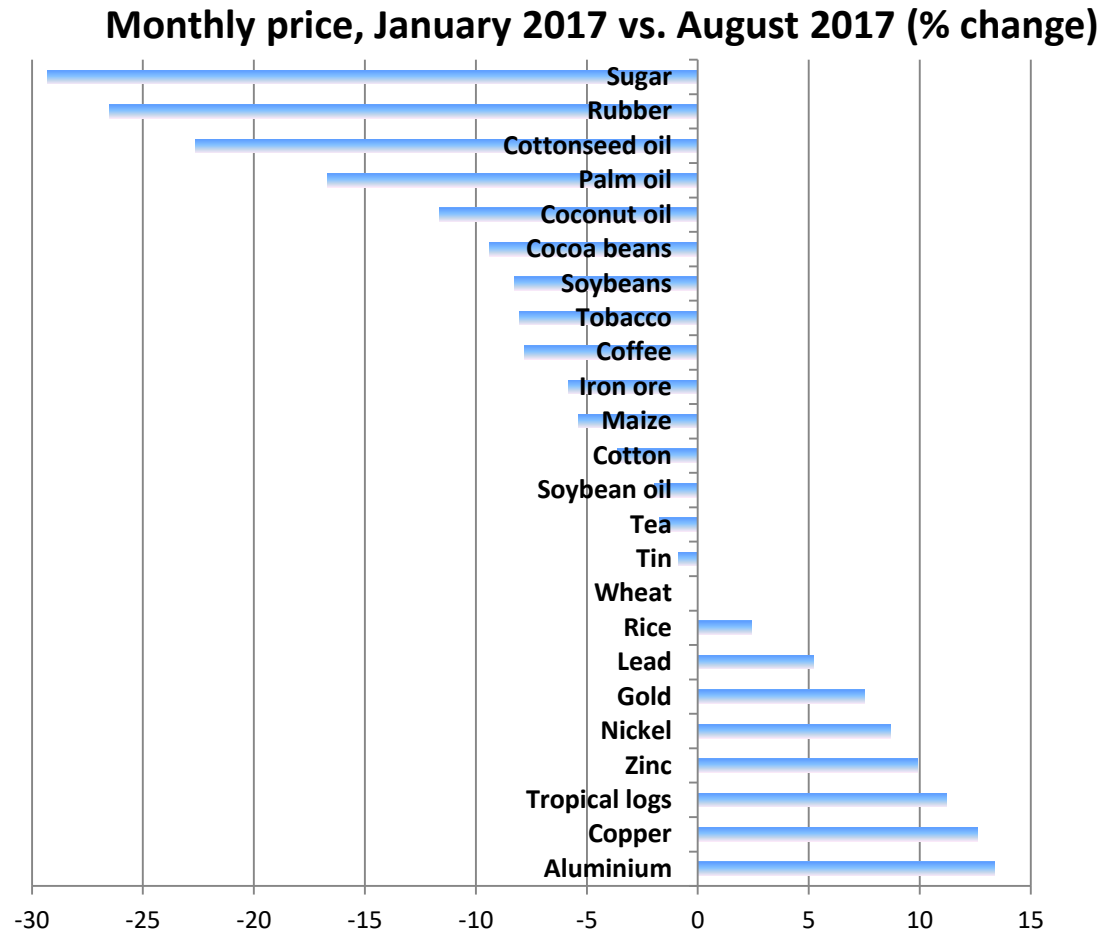
Commodity prices show a mixed picture in 2017

- Prices of agricultural raw materials decreased by 8.8% from January to August 2017
- Food prices decreased by 7.7% from January to August 2017
- Prices of Minerals, Ores and Metals trended downwards during H1, but increased steeply in Q3



