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Recent developments, challenges and opportunities in commodity markets

Note by the UNCTAD secretariat

Executive summary

This note reviews recent developments in key commodity markets and analyses factors that contributed to the trends in commodity prices observed in 2018. Between January and September 2018, commodity markets exhibited a high variation in price behaviour, recording upward and downward movements. In general, price increases resulted from factors such as tightness in markets due to adverse weather conditions and economic and political uncertainties in many parts of the world. Easing off of and falls in prices were largely due to oversupply, rising inventories and favourable weather conditions. The note explores some policy issues related to recent developments in global commodity markets and suggests recommendations that could help commodity-dependent developing countries achieve sustainable development and inclusive growth.

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Introduction

1. The Accra Accord, in paragraph 208, gave a mandate to the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD) to establish a multi-year expert meeting on commodities. The mandate was reaffirmed in paragraph 17 of the Doha Mandate, adopted at the thirteenth session of the Conference in 2012, which extended it another four years, to 2016. The mandate was further extended to 2020 in paragraph 100 of the Nairobi Maafikiano, adopted at the fourteenth session of the Conference in 2016.

2. This note analyses commodity-market developments during 2018, with a focus on price trends and the underlying causes of price fluctuations. It also highlights some policy issues associated with recent market developments and draws lessons in the form of policy recommendations to assist commodity-dependent developing countries in their efforts to achieve inclusive economic growth and sustainable development. The note groups commodities into three categories: food and agricultural commodities (food, tropical beverages, vegetable oil seeds and oils, and agricultural raw materials); minerals, ores and metals; and energy (oil, gas, coal and renewable energy).

I. Recent developments in commodity markets

A. Overview

3. The UNCTAD free market commodity price index [1] for all commodity groups averaged 124.1 points in January 2018, up by 9 points (7.9 per cent) from the previous month and rising for the seventh consecutive month (figure 1). In February, the all groups index fell by 4.5 per cent to 118.5 points, largely due to a decline in the fuels index but returned to a rising trajectory in the following month and climbed to 127.9 points in May. The rise in the all groups index from January to May 2018 was largely driven by higher prices in most subgroups. In June 2018, the rising trend was reversed, with the index falling to 123.8 points in August due to declining prices in subgroups such as food, tropical beverages, agricultural raw materials and precious metals. This was caused by rising production and faltering demand. The downward trajectory reversed in September 2018 as higher fuel prices exerted upward pressure on the index. Commodity prices in 2018 showed a high level of variation.

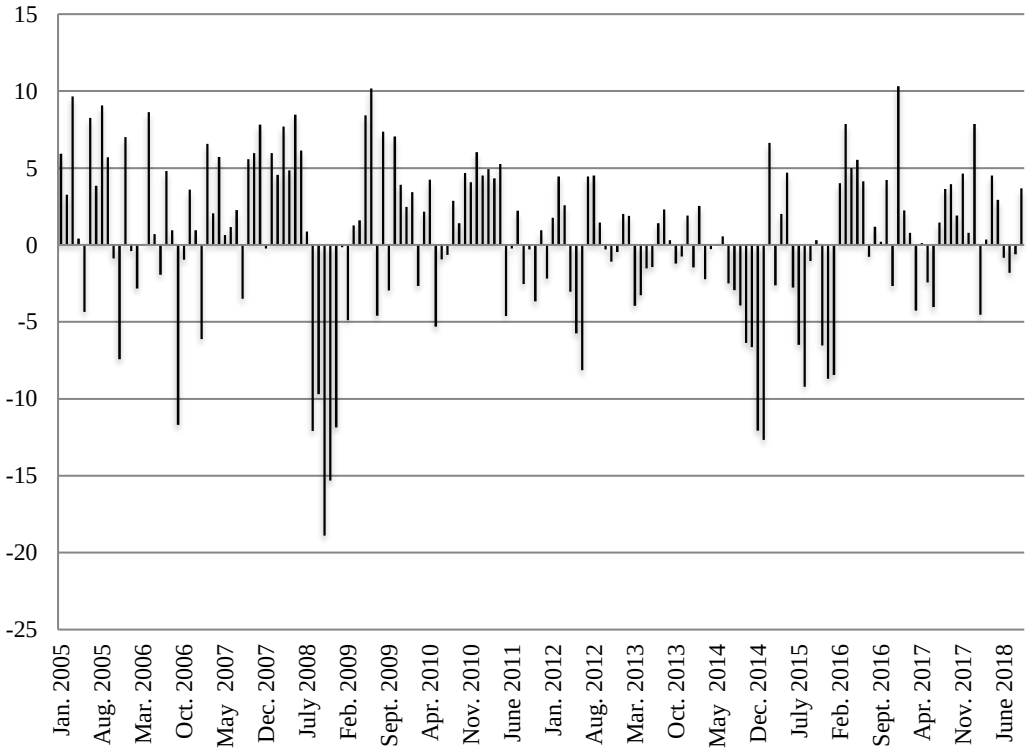
[1] The UNCTAD free market commodity price index was rebased to year 2015 = 100, with new commodities added to the old index, hence using new weights. The new index includes separate indices for the group of fuels and a subgroup of precious metals.

Figure 1
UNCTAD free market commodity price index, all groups, January 2000–September 2018
(2015 = 100)

Source: UNCTAD secretariat calculations based on data from UNCTADstat.

4. The monthly variations of the UNCTAD free market commodity price index for all groups between 2005 and 2018 illustrate the degree of fluctuation of commodity prices (figure 2). In the first nine months of 2018, the index showed wide monthly variations owing to a variety of factors (see section II). The highest and lowest changes occurred in January (8 per cent) and February (-4.5 per cent), respectively. The following sections review market developments in major commodity groups.

Figure 2
Monthly fluctuations of the UNCTAD free market commodity price index, January 2005–September 2018



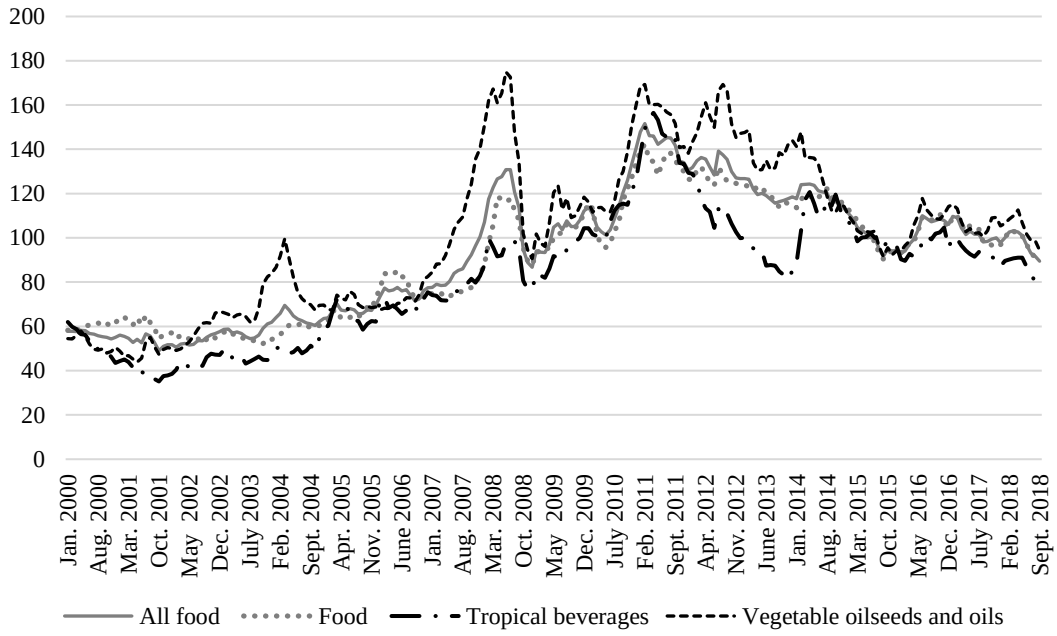
Source: UNCTAD secretariat calculations based on data from UNCTADstat.

B. Developments in key commodity sectors

Food and agricultural commodities

5. The UNCTAD monthly food price index (figure 3) averaged 99.7 points in January 2018, up by almost 3 per cent over the previous month, with the index rising for the fourth consecutive month. The index rose again slightly in February 2018 but declined thereafter to an average 90.5 points in September 2018. The rise of the index at the beginning of the year was largely driven by higher prices of wheat and maize, as adverse weather conditions in key producing regions, for example, Argentina, Brazil and the United States of America, caused markets to tighten. Weak prices for sugar, rice and meat in the food subgroup contributed to the downward movement of the index between March and September 2018. From January to September 2018, the index fell by 9.2 per cent but was 1.8 per cent higher than in the corresponding period of 2017.

