



General Assembly

Distr.: General
26 July 2019

Original: English

Seventy-fourth session

Item 17 (d) of the provisional agenda*

Macroeconomic policy questions: commodities

World commodity trends and prospects

Report of the Secretary-General

Summary

The present report, prepared by the secretariat of the United Nations Conference on Trade and Development pursuant to General Assembly resolution [72/205](#), highlights recent developments and prospects in key commodity markets and contains an analysis of factors that contributed to the trends in commodity prices observed in 2018. It shows that, between January 2018 and March 2019, commodity markets exhibited a high variation in prices, recording upward and downward movements. In general, price increases resulted from factors such as tightness in markets owing to adverse weather conditions and economic and political uncertainties in many parts of the world. Easing off and falls in prices were due in large part to oversupply, rising inventories and favourable weather conditions. The report presents an exploration of diversification strategies that could help commodity-dependent developing countries to mitigate exposure to price volatility and shocks and achieve the Sustainable Development Goals of the 2030 Agenda for Sustainable Development.

* [A/74/150](#).



I. Introduction

1. The present report on world commodity trends and prospects was prepared by the secretariat of the United Nations Conference on Trade and Development (UNCTAD) pursuant to General Assembly resolution [72/205](#). The report contains an analysis of recent developments in commodity markets, focusing on price trends and their determinants. The three major commodity groups covered in the report are: (a) agricultural commodities, including food, tropical beverages, vegetable oilseeds and oils, and agricultural raw materials; (b) minerals, ores and metals; and (c) energy, including oil, gas, coal and renewable energy.

2. The report also presents an examination of diversification as a strategy to address commodity price volatility and highlights the efforts of UNCTAD to promoting this strategy in commodity-dependent developing countries.

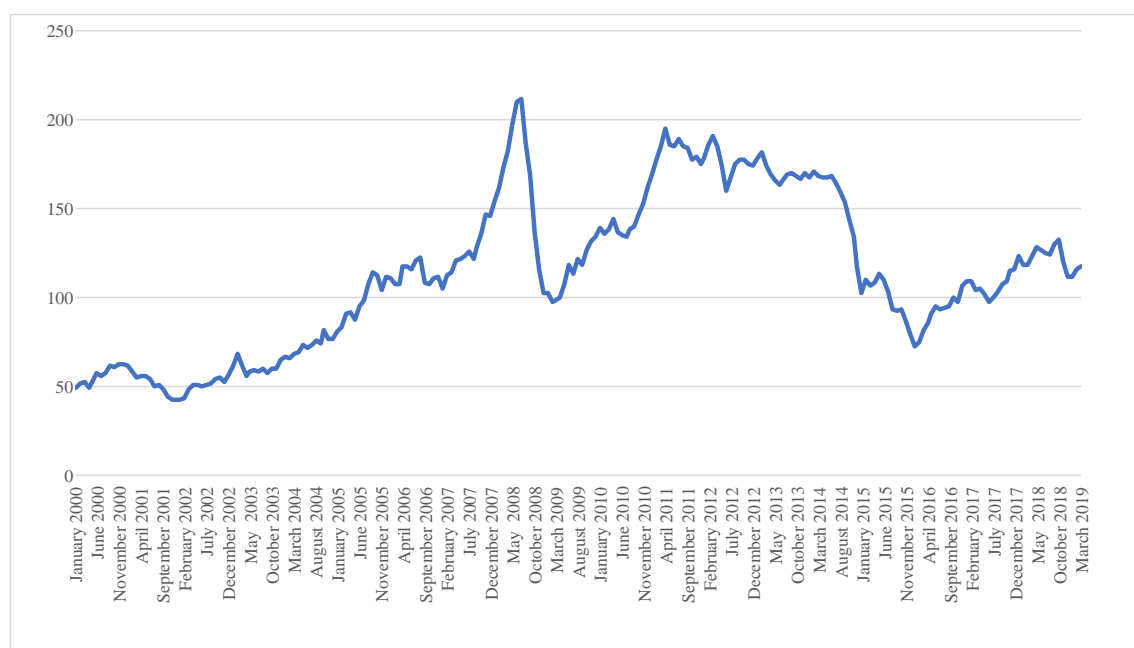
II. Recent developments in commodity markets

A. Overview

3. The UNCTAD free market commodity price index¹ for all commodity groups averaged 123.4 points in January 2018, up by 8 points (6.8 per cent) from the previous month (see figure I). By May 2018, it had risen to 128.2 points owing in large part to higher prices in most subgroups. In June 2018, the rising trend was reversed, with the index falling to 124 points in August owing to declining prices in subgroups such as food, tropical beverages, agricultural raw materials and precious metals. The index level averaged 111.3 points in December 2018. In the first quarter of 2019, the index for all groups increased by 5 per cent, driven in large part by a rise in prices in the fuels, minerals, ores and metals subgroups.

