Commodity prices in the third quarter of 2018 were buffeted by geopolitical and macroeconomic events. Energy prices gained 3% in 2018 Q3 (q/q), partly in response to the impending re-imposition of sanctions on Iran by the United States along with continuing decline in production in Venezuela. Moreover, risks to the oil price forecast are to the upside in the short-term, given the recent decline in spare capacity. In contrast, metal and agricultural prices declined 10 and 7%, respectively, in the third quarter of 2018 amid robust supplies and trade disputes.

Commodity prices have been driven by a number of factors this year,
- commodity-specific supply disruptions,
- rising U.S. interest rates,
- an appreciation of the U.S. dollar,
- growing trade tensions between major economies, and
- Financial market pressures in some emerging market and developing economies (EMDEs).

**Crude oil**

Oil prices were volatile in the third quarter of 2018, with the price of Brent reaching a low of $70/bbl in August, before peaking at $86/bbl in early October. The increase in prices partly reflected continued production losses in Venezuela, and concerns that the reintroduction of sanctions on Iran by the USA may have a greater than expected impact on Iranian oil production and exports. Production increases by other members of OPEC, as well as the Russian Federation, are expected to partly offset this decline.

Oil prices have also been supported by ongoing production losses in Venezuela and concerns about the level of spare capacity in OPEC countries. However, recent downgrades to global growth and increased supply from other OPEC members, notably Saudi Arabia, have since weighed on prices. Global consumption of crude oil has been robust in 2018, with an increase of 1.5 million barrels per day (mb/d) in the third quarter of the year relative to 2017. Demand has been supported by continued global recovery in both advanced and emerging economies. The IEA’s October report estimates that global oil demand will exceed 100 million barrels per day (mb/d) in the fourth quarter of 2018, a record high, with demand expected to be driven by non-OECD countries, primarily China.

Interestingly, production has risen much faster than demand this year, such that the oil market has moved from deficit to surplus. The increase also occurred despite ongoing declines in production in Venezuela, where output has fallen to 1.2 million barrels per day (mb/d), roughly half the level of production in 2016, as well as a more recent decline in Iran. Other OPEC members and Russia have significantly increased production in recent months to offset these declines.
The U.S. announcement to withdraw from the Joint Comprehensive Plan of Action (JCPOA) and impose sanctions on Iran has raised supply concerns. The IEA estimates that Iranian production in September was 400 thousand barrels per day. In response to the lower production in Iran and Venezuela, the “Vienna Group” of OPEC and non-OPEC oil producers agreed to raise output to bring the group’s overall compliance with the production cuts agreed in 2016 back to 100%, thus offsetting the unexpected output losses in Iran and Venezuela (as well as Angola). The largest increases by volume have been from Russia and Saudi Arabia, with Russian production reaching a record high of 11.4mb/d in September. Saudi Arabia has also announced its intention to raise oil production further to around 11 mb/d.

There is considerable uncertainty about the total loss of Iranian production when sanctions come into effect in November, with a potential reduction of between 1mb/d to 1.5 mb/d. The impact is expected to be greater than in 2012 as the United States has been more stringent in its use of sanctions and has not yet granted any waivers to countries who import oil from Iran, China, the European Union, and Russia have explored the use of an alternative non-dollar payments system. However, it is not clear how effective this could be as the United States can still sanction companies dealing with Iran. Hence, it may only benefit companies who do not access the U.S. financial system.

If global production is significantly weaker than forecast by the IEA and others, or if output in either Iran or Venezuela falls faster than expected, the market could become under-supplied in 2019, resulting in a draw on stocks, or requiring additional production from OPEC. Saudi Arabia has indicated it is prepared to meet any demand that materializes, although its level of spare capacity (as well as that of other OPEC members) is estimated to be very low at present, due to the recent increases in production. Oil prices are expected to average $74/bbl in 2019, up from a projected $72/bbl in 2018, but with prices declining over the course of 2019 and averaging $69/bbl in 2020 as constraints on U.S. production ease.

Coal and natural gas
Coal and natural gas prices have been supported by strong demand for electricity in Europe and Asia on account of unusually hot weather. After sizeable gains in 2018, natural gas and coal prices are expected to decline modestly in 2019.

Prices of natural gas in Japan have increased 7% so far in 2018 relative to the same period in 2017 as a result of strong demand, while U.S. prices were little changed over the same period as supply continued to increase rapidly, driven by shale gas. The relative containment of U.S. prices occurred despite stocks of natural gas being at their lowest levels since 2005.