Figure 3
Price indices of selected commodity groups, January 2000–September 2018
(2015 = 100)



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

6. Maize prices have been under downward pressure since 2012, largely due to overproduction and abundant stocks. In January 2018, the international benchmark United States maize (yellow No. 3, free on board) rose relative to its value in December 2017, driven by strong demand boosted by a weaker dollar and lingering concerns about the impact of hot and dry weather on crops in Argentina. By May 2018, prices had risen by 4 per cent since January to $193.40 per metric ton but declined to $157.80 per metric ton in September as favourable production conditions returned (figure 4).

7. The international benchmark price of United States wheat (hard red winter No. 2, free on board) rose in the first quarter of 2018 from $227.29 per metric ton in January to $245.83 in March due to prolonged dry weather in the United States, concerns about cold and wet weather in some parts of Europe, strong global demand[2] and speculative pressures. In the second and third quarters, prices fluctuated upwards and downwards between April and August 2018 before levelling at $241.01 per metric ton in September 2018. Over the first three quarters of 2018, wheat prices rose by 6 per cent and are likely to remain strong in 2019, due to a tight supply outlook (figure 4).

8. In the rice markets, the benchmark price of Thailand rice (white milled, 5 per cent broken, free on board) was volatile in 2017 but overall was up by 7.7 per cent. In January 2018, prices rose by almost 9 per cent from the previous month to $442 per metric ton as a result of increased demand. However, the spike was short-lived, and prices returned to volatile movements between February and August, largely due to fluctuating demand and an appreciation of the Thai baht. In September 2018, prices stood at $402 per metric ton, a decline of 9 per cent from January 2018. Rice production is forecast to decline slightly in the 2018/19 season, owing to delays in harvests in Viet Nam caused by late planting and reduced yields in Thailand due to unfavourable weather conditions (figure 4).

9. The monthly average of the International Sugar Agreement daily prices fell from 20.33 cents in January 2017 to 13.9 cents per pound in July 2017, largely due to weak demand, oversupply in the market and some speculative investors unwinding long positions

[2] www.foodsecurityportal.org/global-wheat-and-maize-prices-continue-rise (accessed 31 January 2019).

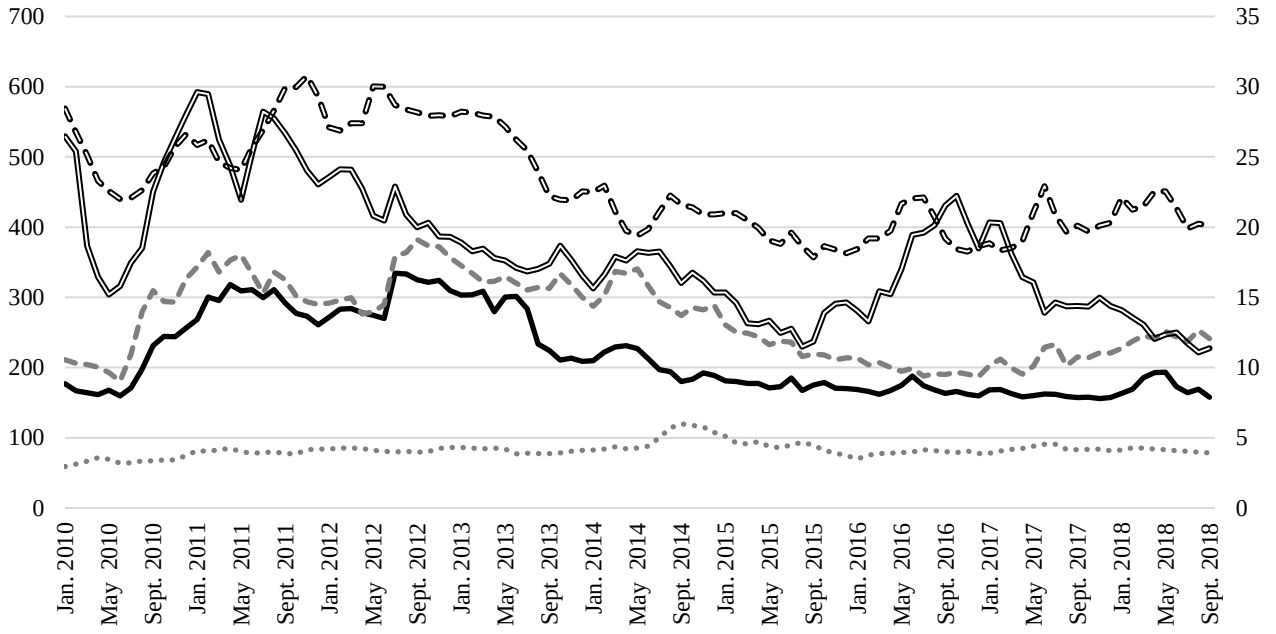
adopted during the price boom prior to the decline.[3] During the second half of the year, prices fluctuated around 14 cent per pound and then followed a downward trend in the first half of 2018. Prices fell from 14.09 cents per pound in January 2018 to 12.03 cents per pound in April due to record outputs from two of the world's top producing countries (India and Thailand) and speculation that the supply glut will continue because of high levels of planting in the European Union and India. However, fears that drought during the growing season in Brazil would negatively affect yields and production helped drive prices up to 12.5 cents per pound in June 2018 before falling again to 11.08 cents per pound in August 2018, the lowest levels since August 2015. In September 2018, prices rebounded slightly to 11.4 cents per pound due to a return of drought conditions affecting yields in Brazil. Data from the Economist Intelligence Unit suggest that sugar production will exceed consumption in the 2018/19 marketing year, and prices are likely to follow a downward trend[4] (figure 4).

10. The price of Australia and New Zealand beef (frozen; cost, insurance and freight) followed an upward trend in the first half of 2017 due to shortage of supplies driven by strong restocking of cattle and low slaughter rates after a long period of drought. In the second half of 2017, prices declined by 10 per cent to $4.07 per kg in December 2017, in part due to growing global beef production and competition in international markets. Prices rallied briefly in the first quarter of 2018 but began falling again over the second and third quarters, largely due to increased production in Australian markets, owing to drought conditions. In September, frozen beef prices stood at $3.92 per kg, down by 5 per cent from January 2018 (figure 4).

[3] www.eiu.com/industry/commodities/article/776195661/sugar/2018-01-01 (accessed 31 January 2019).

[4] www.eiu.com/industry/commodities/article/1007251084/sugar/2018-11-01 (accessed 31 January 2019).

Figure 4
Nominal prices of selected food and agricultural commodities, January 2010–September 2018



Maize, United States, yellow No. 3, free on board Gulf ports (dollars per metric ton)

Rice, Thailand, white milled, 5 per cent broken, export price, free on board (dollars per metric ton)

Wheat, United States, hard red winter No. 2 (ordinary), free on board Gulf ports (dollars per metric ton)

Beef, Australia/New Zealand, frozen, cost, insurance and freight, United States ports (dollars per kg; right axis)

Sugar, average of International Sugar Agreement daily prices, free on board and stowed, in bulk, Caribbean ports (cents per pound; right axis)

Source: UNCTAD secretariat calculations based on data from UNCTADstat.