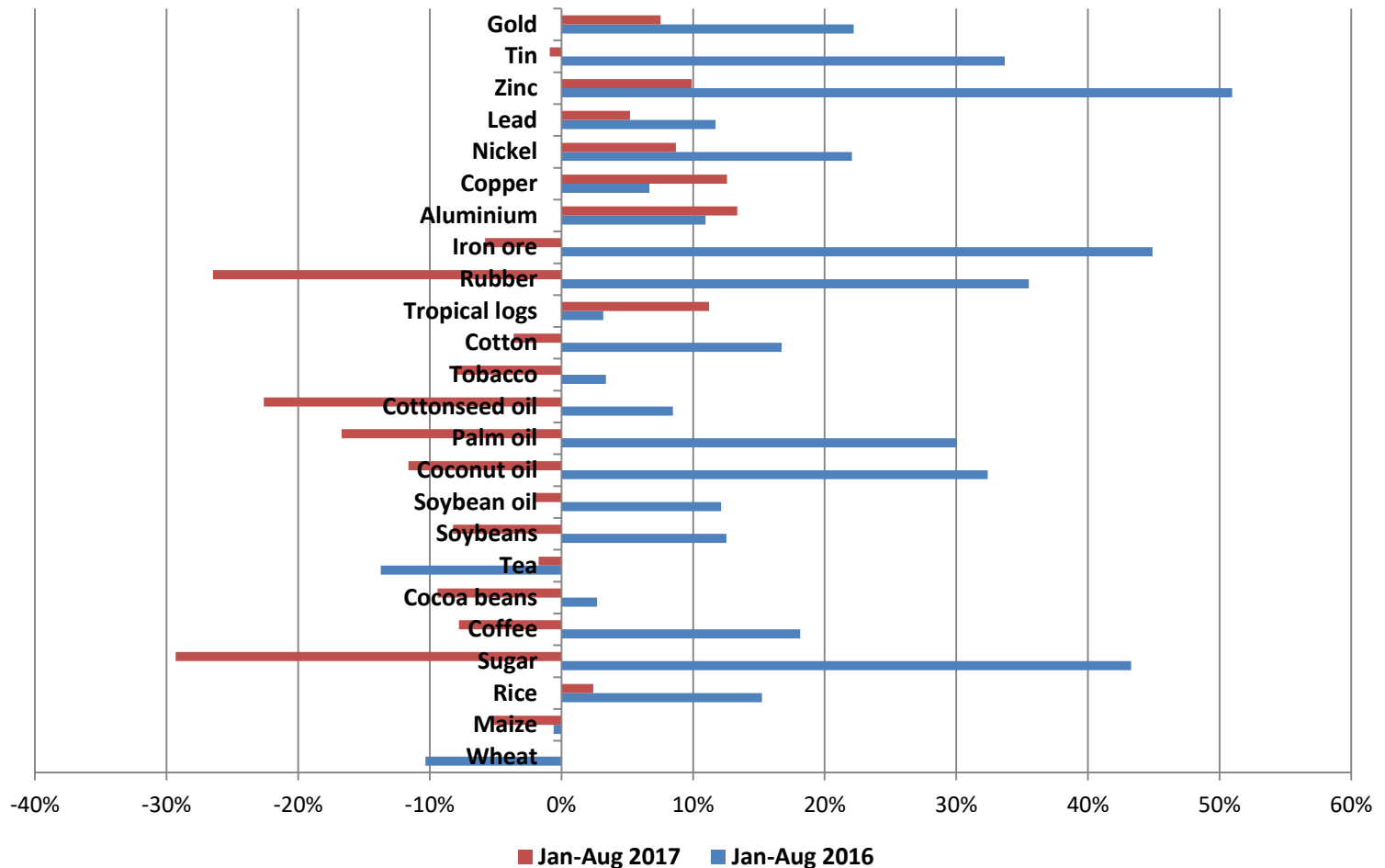
Commodity prices show a mixed picture in 2017

- From January to August 2017 prices of major commodities showed no common trend
- Prices of minerals, ores and metals have generally fared better than other commodities



Commodity price developments 2016 vs. 2017

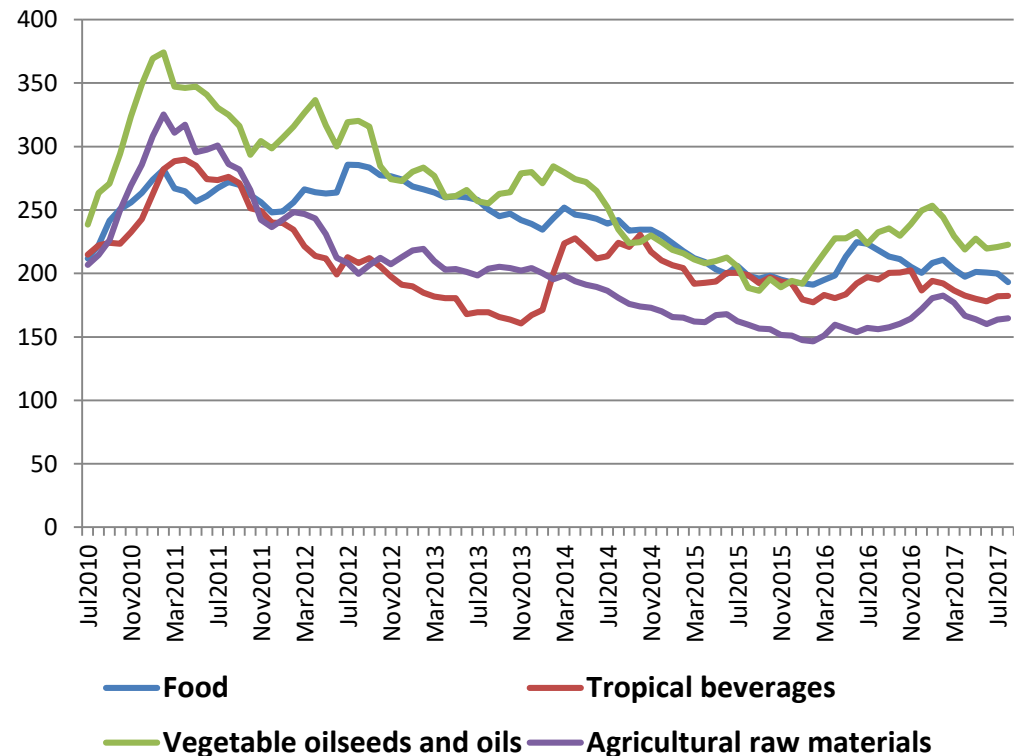
Monthly price, January vs. August (% change)



Food and agricultural commodities

- Vegetable oilseeds and oils showed the steepest decrease losing 12.2 % from January to August 2017
- Agricultural Raw materials decreased by 8.8%
- Prices of food commodities and tropical beverages dropped by 7.2% and 6.0%, respectively.

