

Global Commodity price movements in 2023

Global commodity prices have witnessed correction in CY23. The correction in prices is broad based and pronounced in case of energy, metals and edible oils. Muted demand conditions have also supported the same in CY23. Also PMI readings globally have pointed that input prices are falling at a sharper pace. Another thing which has come out is that for most commodities, prices are still elevated compared to CY19 (pre pandemic level). This suggest that prices are likely to converge to their mean levels. Thus statistically, it supports an even sharper downward correction. But the recent geopolitical tensions in the Red Sea may outweigh all those statistical advantages and some upside risks to overall inflation going forward cannot be discounted.

Commodity prices have undergone correction in CY23:

- Global commodity prices have witnessed correction in CY23. This is broad based across all categories such as energy, grains, edible oil, cash crops, metals etc. The latest World Bank data on prices of major commodities show that the sub-category products have seen a reversal in the upward trend, which was a result of geopolitical tensions, supply side bottlenecks, amongst others seen in CY22.
- Within energy, sharp correction was visible in Natural Gas prices, with moderation being sharpest for US. Even crude oil prices have seen a downward trend in CY23 over CY22.
- Within edible oils, all categories such as coconut oil, groundnut oil, palm oil and soybean oil have fallen sharply.
- Within grains, wheat prices have fallen, whereas rice still provides some discomfort due to adverse weather conditions.
- Among, major cash crops, rubber and cotton prices have fallen. However, sugar and tobacco prices remained firm due to supply concerns.
- Within metals, the correction is broad based, with zinc and aluminium leading the decline and for precious metals, buoyant demand conditions and volatility in dollar have kept prices elevated as a resort to safe haven demand.
- For Fertilizers, Urea prices have inched down considerably, whereas phosphate prices are yet to witness some correction.

On domestic front as well, WPI data in CY23 (till Nov'23) shows the transmission of lower global commodity prices into domestic pieces. Moderation was seen across major items. Decline in prices were visible for items such as crude oil, major edible oil components such as palm, soybean and coconut oil. Grain prices remained elevated, especially rice. Among cash crops, cotton and rubber have noticed decline. Within metals, aluminium, lead and zinc have declined sharply and there has been broad based fall in metal prices.

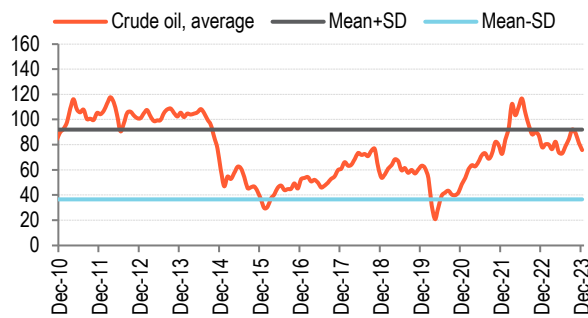
Table 1. Movement of major commodity prices, international as well as domestic

Broad Profiles	Sub-commodities	International Commodity Prices		WPI	
		Change since CY19	CY23/CY22	Change since CY19	CY23/CY22
Energy	Crude Oil	31.5	-16.8	68.5	-12.2
	Natural Gas	66.7	-54.1	84.7	33.0
Edible Oil	Coconut oil	46.2	-34.2	-9.9	-12.6
	Groundnut oil	44.6	-7.6	49.3	2.6
	Palm oil	47.4	-30.5	39.6	-21.2
	Soybean oil	46.1	-32.9	25.6	-23.0
Grains	Rice	36.4	27.1	13.6	8.1
	Wheat	44.8	-26.3	22.1	7.6
Cash crops	Sugar	84.4	26.6	12.9	4.2
	Tobacco	5.6	13.3	0.0	0.0
	Rubber	-3.0	-11.7	12.6	-8.1
	Cotton	22.0	-26.9	39.9	-15.9
Fertiliser	Phosphate rock	265.7	20.9	20.0	8.7
	Urea	46.0	-48.9	5.2	3.5
Metals and products	Aluminium	25.7	-16.6	27.9	-4.9
	Iron ore	28.5	-0.6	28.4	-5.4
	Copper	41.3	-3.8	52.0	5.3
	Lead	7.0	-0.7	26.6	-1.7
	Zinc	4.0	-23.8	31.8	-5.2
Precious Metals	Gold	39.5	7.9	43.8	7.8
	Silver	44.3	7.4	71.5	15.1

Source: World Bank, CEIC Bank of Baroda Research, Note: For WPI, certain items such as Aluminium metal, raw cotton, Phosphatic fertilizer, copra oil have been used interchangeably, the WPI data for CY23 is till Nov/23. For calculation of the price change the WPI index is averaged for the year and YoY and the change since CY19 are taken into account.

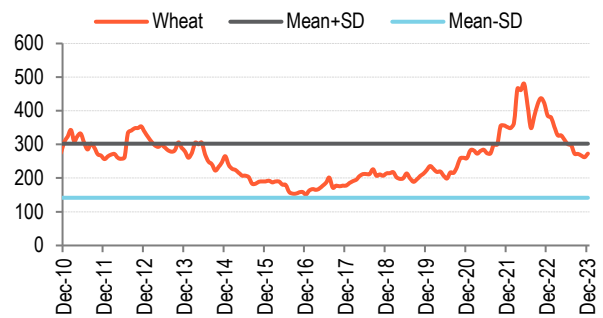
- What comes out distinctly in this table is that though considerable degree of softening across major commodities have been noticed, still prices are higher than pre pandemic period. Some uncertainty in global demand and correction in supply constraints have supported prices in CY23, but still major commodities statistically should converge to their mean reversion levels. But a lot of it is contingent on the evolution of demand-supply dynamics in the near term.
- As seen in the figure below, for crude oil, wheat, urea, aluminium, the actual prices are showing that convergence to their Mean +SD level for the lower bound should happen. This is also visible across other commodities shown in the Appendix.

