Global Price movements in 2018

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Commodity prices have witnessed a mixed trend in general in 2018 with a tendency towards a decline in most cases. This may be attributed mainly to global economic conditions which have been uncertain and turned out to be less buoyant than was expected. Therefore the demand side pressures were under control. However energy prices continued to be volatile with sharp swings in prices during the course of the year which were driven more by political considerations than any spurt in demand conditions.

The following analysis is based on World Bank's data and analyzes price movements on a y-o-y basis i.e. Dec 2018 over Dec 2017 and also highlights volatility where it was significant.

Table 1 Movement in Price Indices

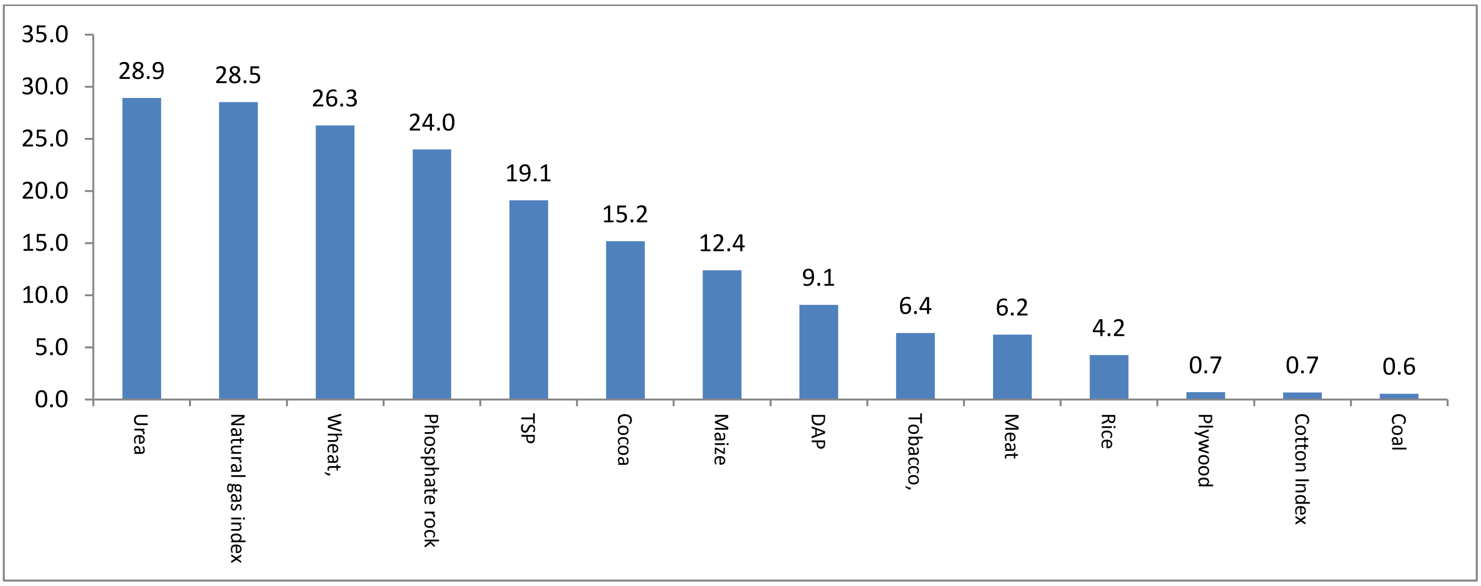
Commodity Group	Change in index December 2018 over December 2017
Energy	-7.0
Non-energy	-4.1
Agriculture	-2.6
Beverages	-3.5
Food	-2.4
Oils and meals	-10.2
Grains	8.6
Other food	-1.7
Raw materials	-2.7
Timber	-4.0
Others	-0.9
Fertilizers	20.6
Metals	-9.6
Base metals	-10.2
Precious metals	-2.5

Source: World Bank.

As can be seen in the table above most of the product group indices witnessed a decline with fertilizers being the only exception where prices increased by 20.6%. The prices of energy, agriculture, raw materials and metals declined during this time period.

Chart 1 and Tables 2-4 present the changes in prices of specific commodities as per World Bank data during the year. Chart 1 presents the list of commodities where prices have increased. This was high for fertilizers (urea and phosphatic rick), natural gas, wheat, and cocoa and maize where prices increased by above 10%. The other significant increase in prices was in the non-energy non-metal groups.

Chart 1
Commodities which witnessed an increase in price: Dec'18 over Dec'2017: %



- Prices of urea have increased on account of increase in price of natural gas the key raw material used in manufacturing it.
- Natural gas prices have risen on account of an increase in demand due to a hotter than usual autumn and due to the series of power outages faced by the nuclear power plants which had led to an increase in the consumption of gas.
- Prices of phosphate rock has risen due closure of factories in China and due to an increase in global demand. Commensurately this has also led to an increase in the prices of DAP.