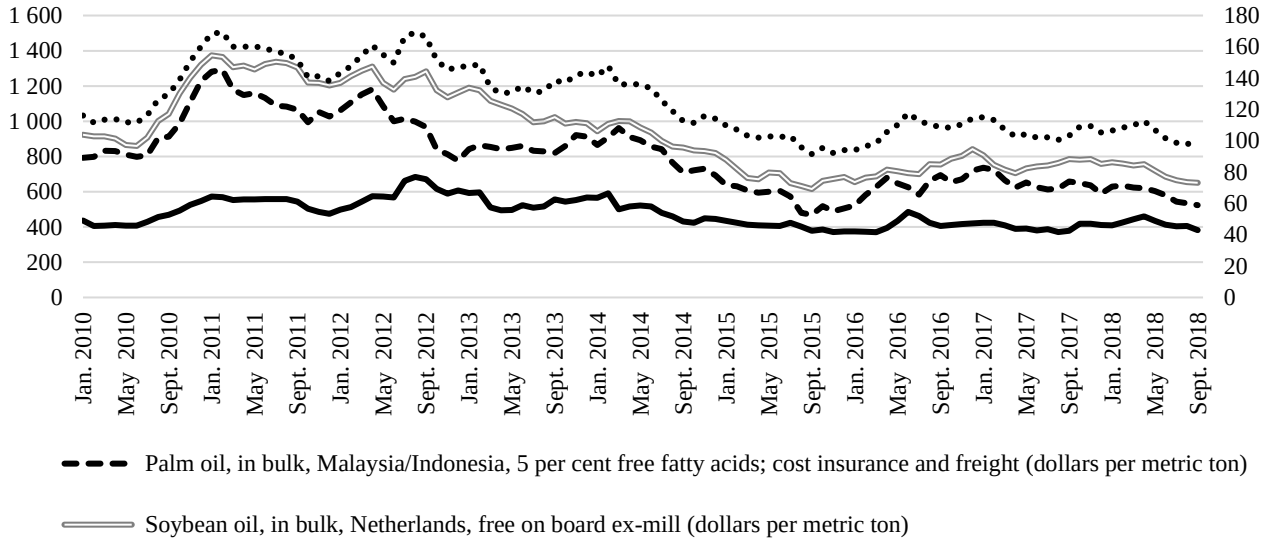
11. From January to April 2018, the UNCTAD vegetable oilseeds and oil price index rose by almost 6 per cent to 112.6 points relative to its value in December 2017, before trending down to 94.5 points in September 2018. The rise and fall of the index in 2018 was due to the influence of soybean price variations driven by factors related to demand and supply. From January to September 2018, the index fell by 11.3 per cent, almost 4 percentage points lower than the corresponding period in 2017 (figure 5).

12. Soybean prices rose between February and April 2018, reaching $459.90 per metric ton in April. This was due in part to hot and dry weather that affected crop harvests in Argentina, as well as concerns about trade between the United States and China. The upward trend was interrupted in May, largely due to abundant supplies of soybeans, which caused prices to fall to $382.98 per metric ton in September 2018. Soybean oil also followed a pattern of rising and falling prices in 2018. Upward movements were primarily caused by increasing demand for human consumption and industry, while declining movements were due to abundant supplies. In September 2018, soybean oil prices stood at $650.99 per metric ton, down by 15 per cent from the price level in January 2018 and 12 per cent lower than the corresponding period in 2017. Prices of soybeans and soybean oil are projected to recover over the medium term owing to rising global demand and tightening supplies caused by a lower production outlook from the United States as concerns about trade with China grow (figure 5).

13. Palm oil prices declined by almost 25 per cent in 2017, largely due to a combination of rising production from South-East Asia, growing inventories and a sluggish global import demand due to a negative sentiment against palm oil and palm oil-based biodiesel in the United States and the European Union, where palm oil is considered to have an adverse

environmental impact.[5] Prices recovered briefly in the first two months of 2018, driven by a seasonal decline in production. This was followed by decreasing prices, standing at $872.80 per metric ton in September 2018. Data from the Economist Intelligence Unit suggest that production will exceed consumption, and with inventories rising in major exporting countries, prices are likely to decline in 2019[6] (figure 5).

Figure 5
Price trends of selected commodities in the vegetable oilseeds and oils market, January 2010–September 2018



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

14. The UNCTAD tropical beverages price index fell from 100.5 points in January 2017 to 87.14 points in December 2017, mainly because of a decline in coffee prices. In January 2018, the downward trend reversed, and the index rose by 4.4 per cent to 91.0 points in May 2018. The upward trend was largely driven by a rise in cocoa and tea prices offsetting the downward price movement of the heavily weighted coffee in the index. In June, the rising index reversed and fell to 77.76 points in September as prices of cocoa, coffee and tea decreased. From January to September 2018, the index fell by 13.2 per cent, 5.2 per cent lower than the corresponding period of the previous year (figure 6).

15. Since mid-2016, cocoa bean prices have been trending downwards, owing to rising production from Côte d'Ivoire and Ghana, the world's two leading producers, and sluggish global demand. In the first half of 2018, cocoa bean prices rose sharply by 36 per cent, from 88.5 cents per pound in January to 120.65 cents per pound in May as production levels in both leading producing countries dropped. Additional factors that contributed to rising prices in the first five months of 2018 include an intense seasonal heatwave that affected the quality of beans, thus leading buyers to purchase more cocoa to produce the quantity of butter they require. Prices were also influenced by the destruction of diseased plants, falling global stocks and rising demand. Prices reversed in June and trended downwards to 99.6 cents per pound in September 2018 due to improved weather conditions and higher arrivals at ports of the cocoa-producing regions of West Africa. From January to September 2018, cocoa prices rose by 12.4 per cent, reversing the falling trend during the

[5] www.reuters.com/article/us-eu-climatechange-palmoil/eu-to-phase-out-palm-oil-from-transport-fuel-by-2030-idUSKBN1JA21F (accessed 31 January 2019).

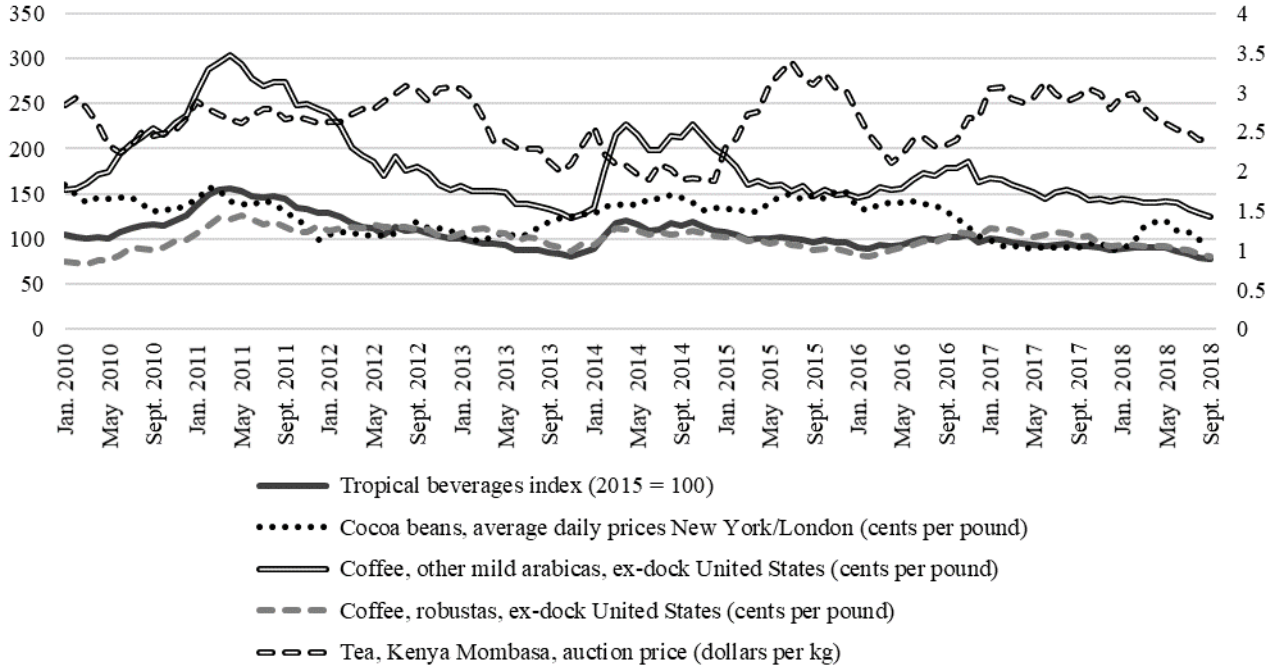
[6] www.eiu.com/industry/commodities/article/1917258175/palm-oil/2018-11-01 (accessed 31 January 2019).

corresponding period of the previous year. The International Coffee Organization forecast of record supplies from the leading producers is likely to put downward pressure on prices[7] (figure 6).

16. In the first two months of 2018, prices of tea rallied briefly due in part to a fall in output from the main producing countries, India and Sri Lanka, but this was followed by six consecutive months of decline to $2.41 per kg in September 2018 as global production increased due to favourable weather conditions. These conditions are expected to continue exerting downward pressure on prices over the coming months (figure 6).