Price indices of food and agricultural commodity groups
July 2010 – August 2017 (2000=100)



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 August 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
 - has since adjusted downward to 382 \$/t in August (-7.9% Y-o-Y)
 - Output for 2017/18 projected higher than demand; price increase unlikely
- Price of maize reached its lowest in more than 7 years at 158 \$/t in April (159 \$/t in August)
 - strong demand forecast projected to lead to a reduction of stocks
 - mild price increase expected



Vegetable Oilseeds and Oils

- Prices of all individual oilseeds and oils trended downwards in 2017
 - Palm kernel oil (-33.8%)
 - Cottonseed oil (-22.6%)
 - Palm oil (-16.7%)
 - Copra (-13.3%)
 - Coconut oil (-11.6%)
- Forecasts predict abundant supply for major oilseeds, so prices are likely to remain low.



Tropical beverages

- Tea: price averaged 362 c/kg in August, up 33.0% Y-o-Y
 - Expected to remain volatile as weather-related risks in main growing regions make supply forecasts difficult
- Cocoa: in April price of beans stood at 89 c/lb, its lowest level in almost a decade
 - In Q2 price of beans showed no signs of recovery
 - Negative price development fuelled by significant production increases in West Africa and a record supply surplus
- Coffee: in July 2017, coffee price averaged 127 c/lb, down 4.3% Y-o-Y
 - Forecasts of healthy production for 2017/18
 - Price increase unlikely over the medium-term unless unfavourable weather



Agricultural raw materials

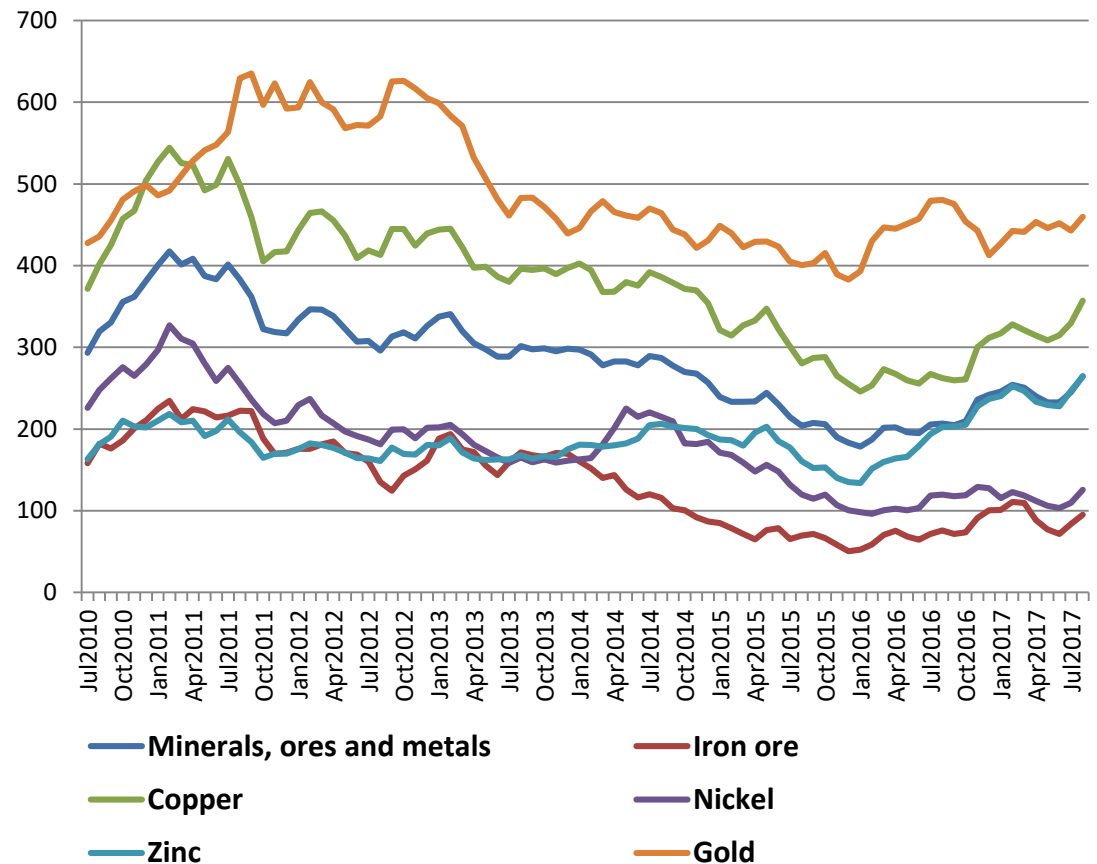
- Prices showed a mixed pattern in 2017
- Rubber: price surged 21.8% from 223 c/kg in December 2016 to 271 c/kg in February 2017
 - Supply constrictions due to floods in Thailand and Malaysia
 - Prices receded to 188 c/kg in August
 - Demand growth expected to outpace production increases, hence mild price increases seem likely
- Cotton: average monthly cotton price during H1 2017 was 86 c/lb, 24.2% higher than the 69 c/lb average in H1 2016
 - Market outlook tentatively predicts a production increase as well as a continuation of Chinese government auctions of stockpiles
 - Price decrease likely in H2 2017.



