

## Have commodity prices started increasing?

March 3, 2021 | Economics

Global commodity prices are now in a bull phase with an imminent recovery in the world economy as prospects have become better with the vaccination drive picking up. This has been seen across most commodity segments. The discussion puts in perspective how prices have moved in three distinct phases: April 2020 over December 2019, December 2020 over April 2020 and finally February 2021 over December 2020. The last gives an idea of most contemporary trend in price changes. This does indicate that there is considerable high inflation potential in the global economy which can make central banks rethink their approach to monetary policy during the course of the year.

The general trend has been that prices declined to a low for most non-farm related products in April, which was the time when Brent entered a new trough. Subsequently there has been an improvement in prices as the world at large started opening up with variable speed. This led to a higher demand for products which pushed up prices. China has been the driving force with the economy registering positive growth in 2020 which will be sustained in a big way in 2021 too.

The reason for prices to move up is that it takes time for production to adjust to elevated demand conditions due to the restrictions in place in several geographies. This creates a demand-supply gap. Besides, producers have not been investing in capital in 2020 due to the uncertain outlook on growth. This has hence fueled supply shortfalls as output could not keep pace.

### Energy (% change)

	Brent	Coal	Natural gas
Apr'20 over Dec'19	-64.6	-11.5	-32.2
Dec'20 over Apr'20	113.7	41.8	68.2
Dec'20 over Dec'19	-24.3	25.5	14.0
Feb'21 over Dec'20	24.2	4.5	51.7

Prices of crude oil and natural gas have started rising quite sharply in the last two months. Brent had ended in December 2020 lower than December 2019 but has gained in strength subsequently. In case of natural gas and coal there has been an increase in the 12-months period ending December 2020.

### Beverage products (% change)

	Cocoa	Coffee, Arabica	Coffee, Robusta	Tea
Apr'20 over Dec'19	-7.1	-1.4	-12.7	-8.4
Dec'20 over Apr'20	6.0	2.1	12.6	12.5
Dec'20 over Dec'19	-1.5	0.7	-1.6	3.1
Feb'21 over Dec'20	-0.1	5.1	1.5	-2.3

The decline in prices for these products in April was mainly due to the absence of demand from bulk consumers like hotels, restaurants, airports and offices. As can be seen the recovery though distinct post April 2020 has not yet brought prices to the December 2019 level for cocoa and coffee (Robusta). The 2021 picture is negative for tea and cocoa. The fact that aviation, hospitality and offices are not working at break-even capacity has lowered demand for these products.

### Oil complex (% change)

	Groundnuts	Palm oil	Soybeans	Soy oil	Soy meal	Mustard oil	Sunflower oil
Apr'20 over Dec'19	34.1	-20.3	-5.7	-18.4	3.2	-15.7	-5.7
Dec'20 over Apr'20	-5.5	66.9	41.4	50.9	36.0	44.6	21.6
Dec'20 over Dec'19	26.7	33.1	33.3	23.1	40.3	21.9	14.7
Feb'21 over Dec'20	-3.2	0.1	12.5	0.6	8.6	-5.3	0.0

The reasons given above for beverages holds partly also for edible oils as demand fell in April due to the lockdown witnessed across the world. The recovery in prices has been sharp subsequently especially for soy complex, which continues into 2021. Here it may be mentioned that India has not been insulated as the prices of edible oils have been going up and the latest CPI inflation was 19.7% in January on a y-o-y basis. India imports around 60-65% of the edible oil requirements which has gotten reflected here.

#### Cereals (% change)

	Maize	Rice	Wheat
Apr'20 over Dec'19	-12.0	30.6	-6.7
Dec'20 over Apr'20	35.3	-7.8	13.3
Dec'20 over Dec'19	19.1	20.4	5.7
Feb'21 over Dec'20	23.4	7.1	10.1

Here the picture is mixed with rice registering an increase even in April and with a correction subsequently ended higher by 20% over Dec 2019. In case of wheat and maize prices have been increasing significantly through the year and also in 2021. This does present an opportunity to India to enhance exports especially of wheat as the price has improved. The FCI should contemplate the same given that output is to reach a new peak level this year and the stocks are higher than the buffer levels.