17. With respect to the coffee market, the average monthly composite indicator price recovered slightly in January 2018, compared with the previous month, up by 1.4 per cent to 115.60 cents per pound of coffee. However, this was short-lived. The composite indicator price trended downwards in the following months to end September at 98.17 cents per pound. Increased harvests for all coffee groups (robusta, Colombian mild, other milds and Brazilian naturals) comprising the composite indicator price from several producing countries contributed to the downward pressure on prices. The Economist Intelligence Unit forecasts coffee prices to recover slightly, due to a fall in production and continuing rise in demand[8] (figure 6).

Figure 6
Price trends of selected tropical beverage commodities, January 2010–September 2018



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

18. The UNCTAD agricultural raw materials price index trended downwards in 2018 as it came under pressure from falling rubber and plywood prices. The index rose marginally in August 2018 to 102.4 points but fell again in the following month to 101.9 points. From January to September 2018, the index dropped by 4.2 points but it was almost 6 per cent higher than the corresponding period in 2017 (figure 7).

19. The cotton A-index price, a benchmark for world cotton prices, reached its highest point in 48 months at $1.95 per kg in May 2017 after rising for eight consecutive months. Thereafter, monthly prices fluctuated around a downward trend to reach $1.88 per kg in

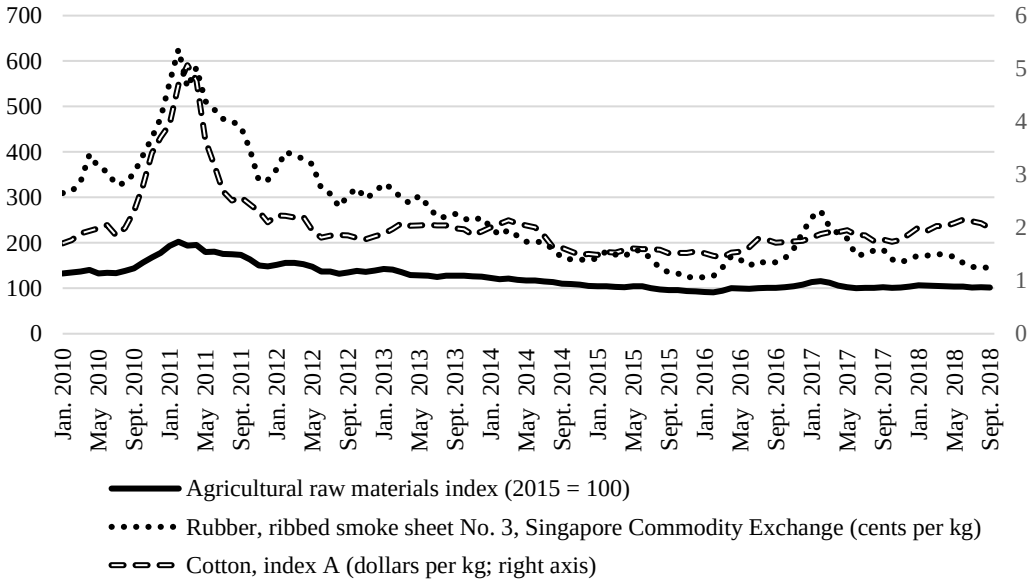
[7] Cocoa market review: November 2018, available at www.icco.org/statistics/monthly-review-of-the-market.html (accessed 28 January 2019).

[8] www.eiu.com/industry/commodities/article/1917240775/coffee/2018-11-01 (accessed 31 January 2019).

December 2017, due in large part to expansion in planting areas and supply outstripping demand. In January 2018, prices rebounded to $2.01 per kg, owing to a decline in inventories and reduced yields in producing but were short-lived. Prices dropped by 3 per cent to $1.95 per kg in February 2018 and in the following months fluctuated within a narrow band of 20 cents per kg to settle at $1.99 per kg in September 2018 (figure 7).

20. After peaking at $625.92 per metric ton in February 2011, natural rubber prices plunged to a five-year low of $123.38 per metric ton in January 2016, largely due to oversupply from the three largest producers (Thailand, Indonesia and Malaysia), a slowdown in demand due to slowing growth of car sales in China and the United States, and some speculation that prices would fall. The downward trend reversed in the period that followed, reaching $165.19 per metric ton in December 2017. Prices rallied briefly in the first quarter of 2018 to $175.79 per metric ton following an agreement by the major producers in December 2017 to reduce exports by 350,000 metric tons in the first three months of 2018. After the agreement expired, the rising trend reversed as concerns of more supplies hitting the market resurfaced amid weakening demand related to increasing concerns about trade between the United States and China. In September 2018, prices stood at $144.18 per metric ton, down by 16.2 per cent from the beginning of the year. Prices are expected to fall due to excess supply and continuing build-up of stocks[9] (figure 7).

Figure 7
Price trends of selected agricultural raw materials, January 2010–September 2018



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

Minerals, ores and metals

21. The UNCTAD minerals, ores and non-precious metals price index (figure 8) reached a peak of 212.44 points in February 2011 but trended downwards thereafter to 93.15 points in mid-2016, largely due to excess supply resulting from abundant production during the period of high prices. In the second half of 2017, the index rose to 136.8 points in December, largely due to rising prices of iron ore and copper. The upward trajectory extended to 143.1 points in February 2018 but declined afterwards to 126.76 points in September 2018,

22. Iron ore prices have been under upward and downward pressure over the last two years. Price increases in the first half of 2017 were largely due to strict rules in China to combat pollution and supply-side reforms to control capacity. Price declines were the result of high iron ore port inventories, low steel prices and moderating demand from China. In the

[9] http://blogs.worldbank.org/developmenttalk/raw-materials-outlook-cotton-rubber-prices-stabilize-2019 (accessed 31 January 2019).

second half of 2017, uncertainty in demand and speculation kept prices volatile but a rising trend developed towards the end of the year, and prices rose to $77.46 per dry metric ton unit in February 2018, owing to increasing demand (iron ore imports) from China. When production curbs in China were lifted in March 2018, prices fell by almost 17 per cent to $64.56 per dry metric ton unit in July 2018 before rising slightly to $68.44 per dry metric ton unit in September. From January to September 2018, iron ore prices dropped by 10.3 per cent, compared with an 11 per cent drop during the corresponding period in 2017 (figure 8).

23. The price of copper per metric ton increased from $5,754.60 in January 2017 to $6,833.90 in December 2017, up by almost 27 per cent from the corresponding period in 2016. The price rise was supported by strong global economic growth and robust demand by the world's biggest consumer, China. In 2018, copper prices per metric ton fell from $7,065.85 in January to $6,050.76 in September, notwithstanding looming supply disruptions in Chile arising from labour disputes at the world's largest copper mine, Escondida. The downward trend was largely driven by fading demand from China, owing to increasing concerns about trade between China and the United States and surging warehouse inventories at the London Metal Exchange and the Shanghai Futures Exchange. Copper prices are forecast by Standard and Poor's Global Market Intelligence to rise in 2019 as strong global demand is expected to outpace supply[10] (figure 8).

24. Aluminium prices rose by 6 per cent in January 2018 over the previous month to $2,209 per metric ton but fell over the next two months to $2,069 per metric ton in March 2018 as aluminium inventories increased at the London Metal Exchange and Shanghai Futures Exchange warehouses. During the second quarter of 2018, tariffs on imports to the United States and the designation of Rusal,[11] one of the world's largest aluminium producers, as a "specially designated national"[12] caused global aluminium prices to rise to $2,299.67 per metric ton in May 2018. This was largely due to market analysts weighing in the impact of potential sidelining of 13 per cent of the world's supplies. Prices declined to $2,026.46 per metric ton in September 2018 due in part to a slowdown in Chinese consumption, and because analysts speculated that supply disruptions could ease as the United States Department of the Treasury allowed buyers of Rusal aluminium to enter into new contracts after a 23 October deadline set for winding down operations with the Russian company.[13] Prices are expected to decline further in 2019 as production growth outpaces demand growth, assuming no major disruptions to the company's operations (figure 8).

25. Zinc is the fourth most consumed metal after iron, aluminium and copper, and market prices are influenced by the state of the global economy. For most of 2017, zinc prices were volatile, but overall were up by 18.2 per cent. The price volatility was largely due to tightness in the market driven by a variety of factors, including production cuts, sharp declines in inventories, increased demand from China, supply deficits triggered by the shutting down of major mines around the world and environmental concerns related to production in China, a major zinc producer. Towards the end of the year, prices dipped slightly but rebounded in 2018 and rose in consecutive months to 169.1 cents per pound in February, owing to ongoing supply issues and a sudden drop in inventories. Prices came under downward pressure in March and trended downwards to 117.9 cents per pound in September 2018, largely due to oversupply and rising inventories. From January to September 2018, zinc prices declined by almost 28 per cent. A poll of 30 analysts conducted by Reuters forecasts prices to remain flat in 2019 as tightening fundamentals slow down the decline in prices[14] (figure 8).

