Commodity Markets and the Global Economy: Developments, Outlook, and Risks

JOHN BAFFES
Senior Economist
WORLD BANK

GLOBAL RUBBER CONFERENCE 2019

HAIKOU, HAINAN, CHINA
December 12-14, 2019

Outline

- ***The global economy***
- ***Commodity markets***
  - *Energy*
  - *Metals*
  - *Agriculture*
- ***Risks***
  - *Policies*
  - *Geopolitics*
  - *Mishaps*
- ***Price forecasts***

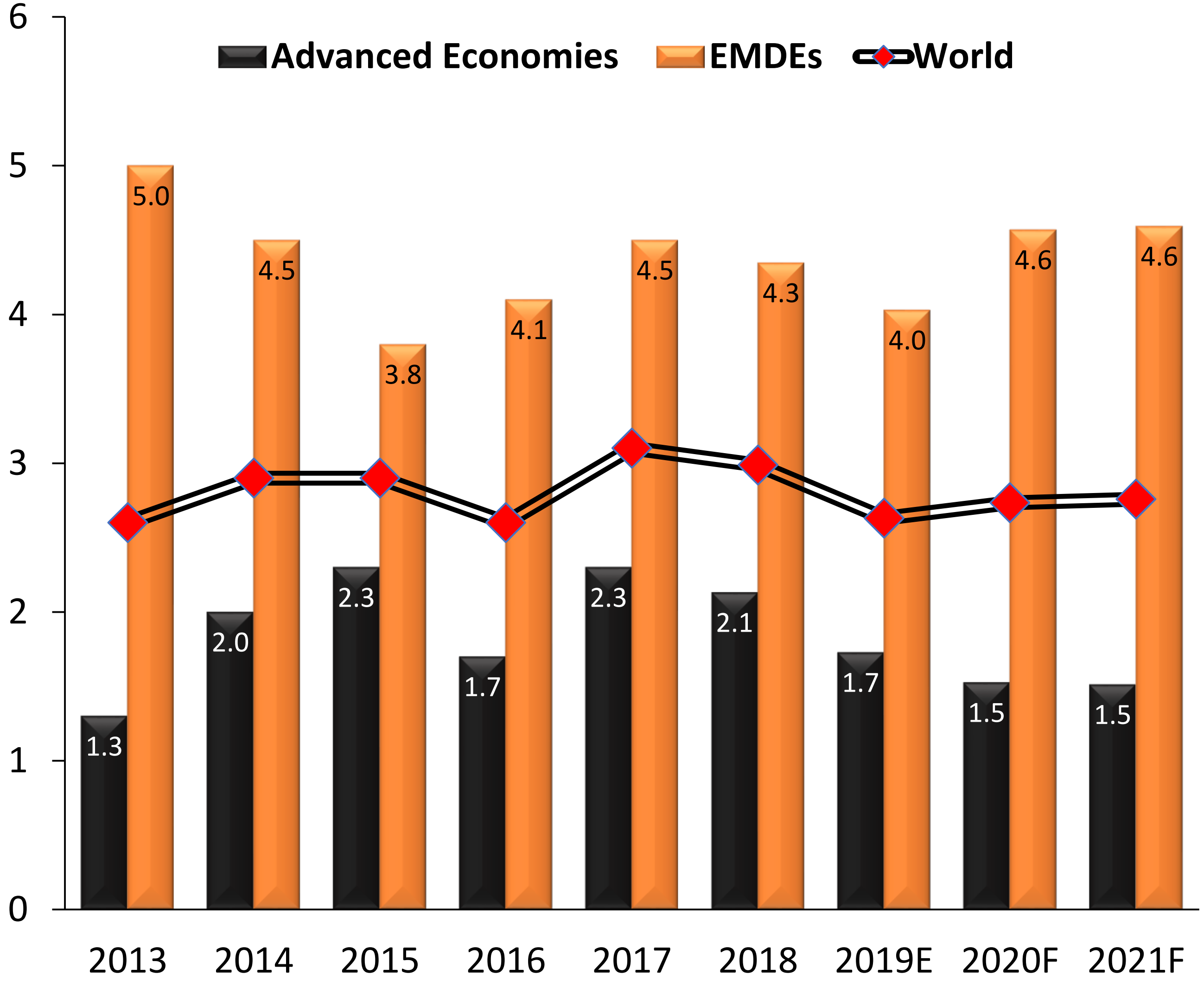
Outline

- ***The global economy***
- *Commodity markets*
  - *Energy*
  - *Metals*
  - *Agriculture*
- *Risks*
  - *Policies*
  - *Geopolitics*
  - *Mishaps*
- *Price forecasts*

The economics of natural rubber

- **It is an agricultural commodity** and, therefore, yields depend on weather conditions.
- **It is a tree crop** (like coffee and cocoa), thus subjected to long term investment decisions.
- **It is an industrial commodity** (like metals), used mostly by the automotive and petrochemical industries, hence subjected to global economic prospects.
- **It can be tapped at "will"** (like a manufacturing product), in response to price conditions.
- **It competes with synthetic rubber** (which is made from crude oil), therefore responding to the gyrations of energy markets.

Challenging global economic outlook



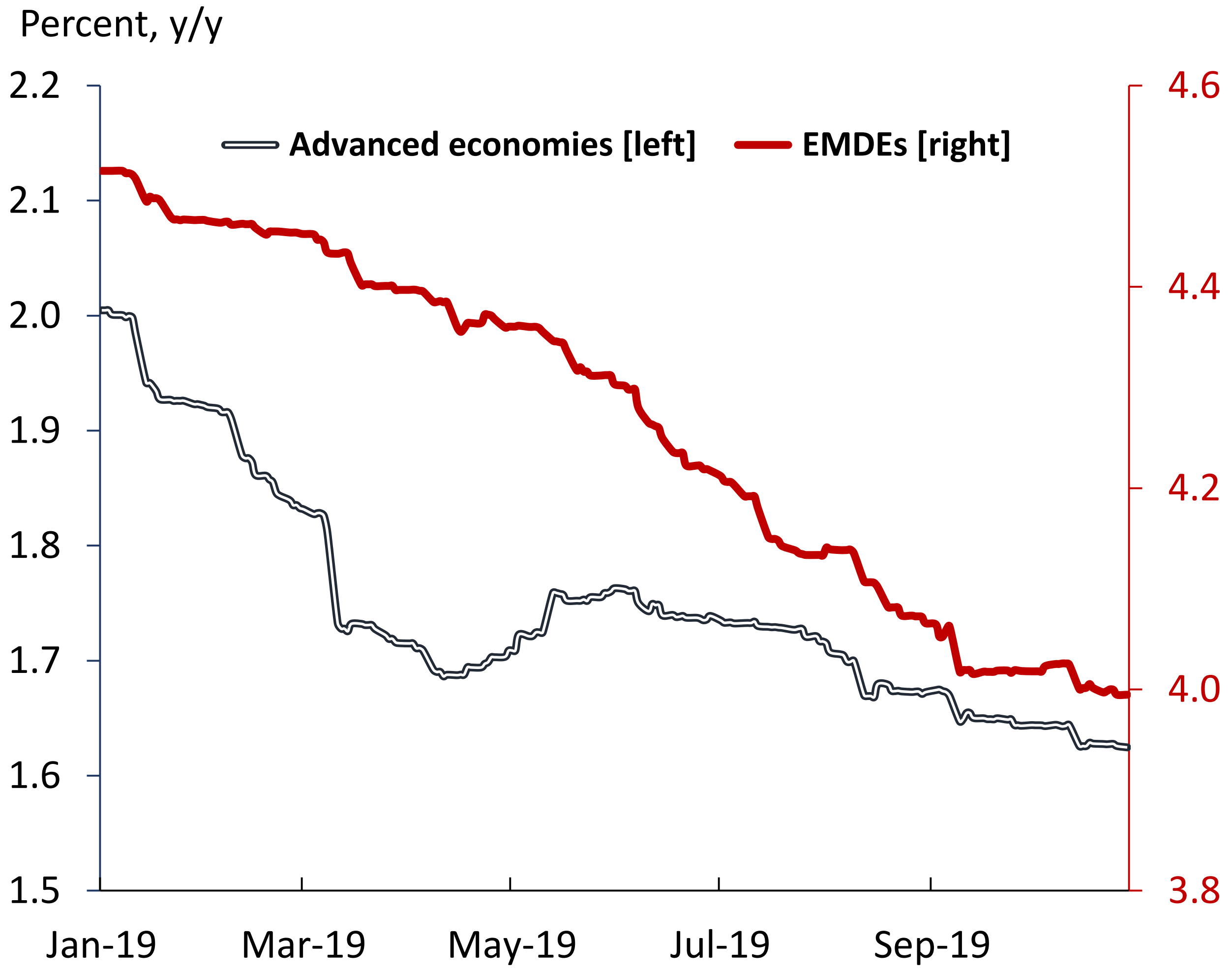
Source: World Bank, *Global Economic Prospects* (June 2019 edition).
Note: EMDE stands for Emerging Markets and Developing Economies.

Recent developments

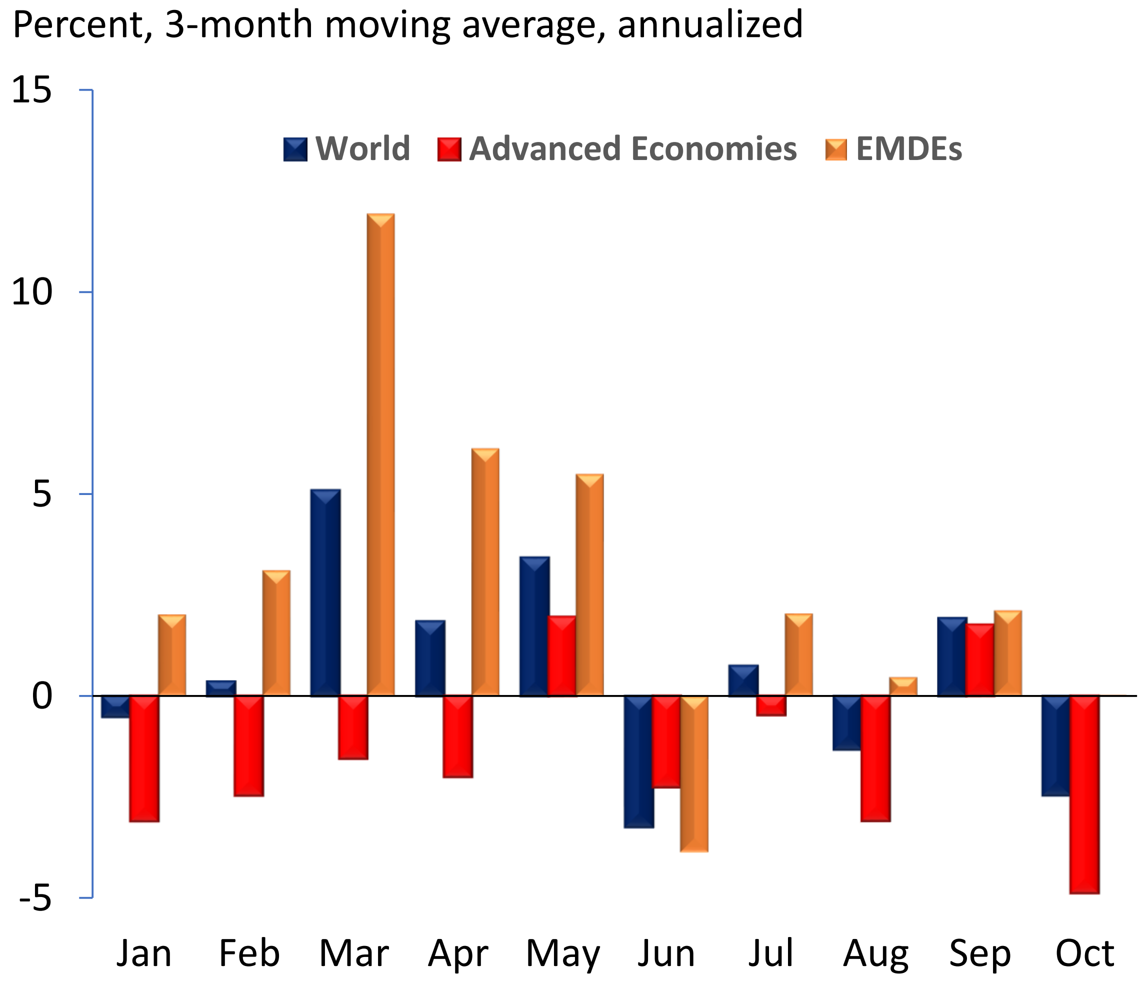
- Global growth was projected at 2.7 percent in 2020, up from 2.6 percent in 2019 but considerably lower than 2018 (World Bank's *Global Economic Prospects,* published **June 4, 2019**).
- Growth in EMDEs, was expected to gain momentum in 2020, estimated at 4.6 percent, up from 4 percent in 2019.
- However, recent data will lead to downward revisions to the 2020 growth forecast for both advanced economies and EMDEs, a reflection of weakness in international trade, investment slowdown, and trade tensions (next *Global Economic Prospects* to be published **January 7, 2020**).

Weakening growth and industrial production for 2019

Global GDP growth



Global industrial production growth

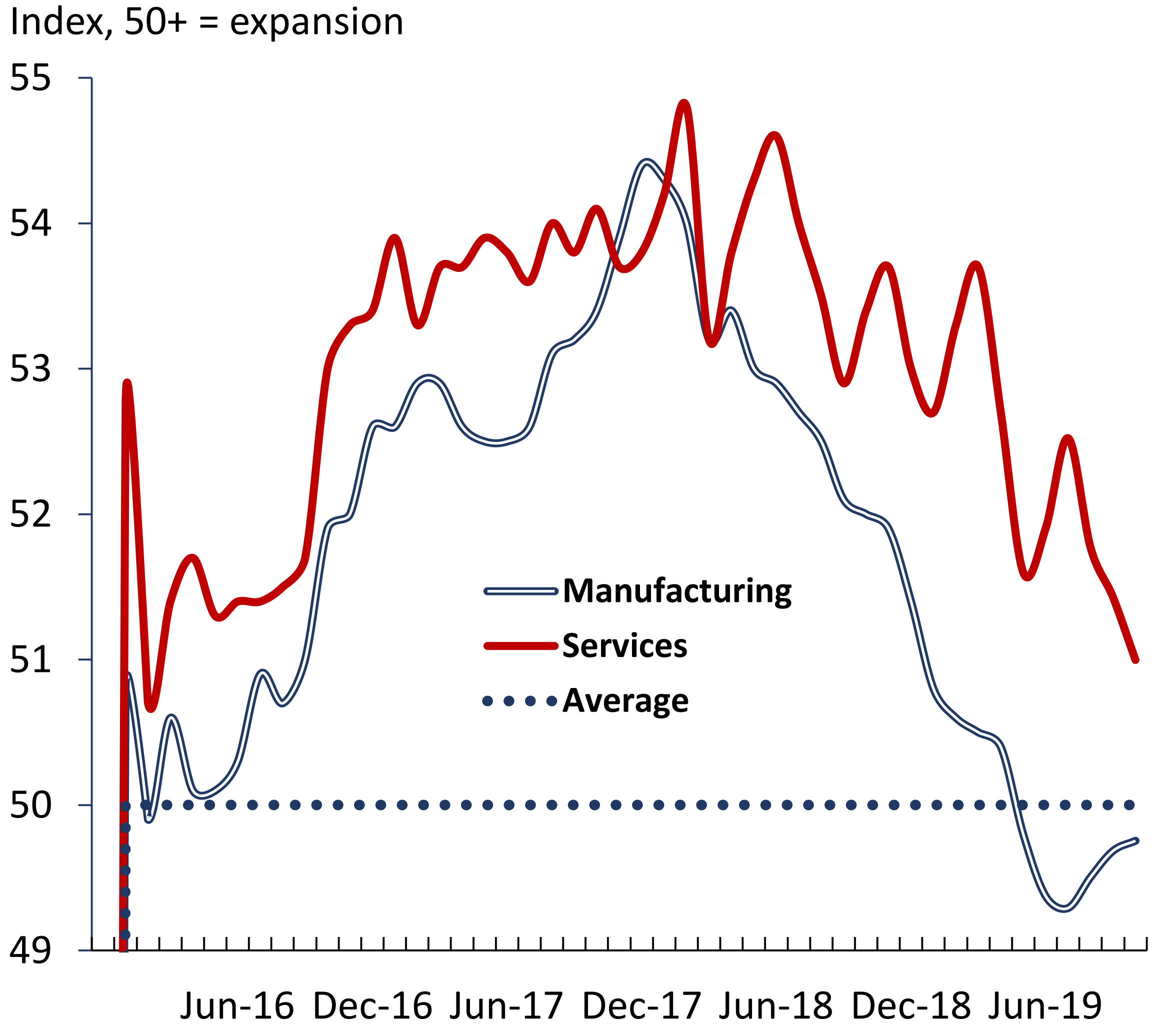


Sources: Consensus Economics and World Bank.