Minerals, ores and metals

Price indices of selected minerals, ores and metals
July 2010 - August 2017 (2000 =100)

- UNCTAD Minerals, Ores and Metals Price Index was down 5.5% in H1 2017
- From June 2017 to August 2017 the Price Index increased by 13.9%



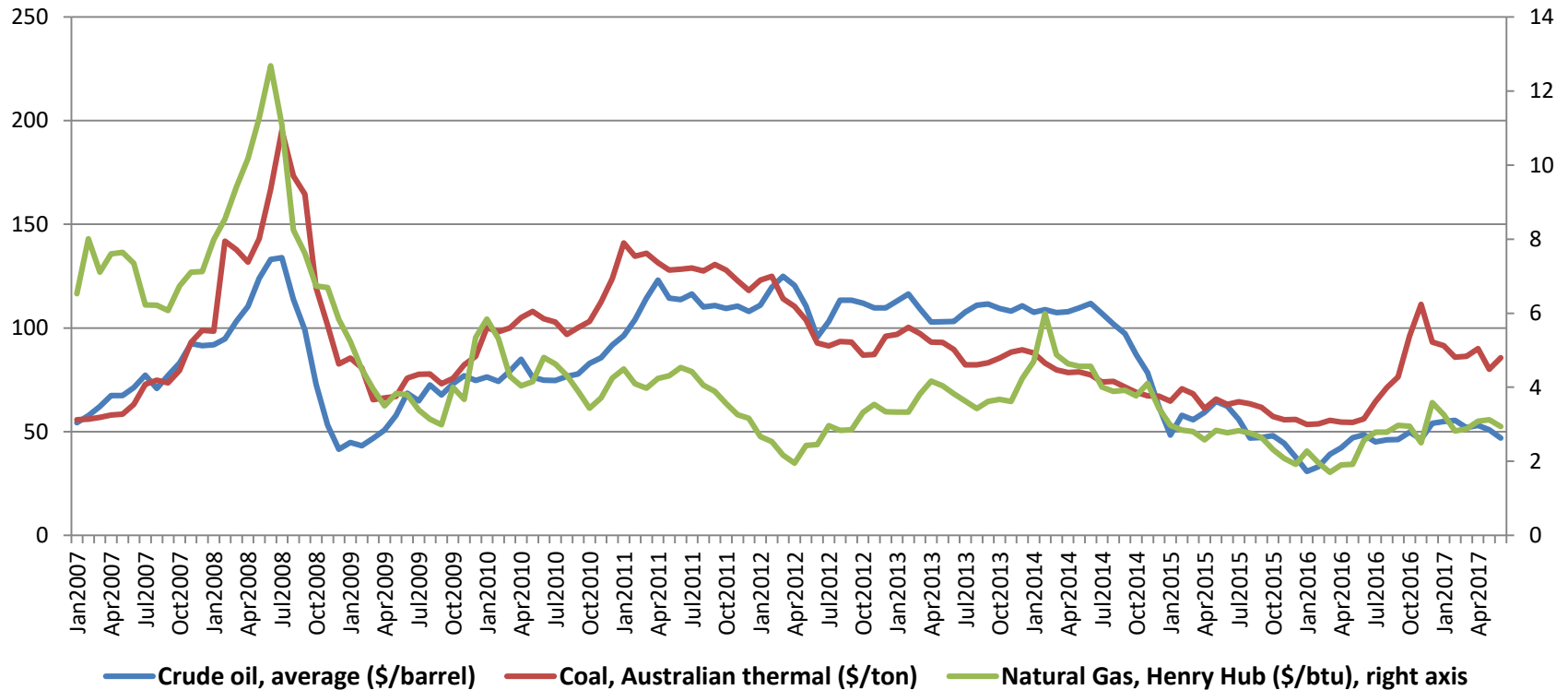
Minerals, ores and metals

- Nickel: mine shutdowns in Philippines drove price up to 11,010 \$/t in December 2016
 - receded to 8,928 \$/t in June 2017
 - strong demand and supply uncertainty in Philippines and Indonesia pushed price to 10,849 \$/t in August
- Iron ore: price almost doubled between Jan. & Dec. 2016
 - In Q2 2017, weakening demand for steel in China & concerns over oversupply caused a drop to 76 \$/t in August
 - Low inventory & high demand for steel in China during H2 led to price increases in September and next few months
- Copper: price fluctuated around an upward trend in H1
 - In August 2017, price at 6,477 \$/t, 12.6% higher than in Jan. 17
 - Latest projections: deficit in 2017/18 so price increases likely



Energy

Crude oil (petroleum), coal and natural gas prices, January 2007-June 2017



Crude oil

- Crude oil prices highly volatile over the past decade:
 - Between Jan and May 2017: price fluctuated between 133.9 and 30.8 \$/barrel
 - Between June 2014 and Jan. 2015: price dropped from 107.0 to 48.4 \$/barrel.
- Drivers of price collapse were oversupply due to:
 - Massive increase of shale oil production in North America
 - Increasing production in other non-OPEC producers
 - Slowdown of growth in crude oil demand
- Agreement between OPEC and non-OPEC oil exporters to cut production had short-lived effect:
 - Producers outside of agreement stepped up production
 - Inventories remain large