Figure 1: Movement of Crude oil prices globally



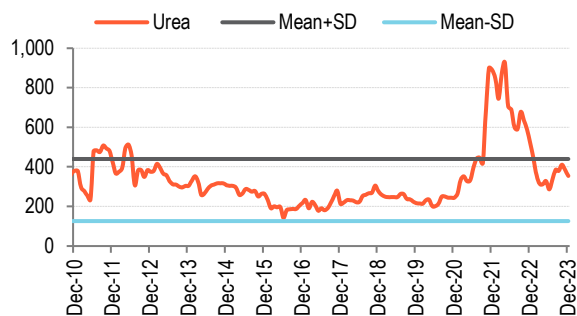
Source: World Bank, Bank of Baroda Research

Figure 2: Movement of Wheat prices globally



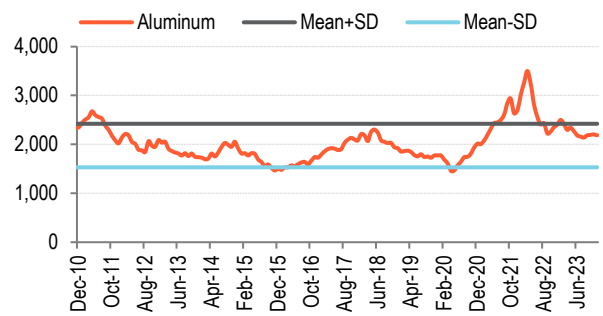
Source: World Bank, Bank of Baroda Research

Figure 3: Movement of Urea prices globally



Source: World Bank, Bank of Baroda Research

Figure 4: Movement of Aluminium prices globally



Source: World Bank, Bank of Baroda Research

[The remaining charts [resented in the Appendix]

Upside Risks: The Red Sea issue has already flared up with recent US and allies retaliatory attacks in response to attacks of ships in the Red Sea. As per reports, sea transport accounts for 30% of all shipping containers and majority of all global trade in goods. The Red Sea, is also the shortest sea route between Asia and Europe. Thus any disruption would definitely more than outweigh any downward correction that is a statistical possibility. The WCI composite container freight index is already surging. Thus, near term upside risks to prices cannot be ruled out.

Appendix:

Figure 1: Movement of Rice prices globally

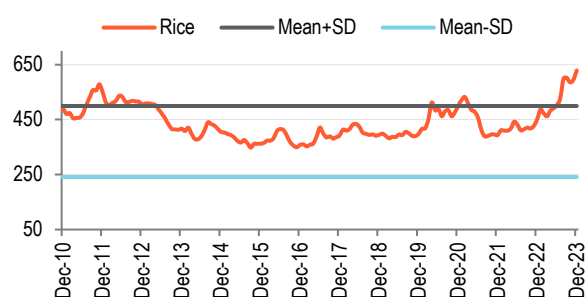


Figure 2: Movement of Sugar prices globally

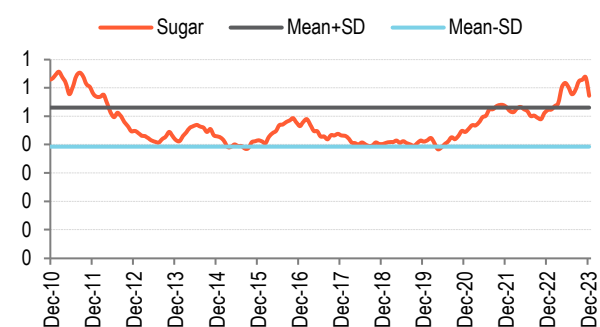


Figure 3: Movement of Copper prices globally

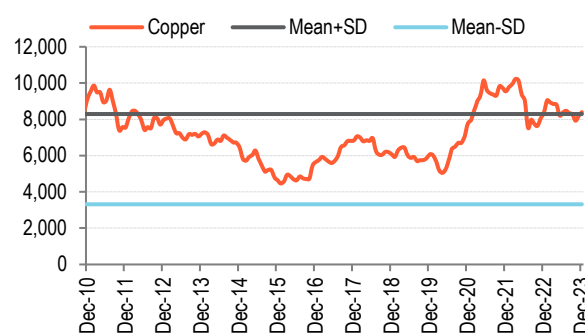
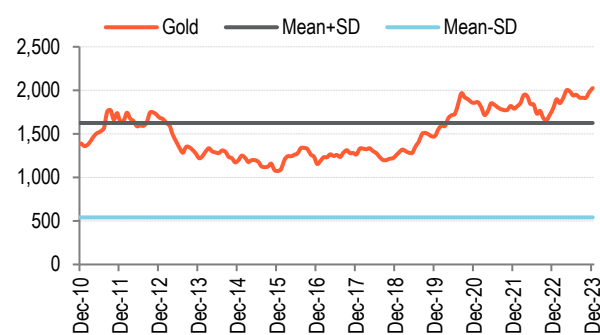


Figure 4: Movement of Gold prices globally



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