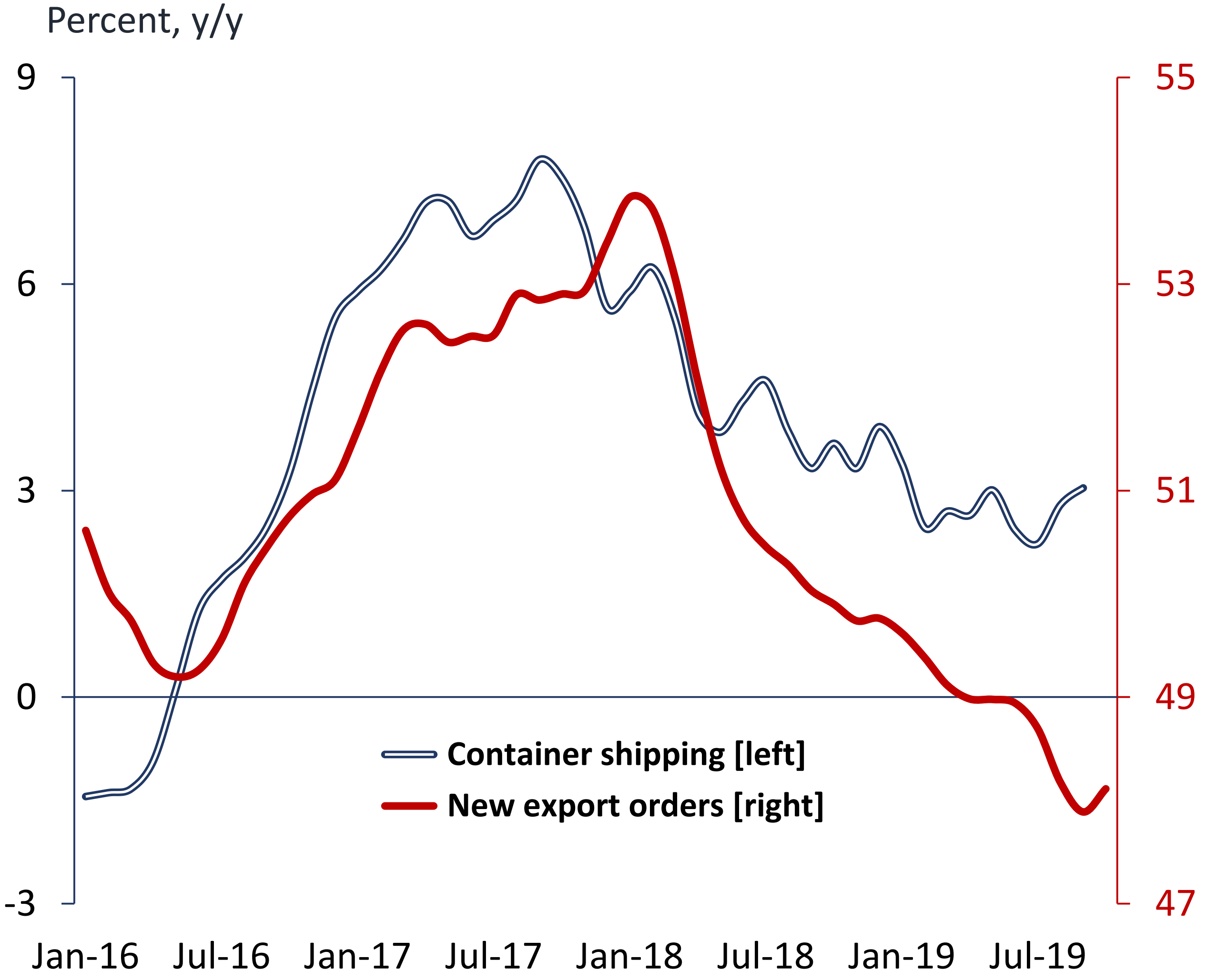
Note: Average GDP growth in 2019 based on 59 economies (including 32 advanced economies and 27 EMDEs) for which data of consensus forecasts are available, weighted by GDP in constant 2010 U.S. dollars for 2018. Last observation is October 28, 2019.

Weak global manufacturing and trade data

Global Purchasing Managers Indexes

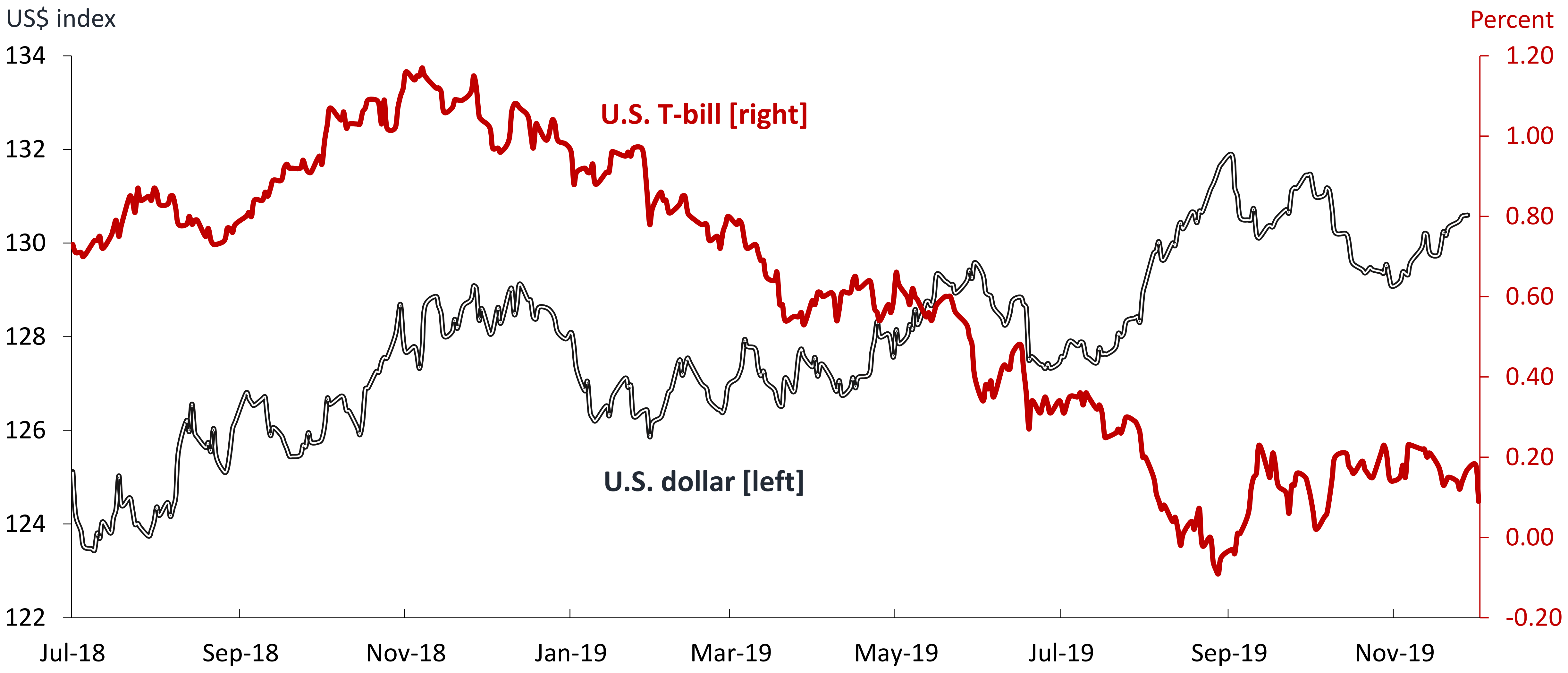


Trade indicators



Sources: Haver Analytics, Institute of Shipping Economics and Logistics, World Bank.
Notes: PMI readings above (below) 50 indicate expansion (contraction) in economic activity. Last observation is October 2019.

Strengthening dollar and lower interest rate environment



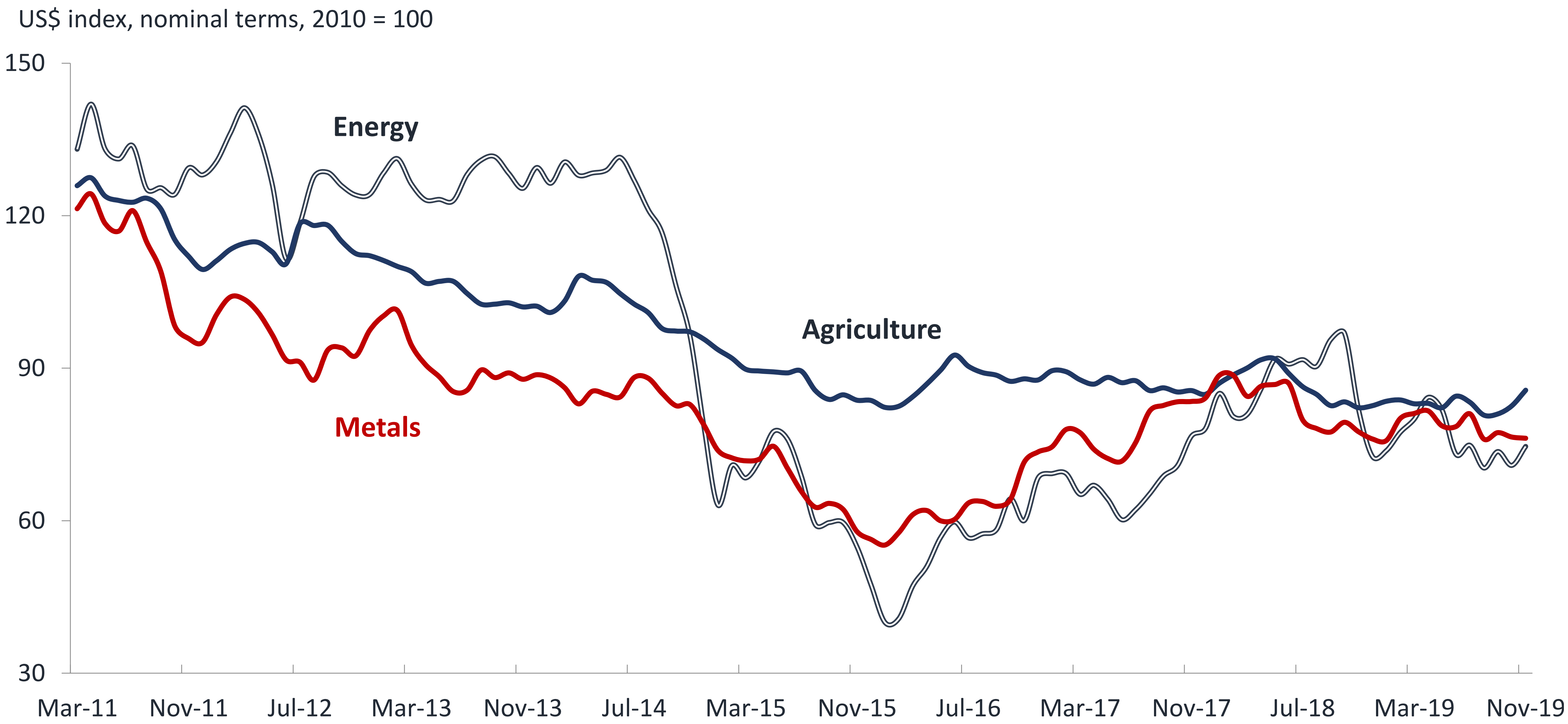
Source: Bloomberg, Federal Reserve Bank of St. Louis.

Note: The US dollar index is a broad trade weighted index for goods (DTWEXB). The U.S. T-bill is the 10-Year Treasury inflation-indexed security, constant maturity, not seasonally adjusted (DFII10). Last observation is November 29 (DTWEXB) and December 3 (DFII10), 2019.

Outline

- *The global economy*
- **Commodity markets**
  - *Energy*
  - *Metals*
  - *Agriculture*
- *Risks*
  - *Policies*
  - *Geopolitics*
  - *Mishaps*
- *Price forecasts*

Commodity price indexes stabilized



Source: World Bank

Note: Last observation is November 2019.

Where are commodity prices heading?

TABLE 1 Nominal price indexes and forecast revisions

	Price Indexes (2010=100)[1]					Change (%) q/q		Change (%) y/y		Forecast revision[3]	
	2016	2017	2018	2019f[2]	2020f[2]	2019Q2	2019Q3	2019f[2]	2020f[2]	2019f[2]	2020f[2]
Energy	55	68	87	74	72	3.4	-8.4	-14.6	-3.1	-9.2	-1.7
Non-Energy[4]	79	84	85	81	81	0.1	-1.9	-4.7	0.1	-2.6	-1.3
Agriculture	87	87	87	83	83	-0.2	-1.8	-4.7	0.6	-2.1	-1.1
Fertilizers	78	74	82	82	84	-1.2	-4.2	-0.6	2.2	-5.3	0.5
Metals and minerals	63	78	83	78	77	0.8	-1.8	-5.2	-1.4	-3.4	-2.1
Precious metals	97	98	97	105	111	-0.2	12.7	8.3	5.6	5.8	2.5
Memorandum items											
Crude oil ($/bbl)	43	53	68	60	58	7.5	-8.2	-12.2	-3.3	-8.8	-1.8
Gold ($/toz)	1,249	1,258	1,269	1,390	1,470	0.4	12.6	9.5	5.8	6.3	1.9

Source: World Bank.