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

Figure I
UNCTAD free market commodity price index, all groups, January 2000 to March 2019
 (2015 = 100)

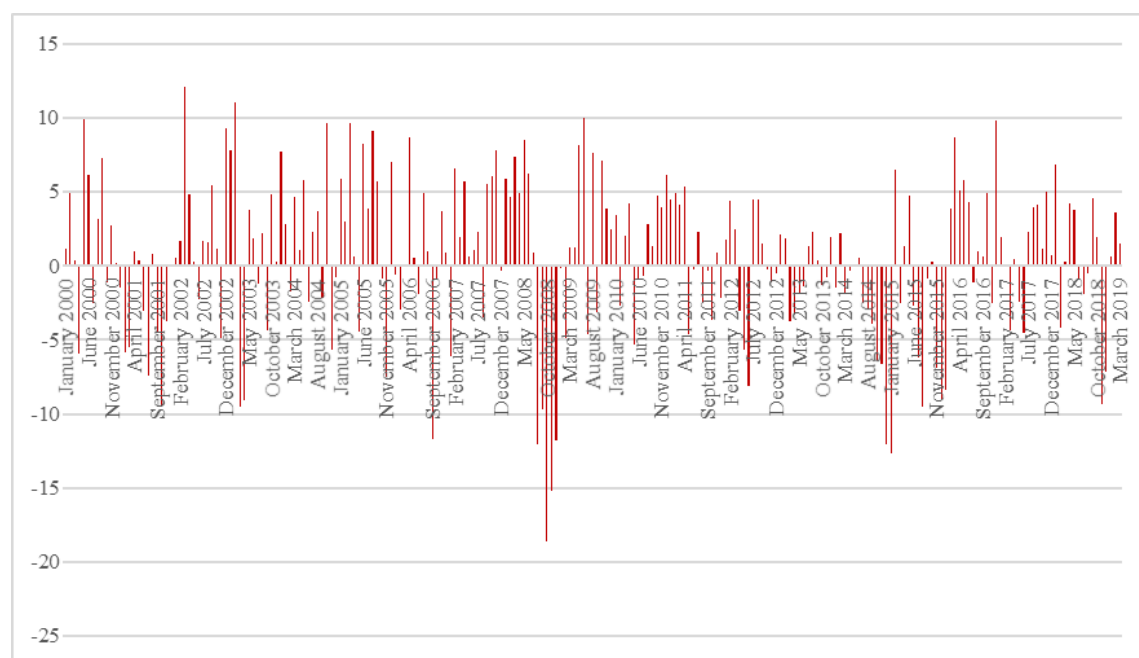


Source: UNCTAD secretariat calculations based on data from UNCTADstat.

4. The monthly variations of the UNCTAD free market commodity price index for all groups between January 2000 and March 2019 illustrate the degree of fluctuation in commodity prices (see figure II). In 2018, the index showed wide monthly variations owing to a variety of factors (see section B below). The highest and lowest changes occurred in January (6.9 per cent) and November (-9.3 per cent), respectively. In the first quarter of 2019, monthly fluctuations were positive. The following section presents a review of market developments in major commodity groups.

Figure II
Monthly fluctuations in the UNCTAD free market commodity price index, January 2000 to March 2019

(Percentage)



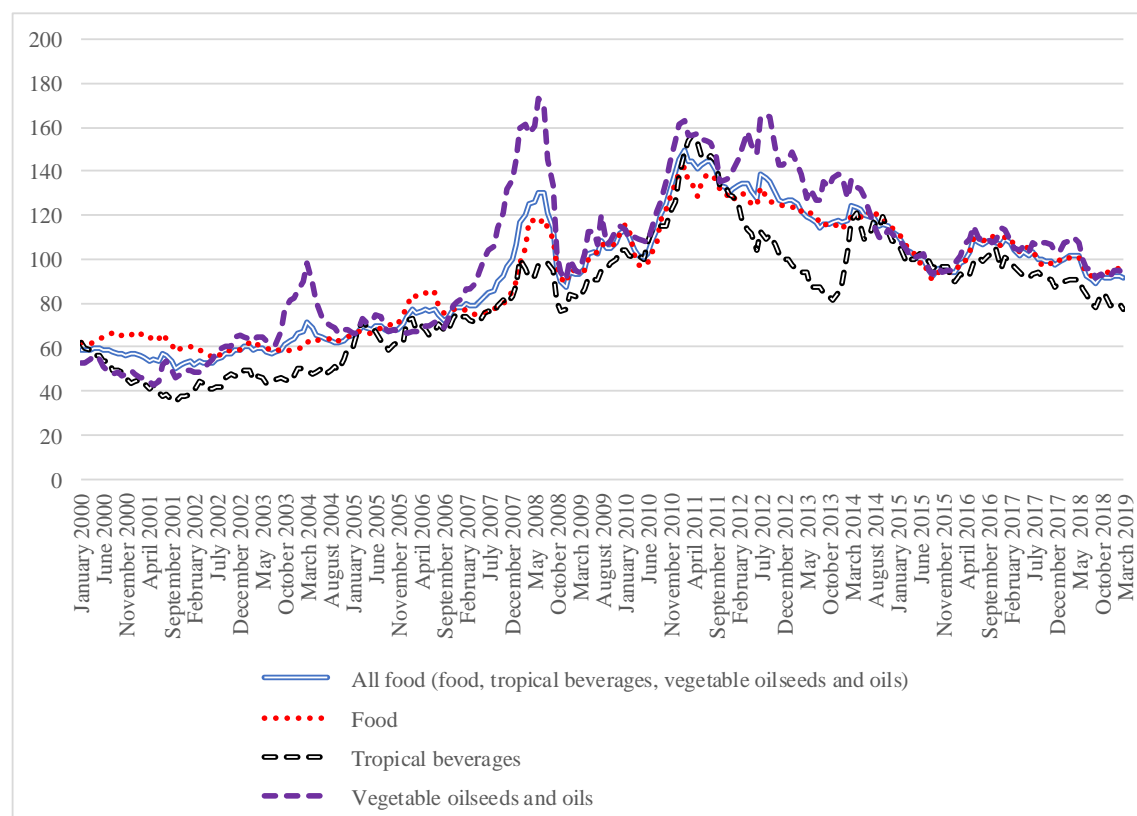
Source: UNCTAD secretariat calculations based on data from UNCTADstat.