Natural gas

- Markets for natural gas regionalized due to physical limits to transport and different contractual arrangements
- 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 - \$2.94 \$/million btu in 06/2017
 - Demand forecasts to outpace supply in 2017 & 2018 leading to lower inventory levels
 - Hence, increase of natural gas price seem likely.
- Over medium to long term, rapid expansion of liquefied natural gas:
 - Likely to lead to a higher global market integration
 - Current global liquefaction capacity almost double its value in 2005 & capacity is still increasing
 - In 2015, LNG accounted for 32.5% of global trade in natural gas; increased LNG capacities could contribute to a convergence of natural gas prices



Coal

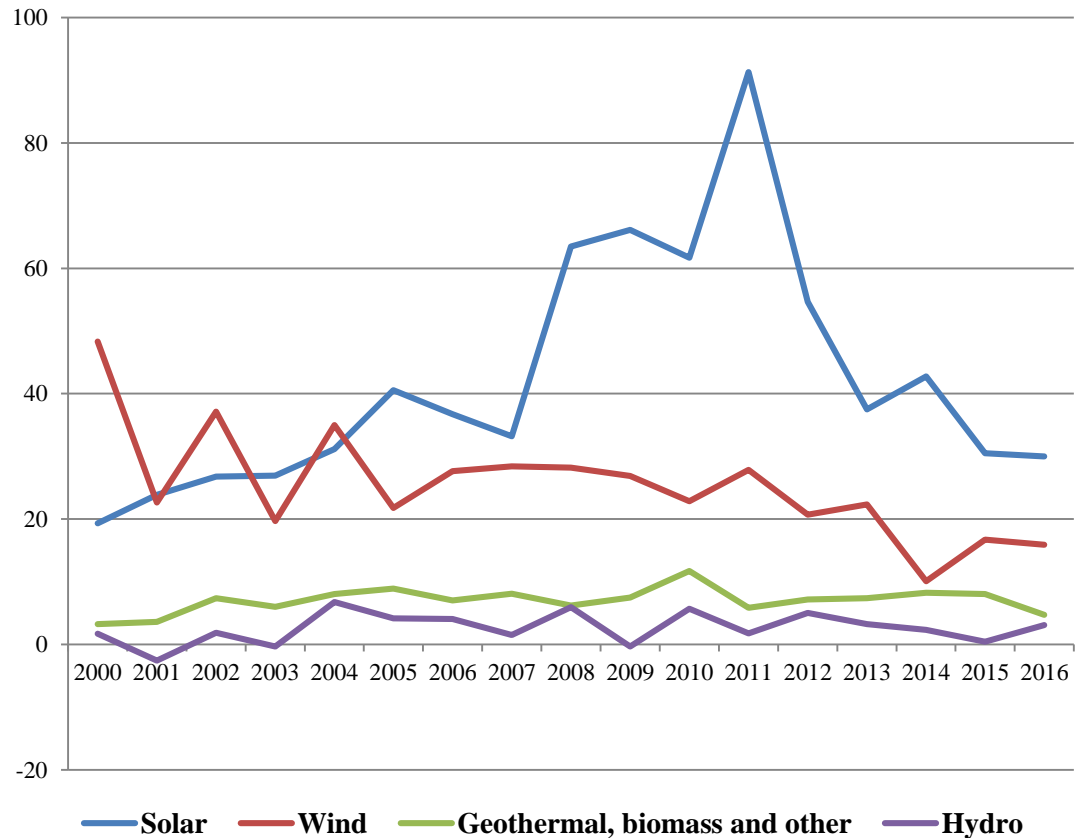
- Coal is primary fuel for electricity generation at global level:
 - Responsible for 45 per cent of energy-related carbon emissions
 - But share of coal in power generation is on a downward trajectory and is expected to drop from 41% in 2014 to 36% in 2021.
- Coal prices fluctuating around downward trend early-2014 to mid-2016:
 - Mainly driven by persistent oversupply and sluggish import demand from China
 - Given ample supply capacity a further downward movement of the coal price seems likely



Renewable energy

- Renewables are now the largest source of global electricity **capacity** and expected to account for 60% of global power capacity growth through 2021.
- 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.

