

Executive Summary

Commodity prices continued their recovery in the first quarter of 2021, with four-fifths of commodities now above their pre-pandemic levels, in some instances considerably so. Prices have been lifted by the global recovery from last year's recession, improved growth prospects, and commodity-specific supply factors for crude oil, copper, and several food commodities. Looking ahead, oil prices are forecast to average \$56/bbl in 2021, more than one-third higher than in 2020, and see a further small rise to \$60/bbl in 2022 as demand continues to gradually rise. Metal prices are expected to average 30 percent higher in 2021 than in 2020 on the back of strong demand, before dropping back somewhat in 2022. Agriculture prices are forecast to average nearly 14 percent higher in 2021, driven by a few food commodities, and are expected to stabilize thereafter. The main risks to the price forecasts are the evolution of the pandemic for industrial commodities, and weather shocks for agriculture. A Special Focus section documents the higher frequency, but smaller magnitude, of metals price shocks than oil price shocks. For some base metals, price declines are associated with significant output declines in exporters of these commodities. In these economies, such output declines after price declines are larger and longer-lasting than output increases following improvements in prices.

Recent trends

Nearly all commodity prices rose in 2021Q1, continuing the marked rebound since mid-2020 (figure 1.A). Almost all commodity prices now exceed their pre-pandemic levels, and those of some commodities, notably metals, are well above their previous levels—copper prices were nearly 50 percent higher in March 2021 relative to the end of 2019. The recovery has been driven by the improving global economic outlook, aided by significant monetary and fiscal stimulus in advanced economies, and steady, although uneven, vaccination rates.

Energy prices rose by one-third in 2021Q1 (q/q), with similar gains across the three main fuels. *Crude oil prices* have seen the fastest recovery from a price collapse on record, and reached a high of nearly \$70/bbl in mid-March before dropping back to \$63/bbl in the first half of April (figure 1.B). The recovery has occurred despite oil demand remaining around 5 percent below its 2019 level, and has been driven to a large extent by higher-than-expected agreed production cuts among OPEC and its partners. Prices have also been boosted by the improving economic outlook, as well as the passing of the U.S. stimulus bill. *Coal prices* rose 30 percent on the quarter and have almost doubled since August, largely as a result of supply disruptions. *Natural gas prices* also rose by one-third in 2021Q1 (q/q), primarily in response

to cold weather in large markets, including the United States, Europe, Asia, and especially Japan.

Non-energy commodity prices rose 12 percent in the first quarter of 2021 (q/q), following a 10 percent increase during the previous two quarters. The World Bank's non-energy commodity price index has risen for 11 consecutive months since its trough in April 2020. *Base metals and ore prices* rose 16 percent, with strengthening demand across advanced and emerging market and developing economies (EMDEs; figure 1.C). Metal prices have also been supported by anticipation that the energy transition away from fossil fuels will result in sizeable increases in demand for metals. Copper prices have also been boosted by supply disruptions in Peru and Chile, while iron ore prices have been supported by supply disruptions in Australia. Most *agricultural commodity prices*, particularly for food commodities, saw substantial increases as well. Increases were partly driven by strong demand for soybeans and maize from China (linked to the recovery from the African Swine Fever and stockpiling), as well as supply shortfalls in South America (linked to La Niña) and the United States (figure 1.D). While global food markets remain well-supplied, some countries have experienced rising food prices.

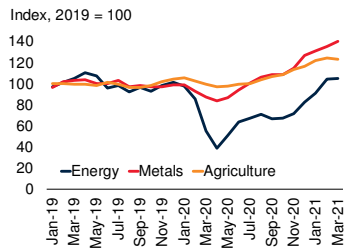
Outlook and risks

Energy prices are expected to average more than one-third higher in 2021 (a significant upward

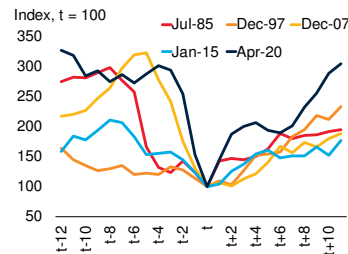
FIGURE 1 Commodity market developments

The recovery in commodity prices continued in the first quarter of 2021, with the three main price indices regaining their pre-pandemic levels. The recovery in oil prices that followed the COVID-19-driven collapse was the fastest recovery from a price collapse on record. However, OPEC+ continues to hold significant production off the market, posing a risk to the forecast. For metals, the recovery in demand is broadening, with strength across both advanced economies and EMDEs. Agricultural commodities, particularly food, have seen sharp price increases, and supply growth estimates have been revised down, although stocks remain ample.

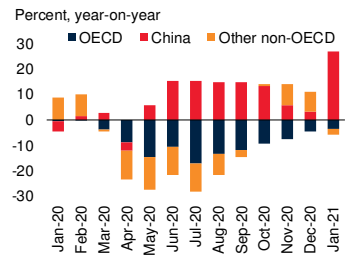
A. Commodity price indexes, monthly



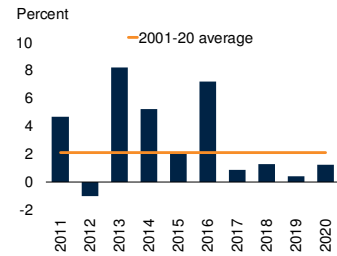
B. Oil price collapses and recoveries



C. Global metal demand growth



D. Global grain supply growth



Sources: USDA, World Bank, World Bureau of Metal Statistics.