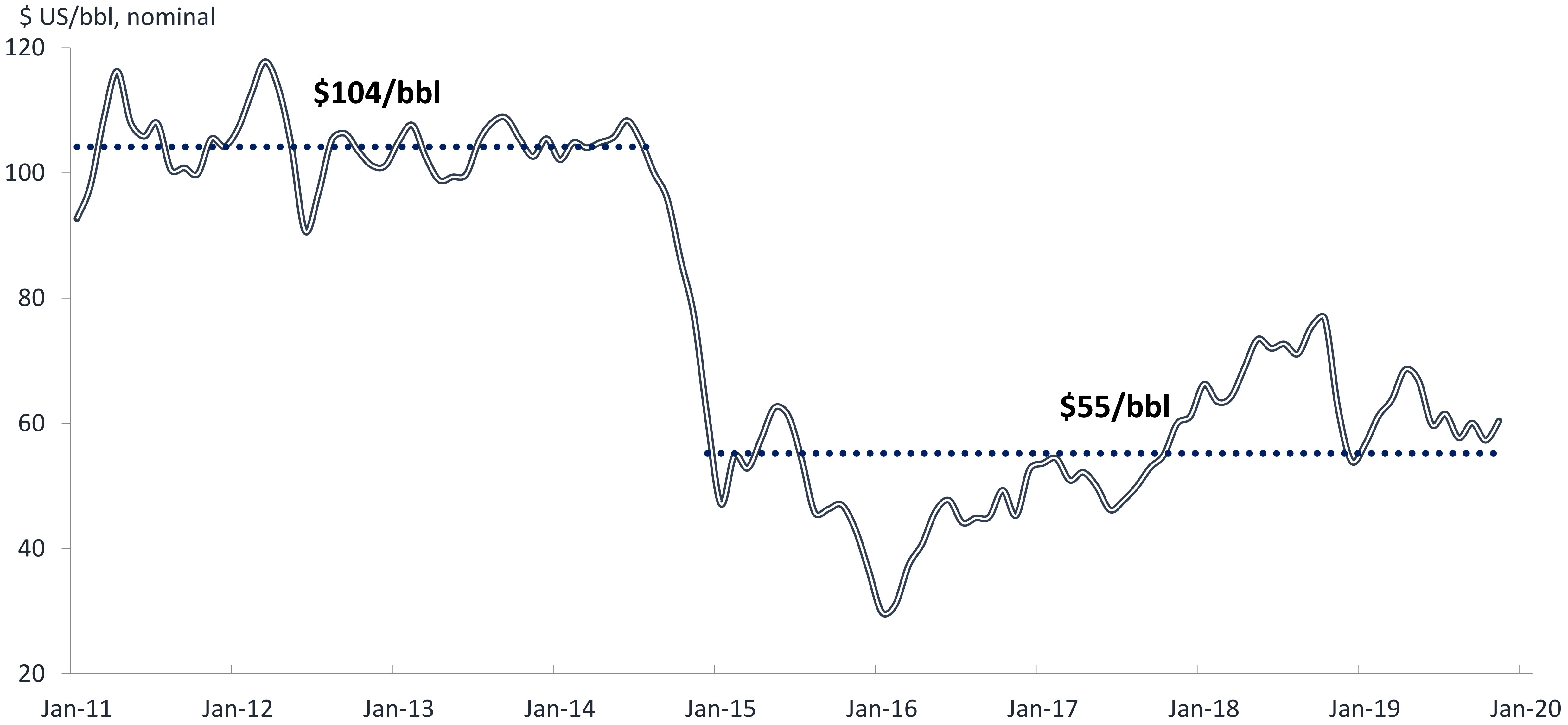
Notes: (1) Numbers may differ from tables A.1-4 due to rounding. (2) "f" denotes forecasts. (3) Denotes percentage points revision to the growth forecasts from the April 2019 report. (4) The non-energy price index excludes precious metals. See Appendix C for definitions of prices and indexes.

Download data and charts.

Outline

- *The global economy*
- **Commodity markets**
  - ***Energy***
  - *Metals*
  - *Agriculture*
- *Risks*
  - *Policies*
  - *Geopolitics*
  - *Mishaps*
- *Price forecasts*

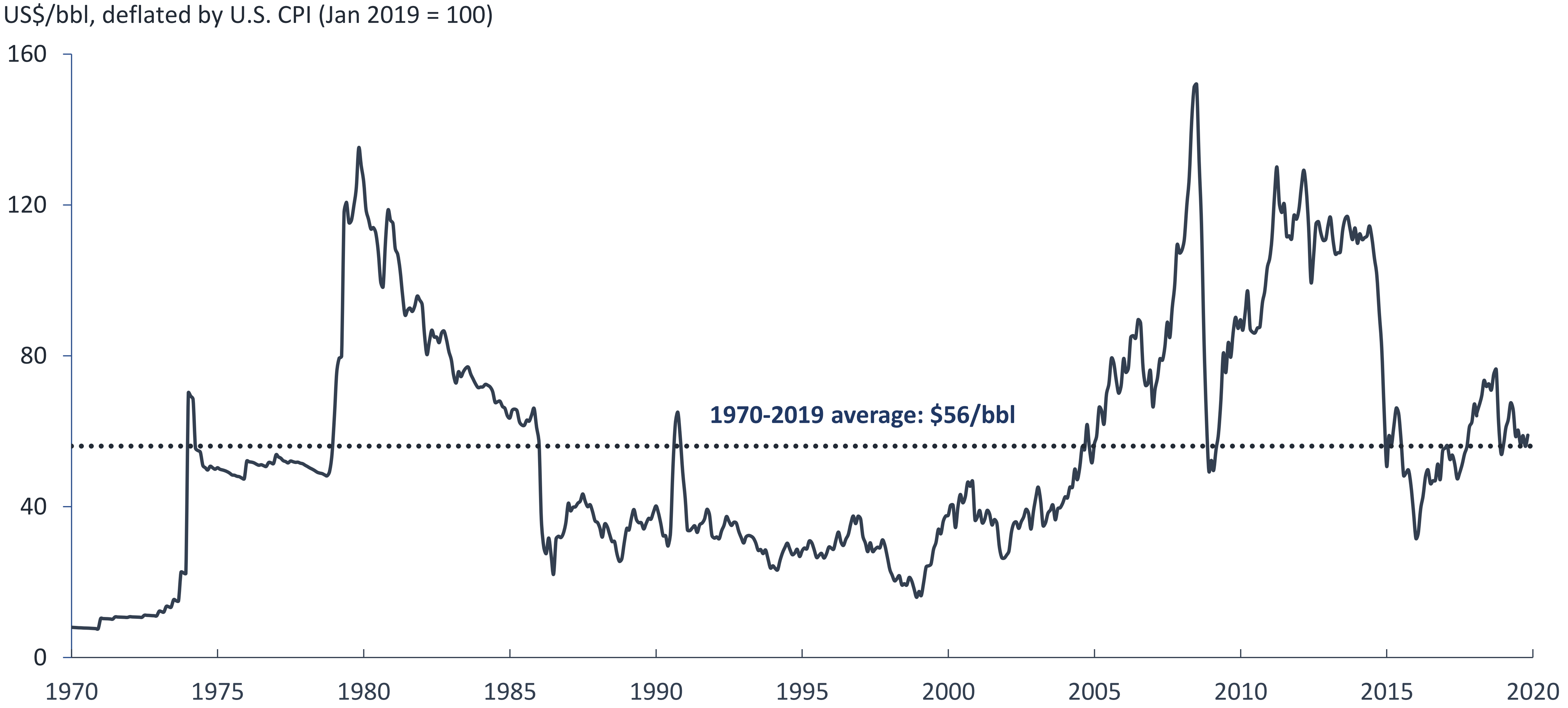
The “equilibrium” price of oil has changed



Source: World Bank

Note: Last observation is November 2019.

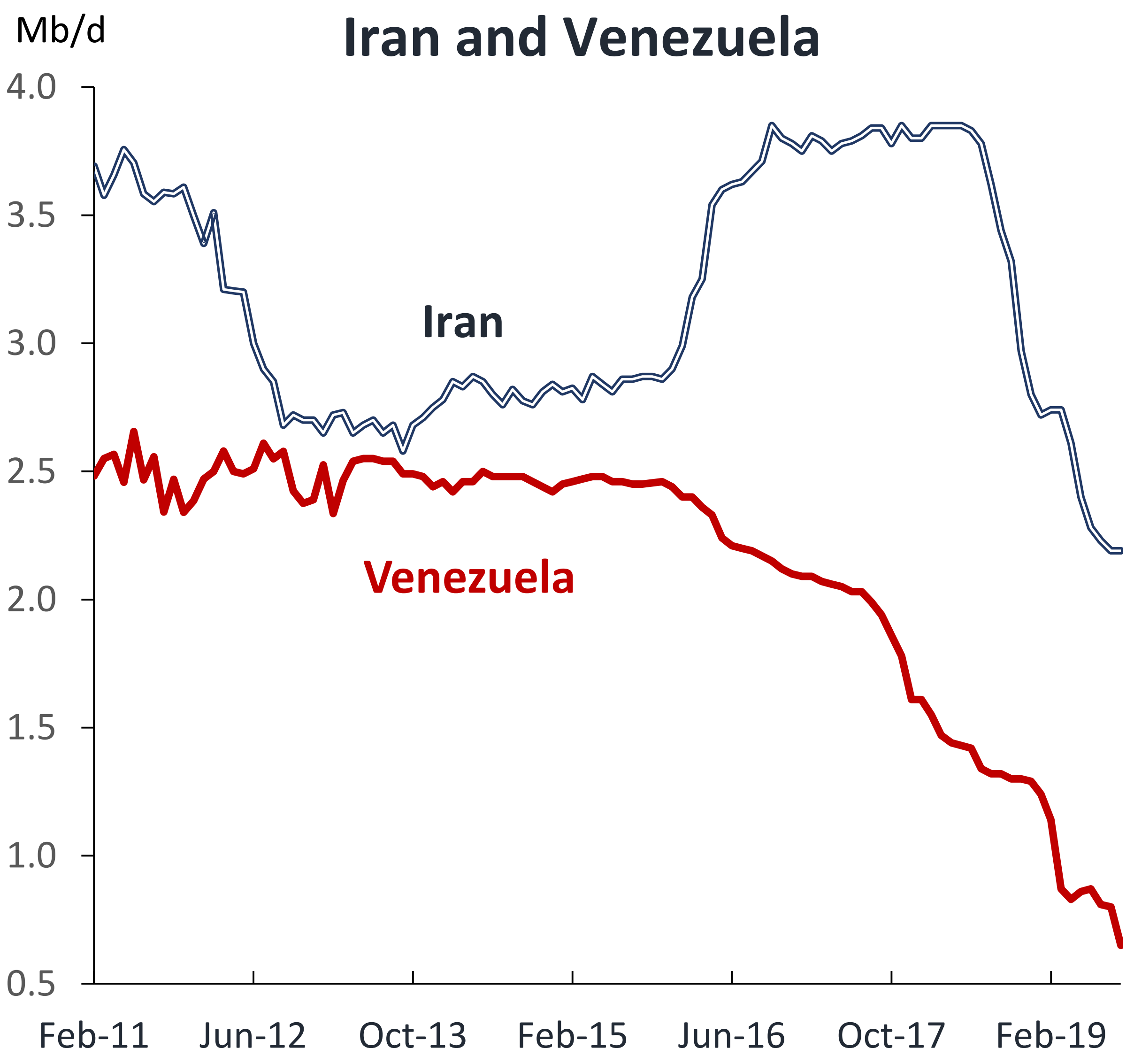
Real oil prices currently at their 50-year average

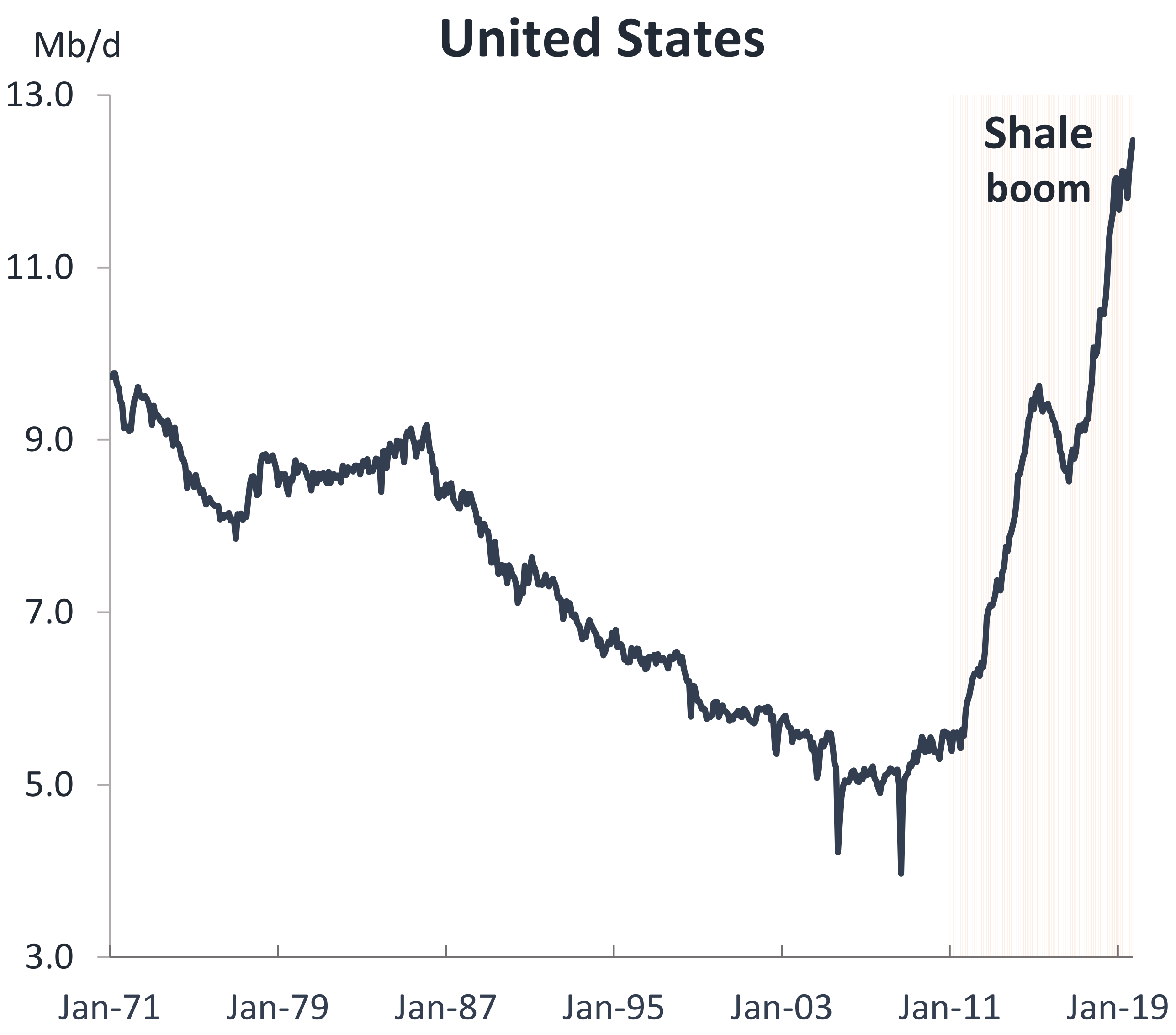


Source: World Bank.

Note: Price represents the average Brent, Dubai, and WTI. Last observation is November 2019.