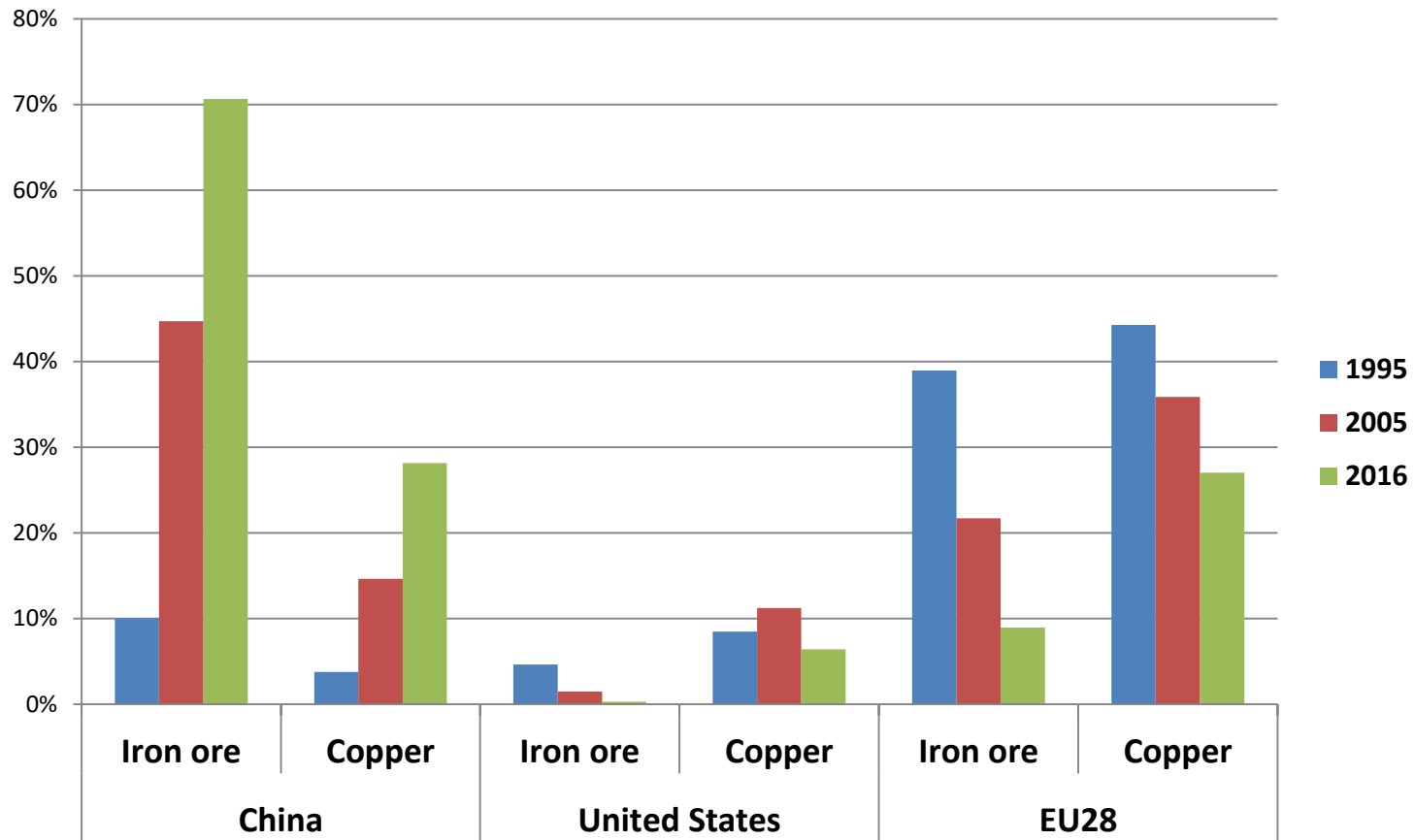
Annual growth rates of renewable energy consumption by type, 2000-2016



Markets to watch....