[10] www.sp global.com/marketintelligence/en/news-insights/trending/adzuhkaui1jojhterm4gcw2 (accessed 31 January 2019).

[11] https://home.treasury.gov/news/press-releases/sm0338 (accessed 31 January 2019).

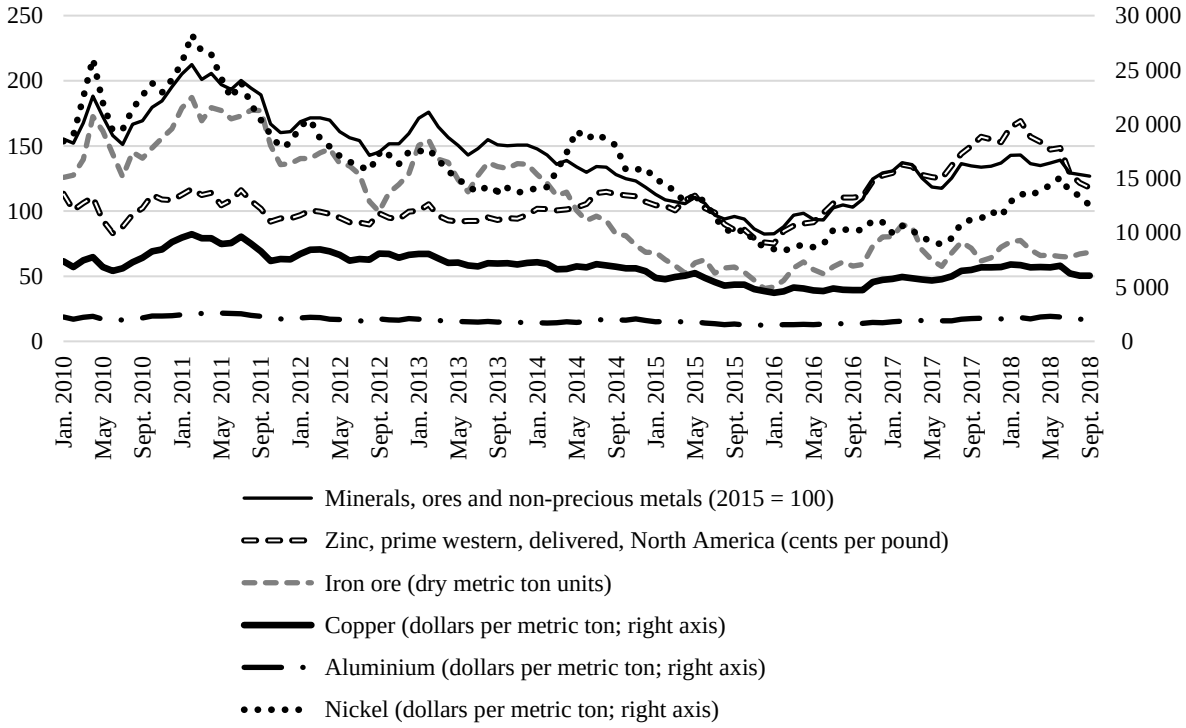
[12] Individuals and companies that are called specially designated nationals have their assets blocked, and United States citizens are generally prohibited from dealing with them; www.treasury.gov/resource-center/sanctions/SDN-List/Pages/sdn_data.aspx (accessed 31 January 2019).

[13] www.independent.ie/business/world/aughinish-owner-rusal-up-as-us-eases-sanctions-pressure-37325298.html (accessed 31 January 2019).

[14] www.reuters.com/article/us-metals-base-poll/copper-price-to-spring-back-in-2019-zinc-seen-flat-reuters-poll-idUSKCN1N01MR (accessed 31 January 2019).

26. The price of nickel rose from $9,971.46 per metric ton in January 2017 to $10,204.66 per metric ton in March 2017. This increase was attributable to various factors, including strong demand from the stainless-steel sector, production decline in the Philippines due to mine closures, prospects for nickel use in rechargeable batteries for electric vehicles (replacing cobalt with nickel in lithium-ion batteries) and environmental controls in China. In the second quarter, prices fell by 16 per cent to $8,931.76 per metric ton in June due in part to slowing demand from China and concerns that the market was oversupplied. Prices returned to an upward trend in the second half of 2017, rising to $11,495.11 per metric ton in December. In early 2018, prices continued to rise but followed a volatile trajectory. Nickel prices rose by 12 per cent in January 2018 over the previous month and extended the price gains to $13,595.88 per metric ton in February as stocks declined and the supply deficit increased. Thereafter prices dipped briefly in March 2018 but rose month on month to reach $15,105.65 per metric ton in June because of increased demand before declining steadily to $12,510.35 per metric ton in September 2018. From January to September 2018, nickel prices dropped by 3 per cent in comparison with the 12 per cent gains made during the corresponding period in 2017. However, prices are expected to recover over the course of 2019 due to production lagging behind growing demand[15] (figure 8).

Figure 8
Price trends of selected minerals ores and non-precious metals, January 2010–September 2018



Source: World Bank Global Economic Monitor Commodities database (accessed 31 October 2018).

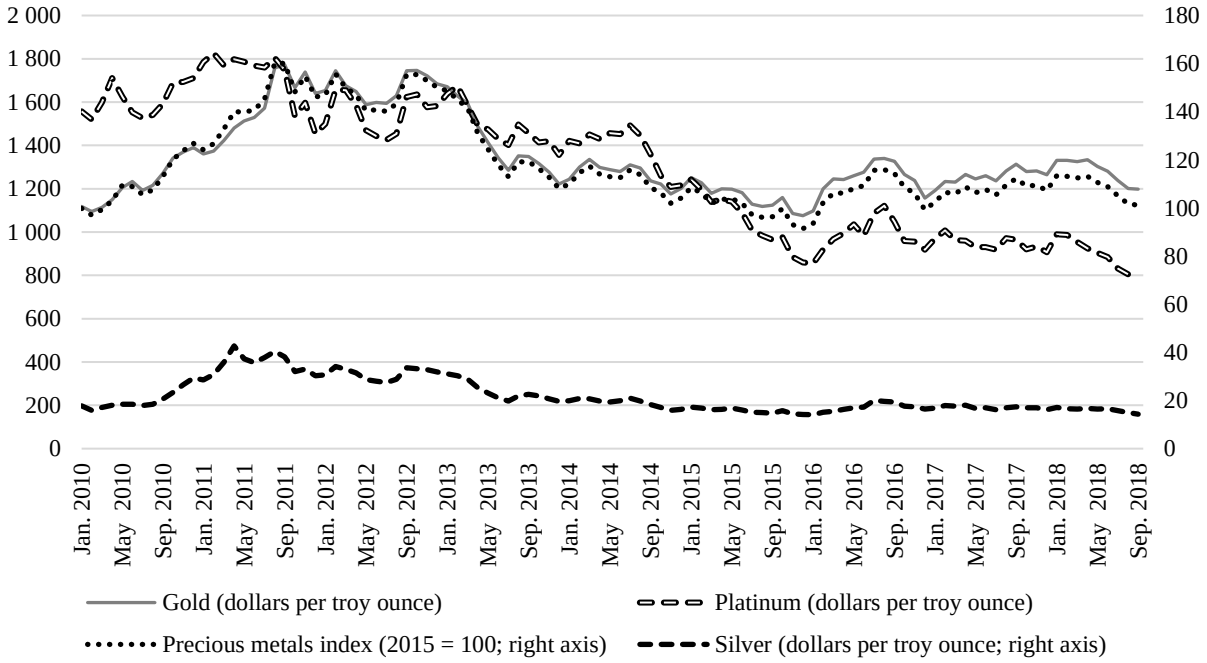
27. The UNCTAD precious metals price index reached a peak of 160.28 points in August 2011 but followed a downward trend thereafter to reach 91.43 points in December 2015 due to downward pressure exerted on the index by lower gold prices. The index fluctuated wildly in 2017 with no clear trend but the value was slightly higher than its level over the same period in 2016. The pattern of fluctuation continued in the first four months of 2018 when the price trajectory was relatively flat as volatile gold prices weighed on the index but subsequently trended downwards from 113.2 points in April to 101.25 points in September.