B. Developments in key commodity sectors

Food and agricultural commodities

5. The UNCTAD monthly food price index (see figure III) averaged 99.7 points in January 2018, an increase of 2.4 per cent compared with the previous month, with the index rising for the third consecutive month. The food price index rose slightly, by 1.4 per cent in the following two months, but declined thereafter to an average of 91 points in September 2018. The rise of the index at the beginning of 2018 was driven in large part by the higher prices of wheat and maize, given that adverse weather conditions in key producing regions (e.g., 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. The index reversed its downward trend in the last quarter of 2018 to end the year at 94.9 points and continued its rise in the first quarter of 2019 to reach 96.4 points, owing in large part to the increasing prices of maize and sugar.

Figure III
Price indices of selected commodity groups, January 2000 to March 2019
 (2015 = 100)



Source: UNCTAD secretariat calculations based on data from UNCTADstat. The commodities in each group are described in UNCTADstat summary (<https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>).

6. Maize prices have been under downward pressure since 2012, owing in large part 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 United States dollar and lingering concerns about the impact of hot and dry weather on crops in Argentina. From the last quarter of 2018, maize prices trended upwards to end the year at \$170.79. That trend continued in the first two months of 2019, owing in part to concerns over dry weather in growing areas of the United States,² tighter supplies, firmer demand and concerns about the impact of adverse weather on the plantings of the 2019 crops (see figure IV).³

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 \$245.333 in March, owing to prolonged dry weather in the United States, concerns about cold and wet weather in some parts of Europe, strong global demand⁴ and speculative pressures. By December 2018, the price had dropped to \$241.01 per metric ton. In the first quarter of 2019, prices followed a downward trend, declining by almost 8 per cent to \$222.19 per metric ton in March, owing to abundant supplies

² See www.fao.org/3/CA1481EN/ca1481en.pdf.

³ See www.fao.org/3/CA3367EN/ca3367en.pdf.

⁴ See www.foodsecurityportal.org/global-wheat-and-maize-prices-continue-rise.

and good global production prospects for 2019, as well as faltering demand for exports in the United States (see figure IV).⁵

8. In the rice markets, the benchmark price of Thailand rice (white milled, 5 per cent broken, free on board) experienced a 9 per cent rise in January 2018 from the previous month to \$442 per metric ton as a result of increased demand. The spike was short-lived, however: by December, prices stood at \$404 per metric ton, owing in large part to fluctuating demand and an appreciation of the Thai baht. Thereafter, prices slightly increased to \$406 per metric ton in March 2019. 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 (see figure IV).

9. The monthly average of the International Sugar Agreement daily prices fell from 14.09 cents per pound in January 2018 to 12.03 cents per pound in April, owing to record output from two of the world's top producing countries (India and Thailand) and speculation that the supply glut would continue because of high levels of planting in India and in the European Union. Fears, however, that drought during the growing season in Brazil would negatively affect yields and production helped to 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. Prices rebounded thereafter, reaching 13.28 cents per pound in October, owing to a return of drought conditions affecting yields in Brazil, but declined thereafter to end the year at 12.65 cents per pound. By March 2019, prices stood at 12.71 cents per pound. Data from the Economist Intelligence Unit suggest that the market will tighten in the 2019/20 marketing year as costlier producers are forced out. Nevertheless, prices are likely to rise modestly owing to long-term demand increasing slower than supply (see figure IV).⁶