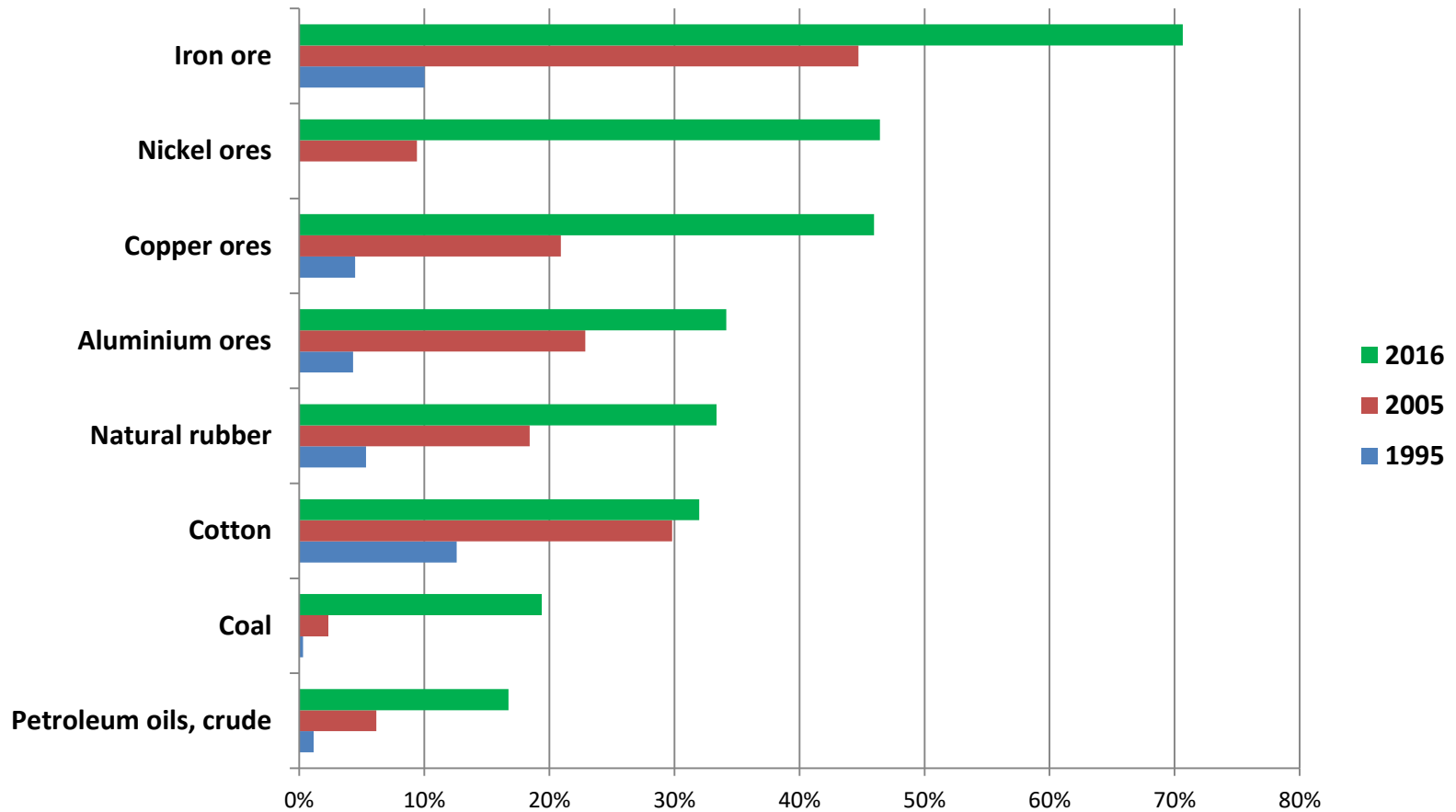


Commodity prices: role of emerging economies

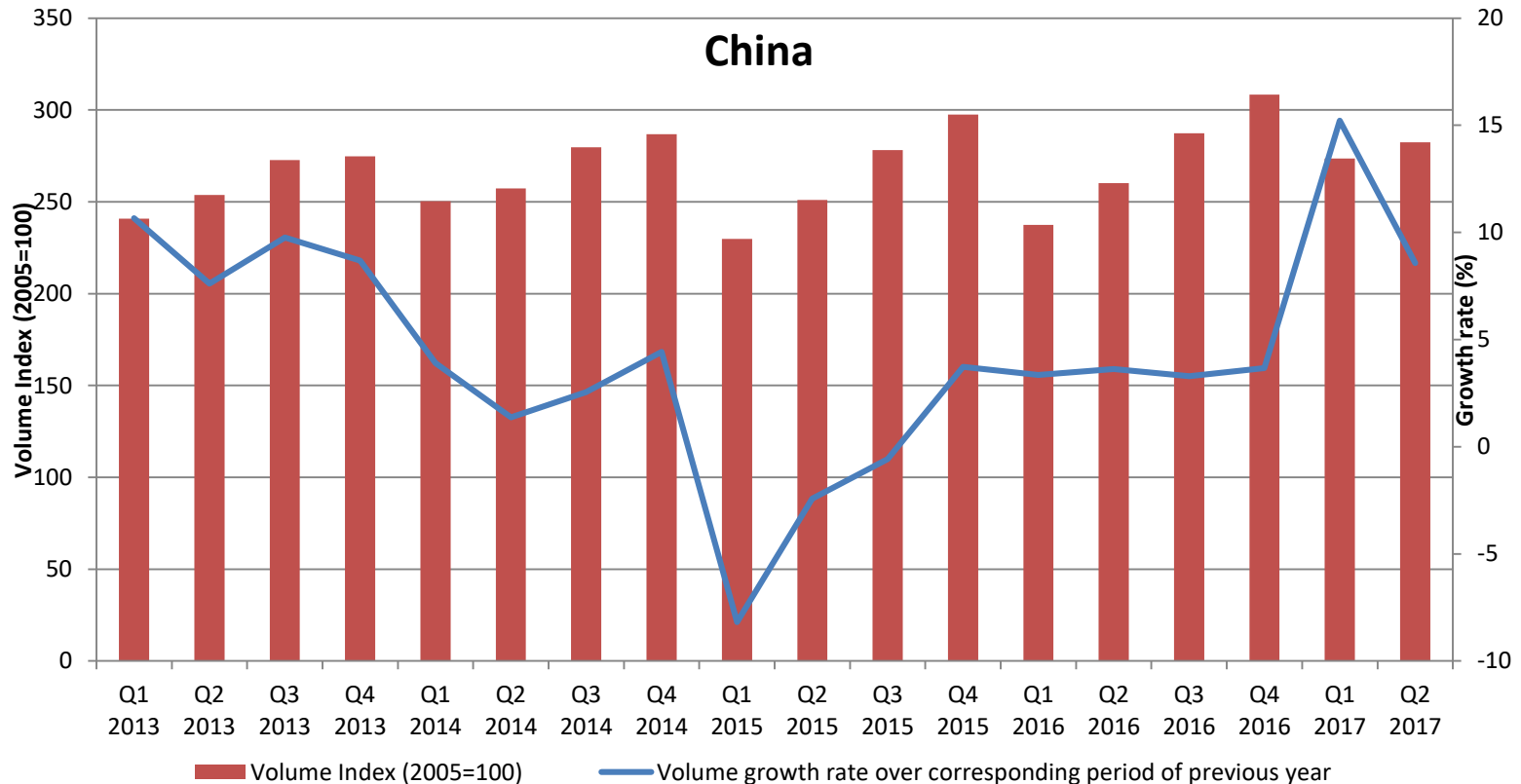




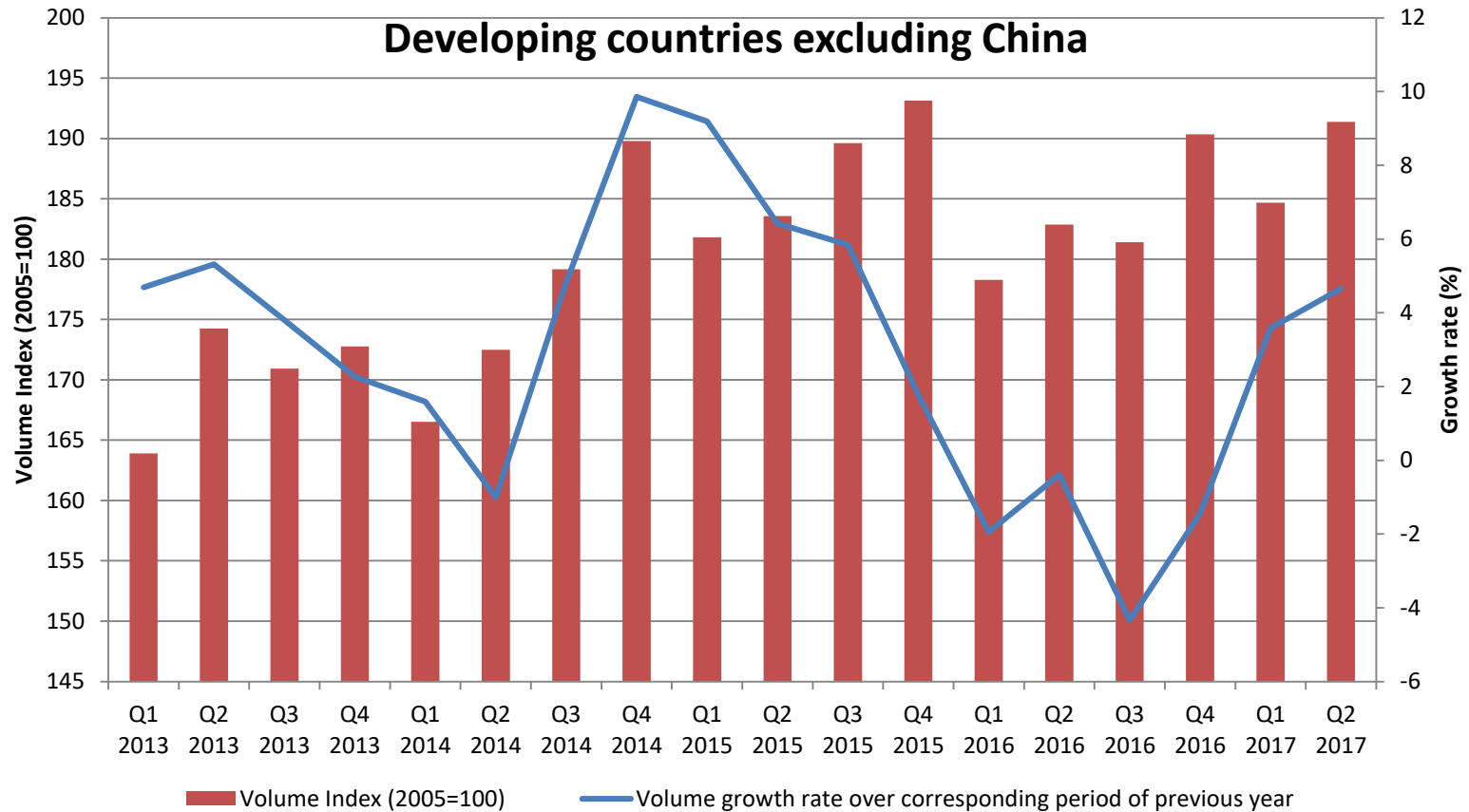
Commodity prices: high demand from China



Volume Index and volume growth rate of merchandise imports



Volume Index and volume growth rate of merchandise imports



Conclusion....



Summary and outlook

- The general upwards trend in commodity prices that started at the beginning of 2016 came to a halt in early 2017
- Individual commodity markets have shown a mixed pattern in the first half of 2017
 - All sub-indices of the UNCTAD Index decreased between Jan. & June 2017
 - Prices of Minerals, Metals, and Ores picked up in Q3 2017
- Overall, unlikely that commodity prices will return to anywhere close to their peak levels of 2011 in the near future



In Conclusion...

- Adopt countercyclical fiscal policies and precautionary savings to shield public budgets from impacts of price volatility
 - Adopt & respect spending rules that are not too tied to price cycles
 - Learn from successful country experiences
- Lower the effect of volatility through:
 - Long term measures: diversification
 - Short term measures: use risk management instruments such as hedging
- Embark on sustainable energy bandwagon and cash in on its benefits



Thank you.

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