28. The price of gold trended upwards with a high degree of volatility from $1,192.10 per troy ounce in January 2017 to $1,314 per troy ounce in September 2017. The rise in gold

[15] https://af.reuters.com/article/metalsNews/idAFL3N1VY5LN (accessed 31 January 2019).

prices was supported by a weak United States dollar and increasing geopolitical risks on the Korean Peninsula. This caused investors to flee to safer assets. In the last quarter of 2017, gold showed mixed price movements, dipping by 2.6 per cent to $1,314.07 per troy ounce in October, followed by a slight rise in November before declining to $1,264.45 per troy ounce in December. The volatility observed was due in part to speculative trading and a rise in United States interest rates (figure 9).

Figure 9
Price trends of selected precious metals, January 2011–September 2018



Source: UNCTAD secretariat calculations based on data from UNCTADstat and World Bank Global Economic Monitor Commodities database (accessed 31 October 2018).

29. In 2018, gold continued to show high price variations. Compared with December 2017, prices rose by 5.3 per cent in January 2018 to $1,331.30 per troy ounce because of inflation worries but returned to their downward trajectory in the following two months, due in large part to falling demand for gold bars and exchange-traded funds backed by gold bars.[16] In April 2018, prices rose briefly to $1,334.76 per troy ounce before falling to $1,198.39 per troy ounce in September. The gold price movements were largely driven by uncertainty in the markets. The effects of the strong dollar and higher interest rates are likely to continue exerting downward pressure on gold prices.

30. Many global indicators drive silver prices because in addition to being considered a precious metal, silver has varied uses in industry, for example, batteries, photovoltaic cells, electrical contacts and alloys. Further, silver is cheaper than gold, which allows investors to take positions hoping to make quick gains or exit the market without substantial amounts of money. During the first four months of 2017, silver prices followed an upward trajectory to a peak of $18.03 per troy ounce in April due in part to declining inventories. This was followed by a downward and highly volatile trend, closing the year at $16.17 per troy ounce, even though fundamentals appeared to be supportive of silver prices (figure 9).

31. In 2018, silver prices rose briefly in January to $17.13 per troy ounce due in part to financial speculation – short covering – but returned to a volatile downward trend thereafter to $14.27 per troy ounce in September 2018 as a result of a strengthening United States dollar and deteriorating industrial demand that has its roots in the threat of global trade tensions. Prices are likely to decline further as industrial demand weakens due to substitution in favour

[16] www.gold.org/research/gold-demand-trends (accessed 31 January 2019).

of base metals such as copper and aluminium and more efficient production techniques that use less silver.

32. Platinum is the most recognizable of the platinum group metals because of its use in jewellery, the manufacture of catalytic converters and other industrial applications. In 2017, platinum prices fluctuated around a downward trend for most of the year to end at $907.20 per troy ounce in December 2017. The decline in prices was due in part to a drop of demand from the automobile industry as a result of the switch to palladium in the manufacturing of catalytic converters[17] and declining demand from jewellers and investors. The effect of these factors was far greater than the fall in supply due to shortfalls in production resulting from mining stoppages in major mines in South Africa. In January 2018, prices climbed to $990.12 per troy ounce as investors took positions in the market but subsequently declined steadily to $804.79 per troy ounce in September 2018 because of a variety of factors. These included the rising dollar, fears of a slowdown in economic growth and global demand resulting from concerns about trade between China and the United States, as well as oversupply and speculative bets on lower prices. Prices are expected to rebound slightly in 2019 as industrial users take advantage of the currently low price (figure 9).

33. Cobalt[18] is a key component of lithium-ion batteries widely used in electric cars. After years of relative calm in cobalt markets, prices surged by 129 per cent in 2017 to end the year at $75,500 per ton.[19] The upward trend was driven by several factors, including demand for lithium-ion batteries, supply concerns arising from political instability and conflict in a major producing country, governance issues and policy by major Governments to phase out fossil fuels. In the first quarter of 2018, prices rose again by 24 per cent to $93,250 per metric ton but the upward trajectory reversed in April, and prices fell by 16 per cent to $77,300 per metric ton in the second quarter,[20] largely due to excess supply. Cobalt volumes traded at the London Metal Exchange in the second quarter of 2018 declined by 33 per cent, compared with the same period in the previous year.[21] In the third quarter, prices continued to decline, driven by increased supply from the Democratic Republic of the Congo and weakened demand due to tightening liquidity conditions for traders and buyers based in China.[22] Cobalt prices are forecast to rebound as the market tightens due to a slowdown in exports from the Democratic Republic of the Congo because of reported radioactivity found in supplies from the Kamoto copper-cobalt mine.[23]

Energy

34. The UNCTAD fuel price index fell from 105.35 points in January 2017 to 92.23 points in June 2017 as it came under downward pressure from lower prices of crude oil, natural gas and coal. In the second half of the same year, the index rose by 27.5 per cent to an average 117.6 points in December 2017 and again by 10 per cent in January 2018, marking the seventh consecutive month of a rise (figure 10). The upward trend was largely driven by strengthening crude oil and coal prices, owing to increasing demand from a growing world economy. In February, the index dropped by 7.5 per cent to an average 119.2 points as oil prices came under pressure from an unexpected rise in inventories and a slowdown in economic activity from major consumers, including China, India and Japan. However,

[17] Platinum is used more in diesel vehicles, but this type of vehicle fell out of favour in light of the emissions scandal in 2015.

[18] Cobalt is not included in the free market commodity prices of UNCTADstat and is therefore not reflected in figure 9.

[19] www.mining.com/cobalt-price-bulls-worst-fears-may-just-confirmed/ (accessed 31 January 2019).

[20] https://investingnews.com/daily/resource-investing/critical-metals-investing/cobalt-investing/cobalt-market-update/ (accessed 31 January 2019).

[21] www.metalbulletin.com/Article/2866440/LME-cobalt-volumes-fell-33-in-Q2.html (accessed 31 January 2019).

[22] www.sherritt.com/English/Investor-Relations/News-Releases/News-Release-Details/2018/Sherritt-Reports-Higher-Production-at-Moa-JV-and-Stronger-Balance-Sheet-for-Q3-2018/default.aspx (accessed 31 January 2019).

[23] www.moneyweb.co.za/news-fast-news/congo-begins-audit-of-glencore-unit-after-cobalt-exports-halted/ (accessed 31 January 2019) .

the sudden drop was short-lived, and the index rose by 14.2 per cent to 137.06 points in May, owing to a strong recovery of crude oil prices driven by rising demand and production cuts by key producers. In the following months, the index declined to an average 135.53 points in August 2018 due to falling coal prices; but higher oil prices interrupted the downward trajectory and the index rose to 143.7 points in September 2018. Since January 2018, the index has risen by 10 per cent, largely due to increasing oil prices.

Crude oil

35. Crude oil prices trended downwards in the first half of 2017, but the falling trend reversed in the second half of the year and the Brent benchmark price rose by 37 per cent to reach $62.57 per barrel in December. The sharp rise in prices was largely driven by supply disruptions to offshore crude production in the United States Gulf Coast caused by hurricanes, and an extension of the 2016 agreement between the Organization of the Petroleum Exporting Countries and its partners to maintain an output cap up to the end of 2018. Libya and Nigeria, two members of the Organization exempt from the arrangement, also agreed to cap 2018 production at 2017 levels.

36. The rising trend continued in 2018. In May, Brent prices reached $77 per barrel, largely due to geopolitical tensions and fears of potential disruption to supplies in the Middle East. However, an agreement was concluded between members of the Organization of the Petroleum Exporting Countries and non-member allies at its biannual meeting in June 2018 to relax constraints on crude oil production six months ahead of the expiration of its existing agreement, which helped meet growing global demand and cool down oil prices. As a result, oil prices were under downward pressure from June to August 2018. Global trade tensions, as mentioned above, and their expected effects on world economic growth, appear to have contributed to this price movement. In September 2018, prices rose to $79 per barrel as concerns over supplies to the global market intensified owing to geopolitical tensions between the Islamic Republic of Iran and the United States, and a fall in production in the Bolivarian Republic of Venezuela. From January to September 2018 Brent oil prices rose by about 14 per cent. However, oil prices are expected to decline because of increased United States production offsetting consumption growth in China and falling supplies from the Islamic Republic of Iran.