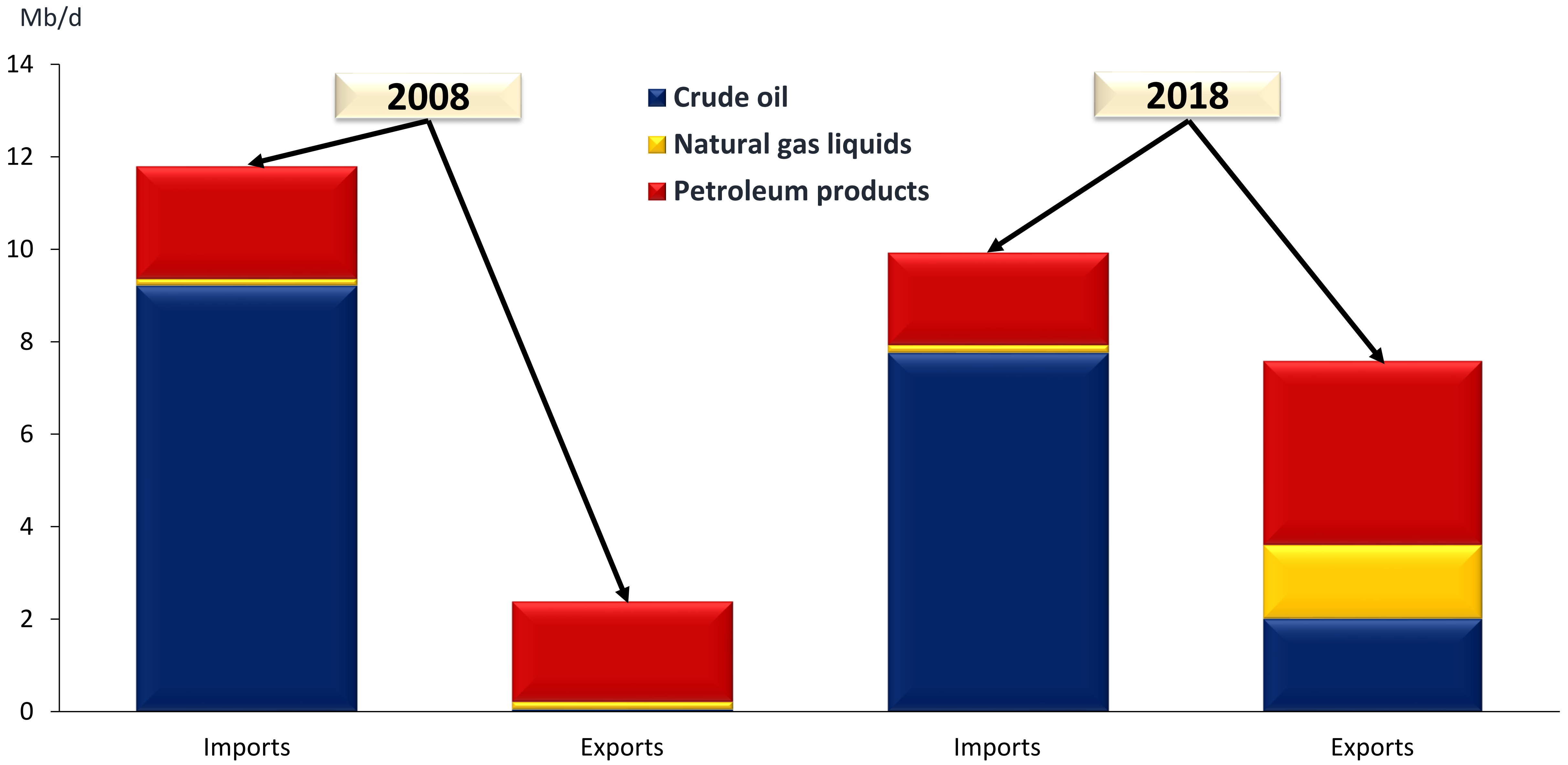
Oil production: A tale of two extremes





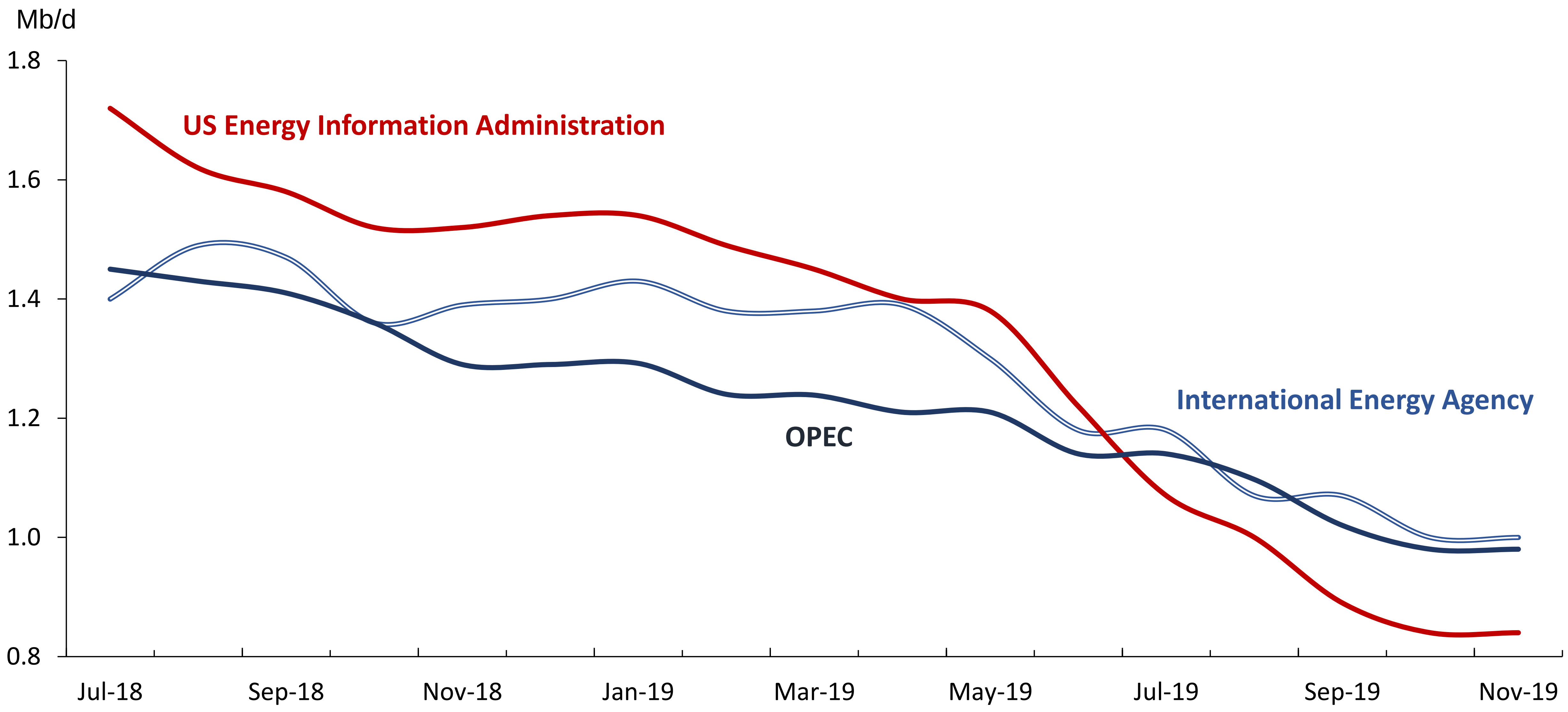
Source: International Energy Agency, US Energy Information Administration, and World Bank.
Notes: Last observation is October 2019.

U.S. on track to be net oil exporter by 2020



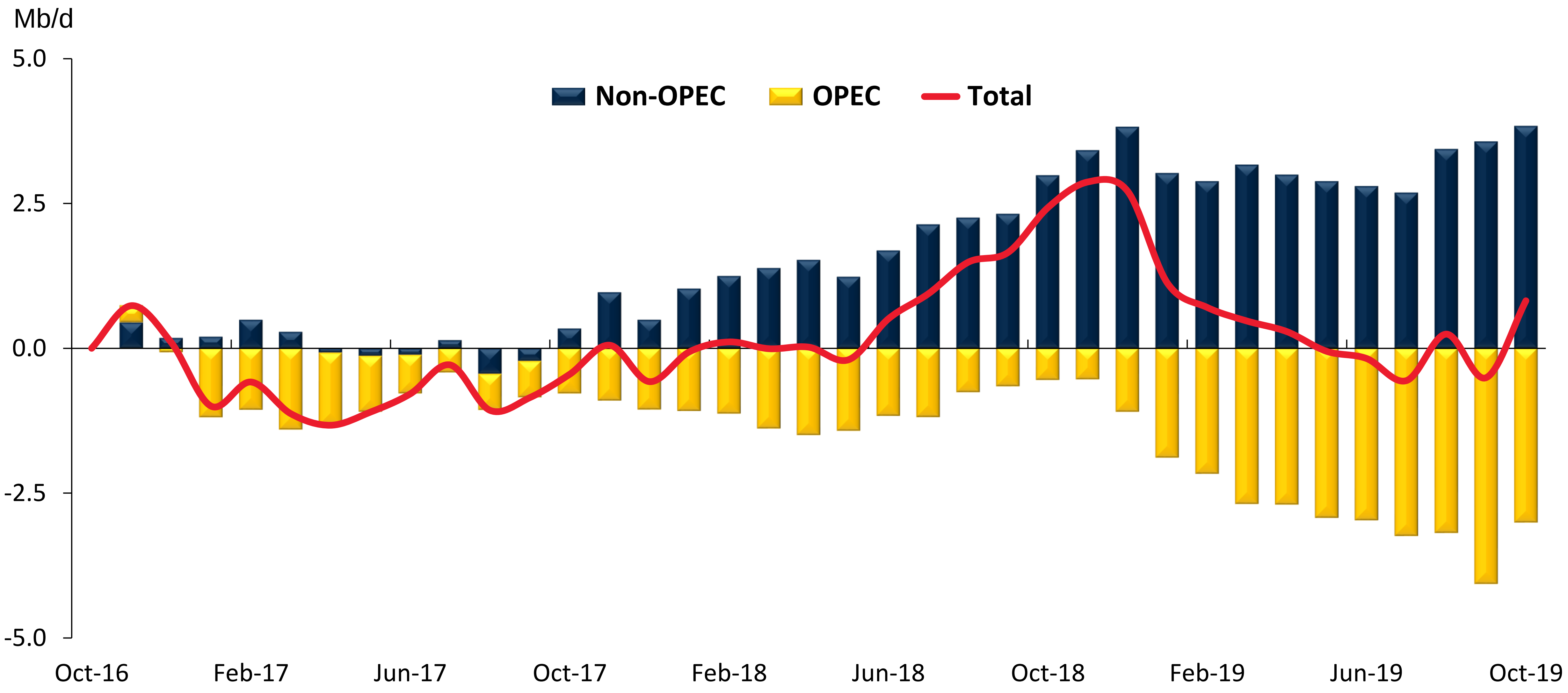
Source: U.S. Energy Information Administration and World Bank.

Repeated downward revisions to 2019 oil demand growth



Source: EIA, IEA, and OPEC.
Notes: Last observation is November 2019.

OPEC cuts are non-OPEC gains



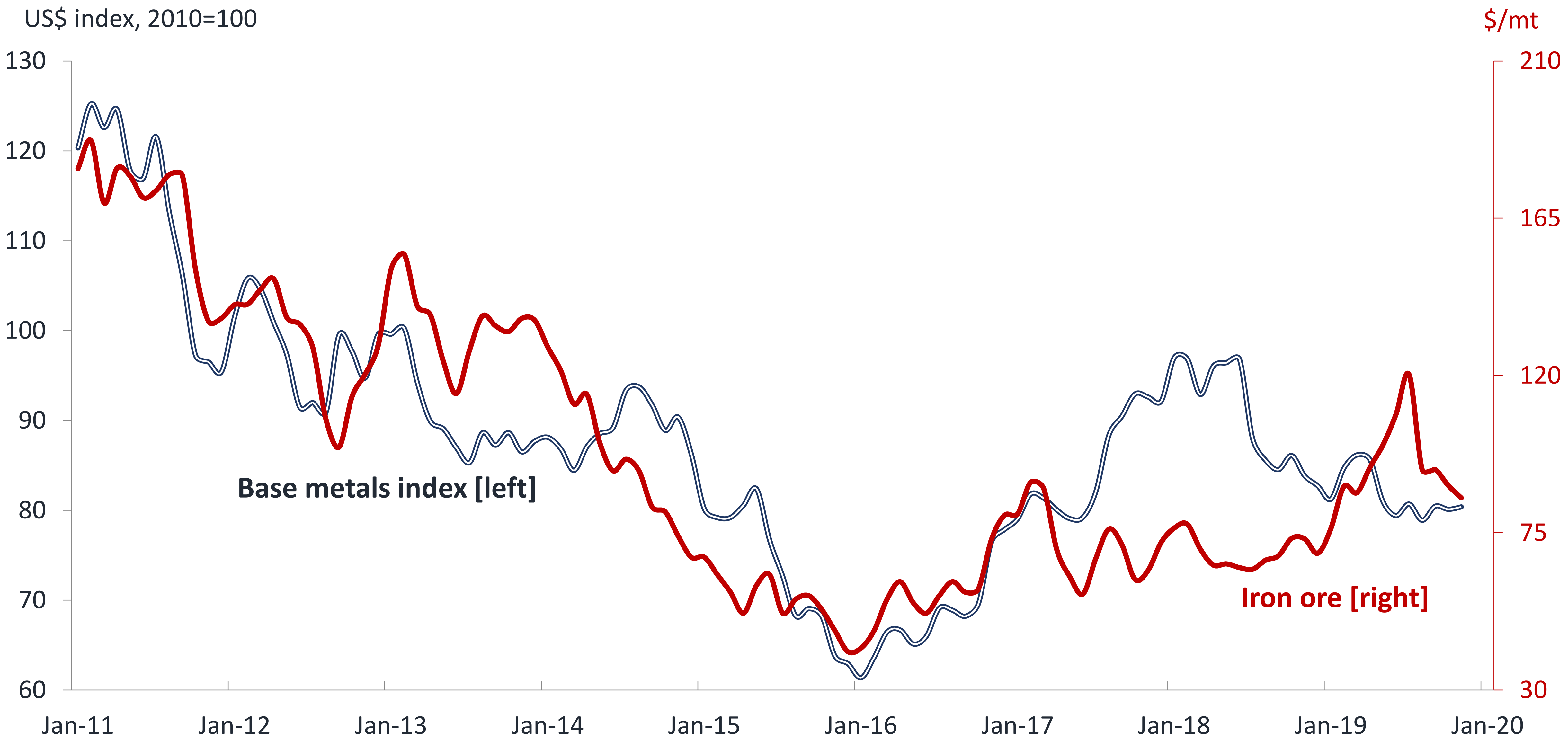
Source: Energy Information Administration and World Bank.

Notes: Change in crude oil production since October 2016, the date of the first OPEC production cut agreement. OPEC excludes Qatar. Last observation is October 2019.

