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Global Commodity Price outlook

The World Bank has released its report on the outlook on commodity prices for 2023. The general drift is that prices will be moving downwards, which is good news for consumers. There are as usual risk factors that have been highlighted by the Bank – which presently may not be a major cause of concern though central banks across the world would be monitoring closely before thinking of reversing their stance.

Global commodity prices fell 14% in the first quarter of 2023, and by the end of March, were roughly 30% below their historic peak in June 2022. The surge in prices after Russia's invasion of Ukraine has largely been unwound due to a combination of:

- slowing economic activity,
- favourable winter weather, and
- Global reallocation of commodity trade flows.

For the remainder of this year, commodity prices are forecast to remain broadly unchanged. However, prices are still expected to remain above pre-pandemic levels, which will continue to weigh on affordability and food security.

Upside risks to prices include

- Possible disruptions in the supply of energy and metals (in part due to trade restrictions) is a major risk to these forecasts. Supply could disappoint both in Russia, especially if sanctions disrupt oil exports more than anticipated, and OPEC+ where supply remains below target— with many countries at or near full capacity. Tighter credit conditions may impede the ability of oil or coal companies to increase supply elsewhere. Policies to hasten the energy transition may discourage fossil fuel production, while also increasing demand for metals, particularly copper, nickel, and lithium. Fossil fuel energy producers may prefer to use profits to strengthen balance sheets and reward shareholders, rather than investing in expanding production. This would lead to higher prices of carbon-intensive energy commodities, but also metals and minerals.
- Global supplies of grain and energy (particularly coal and natural gas) could change course unexpectedly if geopolitical tensions intensify. In the case of energy, European natural gas stocks are high but may not be sufficient to cover consumption in the 2023-24 winter months. Disruptions in trade routes—particularly for grains around the Black Sea and Ukraine—amid sanctions and counter-measures could raise grain prices. Against the backdrop of already elevated food prices, this could deepen food insecurity in many EMDEs.
- The recovery in China may be tilted toward commodity intensive sectors. This would lead to higher prices for energy and metals because of larger demand from industry. The real estate sector in China may begin to strengthen sooner than assumed, raising import demand and prices for base metals. This could result in upward pressure on prices of aluminum, copper, lithium, and nickel, which are anticipated to experience a surge in global demand over the medium term because of their usage in the manufacturing of electric vehicle batteries.

- The occurrence of adverse weather events that affect crops in major global food-producing regions could result in an increase in food prices. In addition, if an El Niño event happens, it could lead to higher temperatures and heavy rainfall later in 2023.

The main downside risk is if prices of industrial commodities—energy and metals commodities—retreat if global activity ends up weaker than expected.

The decline in energy prices in the first quarter of 2023 is expected to fade and be followed by stable prices over the remainder of 2023 and a slight uptick in 2024, as markets are expected to tighten amid supply pressures. Non-energy commodity prices, in contrast, will decline by about 10% in 2023 and almost 3% in 2024 as global demand is proving to be weak.

Energy products

The energy price index is expected to fall by 26% in 2023 (much of that decline has already taken place) and remain broadly unchanged (up 0.1%) in 2024. Brent crude oil prices are forecast to average \$84 per barrel in 2023. Weaker global demand has already caused them to drop 15% below the 2022 average, and they are projected to remain at that level through the end of 2024. Natural gas prices in Europe have fallen precipitously, with a 53% decline expected in 2023, but will remain almost three times as high as the average levels seen in 2015-19. Europe still faces challenges to ensure adequate supply next winter.

Oil consumption is expected to rise by 2% in 2023 to a new all-time high of 101.9 mb/d, according to the International Energy Agency. The recovery in China will account for more than half of the expected increase in global oil demand. Other Asian countries account for most of the rest of anticipated global oil demand growth. Outside of Asia, oil demand growth is expected to moderate in 2023. This reflects sluggish industrial activity and the continuing transition to a low carbon-emissions economy.

Natural gas prices are forecast to be significantly lower in 2023. Following a record-high annual increase of 150% in 2022, the European benchmark price is expected to fall by 53% from its 2022 average on lower demand, above average inventories, and improved access to supply. The U.S. benchmark price will decline by 58% in 2023, mainly because of increased domestic production.