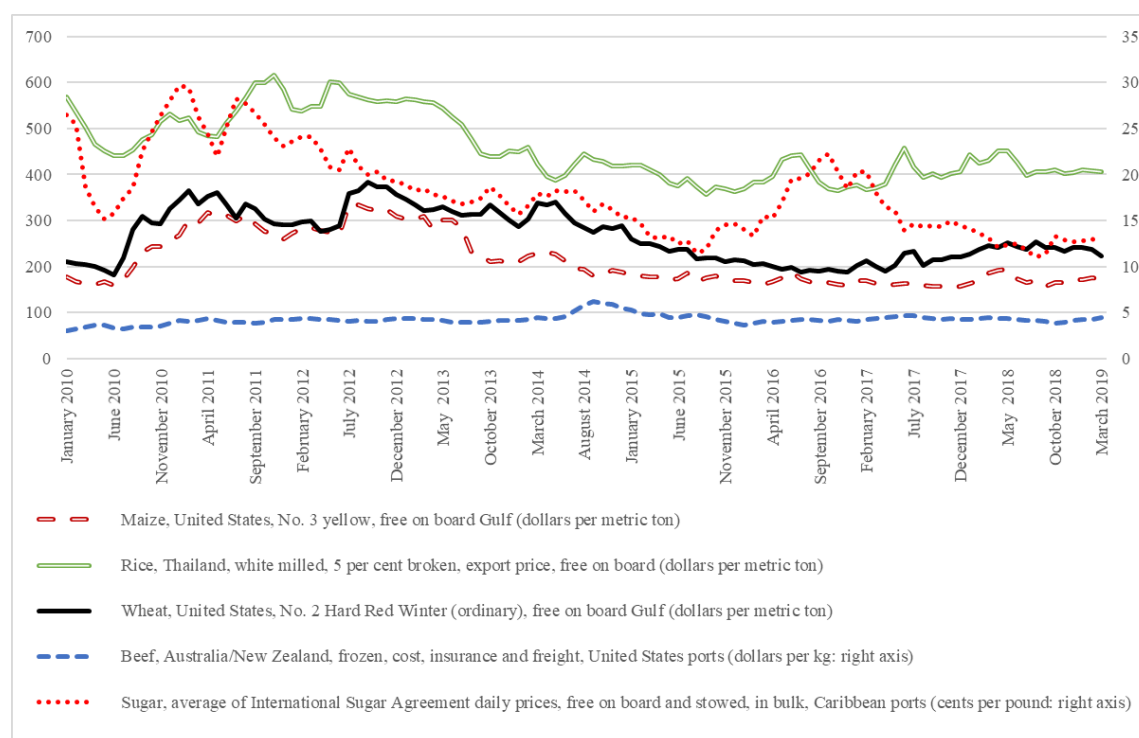
10. In the first quarter of 2018, the price of Australia and New Zealand beef (frozen; cost, insurance and freight) rallied briefly but trended downwards thereafter to settle at \$3.86 per kg in October 2018 owing in large part to increased production in Australian markets. In November, the downward trend reversed and prices increased by 2 per cent to end the year at \$4.18 per kg. Frozen beef prices continued their upward movement in the first quarter of 2019, in large part by resurging growth in the Chinese market for Australian beef (see figure IV).⁷

⁵ See www.fao.org/3/ca4215en/ca4215en.pdf.

⁶ See www.eiu.com/industry/commodities/article/1007251084/sugar/2018-11-01.

⁷ See www.beefcentral.com/trade/march-beef-exports-sharply-higher-in-response-to-big-rates-of-kill/.

Figure IV
Nominal prices of selected food and agricultural commodities, January 2010 to March 2019



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 91.69 points in November 2018. The rise and fall of the index in 2018 were due in large part to the influence of the high price volatility of soybean (see para. 12 below). In December 2018, the index averaged 92.77 points, a fall of 10.8 per cent from January 2018. In the first two months of 2019, the influence of rising soybeans prices raised the index to 95.01 points, but it dipped in March as soybean prices declined (see figure V).

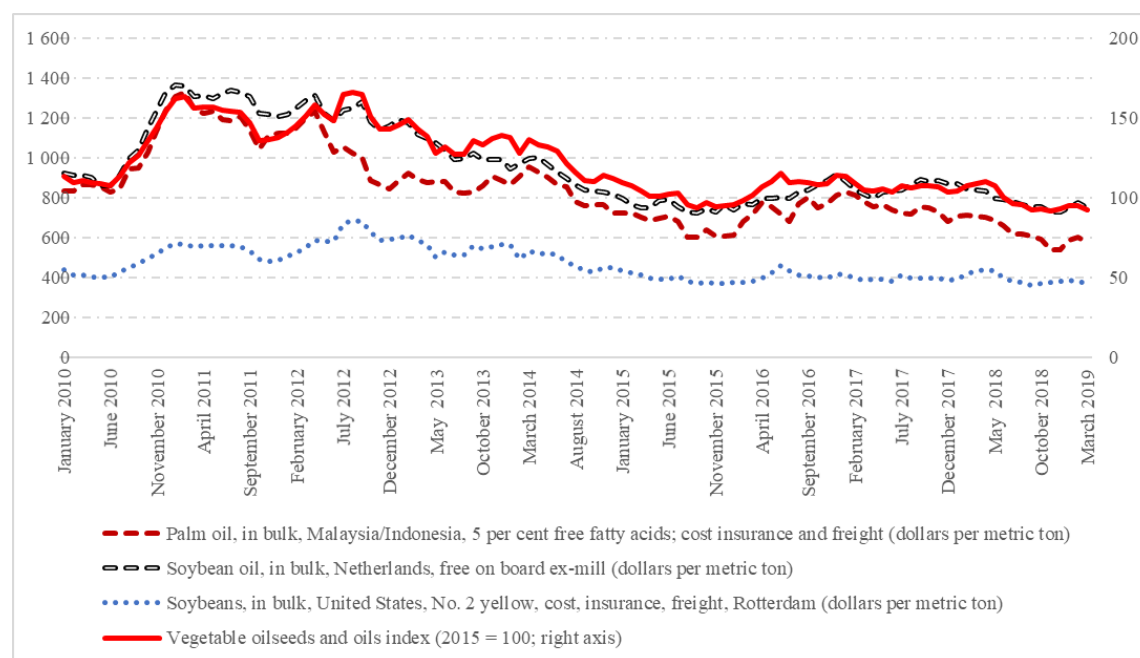
12. Soybean prices rose between January and April 2018, reaching \$439.07 per metric ton in April and \$380.53 per metric ton in December 2018. This was due in part to hot and dry weather that affected crop harvests in Argentina, as well as concerns about trade between China and the United States. Strong demand and delays to harvests resulting from wet weather in the United States also played a role. In the first quarter of 2019, prices followed a volatile path, rising by 4.7 per cent in January 2019 over the previous month but dropping in subsequent months to reach \$369.94 in March. This was the result of a rise in production and a high level of stocks, combined with limited buying interest overseas. With regard to soybean oil, prices declined by 16.4 per cent from January to December 2018, down by 5 per cent from the corresponding period in 2017. The decline was driven in large part by abundant supplies. Prices continued a downward trajectory in the first quarter of 2019 to reach \$369.94 as world demand weakened amid abundant supplies. The 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 (see figure V).