Outline

- *The global economy*
- ***Commodity markets***
  - *Energy*
  - ***Metals***
  - *Agriculture*
- *Risks*
  - *Policies*
  - *Geopolitics*
  - *Mishaps*
- *Price forecasts*

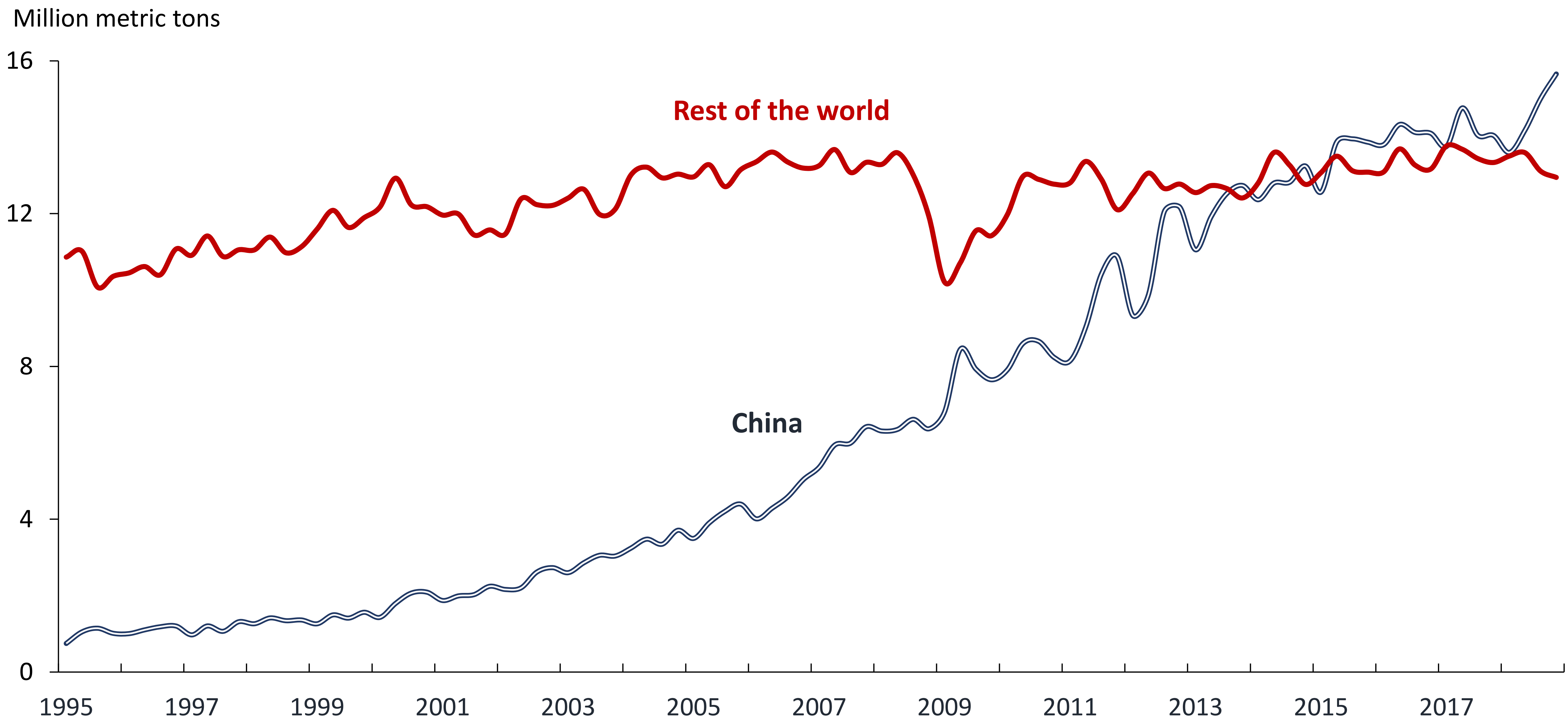
Metal prices driven by different fundamentals



Source: World Bank

Note: Last observation is November 2019. The base metals price index include aluminum, copper, lead, nickel, tin, and zinc.

China's dominance in global metal consumption continues



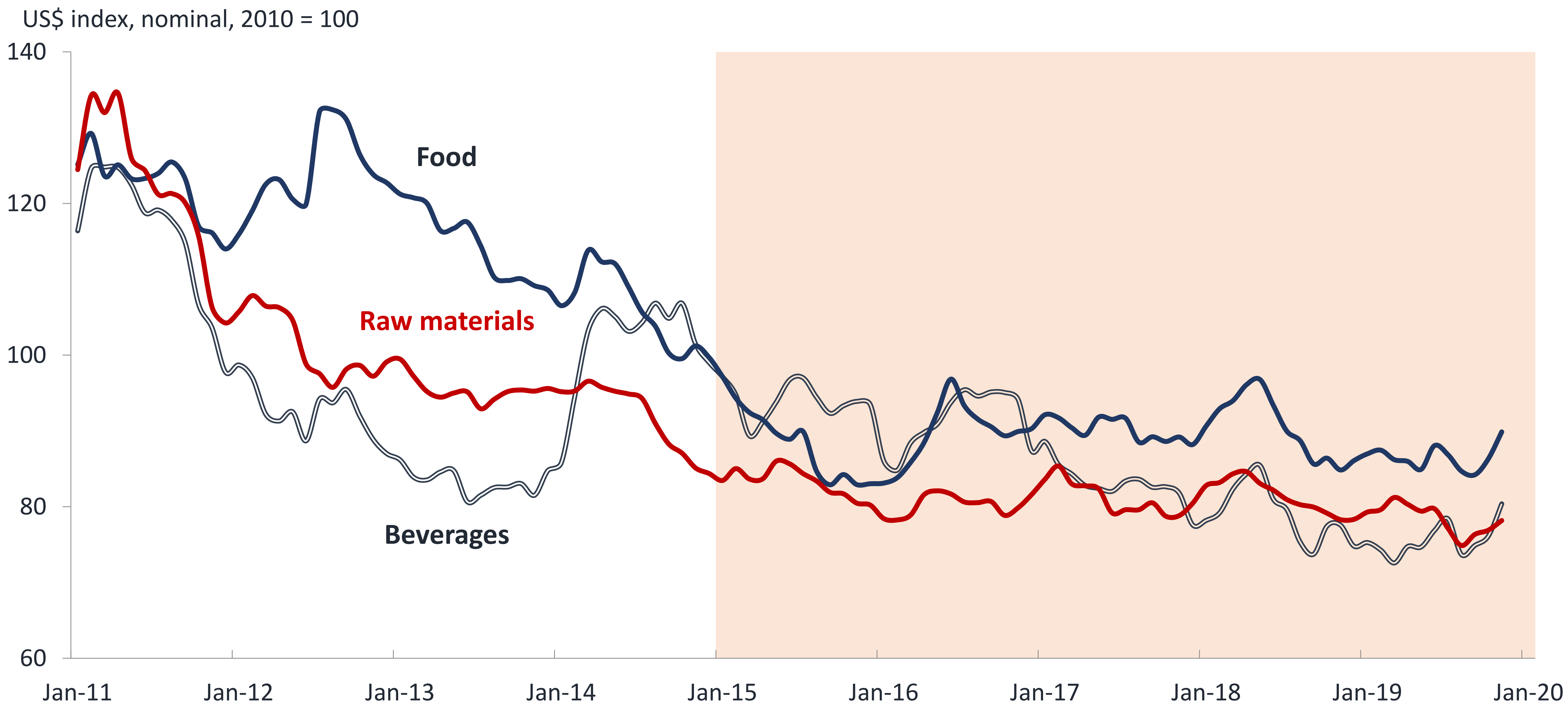
Source: World Bank and World Bureau of Metal Statistics

Notes: Last observation is 2018Q4.

Outline

- *The global economy*
- ***Commodity markets***
  - *Energy*
  - *Metals*
  - ***Agriculture***
- *Risks*
  - *Policies*
  - *Geopolitics*
  - *Mishaps*
- *Price forecasts*

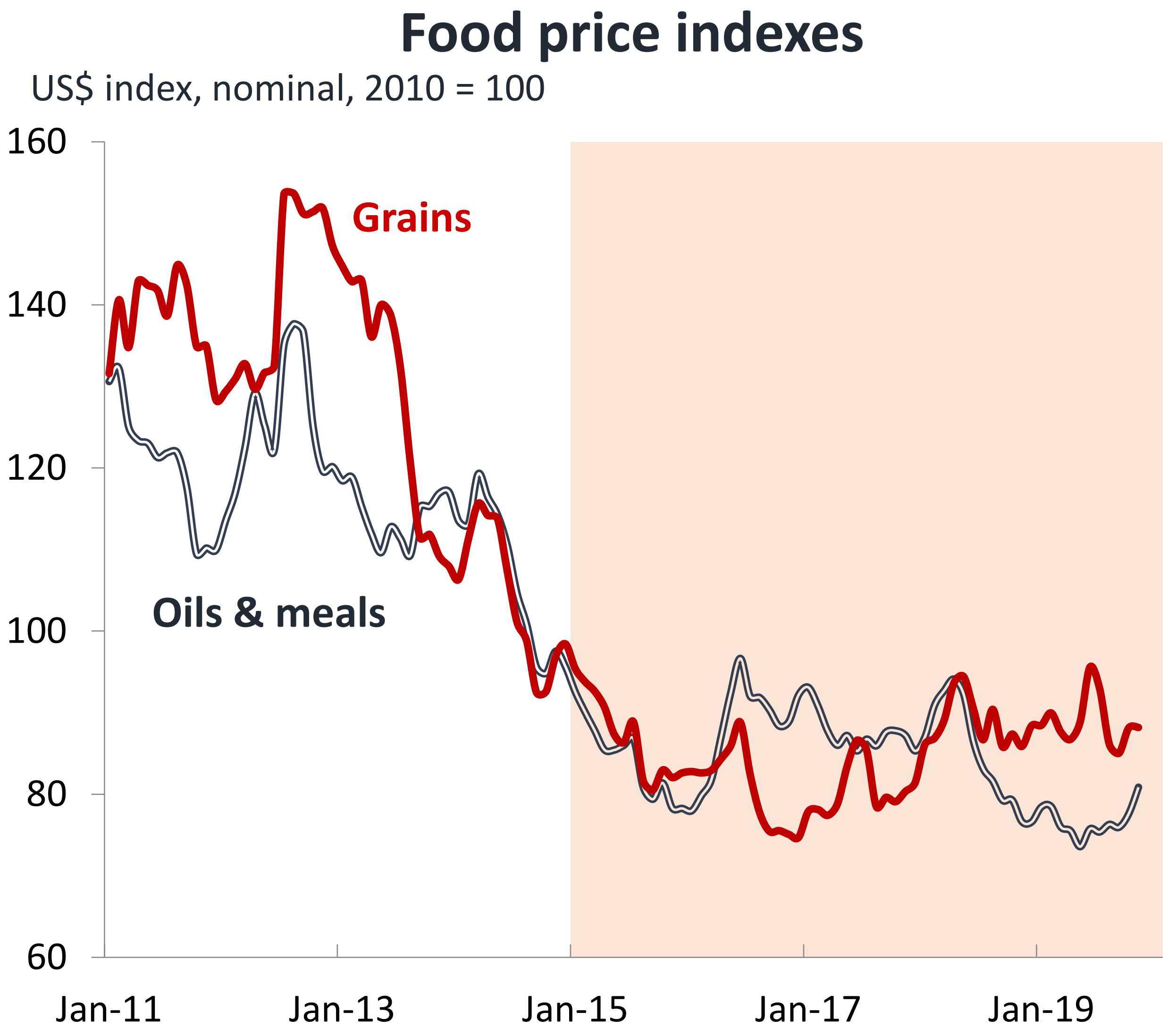
Agricultural prices have enjoyed 5 years of stability

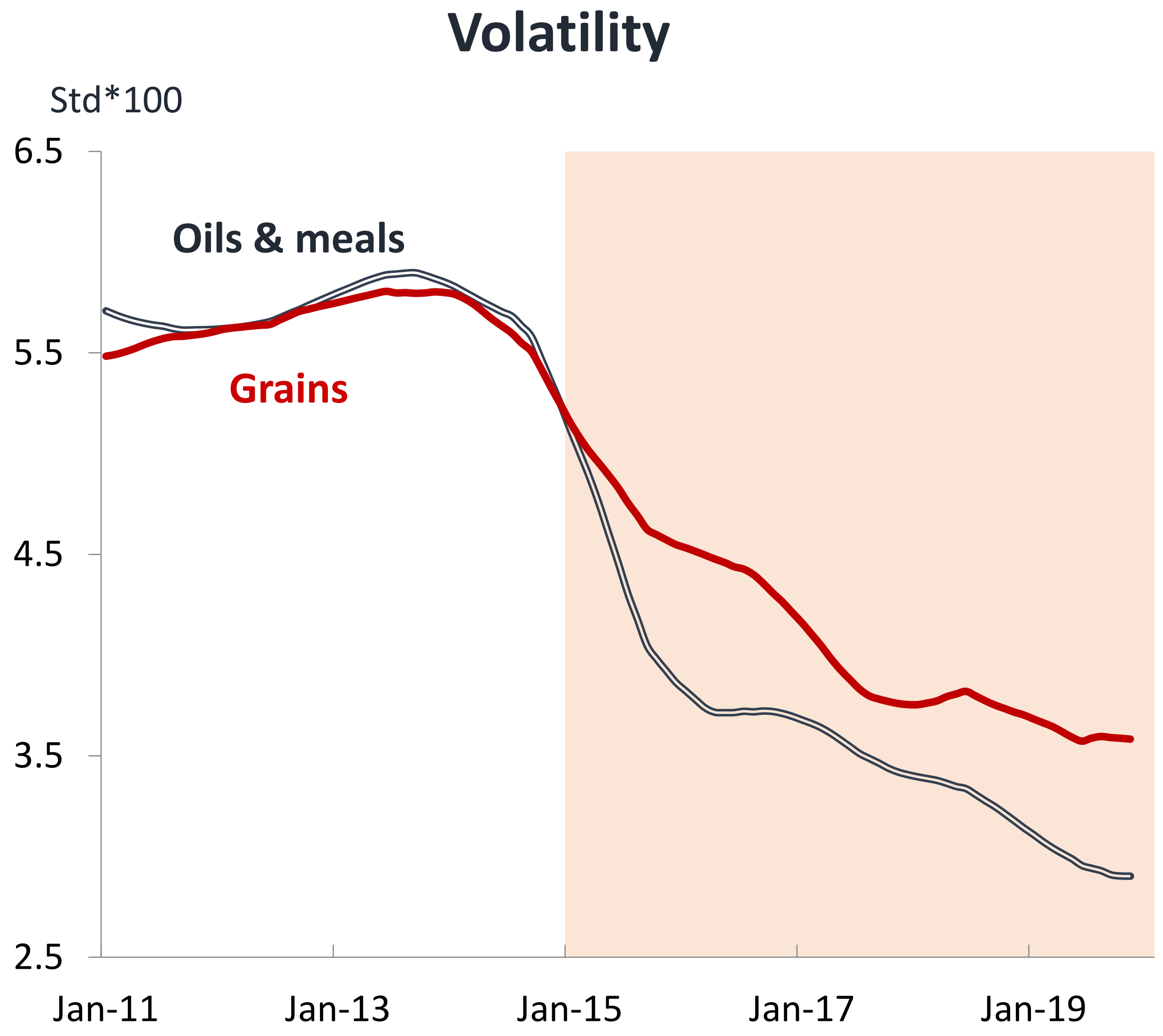


Source: World Bank.

Note: Last observation is November 2019.