Coal prices rose 11% over the same period, with environmentally-driven restrictions to supply providing additional support to prices. Prices are expected to moderate in 2019 as demand slows relative to 2018 and supply rises. Increasing exports of liquefied natural gas, particularly from the U.S. and Qatar, will contribute to the gradual narrowing of price differentials between Europe, Japan, and the United States.

Increasing consumption of coal reflects rapid growth in demand from China and to a lesser extent India, whose combined share of global coal consumption rose from 37% in 1997 to 66% in 2017. Increased use of natural gas has been more broad-based across countries. Going forward, use of natural gas is expected to continue to rise given its properties as a cleaner burning fuel, while demand for coal is expected to moderate as China’s growth slows down.

Metals
The World Bank’s Metals and Minerals Price Index dropped 10% in the third quarter (q/q), despite falling LME inventories, with declines in all metals except iron ore. The fall was due to:
- Softening global demand,
- strengthening U.S. dollar, and
- Growing trade tensions between the United States and China.

However metal prices are still expected to be 5% higher in 2018 (on average) than in 2017 given the strength earlier this year. Although prices are expected to remain broadly unchanged in 2019, upside risks to the forecast include higher-than
expected demand from China resulting from fiscal and monetary stimulus measures and supply reductions due to stricter environmental policies. Downside risks include a worsening in the trade dispute between the United States and China.

**Zinc**
Zinc saw the sharpest fall in prices of all metals in the third quarter of 2018, declining by 19% (q/q), and is down 14% compared to the same period in 2017. While supply constraints and strong demand to galvanize steel led to rising zinc prices in 2017 and 10-year highs in January 2018, demand has weakened, particularly in China where it fell 12% in 2018 Q2 (y/y). This trend was exacerbated by U.S. import tariffs on China. Supply has also increased and is expected to continue to do so from both new and existing mines, with global zinc production expected to increase by 5% this year. As a result, zinc prices are expected to fall by 2% in 2019 on top of a 1% loss in 2018.

**Lead**
Lead prices experienced the second sharpest fall among base metals, down 12% in the third quarter (q/q) and 10% lower compared to the same period in 2017. As with zinc, prices were supported earlier in the year by robust global demand growth and supply constraints from stricter pollution-reduction policies in China. However, prices came down sharply after the imposition of tariffs and associated fears about future demand. Lead prices are expected to remain broadly unchanged in 2019 after a 3% loss in 2018.

**Copper**
Copper prices dropped 11% in the third quarter (q/q) and are 4% lower compared to the same period in 2017, again reflecting the effects of trade tensions on market sentiment, given that China accounts for over 50% of global consumption. Copper production remained robust as fears of supply disruption due to labor strikes in Chile did not materialize. Chile is the world’s largest copper supplier and has the largest copper reserves in the world. Furthermore, supply growth is expected to remain strong as mines continue to be expanded.

**Aluminum**
Aluminum prices also declined in the third quarter, dropping 9% (q/q), but are still 2% higher relative to the same period in 2017. Prices have been volatile and supported by persistent supply concerns, particularly regarding alumina supplies. The world’s largest alumina refinery, Alunorte, has operated at half its installed capacity since March 2018 amid alleged breaches of regulations. Sanctions on the Russian aluminum producer Rusal in April 2018 also led to price spikes, while a labor strike at Alcoa in Western Australia disrupted supply and raised alumina prices in the third quarter of 2018. In the United States, aluminum prices have risen 11% more than the LME benchmark since the beginning of 2018, owing to U.S. import tariffs. Aluminum prices are expected to stabilize in 2019 following a gain of 8% in 2018 on the back of rising alumina prices and decline in inventories.

**Tin**
Tin prices declined by 8% in the third quarter (q/q) and are 6% lower compared to the same period in 2017. Global demand for refined tin has eased slightly in 2018, but has fallen by almost 7% in China. Global mine production is up sharply, with higher output in China coming from inner Mongolia, and rising production in Indonesia emanating from changes to export rules. Production in Myanmar is declining, although data is limited, and ore grades are also reported to be deteriorating. After remaining flat in 2018, tin prices are expected to gain 1% in 2019 as demand is expected to outpace supply on maturing production growth.