13. Palm oil prices recovered briefly in the first two months of 2018, driven by a seasonal decline in production, but this was followed by a downward trend to

\$535.02 per metric ton in December due to excess supplies, high stockpiles in the major producing regions (Indonesia and Malaysia), a slump in petroleum costs and weakening demand. In the first quarter of 2019, prices increased by 12.7 per cent during the first two months to reach \$602.97 in February, owing to rising demand, declining growth in global output and higher drawdowns in stockpiles as biodiesel consumption rose.⁸ The prices fell in March on the back of higher-than-expected production and rising stock levels in Malaysia.⁹ Data from the Economist Intelligence Unit suggest that production growth is expected to slow down in 2019/20, along with strong demand, exerting an upward pressure on prices (see figure V).⁹

Figure V

Price trends of selected commodities in the vegetable oilseeds and oils market, January 2010 to March 2019



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

14. From January to May 2018, the UNCTAD tropical beverages price index increased by 4.5 per cent to 91.03 points. The upward trend was driven in large part 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 77.77 points in September as prices of cocoa, coffee and tea decreased. In the following months up to December 2018, the index followed upward and downward movements driven by fluctuating coffee and tea prices. The index stood at 79.06 points in December. From January to December 2018, the index fell by 11.8 per cent. In the first quarter of 2019, the index trended downwards to 77.6 points in March, 5 per cent lower than the corresponding period in 2018 (see figure VI).

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 countries dropped. Additional factors that

⁸ See <https://af.reuters.com/article/commoditiesNews/idAFL3N2060P8>.

⁹ See www.eiu.com/industry/commodities/article/1417766325/palm-oil/2019-04-01.

contributed to the rise include an intense seasonal heatwave that affected the quality of beans, thus leading buyers to purchase more cocoa to produce the quantity of butter that 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 reach 100.17 cents per pound in December 2018, largely as a result of improved weather conditions and higher arrivals at the ports of the cocoa-producing regions of West Africa. From January to December 2018, cocoa prices rose by 13.1 per cent, reversing the falling trend during the corresponding period in the previous year. In January 2019, prices rebounded briefly to 102 cents per pound and remained flat in February before falling to 99.81 cents per pound in March. The rise in prices was driven in part by an increase in demand, but the strong supply of cocoa beans from Côte d'Ivoire and Ghana exerted downward pressure on prices. The International Cocoa Organization forecasts record supplies from Côte d'Ivoire to continue, but supplies from Ghana are expected to retreat because of diseases and adverse climate conditions prevailing in the main producing regions (see figure VI).¹⁰

16. In the first two months of 2018, prices of tea rallied briefly owing in part to a fall in output from the main producing countries (India and Sri Lanka), but this was followed by a downward trend to \$2.29 per kg in December 2018 as global production increased owing to favourable weather conditions. In the first quarter of 2019, excess supplies on the market continued to exert downward pressure on prices to \$2.13 per kg in March 2019, the lowest monthly average since April 2016. The forecast is that global production growth will decelerate modestly in 2019–20, while consumption continues to grow, thus decreasing the surplus on the market. Prices are expected to continue to fall in 2019 before recovering slightly in 2020 (see figure VI).