Coal

37. Australian thermal coal prices followed a volatile path for most of 2017, alternating between upward and downward movements. However, in the last quarter of 2017, prices followed an upward trajectory, largely driven by a combination of factors such as higher demand from Chinese coal-fired power-generation companies to stock up reserves ahead of the winter season, supply constraints due to weather and industrial action at a few mines in Australia during the year. The upward trajectory during the last quarter of 2017 was interrupted in January 2018 at $106.45 per metric ton, and prices followed a volatile path thereafter to September 2018. The main drivers of this volatile path include easing of market tightness, which caused prices to decline; robust demand from utilities in Asia, particularly China, for industrial and residential cooling, owing to a heatwave in the summer; and replenishing of stocks. Other factors that contributed to the upward pressure on prices include constraints on supply due to earlier mine closures and high hurdles to developing new mines amid concerns about pollution and global warming. In September 2018, coal prices stood at $114.16 per metric ton, up by 17 per cent from the same period in 2017. Data from the Economist Intelligence Unit suggest that prices are likely to come under downward pressure due to higher production offsetting the slight increase in demand.[24]

Natural gas

38. Natural gas has multiple primary end uses, including electricity generation, domestic and industrial heating, feedstock for industries and transportation. It is predominantly traded in three distinct regional markets located in Asia, Europe and the United States.

[24] www.eiu.com/industry/commodities/article/1577237341/coal/2018-11-01# (accessed 31 January 2019).

The United States Henry Hub market and the European market facilitate trade in natural gas mainly through pipelines, while the Asian market is dominated by the shipping of liquefied natural gas. Different contractual arrangements prevail in the three regions, and prices are influenced by a variety of factors, including demand of end users, supply, extent of liberalization in the market, weather and storage.

39. The monthly average price of natural gas in the United States Henry Hub fell from $3.26 per million British thermal units (Btu) in January 2017 to $2.76 per million Btu in December 2017, a drop of 18 per cent, largely due to record production and mild weather. However, in January 2018, a combination of extremely cold temperatures across much of the United States increased exports of liquefied natural gas and a sharp drawdown in gas inventories caused prices to rise to $3.88 per million Btu but this was short-lived. Average monthly prices fell to $2.67 per million Btu in February because of increased production, but prices recovered in March and rose by 11 per cent to $2.99 per million Btu in September 2018 due to rising demand and low inventories. The United States Energy Information Administration expects strong growth in natural gas production to exert downward pressure on prices in 2019.[25]

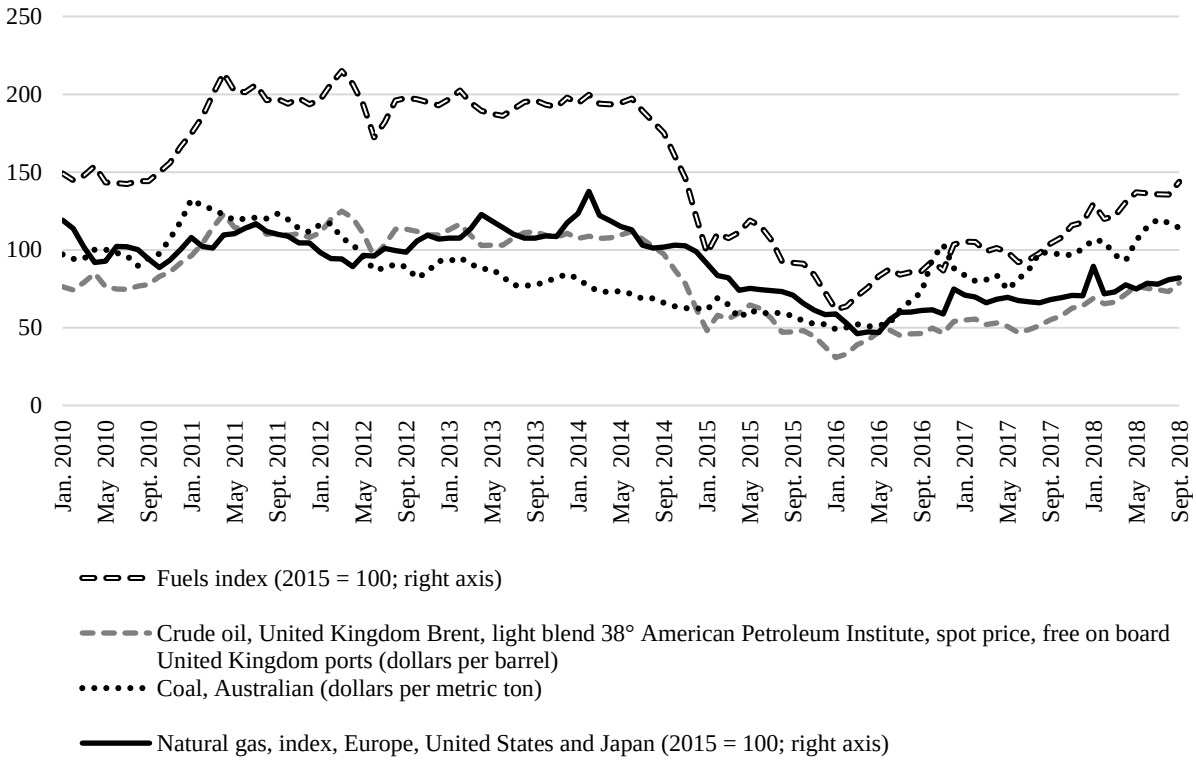
40. The European gas market was characterized by volatile prices, with no clear trend during the first half of 2017. In the second half of the year prices, trended upwards, largely due to tightness in the markets driven by higher demand from the growing use of gas in the power sector and supply disruptions attributable to outages at terminals in Norway. Low storage levels and rising oil and coal prices also contributed to the rising trend in prices.[26] In February and March 2018, prices spiked across key hubs in the region driven by a late-winter cold spell and dwindling gas stocks. From April until September, prices rose again to reach $10 per million Btu at key trading hubs due to various factors, including demand for liquefied natural gas in the Asian market, a heatwave across much of the northern hemisphere and maintenance of pipelines and facilities.

41. In the Asian liquefied natural gas market, average monthly prices were rather stable in 2017, fluctuating between $8 per million Btu and $8.95 per million Btu, except for May 2017, when prices rose above $9 per million Btu for the first time in 16 months. In January 2018, prices rose to $9.34 per million Btu, up by 8 per cent from the previous month, and continued an upward trend. This trend was driven in part by winter demand, as well as rising imports of liquefied natural gas into China in the wake of the Government's efforts to reduce urban air pollution. In September 2018, liquefied natural gas prices were up by 16 per cent from their starting point at the beginning of the year.

[25] www.eia.gov/outlooks/steo/report/natgas.php (accessed 31 January 2019).

[26] https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q3_2017_final_20171221finalcover.pdf (accessed 31 January 2019).

Figure10
Price trends of selected fuels, January 2011–September 2018



Source: UNCTAD secretariat calculations based on data from UNCTADstat and World Bank Global Economic Monitor Commodities database (accessed 31 October 2018).

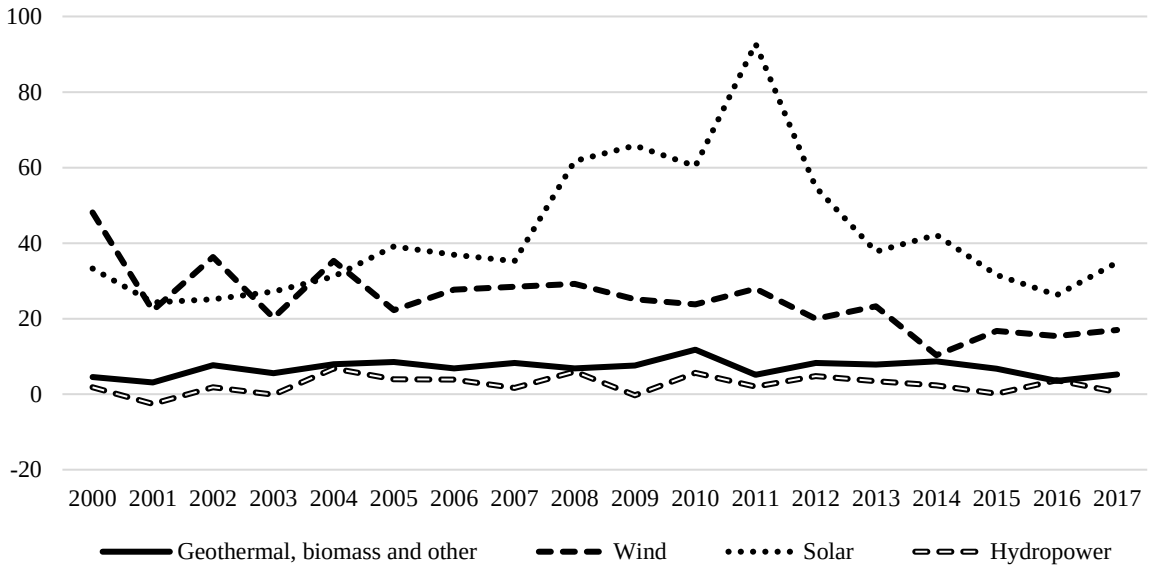
Renewable energy

42. Renewable energy plays a critical role in the transition to a less carbon-intensive energy system where greenhouse gas emissions are reduced to a sustainable level. In 2017, the highest growth rate of any energy source was renewable energy, representing a quarter of global energy demand growth.[27] The rapid growth in renewables was largely driven by falling costs of solar photovoltaics and wind power, competition and policies on energy consumption. For example, 40 per cent of global renewable capacity growth attributable to China was largely driven by capacity targets outlined in the country's thirteenth five-year plan.[28] The annual consumption growth rates for major renewable resources are shown in figure 11.