**Nickel**
While nickel prices also fell in the third quarter of 2018 by 9%, they are up 26% compared to the same period in 2017. Nickel prices have been supported by growing demand from China for stainless-steel production, as well as strong demand for electric vehicle batteries. There has also been a lack of supply growth outside of nickel pig iron (NPI) in China, while NPI also faces challenges of stricter environmental regulations, and enforced winter production cuts. Nickel prices are expected to rise by 2% in 2019, adding to the 28% gain in 2018. Demand for nickel for batteries, including for electric vehicles, is expected to grow strongly in the coming years.
Iron ore
Iron ore prices increased by 2% in the third quarter (q/q) but are still 7% lower relative to the same period in 2017. Chinese steel production continues to be constrained by the effect of more stringent environmental policies, and China’s iron ore imports have weakened. Iron ore prices are expected to decline by 6% in 2019 in response to additional supply from key projects in Australia and Brazil, and a rising share of scrap-based production in overall steel production. A key uncertainty around the price forecast for iron ore (as well as other metals) is the extent to which China’s environmental policies will reduce ore imports.

Gold
Gold prices, which have been declining since April, fell 7% in 2018 Q3 (q/q) and are 5% lower compared to the same period in 2017. Gold demand, which experienced the largest decline since 2009 over the first half of 2018, has been weak both for use as a production input and for investment purposes (including gold-backed exchange-traded funds).
- The appreciation of the U.S. dollar made gold more expensive in domestic currency terms, especially in China, India, Iran, and Turkey (the world’s most important consumers).
- Tightening monetary policy in some advanced economies has reduced the attractiveness of gold as an investment asset.

Supply, on the other hand increased 4% in the first six months of 2018, supported by stronger-than-expected mine production in several countries, including Canada and Indonesia, as well as recycling in India, Iran, and Turkey. Strengthening supply and weak demand are expected to push gold prices marginally lower in 2019. The possibility of tighter-than-expected U.S. monetary policy, along with a further strengthening of the U.S. dollar, represent key downside risks to the forecast, while increased demand by China and India could boost gold prices.

Silver
Silver prices have moved in line with gold prices and were down nearly 10% in the third quarter (q/q) and are 11% lower compared to the same period in 2017. Although silver production declined during the first half of the year, silver prices have remained depressed amid investor concerns about the negative impact of trade tensions between the United States and China on industrial activity and global trade. More than half of silver consumption goes to industrial use, and China accounts for half of global silver demand. However, silver’s prominence as an input in the photovoltaic and electronic sectors has diminished as a result of substitution and efficiency gains. As silver demand in China recovers, prices are expected to stabilize in 2019, following a projected 9% decline in 2018. As in the case of gold, the path of U.S. monetary policy and the U.S. dollar exchange rate represent the main risks to the price forecast.

Agriculture and agro related
Agricultural prices fell nearly 7%, the largest quarterly decline since 2011 Q4. A range of factors have contributed to the weakness, such as ample supplies for most oilseeds and grains (except wheat), trade tensions, which affected a range of agricultural prices (notably soybeans), and EMDE currency depreciations (especially the Brazilian real).

Agricultural prices, whose 2018 average will be similar to that of 2017, are projected to gain nearly 2% in 2019 as input costs rise, including energy and fertilizers. Downside risks to the price forecast emanate from escalating trade tensions. On the upside, risks include persistently high energy prices, which would raise fuel costs, fertilizer prices, as well as encouraging biofuels production, thereby lifting prices of energy intensive crops, notably grains and oilseeds.

Oilseeds
Production of oilseeds in 2018-19 is also expected to be healthy, with global supplies of the ten major oilseeds projected to reach 590 mmt, up from last season’s 564 mmt. Almost all of this growth is expected from soybeans, mostly from Argentina, and less so in Brazil and the United States. In addition to ample supplies, trade frictions have also affected the soybean market. In retaliation to U.S. tariffs on imports from China, a 25% tariff on soybean imports from the United States
was imposed by China in July 2018. To avoid tariffs, importers from China have turned to Brazilian suppliers, in turn exerting upward pressure on Brazilian soybean prices.

**Cotton**

Cotton prices declined marginally in the third quarter of 2018, but are still 15% higher than a year ago. Although global cotton production outpaced consumption by a small margin in 2017-18, production next season is projected to decline by 4%, creating room for the unwinding of China’s stocks. Cotton prices are expected to remain nearly flat in 2019 following projected gain of 11% in 2018.