In 2024, prices in Europe are expected to fall 11% from 2023, assuming Europe embarks on investments in LNG importing facilities. Nevertheless, price levels are expected to remain elevated over the forecast period because Europe still faces challenges in ensuring adequate supply next winter, including from Asian competition for LNG supplies.

Energy		2020	2021	2022	2023f	2024f	2023f	2024f
							% change	
Coal, Australia	\$/mt	60.8	138.1	344.9	200.0	155.0	-42.0	-22.5
Crude oil, Brent	\$/bbl	42.3	70.4	99.8	84.0	86.0	-15.9	2.4
Natural gas, Europe	\$/mmbtu	3.2	16.1	40.3	19.0	17.0	-52.9	-10.5
Natural gas, U.S.	\$/mmbtu	2.0	3.9	6.4	2.7	3.7	-57.6	37.0
LNG, Japan	\$/mmbtu	8.3	10.8	18.4	18.0	16.0	-2.3	-11.1

Coal prices are forecast to fall 42% in 2023 and 23% in 2024. The anticipated increase in demand from China is likely to be offset by weaker demand elsewhere, as utilities switch back to natural gas. Exports from major producers (particularly Australia, and Indonesia) are anticipated to rise.

Agriculture related

Fertilizers		2020	2021	2022	2023f	2024f	2023f	2024f
							% change	
DAP	\$/mt	312	601	772	580	570	-24.9	-1.7
Phosphate rock	\$/mt	76	123	266	260	240	-2.3	-7.7
Potassium chloride c/	\$/mt	241	543	863	475	425	-45.0	-10.5
TSP	\$/mt	265	538	716	560	510	-21.8	-8.9
Urea, E. Europe	\$/mt	229	483	700	325	315	-53.6	-3.1

Fertilizer prices are projected to fall by 37% in 2023 in tandem with expected declines in the prices of natural gas and coal, but in real terms remain near the high levels during the 2008-09 food crisis. The forecast assumes that Russia will continue to redirect most exports towards Brazil and India. Still, ammonia prices will continue to be affected by gas market dynamics and trade restrictions.

Food and cash crops		2020	2021	2022	2023f	2024f	2023f	2024f
							% change	
Maize	\$/mt	165	260	319	270	240	-15.3	-11.1
Rice, Thailand, 5%	\$/mt	497	458	437	510	490	16.8	-3.9
Wheat, U.S., HRW	\$/mt	232	315	430	355	335	-17.4	-5.6
Sugar, World	\$/kg	0.28	0.39	0.41	0.45	0.46	10.3	2.2
Cotton	\$/kg	1.59	2.23	2.86	2.20	2.25	-23.2	2.3
Rubber, TSR20	\$/kg	1.33	1.68	1.54	1.40	1.50	-9.3	7.1
Tobacco	\$/mt	4,336	4,155	4,270	4,100	4,120	-4.0	0.5

Agricultural prices are projected to decline 7% in 2023 and ease further in 2024. Food prices are expected to fall by 8% in 2023 and 3% in 2024, assuming that grain and oilseed exports from the Black Sea region will remain stable. Nevertheless, real food prices in 2023 will remain at their second highest levels since 1975—exceeded only by 2022.

In 2023, wheat prices are expected to be 17% lower and maize prices 15% lower than in 2022, amid weak global demand (aside from China, which may see a pickup in demand for maize in animal feed). At the same time, falling crude oil prices should reduce demand for maize in ethanol production. Rice prices on average are expected to be 17% higher in 2023, with much of the increase already having taken place. Rice prices are expected to decline in 2024, as Pakistan's exports recover and high rice prices in 2023 encourage production elsewhere. Global grain supplies over the forecast period are expected to rebound from the supply contraction in 2022. Brazil is set for a record breaking grain harvest in 2023 as a result of favourable weather. Similarly, better-than-expected grain harvests in Australia, Canada, Kazakhstan, and Russia in the 2022 production season are likely to lead to higher stock-to-use ratios for 2023. In addition, planting intentions surveys from the United States indicate

sizable increases in maize and wheat acreage, which may put additional downward pressure on 2023 prices.