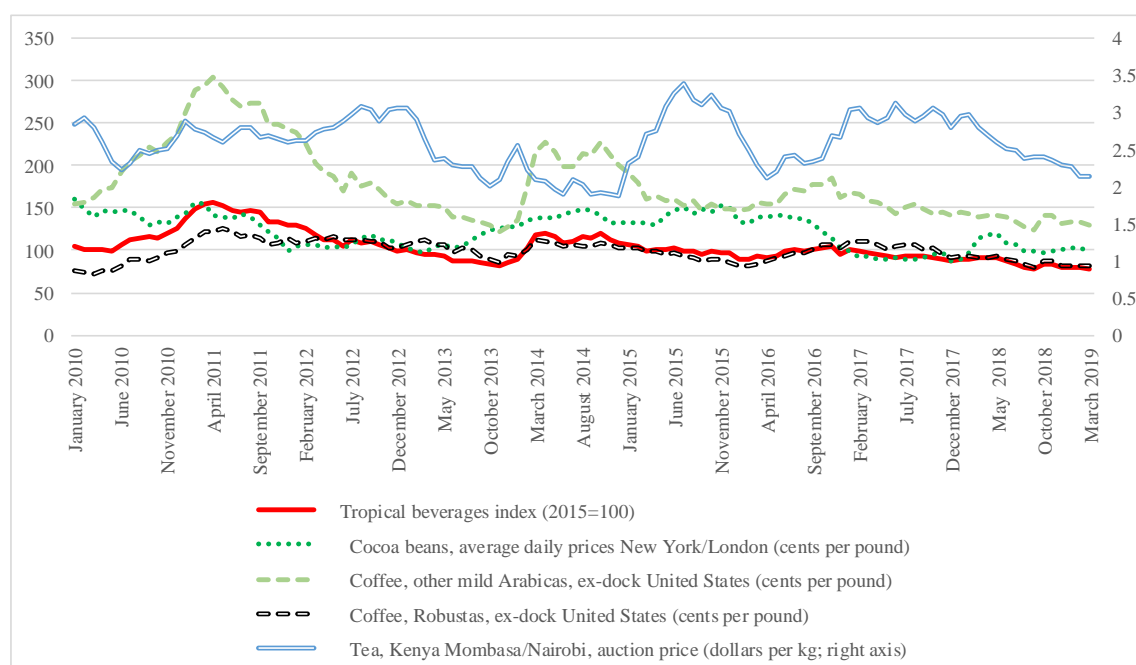
17. With respect to the coffee market, the average monthly composite indicator price recovered slightly in January 2018, compared with the previous month, up by 1.4 per cent to 115.60 cents per pound. That was short-lived, however. The composite indicator price trended downwards in the following months to 98.17 cents per pound at the end of September. 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. In October 2018, prices increased by 13.3 per cent owing in part to the appreciation of the Brazilian real and an improvement in demand,¹¹ but this was followed by five consecutive months of decline to end at 97.5 cents per pound in March 2019, owing in large part to excess supply. The Economist Intelligence Unit forecasts coffee prices to recover slightly, owing to a fall in production and a continuing rise in consumption (see figure VI).¹²

¹⁰ See International Cocoa Organization, "Cocoa market review" (November 2018). Available at www.icco.org/statistics/monthly-review-of-the-market.html.

¹¹ See <https://insights.abnamro.nl/en/2018/12/price-of-coffee-follows-brazilian-real/>.

¹² See www.eiu.com/industry/commodities/article/1917240775/coffee/2018-11-01.

Figure VI
Price trends of selected tropical beverage commodities, January 2010 to March 2019



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 102.95 points but fell again in the following month to 99.96 points. From January to December 2018, the index dropped by 5.2 points, but it was almost 6 per cent higher than the corresponding period in 2017 (see figure VII).

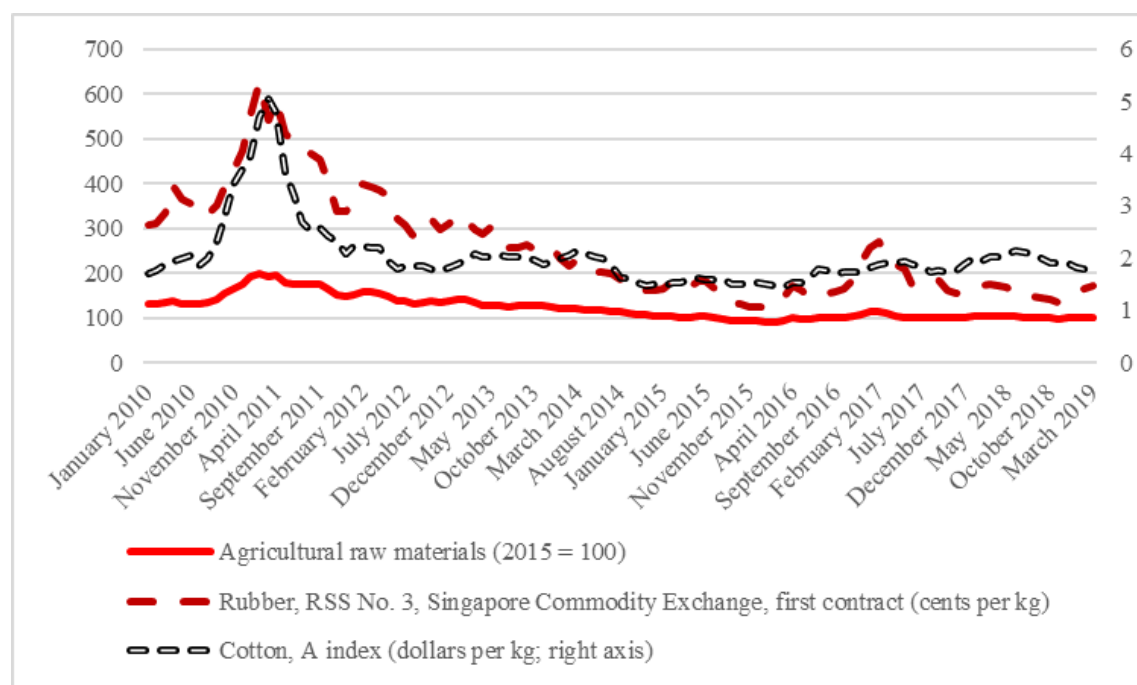
19. In January 2018, the cotton A-index price, a benchmark for world cotton prices, rebounded to \$2.01 per kg, owing to a decline in inventories and reduced yields in producing countries. Prices, however, dropped by 3 per cent to \$1.95 per kg in February 2018 and, in the following months, fluctuated within a narrow band of 25 cents per kg to settle at \$1.85 per kg in March 2019, owing to changing demand and supply factors such as falling consumption growth in China driven by trade tensions with the United States, falling stocks, adverse weather conditions in growing regions and speculation. Prices are forecast to be relatively flat in 2019 as demand improves amid growing stocks (see figure VII).