**Rubber**

Natural rubber prices declined by 12% in the third quarter to a 30-month low. The recent weakness follows last year’s sharp decline when prices dropped more than 35% within 4 months. Depressed prices reflect rising output due to very favorable weather conditions in Thailand and Vietnam, the world’s top suppliers, and weak demand by China, leading to unusually high stocks accumulation. A 10% import duty by the United States on Chinese tires along with the slowing pace of tire imports by the European Union (about two-thirds of natural rubber goes to tire manufacturing) are exerting further downward pressure on demand. As a result, natural rubber prices are expected to remain low in 2019 after a projected 20% decline (y/y) in 2018.

**Fertilizers**

The World Bank’s Fertilizer Price Index rose 8% in the third quarter (q/q) on high energy costs and tight supplies. It stands more than 18% higher than the same period in 2017. Fertilizer consumption remains constrained by relatively weak crop prices as a result of ample grain and oilseeds supplies. Fertilizer prices are projected to rise 2% in 2019 due to modest global demand growth. Downside risks to the forecast include the possibility of weaker demand (e.g., escalating trade tensions that could exert downward pressure on agriculture prices) and a restarting of idle capacity. Upside risks include higher input costs (especially natural gas and coal) and stricter pollution measures by China.

**Urea**

Nitrogen (urea) prices surged 15% in the third quarter (q/q) and are more than 30% higher than the same period in 2017 on strong import demand, notably from Brazil and India. Prices were pushed up by:

- Rising energy production costs,
- supply outages, and
- sharp cuts in exports from China—

Chinese exports halved in 2017, following one-third decline in 2016, due to higher coal prices and increasing government regulations regarding pollution (natural gas is a key input to nitrogen fertilizer production, except in China where coal is used extensively). U.S. urea imports continue to decline as new domestic capacity displaces imports, fueled by plentiful low-cost natural gas production. Following an expected 13% increase in 2018, nitrogen prices are projected to remain relatively stable from 2019 onwards as new capacity in India, Nigeria, and Russia come online. Price risks include the possibility that U.S. sanctions on Iran spill over to Iranian urea exports, higher energy input costs, and winter restrictions on coal production in China, which could further elevate costs—the smog curbs have been somewhat relaxed due to the ongoing trade dispute with the United States.

**Phosphates**

Phosphates DAP and TSP prices rose 6% and 9%, respectively, on strong demand, particularly from India. Low inventories in India also supported stronger import prices there. While higher energy costs and increased environmental restrictions may impact Chinese production and exports, large new capacity is coming online, particularly in Morocco and Saudi Arabia (Morocco accounts for more than 70% of the world’s phosphate reserves; Saudi Arabia recently discovered reserves). Prices are therefore anticipated to be somewhat capped in 2019.
Potassium chloride
Potash (potassium chloride) prices were unchanged despite strong demand from Brazil, China, and India. The International Fertilizer Association expects potash imports will reach record highs in China and Latin America in 2018, while supply cuts from idling of production and closures will keep the market relatively tight. While production is expected to outpace consumption in 2019, with capacity additions in Belarus, Canada, China, and Russia, robust agricultural demand is projected to boost prices by 3%.

World Bank forecasts for 2018 and 2019 (selected commodities)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>$/MT</td>
<td>88.5</td>
<td>108</td>
<td>100</td>
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<tr>
<td>Crude oil</td>
<td>$/barrel</td>
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<tr>
<td>Natural gas</td>
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<td>Soybean oil</td>
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<td>Sugar</td>
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<td>0.28</td>
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<td>Cotton A</td>
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<tr>
<td>DAP</td>
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<tr>
<td>Phosphate</td>
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<tr>
<td>Potassium chloride</td>
<td>$/MT</td>
<td>218</td>
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<tr>
<td>TSP</td>
<td>$/MT</td>
<td>283</td>
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<tr>
<td>Urea</td>
<td>$/MT</td>
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<td>246</td>
<td>249</td>
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<tr>
<td>Aluminum</td>
<td>$/MT</td>
<td>1968</td>
<td>2122</td>
<td>2129</td>
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<tr>
<td>Copper</td>
<td>$/MT</td>
<td>6170</td>
<td>6500</td>
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<tr>
<td>Lead</td>
<td>$/MT</td>
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<td>2242</td>
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<tr>
<td>Iron ore</td>
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<tr>
<td>Silver</td>
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<td>17.07</td>
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<td>15.70</td>
</tr>
</tbody>
</table>

Note: Some of the growth rates in text will not match as these prices are at times specific to specific countries.