#### Plantation crops (%)

	Sugar	Tobacco	Cotton	Rubber
Apr'20 over Dec'19	-23.9	0.4	-16.2	-24.2
Dec'20 over Apr'20	37.9	-2.9	27.5	42.1
Dec'20 over Dec'19	5.0	-2.6	6.8	7.7
Feb'21 over Dec'20	15.0	4.6	14.5	6.9

The table shows a rally in sugar prices which are going up which can be something India can leverage in terms of exporting surplus sugar as there is expectation of stocks to build up this year. Cotton and rubber prices have moved up post April (when demand fell due to lockdown affecting textile industry as also rubber when auto production got stalled). India's WPI inflation for rubber and rubber products for January was high at 7.3%.

#### Fertilizers (% change)

	Phosphate rock	DAP	TSP	Urea	Potassium chloride
Apr'20 over Dec'19	-2.4	18.4	0.7	8.0	-7.7
Dec'20 over Apr'20	17.8	37.8	30.6	4.3	-17.3
Dec'20 over Dec'19	14.9	63.1	31.5	12.6	-23.7
Feb'21 over Dec'20	5.8	36.1	41.8	36.7	0.0

As a segment, fertilizers have been better performing as farming did not cease with lockdowns across the world. Hence demand for fertilizers was always increasing which led to gain in prices. This however will be a concern going forward as these costs get embedded in the price of farm products which use them. For India, where imports are significant there are risks of imported inflation. Presently inflation for various kinds of fertilizers range between 1.5-3.5%.

#### Metals (% change)

	Aluminum	Iron ore	Copper	Lead	Tin	Nickel	Zinc
Apr'20 over Dec'19	-17.6	-8.5	-16.8	-12.8	-12.8	-14.6	-16.2
Dec'20 over Apr'20	38.0	83.4	53.7	21.9	32.0	42.5	46.0
Dec'20 over Dec'19	13.7	67.8	27.9	6.3	15.1	21.6	22.3
Feb'21 over Dec'20	3.2	6.0	9.0	3.0	33.4	10.5	-1.3

All the metals have followed a similar pattern in terms of price movements. A decline in April 2020 followed by an increase subsequently with the opening up of the economies and higher demand from growth centres like China contributed to the price increase. The price increase will most likely persist even in 2021 and has been high for nickel and tin in the first two months. This will be an area to watch for us as the metals group has witnessed WPI inflation of around 14.55 in January (over January 2020) with a weight of 9.6% in the index. As India is a price taker for most metals, the higher global price will enter as imported inflation. This will keep core WPI inflation at elevated levels.

## Precious metals (% change)

	Gold	Platinum	Silver
Apr'20 over Dec'19	13.8	-18.4	-12.1
Dec'20 over Apr'20	10.4	36.4	65.7
Dec'20 over Dec'19	25.6	11.2	45.7
Feb'21 over Dec'20	-2.7	17.4	9.3

Gold outperformed in the first 4 months of 2020 with an increase of 13.8% as it became a safe haven investment. This was sustained though the year. However, with the growth perspectives turning positive in the west and interest rates also getting steady, investors have started diversifying their investments which has caused gold price to come down. Therefore, there has been a negative growth rate in 2021. Price of silver has been increasing since the fall in April as a substantial part is used for industrial purposes which has witnessed an uptick.

Therefore, global commodity prices do signal an upward phase this year and in the absence of any shock from the pandemic like occurrences, should maintain this trend. Agricultural products would be driven more by supply conditions as things normalize and should remain steady. Demand for metals can prices up further. Gold would tend to weaken as alternative asset classes like stocks and debt instruments regain their luster. Oil prices will be guided by OPEC action as well as the use of other fuels but is likely to maintain the present level. At any rate, any cycle of growth revival would be associated with higher prices and hence inflation which will something to be monitored by central banks across the world.

### Contact:

**Madan Sabnavis**  
**Mradul Mishra**

Chief Economist  
(Media Contact)

madan.sabnavis@careratings.com  
mradul.mishra@careratings.com

+91-22-6837 4433  
+91-22-6754 3573

*Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report*

### CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital  
Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel.: +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