Food prices: Low and stable



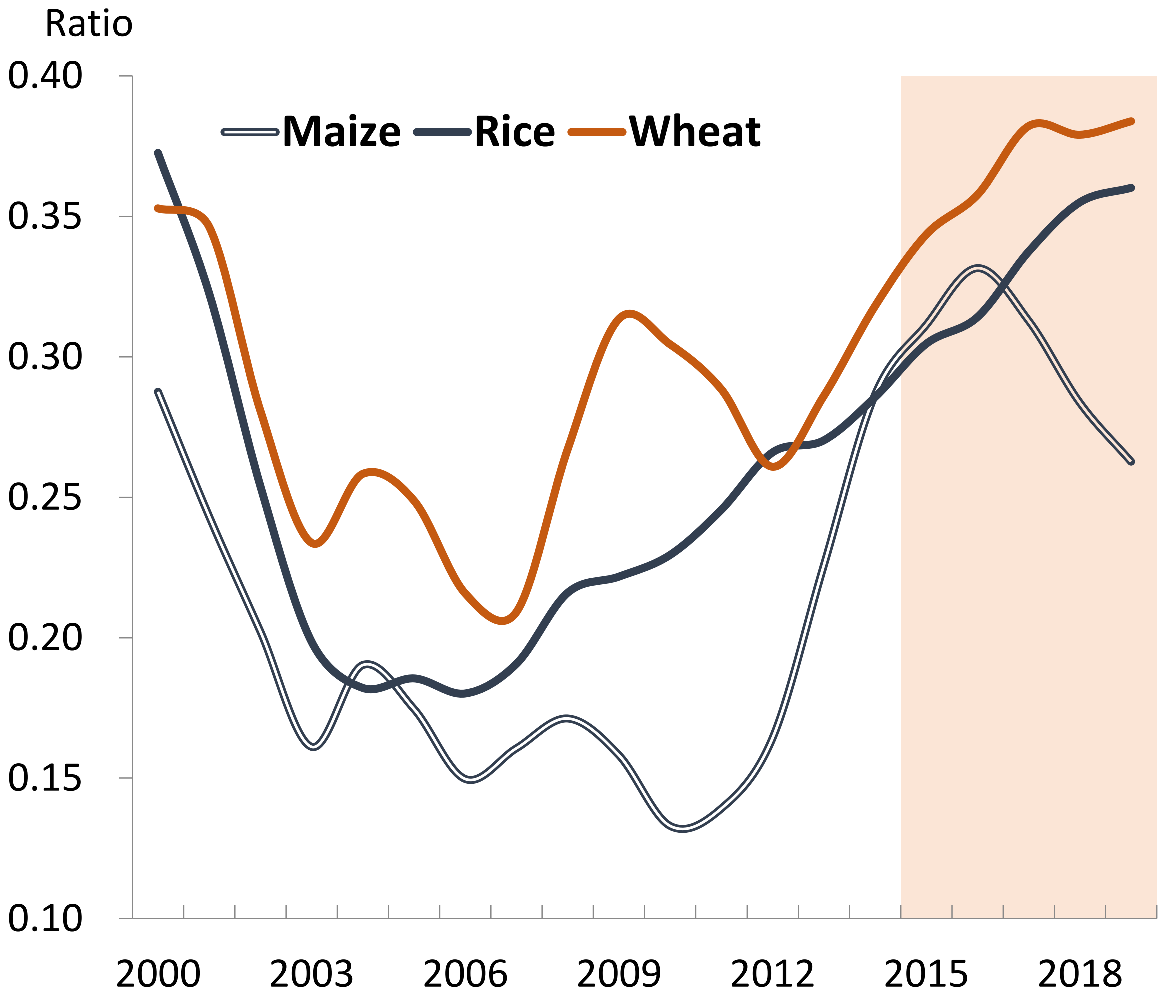


Source: World Bank.

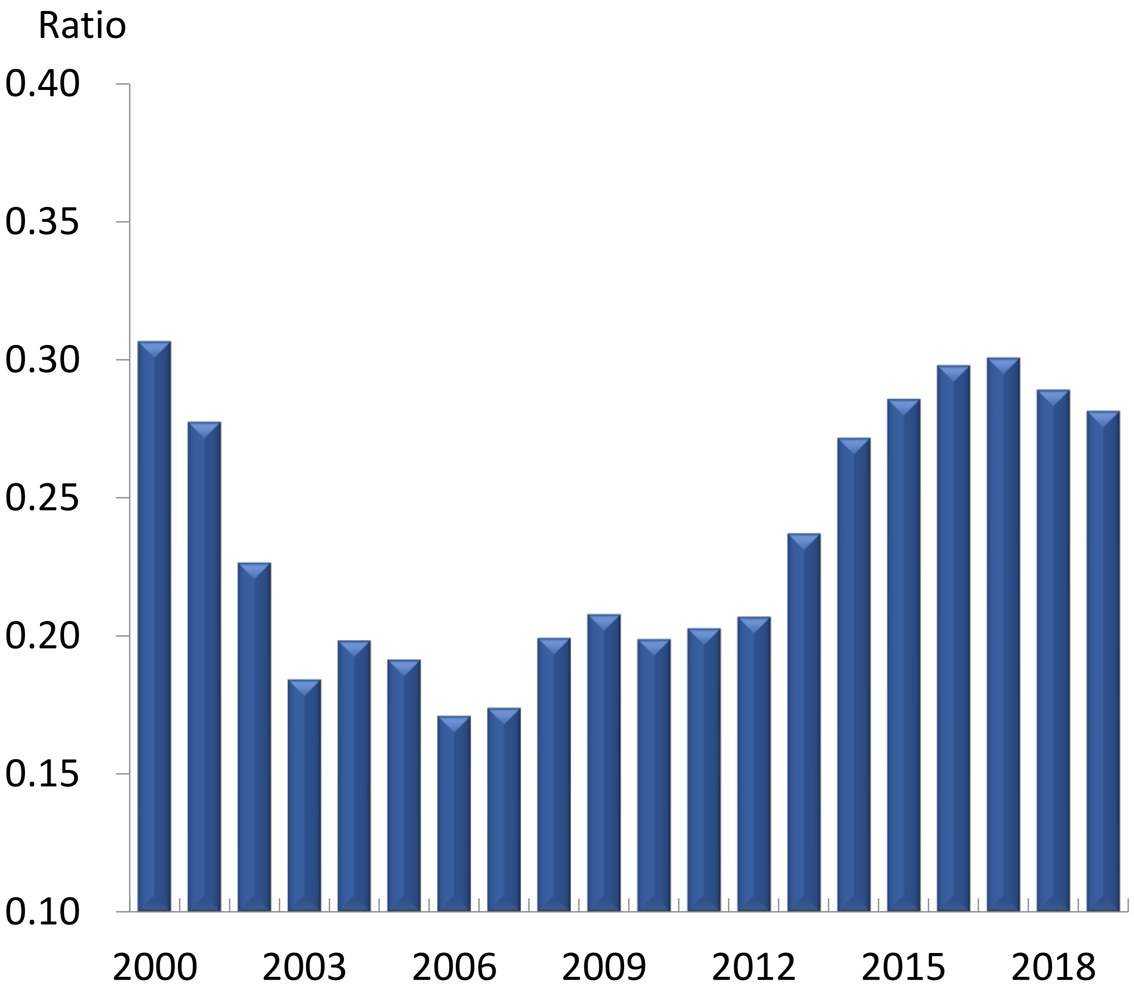
Note: Last observation is November 2019. Volatility has been calculated as standard deviation for first differences (5-year trailing average), depicted as a 12-month moving average. That is, the last observation corresponds to volatility during Dec 2014 to Nov 2019.

Stock-to-use ratios point to ample supplies

Main grains



Aggregate for 12 commodities



Source: U.S. Department of Agriculture (November 2019 update).

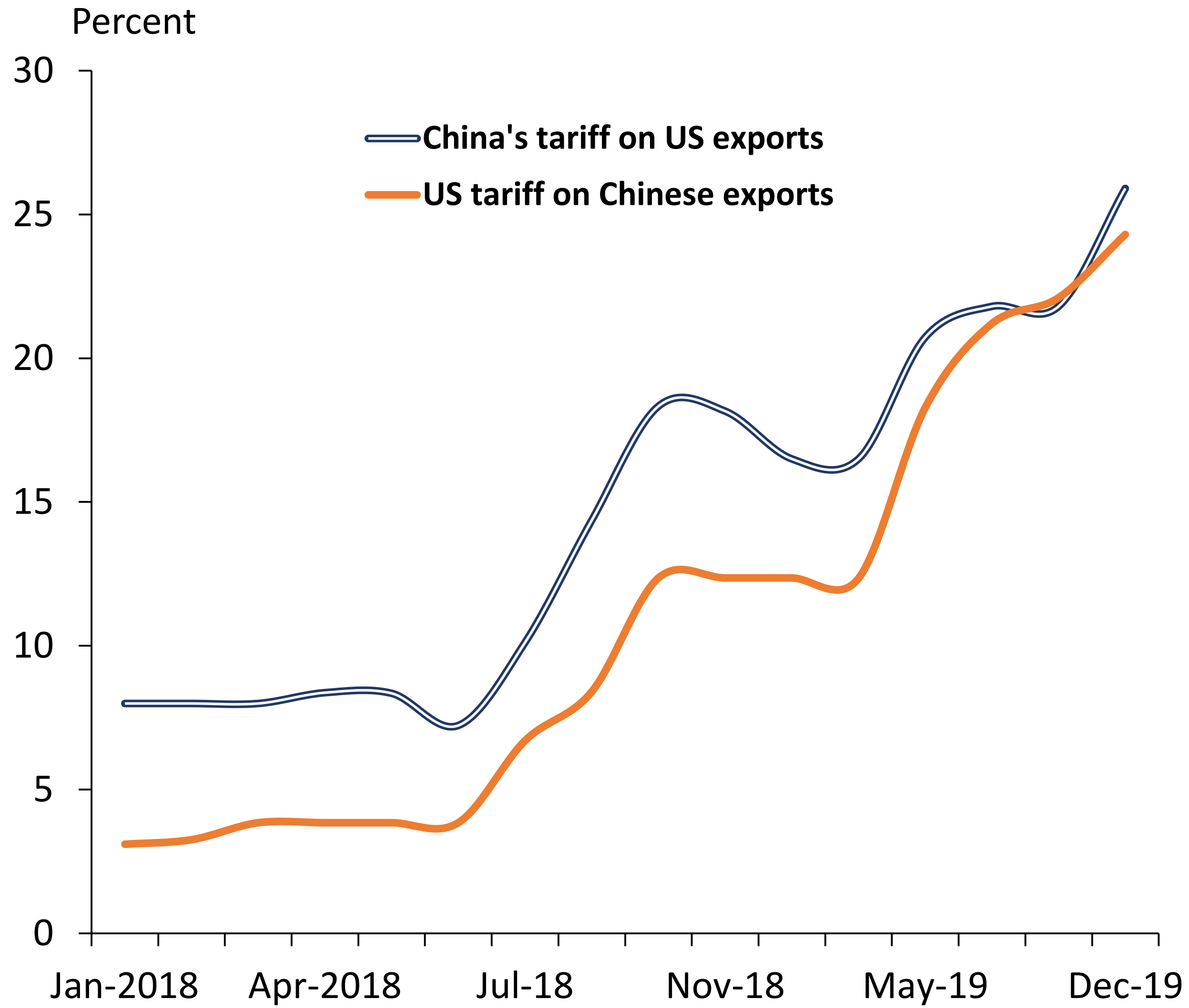
Notes: The aggregate stocks-to-use ratio (right panel) comprises of 12 grains and edible oils and has been aggregated according to calorific content. Years denote crop seasons (i.e. 2019 is for the 2019-20 crop season).

Outline

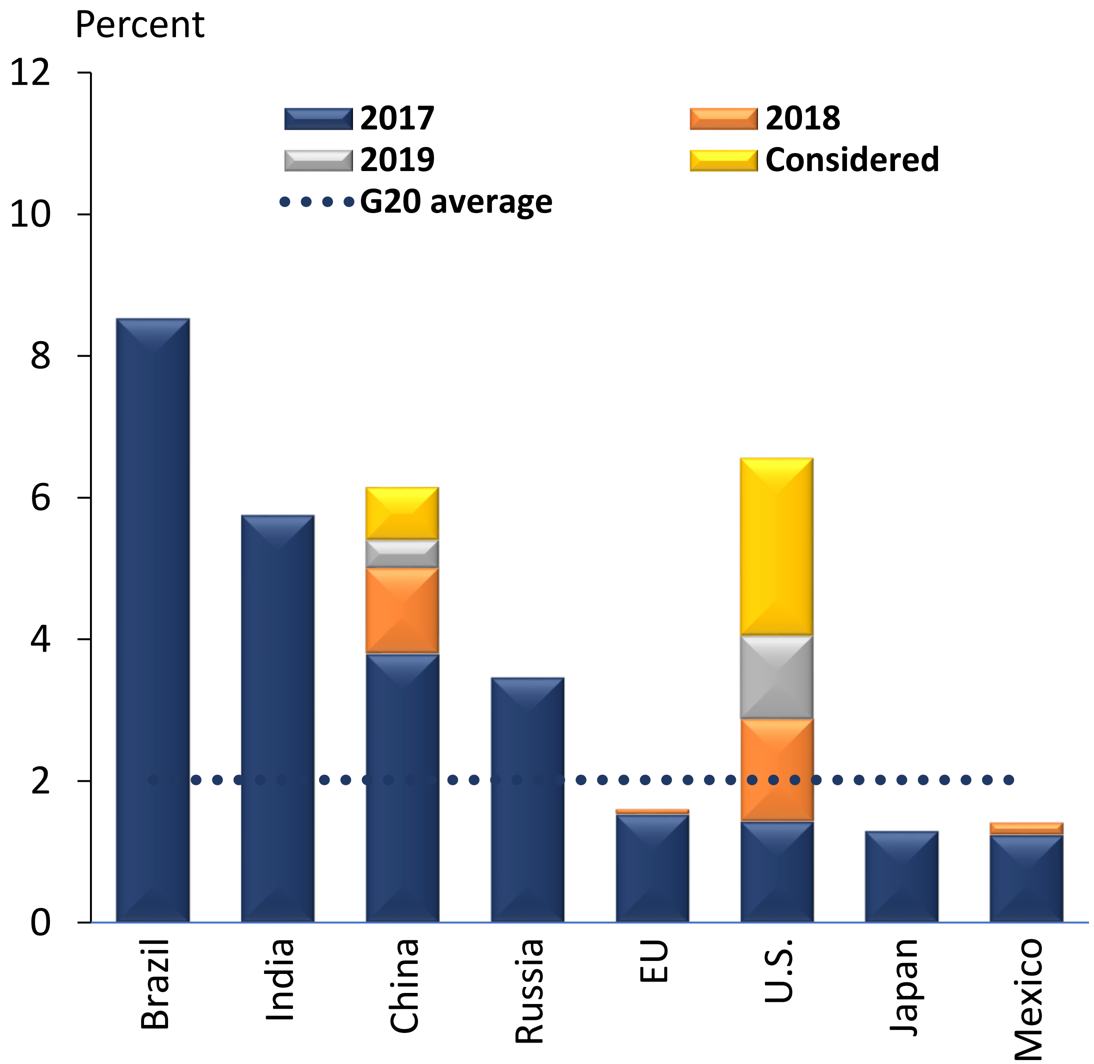
- *The global economy*
- *Commodity markets*
  - *Energy*
  - *Metals*
  - *Agriculture*
- ***Risks***
  - ***Policies***
  - *Geopolitics*
  - *Mishaps*
- *Price forecasts*