Prices for agricultural raw materials, which include cotton and rubber, will decline in 2023, reflecting sluggish global industrial demand growth, and rebound in 2024 as China’s demand picks up. Although cotton production in Australia, Côte d’Ivoire, Mali, and Pakistan is expected to decline, this will be offset by increases in China and India, resulting in little overall change in global cotton production. Cotton prices are projected to decline by more than 23% in 2023 but are expected to increase slightly in 2024 due to reduced plantings in key producing countries like the United States

Global production of oil seeds, oil meals, and vegetable oils is expected to be higher in 2022-23 than in the previous season because of favourable planting conditions in countries that are major producers or crushers of oil seeds.

Oils		2020	2021	2022	2023f	2024f	2023f	2024f
							% change	
Coconut oil	\$/mt	1,010	1,636	1,635	1,100	1,300	-32.7	18.2
Groundnut oil	\$/mt	1,698	2,075	2,203	2,000	2,050	-9.2	2.5
Palm oil	\$/mt	752	1,131	1,276	980	1,020	-23.2	4.1
Soybean meal	\$/mt	394	481	548	590	570	7.7	-3.4
Soybean oil	\$/mt	838	1,385	1,667	1,120	1,105	-32.8	-1.3
Soybeans	\$/mt	407	583	675	590	540	-12.6	-8.5

The oils and meals price index is expected to decline by 14% in 2023 and 2% in 2024. The forecast assumes that there are no further disruptions from the war in Ukraine, while good harvests in major grain producing countries—such as Australia, Canada, Russia, and the United States—contribute to lower prices. More specifically, soya coconut, palm and groundnut oil prices are to come down in 2023 thus providing relief relative to last year.

Metals and minerals prices, which briefly increased in January 2023, are expected to fall by 8% in 2023 relative to last year and a further 3% in 2024. Global demand in manufacturing is expected to remain weak, and China’s recovery is expected to be heavily services-oriented. Strong supply growth is projected over the forecast horizon, supported by a recovery from production outages and new mines coming on stream for key metals (copper, nickel, and zinc).

Metals		2020	2021	2022	2023f	2024f	2023f	2024f
							% change	
Aluminum	\$/mt	1,704	2,473	2,705	2,400	2,450	-11.3	2.1
Copper	\$/mt	6,174	9,317	8,822	8,500	8,000	-3.7	-5.9
Iron ore	\$/dmt	109	162	121	115	110	-5.2	-4.3
Lead	\$/mt	1,825	2,200	2,151	2,100	2,000	-2.4	-4.8
Nickel	\$/mt	13,787	18,465	25,834	22,000	20,000	-14.8	-9.1
Tin	\$/mt	17,125	32,384	31,335	24,000	24,500	-23.4	2.1
Zinc	\$/mt	2,266	3,003	3,481	2,800	2,700	-19.6	-3.6

Precious metals prices are expected to increase by 6% in 2023 as safe-haven demand rises amid elevated uncertainty with respect to future growth prospects, ongoing concerns about inflation, and financial stress in the first quarter.

Precious metals		2020	2021	2022	2023f	2024f	2023f	2024f
							% change	
Gold	\$/toz	1,770	1,800	1,801	1,900	1,750	5.5	-7.9
Silver	\$/toz	20.5	25.2	21.8	23.0	22.0	5.5	-4.3
Platinum	\$/toz	883	1,091	962	1,000	1,050	4.0	5.0

Gold prices are expected to average \$1,900 per troy ounce in 2023—6% higher than in 2022. In 2024, gold prices are projected to decrease by 8% as the global economy begins to recover gradually and inflationary pressures recede. Physical demand is expected to support gold prices, though that demand remains price sensitive. Decisions from central banks on how much gold to hold will also be a key factor, with a possible return to 2021 levels of weaker gold demand exerting downward pressure on prices. Over the longer run, the path of inflation and interest rates will be the key factors driving gold prices. Short-run price volatility is likely to continue, in view of elevated geopolitical and economic uncertainty.

From the Indian standpoint, lower commodity prices in 2023 is good news as this will put a cap on imported inflation. Major commodities that have an influence on inflation are crude, coal, edible oils, fertilizers and metals. Lower metal prices will be a booster for the construction and EV industries as input costs will be under check. Also lower global prices of grains will lower the attractiveness of exports to a considerable extent which is good for domestic supplies. Monsoon and possible impact of El Niño on kharif crop would be the prime concerns today.

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