20. Natural rubber 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 had expired, the rising trend reversed as concerns of more supplies flooding the market resurfaced amid weakening demand relating to increasing concerns about trade between China and the United States. In December 2018, prices stood at \$143.65 per metric ton, down by 16.6 per cent from the beginning of the year. Prices increased by 8.2 per cent in the first quarter of 2019 to reach \$172.25 in March, owing in part to growing demand for natural rubber during off-season production and export restrictions agreed by major producers (Indonesia, Malaysia and Thailand),

formally known as the Agreed Export Tonnage Scheme.¹³ Prices are expected to rise in 2019 as domestic demand picks up in these countries (see figure VII).

Figure VII

Price trends of selected agricultural raw materials, January 2010 to March 2019



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

Minerals, ores and metals

21. The UNCTAD minerals, ores and non-precious metals price index (see figure VIII) reached a peak of 139.15 points in January 2018, driven in large part by rising prices of aluminium, copper, nickel and zinc. The index fell, however, by 9.8 per cent to 125.58 points in December 2018 as it came under pressure from falling prices of the metals in the group. In the first quarter of 2019, the downward trend reversed, averaging 136.34 points in March.

22. A rising trend of iron ore prices developed from the end of 2017, reaching \$77.46 per dry metric ton unit in February 2018. This was due in large part to increasing demand for iron ore from China. When production curbs associated with environmental concerns 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. By December, the prices had reached \$69.41 per dry metric ton unit. From January to December 2018, iron ore prices dropped by 9.4 per cent, lower than the 10.1 per cent drop during the corresponding period in 2017. In the first quarter of 2019, iron ore prices continued their upward trend to reach \$136.34, owing in part to a cut in production from Vale, the world's biggest supplier, following a dam disaster, and strong demand for steel (see figure VIII).¹⁴

23. In 2018, copper prices fell from \$7,065.85 in January to \$6,050.76 per metric ton in September, notwithstanding looming supply disruptions in Chile arising from labour disputes at the world's largest copper mine, Escondida. The downward trend

¹³ See <https://globalrubbermarkets.com/155513/natural-rubber-prices-continue-to-rise.html>.

¹⁴ See www.ft.com/content/679320ce-7cae-11e9-81d2-f785092ab560.

was driven in large part 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. Prices rose slightly in October 2018 but came under downward pressure from falling demand, to settle at \$5,939.10 per metric ton in January 2019. The decline in prices reversed the following month, aided by falling inventories and rising demand, and rose to \$6,439.46 per metric ton in March. Copper prices are forecast by S&P Global Market Intelligence to rise in 2019 because strong global demand is expected to outpace supply (see figure VIII).¹⁵

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,¹⁶ one of the world's largest aluminium producers, as a "specially designated national"¹⁷ caused global aluminium prices to rise to \$2,299.67 per metric ton in May 2018. This was due in large part to market analysts weighing in on the impact of the potential freezing of the aluminium provided by Rusal out of world supplies. Prices declined to \$1,920.38 per metric ton in December 2018 owing 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.¹⁸ In January 2019, prices fell again by 3.5 per cent over the previous month owing to expectations that the lifting of sanctions imposed by the Department of the Treasury's Office of Foreign Assets Control¹⁹ on Rusal would cause global supplies to rise. Nevertheless, the downward trend reversed in February and prices rose to \$1,871.21 in March on the back of recovering demand and falling stocks in warehouses. Prices are expected to rise in 2019 as production growth outpaces demand growth, assuming no major disruptions to the company's operations (see figure VIII).