Trade frictions: So far, a U.S.-China story

US-China bilateral tariffs



Average G20 tariffs



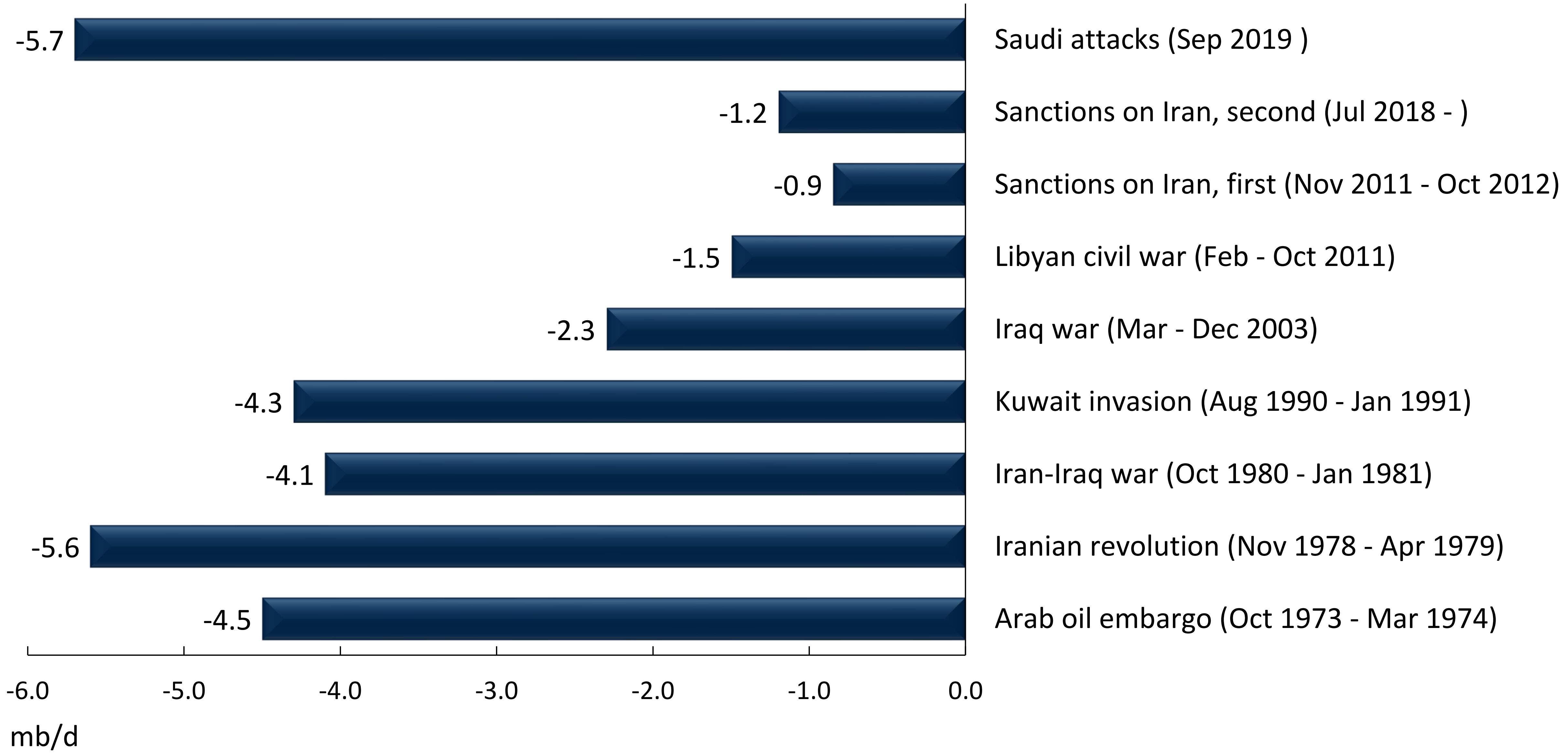
Source: Bown (2019), World Bank.

Notes: Tariffs represent trade-weighted averages. Updated September 2019.

Outline

- *The global economy*
- *Commodity markets*
  - *Energy*
  - *Metals*
  - *Agriculture*
- ***Risks***
  - *Policies*
  - ***Geopolitics***
  - *Mishaps*
- *Price forecasts*

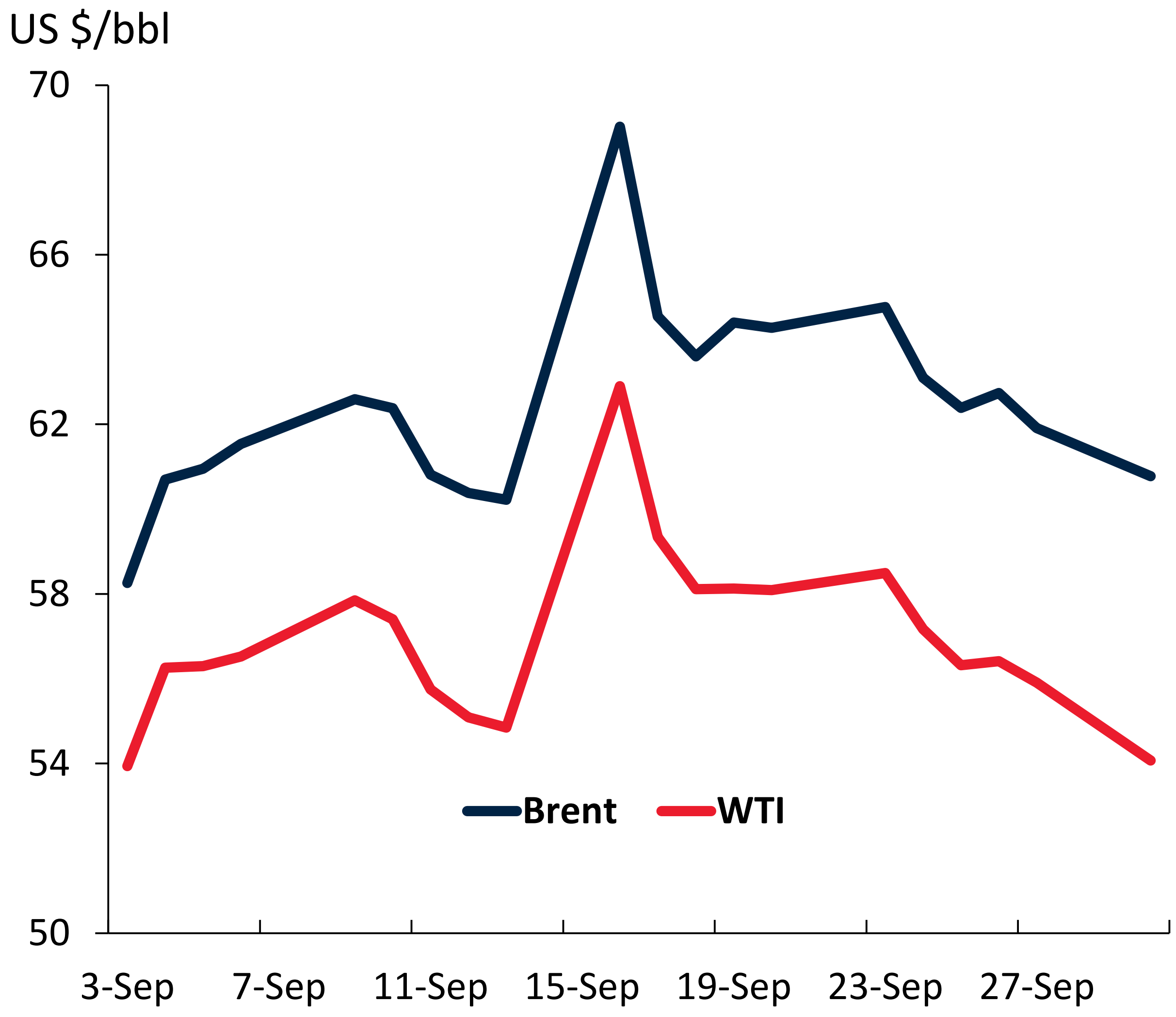
Conflict-driven oil supply reductions



Source: International Energy Agency and World Bank

The September 14 attack on Saudi oil facilities

Daily prices during September 2019

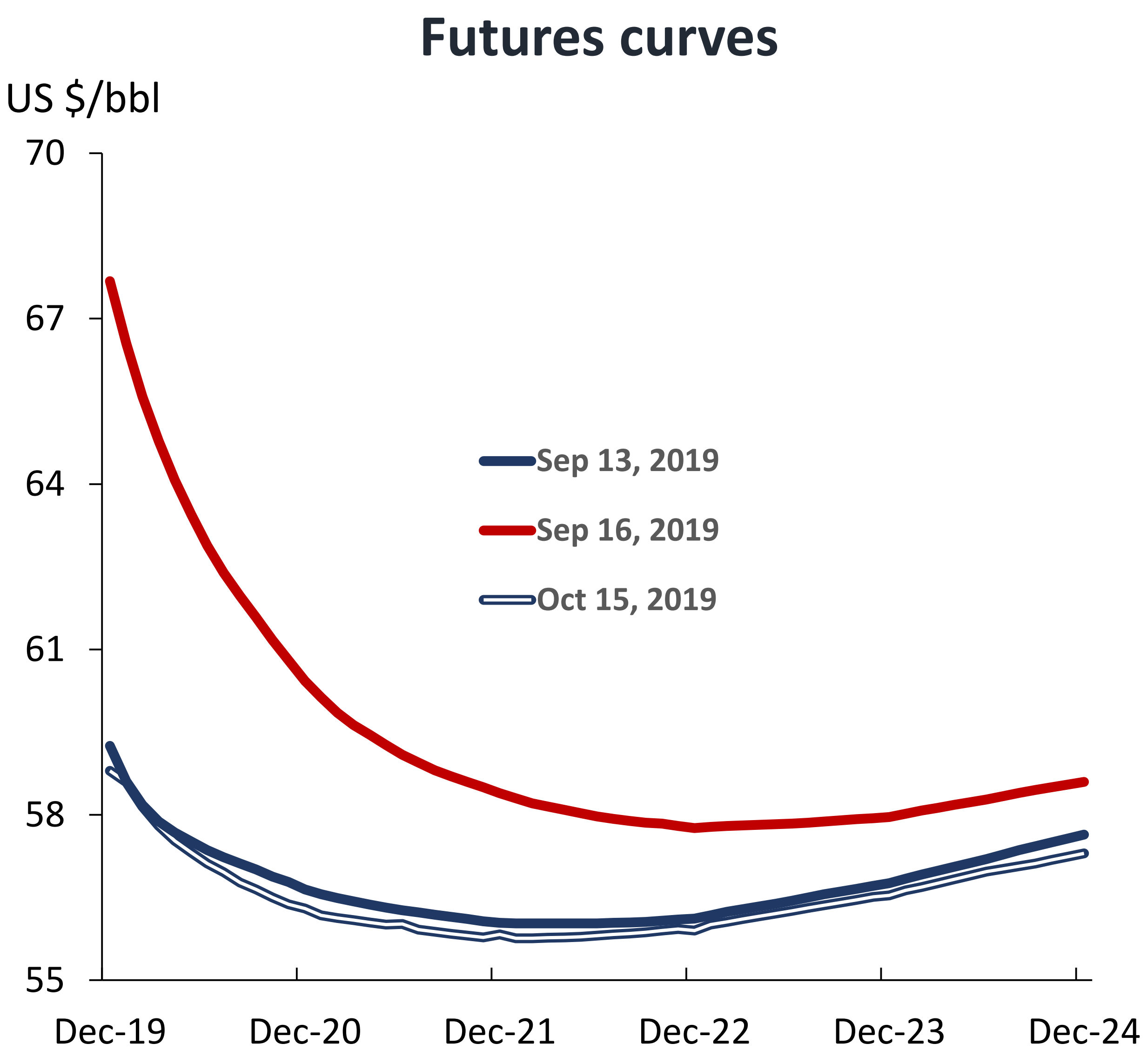


Source: Bloomberg, Intercontinental Exchange, and World Bank.
Note: Futures curves are based on closing prices.

The September 14 attack

- **The attack**: On September 14, 2019, two of Saudi Arabia's oil facilities were attacked—Abqaiq, the largest crude oil processing plant in the world, and Khurais, Saudi Arabia's second largest oil field.
- **Immediate impact on oil output**: The attacks led to the shutdown of 5.7 mb/d of output—around half of Saudi Arabia's production capacity and 6 percent of global oil production—and was the largest conflict-driven reduction in production.
- **Impact on price**: Following the attacks, Brent jumped 15 percent, from \$60 to \$69/bbl. However, amid weak global oil demand and coordinated responses among oil producers, prices returned to their pre-attack levels by the end of September.
- **Response**: Immediately after the attacks, Saudi Arabia drew on its oil reserves to help meet existing orders. The IEA noted that it would coordinate efforts to use the strategic reserves of its members, if needed. Several countries also announced that they would use their strategic reserves, if needed.

Why was the impact of the attacks muted?



Source: Bloomberg, Intercontinental Exchange.
Note: Futures curves are based on closing prices.

Impact of the attacks

In addition to the quick resumption of Saudi production and the coordinated policy response of other oil producers, several factors have contributed to the muted market response to the attacks both for short- and long-term price expectations.

Short term

- The attacks occurred against a backdrop of slowing global growth and repeated downward revisions to oil demand growth forecasts.
- Oil production was (and still is) expected to outpace consumption in 2020.

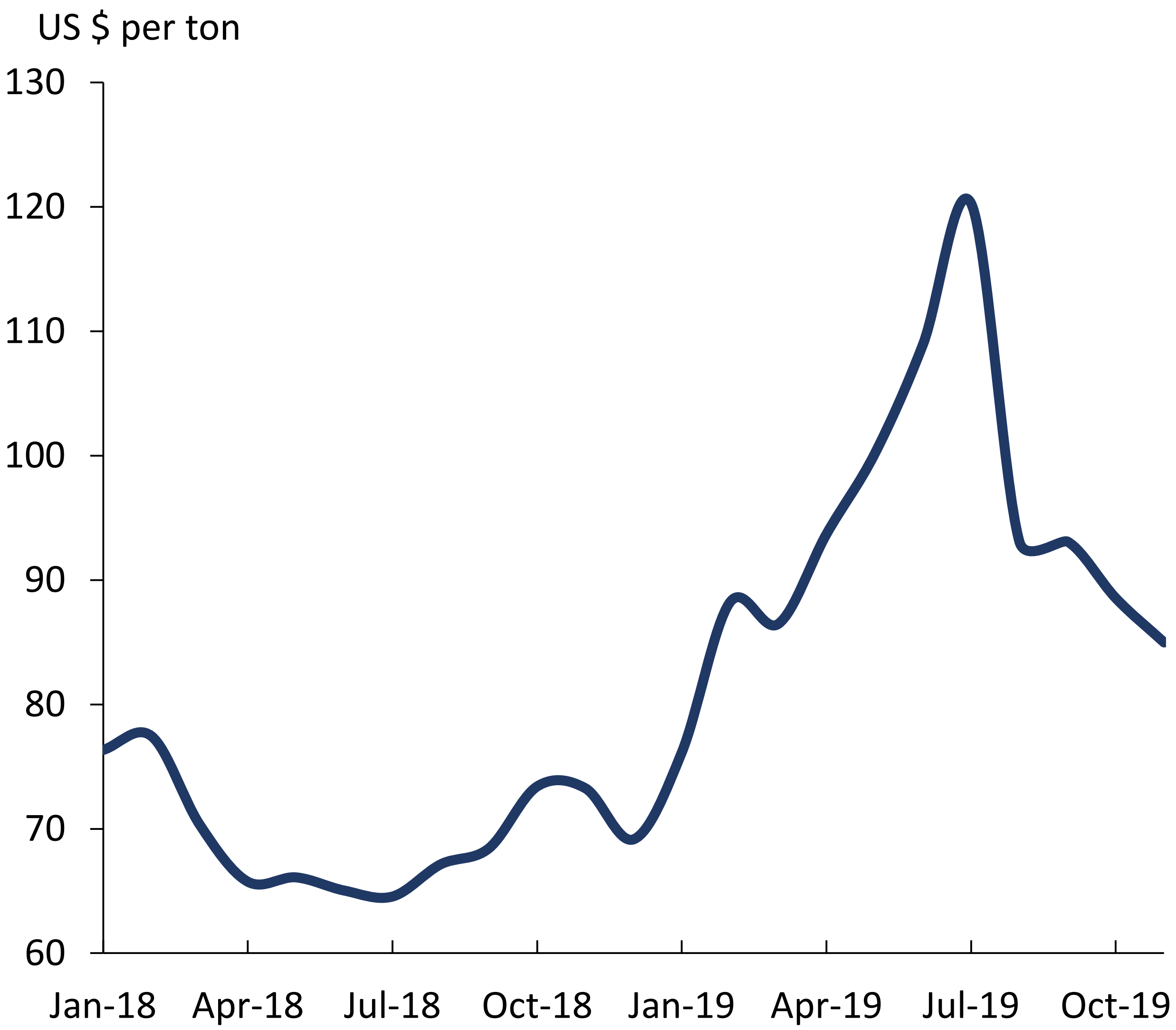
Long term

- The geopolitical risk premium may have been suppressed by growing diversification of the oil industry. Global oil production has become less concentrated, especially as a result of the rapid growth of shale oil.
- Growing diversification of refining capacity has reduced dependence on a single type of oil. A growing number of new, “complex” refineries, particularly in East Asia, are more flexible than traditional refineries and, in the event of shortages of particular types of oil, can more easily accommodate different grades of oil (e.g., light or heavy oil) from different sources.