A. Last observation is March 2021.

B. Lines indicate oil prices for 12 months before and after a price collapse, indexed to 100 at the trough. Dates indicate the date of the trough in prices for each episode.

D. Supply is the sum of beginning stocks and production. Years represent crop seasons (e.g., 2020 refers to 2020-21 crop season).

revision from the October report) followed by a smaller increase in 2022 (table 1). Non-energy prices are forecast to increase 19 percent in 2021 (also revised upward from October), but a modest decline is expected in 2022 as metal price increases partially unwind. The outlook is heavily dependent on the path of the pandemic, with the potential for additional upside risks if the vaccine rollout gathers pace and strong growth in the United States generates significant global spillovers. However, on the downside, the global recovery could yet be derailed by renewed outbreaks in large economies.

Oil prices are expected to average \$56/bbl in 2021 before rising to \$60/bbl in 2022, a substantial upward revision from the October report. The revision reflects the improved global economic growth outlook, as well as a more gradual increase in production by OPEC and its partners (OPEC+) than previously expected. However, a further deterioration in oil demand, perhaps arising from a renewed outbreak of COVID-19 could put considerable additional pressure on the OPEC+ production agreement. An end to the agreement and a sudden increase in global production could result in oil prices being materially lower than currently expected. A further risk is the response of U.S. shale to higher prices—a faster than expected recovery in U.S. production would also put significant pressure on the OPEC+ producers.

Metal prices are forecast to rise nearly 30 percent in 2021 before dropping back in 2022, as stimulus driven growth eases and supply constraints are resolved. Risks to the forecast depend on major stimulus programs. A faster-than-expected withdrawal of stimulus by China would pose a significant downside risk to demand while the proposed infrastructure spending bill in the United States could provide further support for some metals, including aluminum, copper, and iron ore.

Agricultural prices, which are projected to rise nearly 14 percent in 2021, are expected to stabilize in 2022. Production shortfalls in some food commodities, such as soybeans, palm oil, and maize, have resulted in steep price increases; however, most global food commodity markets remain adequately supplied by historical measures. While the stock-to-use ratio, a rough measure of demand relative to supply, has fallen slightly during the past two crop seasons to around 28 percent, it is still much higher than the historical lows of 2006-07 of 17 percent. Despite well-supplied global markets and expectations of moderating food commodity prices, global food insecurity remains a concern. An additional 130 million people face chronic hunger and malnutrition because of the economic impacts of COVID-19, effectively doubling the number to

TABLE 1 Nominal price indexes and forecast revisions

	Price Indexes (2010=100) ¹					Change (%), q/q		Change (%), y/y		Forecast revision ³	
	2018	2019	2020	2021f ²	2022f ²	2020Q4	2021Q1	2021f ²	2022f ²	2021f ²	2022f ²
Energy	87	76	52	71	75	8.3	35.3	36.1	6.1	26.8	-5.9
Non-Energy⁴	85	82	84	100	97	9.3	11.8	19.0	-3.5	17.3	-5.0
Agriculture	87	83	87	99	100	8.7	9.3	13.5	1.0	12.1	-0.5
<i>Beverages</i>	79	76	80	81	83	-2.5	1.9	1.4	1.6	0.3	0.5
<i>Food</i>	90	87	92	108	109	11.9	12.3	17.1	0.9	15.6	-0.6
Oils and meals	85	77	90	116	117	22.4	12.9	29.0	0.9	27.2	-0.9
Grains	89	89	93	106	107	10.7	17.2	13.8	0.9	12.3	-0.6
Other food	99	98	95	100	101	-0.1	6.8	5.2	0.9	4.2	-0.1
<i>Raw Materials</i>	81	78	78	85	86	6.0	4.2	9.8	0.9	8.1	-0.8
Fertilizers	83	81	73	93	88	4.4	23.5	27.1	-5.0	23.9	-8.2
Metals and Minerals	83	78	79	103	91	11.2	16.0	30.4	-12.1	28.3	-13.4
Precious Metals	97	105	134	134	125	-1.6	-1.9	0.1	-6.8	3.8	-4.9
Memorandum items											
Crude oil (\$/bbl) ⁵	68	61	41	56	60	3.8	35.9	35.7	7.1	28.4	-6.5
Gold (\$/toz)	1,269	1,392	1,770	1,700	1,600	-2.0	-4.1	-4.0	-5.9	-2.0	-3.5

Source: World Bank.

Note: (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 October 2020 report. (4) The non-energy price index excludes precious metals. (5) Average of Brent, Dubai, and WTI. See Appendix C for definitions of prices and indexes.

over 270 million, according to estimates by the UN Food and Agriculture Organization.

Special Focus: Causes and consequences of metal price shocks

Although they only account for around 7 percent of global commodity consumption, metals—especially copper and aluminum—are a major source of export revenue for around one-third of EMDEs. However, these economies' reliance on metal exports can make them vulnerable to sharp movements in metal prices. Metal price shocks are primarily driven by demand factors, such as global recessions and recoveries, in contrast to oil where both supply and demand factors play a role, and

agriculture where supply factors dominate. As such, metals can have a procyclical impact on metal exporters—during a recession, metal exporters can be negatively affected by both the broader economic downturn that caused the metal price decline, and by the adverse effects of a collapse in metal prices on export revenue and economic activity. For metal exporting-EMDEs, metal price shocks appear to have asymmetric impacts, with small, temporary gains from price increases, but larger and longer-lasting output losses from price declines. These results suggest the need for metal exporters to save windfalls from metal price increases (which are typically short-lived), such that savings can be used to support activity when prices decline.