43. Renewables are expected to have the fastest growth in the electricity sector compared with other fuels such as natural gas and coal, as countries forge ahead to meet the 2030 Agenda for Sustainable Development, particularly in reducing global emissions of greenhouse gases to keep average global temperature within the limits agreed in the Paris Agreement under the United Nations Framework Convention on Climate Change. According to the International Energy Association (IEA), the share of renewables is expected to grow by one fifth over the next five years to reach 12.4 per cent in 2023.[29] During this period, renewables are forecast to meet more than 70 per cent of global electricity generation growth, led by solar photovoltaic energy and followed by wind power, hydropower and bioenergy.[30]

[27] www.iea.org/geco/ (accessed 28 January 2019).
[28] www.iea.org/publications/renewables2017/ (accessed 28 January 2019).
[29] www.iea.org/renewables2018/ (accessed 28 January 2019).
[30] Ibid (accessed 28 January 2019).

Figure 11
Annual growth rates of renewable energy consumption by type, 2000–2017



Source: UNCTAD secretariat calculations based on data from *BP Statistical Review of World Energy 2018*.

II. Some policy issues arising from recent market developments

44. Market trends as analysed in this note show rising and falling prices, as well as high price variations across different commodity groups in 2017/18. Such price movements have both macro and micro economic implications for commodity-dependent developing countries, as well as net commodity-importing developing countries, particularly net food and fuel importers. For example, a rise in commodity prices may contribute to exporting countries' improvements of their export and fiscal revenues, allowing them to increase current and capital government expenditure. By contrast, a decline in commodity prices may lead to shortfalls of export and fiscal earnings and inability of Governments to deliver basic goods and services. Rising and volatile prices may also lead to commodity-price-related inflationary pressures and difficulties in securing access to food and energy supplies at affordable prices in many developing countries. This might jeopardize Governments' ability to achieve the Sustainable Development Goals set out under the 2030 Agenda for Sustainable Development. The main goals of concern are Goal 2 (zero hunger), Goal 7 (affordable and clean energy), Goal 8 (decent work and economic growth) and Goal 9 (industry, innovation and infrastructure). This section briefly discusses policy issues arising from the recent developments in commodity markets highlighted in this note and suggests policy options that are important for sustainable development in commodity-dependent developing countries.

A. Enhancing food security

45. Maize, wheat and rice are key food staples that make up almost two thirds of the world's food energy intake.[31] The trend of rising wheat prices in 2018 has significant implications on the availability of and access to food in low-income net food-importing countries. According to the World Food Programme, the poorest households in the developing world may spend as much as 60 to 80 per cent of their incomes on food.[32] With wheat prices increasing in 2018, consumers' welfare may be negatively affected. Rising maize and wheat prices could also result in higher import bills for Governments and may reduce their ability to provide affordable food to their consumers.

46. Governments have employed different strategies to cope with high food prices, including restricting or prohibiting exports of food, reducing restrictions on imports of food, or setting limits on prices. For example, the Russian Federation implemented an export ban on wheat to preserve domestic access to food after millions of hectares of crops perished as a result of drought in 2010. However, there are drawbacks to some of these policies. Export restrictions from large exporters may increase domestic availability of the food at a lower price but could contribute to shrinking the size of the international market, affecting consumers in other countries and possibly, future global demand for the commodity. When export restrictions are implemented, prices are likely to rise and induce further actions by the Governments involved to stabilize prices. The overall impact is likely to be reflected in increased food prices and import bills, and high uncertainty in the markets. Price controls could reduce farmers' incentives to produce more food, thus negatively affecting food security.

47. Governments can resort to alternative options such as the establishment of food security stocks as an integral part of their food security strategies, as long as this is in line with international trade policy. Such stocks could help lessen the negative impact of spikes in international food prices on local consumers. In addition, Governments could consider expanding social protection programmes for the most vulnerable segments of the population when faced with rising food prices. Further, where needed, food-related development aid could be expanded and include social protection and child nutrition programmes in order to limit the devastating effects that increasing food prices could have on vulnerable people. These measures would be expected to contribute to achieving Sustainable Development Goal 2.

B. Energy security

48. Crude oil and coal prices were higher in 2018 than in 2017. If the current upward movement in energy prices persists, it could affect the accessibility of these energy sources at affordable prices in countries dependent on fossil-fuel imports. This could have significant economic implications for low-income net-energy-importing developing countries, as the development of agriculture, manufacturing, transport and other services are dependent on secure and accessible energy sources.

49. To mitigate exposure to rising and volatile energy prices and limit disruption to supplies, Governments in developing countries need to build and strengthen their resilience to price shocks. For example, in the short and medium terms, facilitating energy efficiency and conservation can contribute to moderation in energy demand, while at the same time reducing the harmful emissions from upstream energy generating plants. In the long term, the diversification of energy sources and greater reliance on renewable energy could bring sizable benefits in terms of access and cost. Technological improvements have led to cost reductions that have made many renewable energy sources such as solar and wind power[33]

[31] www.fao.org/docrep/006/Y4343E/y4343e02.htm (accessed 28 January 2019).

[32] www.wfp.org/stories/how-high-food-prices-affect-worlds-poor (accessed 28 January 2019).

[33] According to the International Renewable Energy Agency, solar photovoltaic module prices have fallen by around 80 per cent since the end of 2009, while wind turbine prices have fallen by 30 to 40 per cent; www.irena.org/costs.

increasingly competitive and readily available. The promotion of renewable sources in the energy mix could contribute to meeting Sustainable Development Goal 7.

C. Value addition and diversification

50. Many commodity-dependent developing countries rely heavily on the production and export of a few commodities with minimal value addition and even fewer forward and backward linkages with other sectors of the economy. Therefore, a decline in commodity prices can have a negative impact on export and fiscal revenues, and economic growth and may lead to increased poverty and slow development. In this context, economic and export diversification can contribute to strengthening the resilience of these countries to price shocks by allowing them to derive revenues from various sources.

51. There are two main diversification strategies that can be used by commodity-dependent developing countries. One approach is to diversify horizontally by exporting different types of commodities and other products. The other is to diversify vertically through value addition. For example, commodity-dependent developing countries can diversify horizontally in agriculture by producing high-value non-traditional exports, as Costa Rica did with its pineapple sector. Vertical diversification in a country such as Côte d'Ivoire would mean a reduction of its exports of cocoa beans and exporting more and more cocoa butter, powder or liquor. These are intermediary products used to manufacture chocolate. Internalizing these operations of the cocoa value chain would improve earnings accruing to operators within Côte d'Ivoire and lessen the exposure of cocoa producers to price shocks emanating from international markets.

52. To be effective, diversification should be directed towards commodities or products that are not subject to the same or similar price risks. In mineral-rich countries, diversification can be fostered by expanding linkages between the mining sector and the broader economy. This would not only create opportunities for local industries but also spawn new activities in other sectors. Governments will need to invest in the development of human capital and the accumulation of physical capital, including infrastructure. To reach these goals, developing countries need to improve their science and technology capabilities and strengthen their institutions and governance.[34] In addition, macroeconomic and political stability are needed for diversification policies to be successful. The diversification strategies outlined above can contribute to creating sustained jobs and inclusive growth (Goal 8) and foster the process of industrialization (Goal 9).

[34] See TD/B/C.I/MEM.2/42.