Table 2: Price decline of 0-5%

Commodity	%
Barley	-0.4
Gold	-1.1
Tin	-1.1
Groundnuts	-1.5
Soybeans	-1.7
Beef	-2.3
Shrimps, Mexican	-3.6
Logs	-3.8
Iron	-4.3

Table 3: Price decline of 5-10%

Commodity	%
Groundnut oil	-5.0
Sawnwood	-5.4
Nickel	-5.7
Sorghum	-6.5
Orange	-7.1
Coffee, Arabica	-7.5
Aluminium	-7.7
Crude oil, Dubai	-8.0
Rapeseed oil	-8.3
Silver	-8.6

- Aluminium prices have fallen by 7.7% on account of the on-going tariff wars between China and the US, strengthening of the dollar index and fears of a global slowdown. The fall in price of aluminium has been limited compared with the other base metals copper, zinc and lead as the US government had announced sanctions on United Co. Rusal (world's 2nd largest aluminium producer) which had caused a rally in prices.
- The initial 2 months of CY2018 saw a high in iron ore prices touching USD 77/dmtu in Feb-18, with Chinese steel factories believed to stock iron ore to ensure sufficient supplies to restart production immediately after the Chinese New Year holiday period. The prices gradually moved down to hover between USD 65-68/ dmtu from Apr-Sept'18, and re-surged to USD 73/dmtu in Oct-18 and ended at USD 69/dmtu towards the end of the year. The volatility in price movement during the year can be attributed to speculations with respect to trade tensions between US and China. Overall, international iron ore prices averaged USD 69/dmtu during CY2018.
- Gold exhibited significant volatility during the year and ended the year down. A reduction in physical demand from both India and China, strengthening of the US dollar vis a vis other currencies, subdued investment demand and rate hikes by the US Federal Reserve contributed to the weakness which was only partially offset by the geopolitical issues such the trade dispute between US and China.
- Silver has generally moved in tandem with gold and ended lower due to elevated concerns on industrial demand due to trade tensions between China and US. China accounts for a significant share of global silver demand for industrial production. Additionally, silver has also fallen further when compared to gold as it lacks the safe haven appeal of gold.

Table 4: Price decline of above 10%

Product	Change in price
Copper	-11.1
Coffee, Robusta	-11.4
Sugar	-12.0
Crude oil, Brent	-12.1
Sunflower oil	-12.2
Platinum	-12.8
Rubber	-13.6
Crude oil, WTI	-15.5
Tea	-15.8
Soybean oil	-16.1
Zinc	-18.1
Palm oil	-21.2
Lead	-21.4
Palm kernel oil	-43.4
Coconut oil	-45.1

- Prices of Copper, Lead and Zinc have fallen due to the on-going tariff wars which lead to the slowdown in demand of these industrial metals
- Copper prices have fallen due to an increase in output at Chile's Escondida mine (world's largest copper mine), and ramp-ups in Congo and Zambia mines.
- Crude oil prices have fallen on account of more than expected increase in the US stockpiles, temporary waivers given by the US towards the Iran sanctions and due to the increase in output by Saudi Arabia, Russia and the US.
- The fall in sugar prices can be attributed to higher inventories of sugar globally. As per the World Bank's Commodity Markets Outlook October 2018 Report, the world sugar stocks are estimated at 49.2 million metric tonnes with majority of the inventory (11.8 million metric tonnes) coming from India for the year 2018-19. The global stocks though are at par with stocks of last year that stood at 49.5 million metric tonnes, they are higher by 17.1% compared to 42 million metric tonnes of stock in 2016-17.
- The decline in palm oil prices is primarily on account of higher inventories in the major palm oil producing nations, Indonesia and Malaysia.
- In case of soybean oil, the price fall is mainly due to the ongoing trade war between US and China. In July 2018, 25% import duty was imposed by China on soybean imports from US. This was in retaliation to US tariffs on imports from China.

Annualized monthly volatility

While price movements looked to tend downwards in most cases, considerable volatility was observed in terms of month-on-month movements. The annualized monthly volatility has been calculated for all the commodities. This was most prominent in case of:

- Crude oil ~30%
- Natural gas 28%
- Meat, cocoa and chicken (22-27%)
- Zinc, nickel, coal, orange, sorghum and sugar (20-22%)

Interestingly for 37 of the 54 products covered here volatility was above 10% which indicates that while prices did tend to move in the downward direction fluctuations were significant.

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