Outline

- *The global economy*
- *Commodity markets*
  - *Energy*
  - *Metals*
  - *Agriculture*
- ***Risks***
  - *Policies*
  - *Geopolitics*
  - ***Mishaps***
- *Price forecasts*

Iron ore: Vale’s dam accident in Brazil

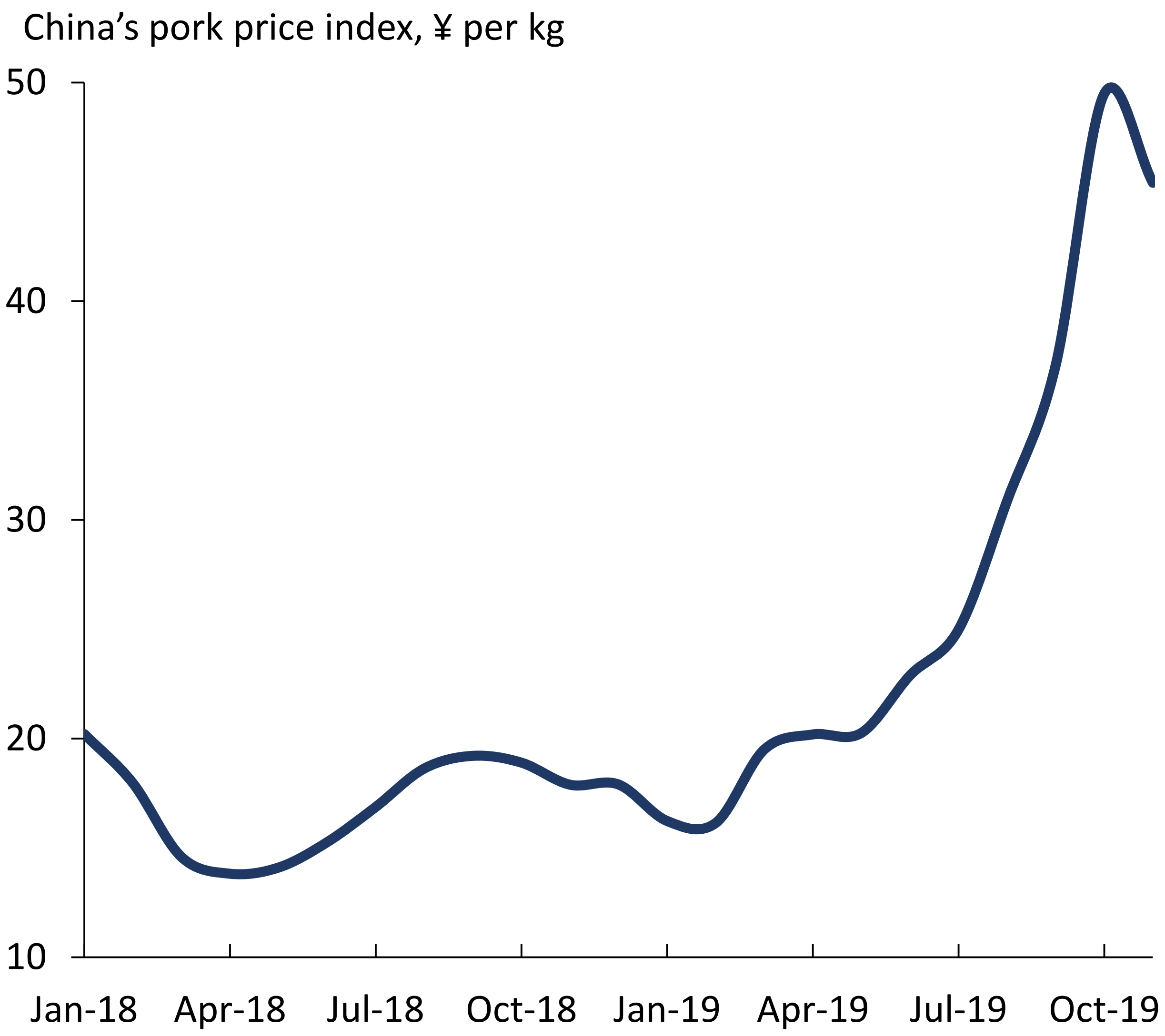


Source: World Bank.
Note: Last observation is November 2019.

The Vale dam accident in Brazil

- **The accident**: On January 25, 2019, a tailings dam at the Córrego do Feijão iron ore mine in Brazil collapsed. Brazil is the world’s second largest iron ore supplier (after Australia).
- **Human toll**: There have been 256 confirmed deaths.
- **Environmental toll**: The dam failure released nearly 12 million cubic feet of tailing, affecting the region’s ecosystem.
- **Short-term market impact**: Following the collapse, iron ore exports from Brazil dropped, causing a spike in iron ore prices, from $70/ton in December 2018 (the month prior to the accident) to $120/ton in January 2019. Since then, iron ore exports have recovered and prices declined.
- **Long-term market impact**: Tightening safety measures have been called for and are likely to be implemented, beyond Brazil and iron ore.

African Swine Fever: A black swan event?



Source: Chinese Ministry of Agriculture, FAPRI, and USDA.
Note: Prices represent national average.

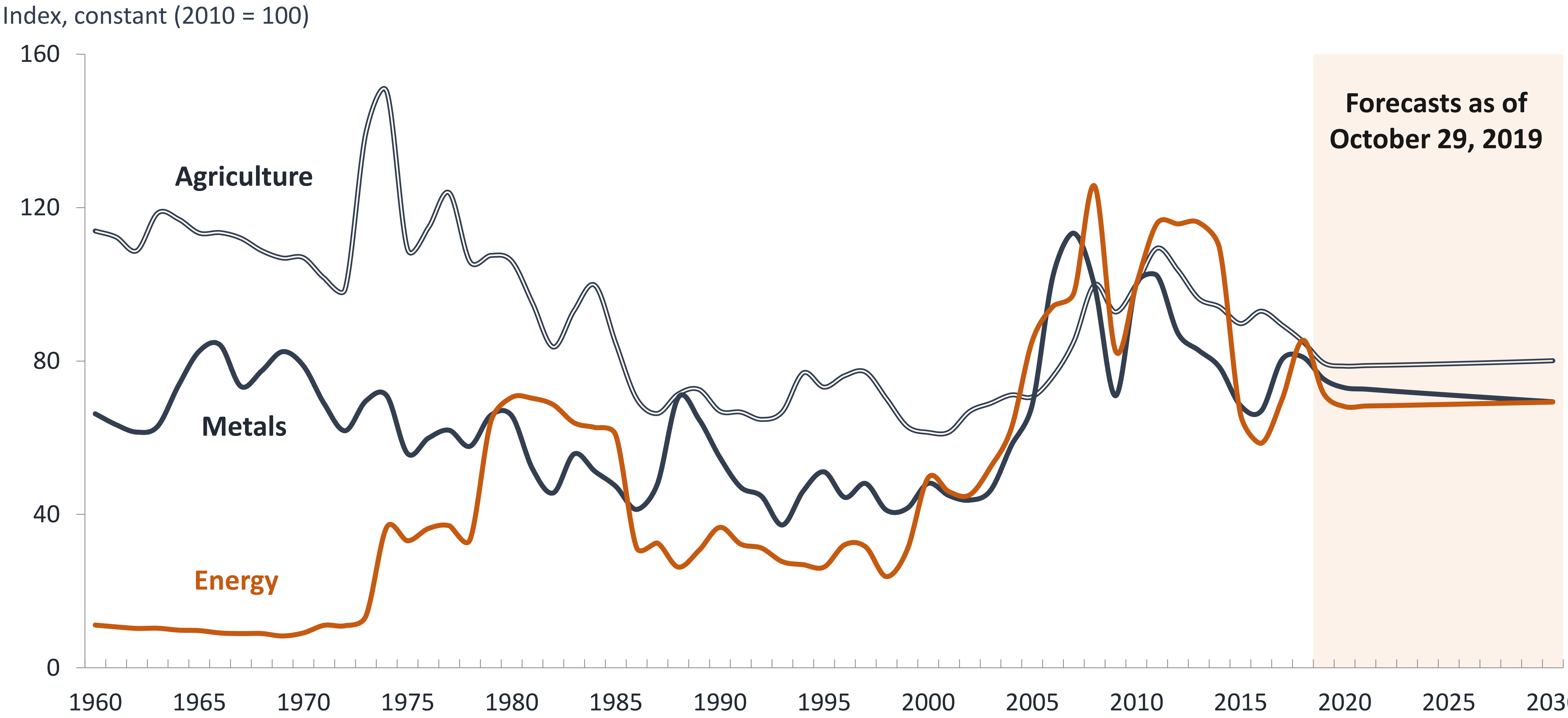
The African Swine Fever

- **The ASF**: The August 2018 outbreak of the African Swine Fever (ASF) has affected the pork industries of several South-East Asian countries, including Cambodia, China, Laos, South Korea and Vietnam.
- **The ASF does not affect humans or other livestock. It only affects hogs.**
- **China's hog production**: China's hog inventory was down by more than 40% in September 2019 compared to a year earlier. Prior to the AFS outbreak, China accounted for nearly half of world hog production and consumption.
- **China's pork prices**: Average pork prices in China reached ¥50/kg in October 2019, 160 percent higher than a year earlier.
- **Global impact**: While global pork consumption is projected to drop 16 percent in 2020 compared to 2018, chicken consumption is set to increase 8 percent, according to the USDA. Global meat consumption (sum of beef, chicken, and pork), is projected to decline 4 percent. No change on feed input demand (e.g., maize) is expected.

Outline

- *The global economy*
- *Commodity markets*
  - *Energy*
  - *Metals*
  - *Agriculture*
- *Risks*
  - *Policies*
  - *Geopolitics*
  - *Mishaps*
- ***Price forecasts***

Where are commodity prices heading in the long term?



Source: World Bank.

Note: The period 2019-30 refers to forecasts

www.worldbank.org/commodities

THE WORLD BANK
IBRD • IDA

WHO WE ARE | WHAT WE DO | WHERE WE WORK | UNDERSTANDING POVERTY | WORK WITH US

Research

Commodity Markets

FEATURED

‹2 / 2›

OCTOBER 2019
Commodity Markets Outlook
The Role of Substitution in Commodity Demand

REPORT

Commodity Markets Outlook

October 29, 2019 — Energy and metal commodity prices are expected to continue to fall in 2020, following sharp declines in 2019 of 15 and 5 percent, respectively, on a weaker outlook for global growth and consequently softer demand, the World Bank said in its October Commodity Markets Outlook.
Read More »

Download Report

PUBLICATIONS AND DATA | ARCHIVES (ANALYSIS) | ARCHIVES (DATA)

"Pink Sheet" Data	Commodity Markets Outlook	Special Topics
Commodity prices December 2019 (PDF)	Commodity Markets Outlook October 2019 (PDF)	The role of substitution in commodity demand October 2019
Monthly prices December 2019 (XLS)	Executive summary October 2019 (PDF)	Food price shocks: channels and implications April 2019
Annual prices December 2019 (XLS)	Price forecasts October 2019 (PDF)	The implications of tariffs for commodity markets October 2018
	Chart data October 2019 (ZIP)	Shifts in commodity demand over the past 20 years October 2018

Using this Data

- Summary terms of use
- Terms of use for Datasets
- Data Access and Licensing

RELEASE SCHEDULE

Pink sheets are released on the second business day of the month. Next release: January 3, 2020.

The next Commodity Markets Outlook will be published in April 2020.

NEWS

News release, English (10/29/19):
Commodity prices revised down as global growth weakens and supplies remain ample

Other languages:
العربية | 中文 | Français | 日本語 | Português | Español | Русский

BLOGS

Pink Sheet
Most commodity prices increased in November—Pink Sheet (12/5/19)

Recent blog posts
The commodity markets outlook, in six charts (11/7/19)

Gold prices to shine in 2019 on persistent headwinds to global growth (6/18/19)

Trade tensions weigh on base metal prices, supply concerns lift iron ore prices (6/11/19)

Fertilizer market outlook: potash prices to rise in 2019 but urea and phosphates remain subdued (6/3/19)

Raw material prices to stabilize in 2019, make moderate gains in 2020 (5/28/19)

Coffee and other beverage prices to remain soft (5/21/19)

Show More +

CONTACT US

commodities@worldbank.org

WORLD BANK BLOGS

WORLDBANK.ORG

ALL BLOGS | TOPICS

Published on **Data Blog**

Most commodity prices increased in November—Pink Sheet

JOHN BAFFES & MARIA HAZEL MACADANGDANG | DECEMBER 05, 2019

This page in: English

Energy commodity prices rebounded 5.3% in November, led by crude oil (+5.5%) the World Bank Pink Sheet reported. Natural gas in the U.S. and Europe increased 14% and 2%, respectively.

Non-energy prices rose more than 2% in response to strong gains in agriculture.

Agricultural prices increased 3.7%, reflecting gains in all three main categories (beverages +5.6%; food +4.1%; and raw materials +1.7%).

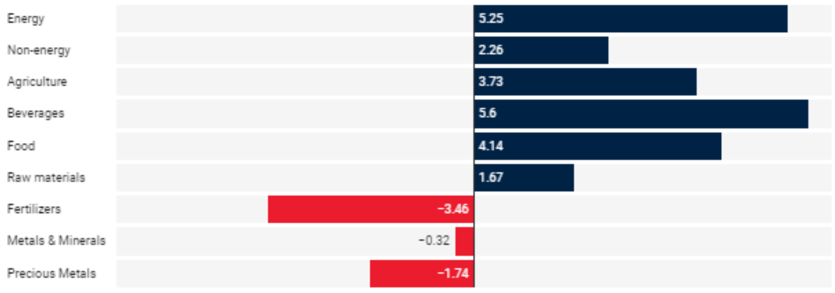
Fertilizer dropped 3.5% in response to large losses in DAP (-11%) and Urea (-5%).

Metals prices declined marginally, as a 3% gain in aluminum was balanced by declines in several metals, including nickel (-11%), lead (-7%), and iron ore (-4%).

Precious metals prices dropped nearly 2%, due to declines in both silver (-2.7%) and gold (-1.6%).

The Pink Sheet is a monthly report that monitors commodity price movements.

Nominal price indexes, % change, November over October



Source: World Bank

www.worldbank.org/prospects