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. Towards the end of 2017, prices dipped slightly but rebounded in 2018 and rose in consecutive months to \$3,532.90 dollars per ton in February 2018, owing to ongoing supply issues and a sudden drop in inventories. Prices came under downward pressure in March and trended downwards to \$2,616.29 dollars per ton in December 2018, owing in large part to oversupply, rising inventories and lower demand induced by trade tensions between China and the United States. From January to December 2018, zinc prices declined by almost 24 per cent, compared with the 17.8 per cent gains made during the corresponding period in 2017. In the first quarter of 2019, zinc prices followed an upward path, driven in large part by mine closures and production cuts over price concerns. The International Lead and Zinc Study Group forecasts zinc consumption and production to rise in 2019, but the market is expected to remain in a deficit position (see figure VIII).²⁰

¹⁵ See www.sp.global.com/marketintelligence/en/news-insights/trending/adzuhkaui1johjterm4gcw2.

¹⁶ See <https://home.treasury.gov/news/press-releases/sm0338>.

¹⁷ Individuals and companies called specially designated nationals have their assets blocked, and United States citizens are, in general, prohibited from dealing with them. See www.treasury.gov/resource-center/sanctions/sdn-list/pages/default.aspx.

¹⁸ See www.independent.ie/business/world/aughinish-owner-rusal-up-as-us-eases-sanctions-pressure37325298.html.

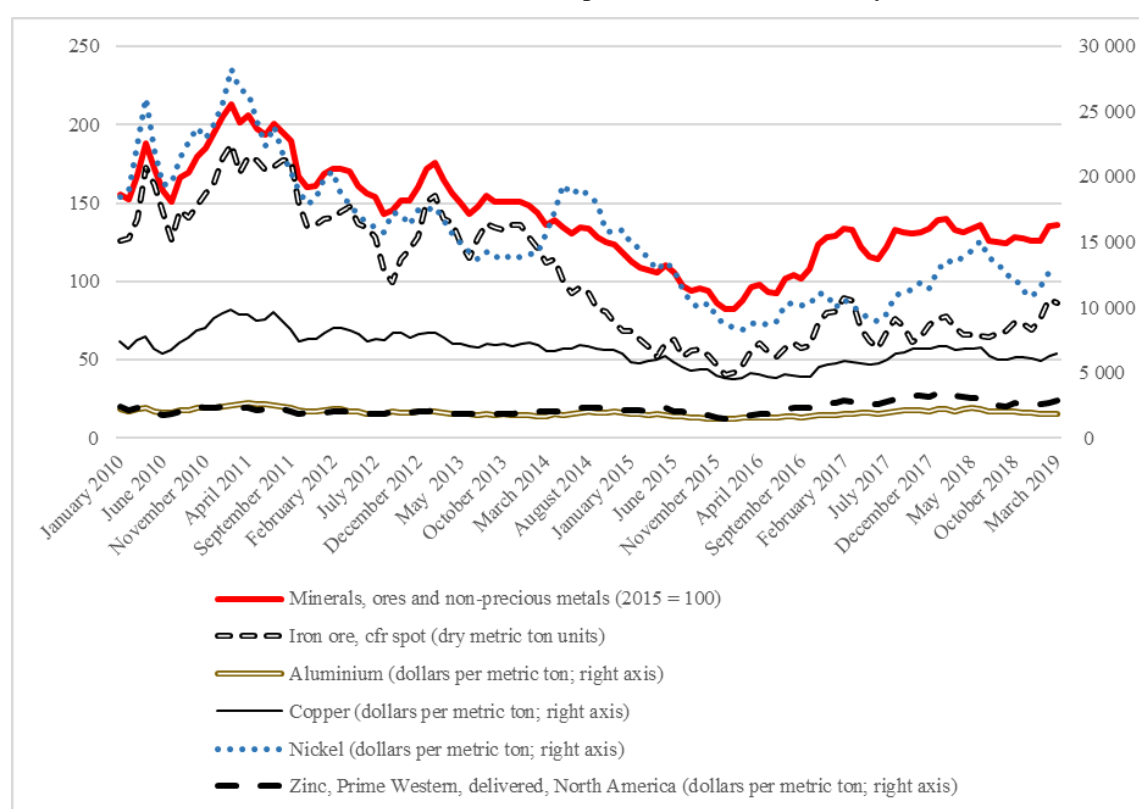
¹⁹ See <https://home.treasury.gov/news/press-releases/sm576>.

²⁰ See www.mineralinfo.fr/sites/default/files/upload/ilzsg_may_2019_press.pdf.

26. 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 \$10,835.08 per metric ton in December 2018. The decline in prices was due in large part to escalating global trade tensions, even as demand increased. From January to December 2018, nickel prices dropped by 15.8 per cent, compared with the 15.3 per cent gains made during the corresponding period in 2017. In the first quarter of 2019, prices increased by 13 per cent to reach \$13,026.27 per metric ton in March on the back of growing demand. Prices are forecast to continue to rise over the course of 2019 owing to growing demand and falling inventories (see figure VIII).²¹

Figure VIII

Price trends of selected minerals ores and non-precious metals, January 2010 to March 2019



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

27. The UNCTAD precious metals price index showed a pattern of fluctuation in the first four months of 2018 as volatile gold prices weighed on the index but subsequently trended downwards from 113.2 points in April to 101.18 points in September. The downward trend reversed in October 2018, and the index trended upwards to 109.61 points in March 2019.

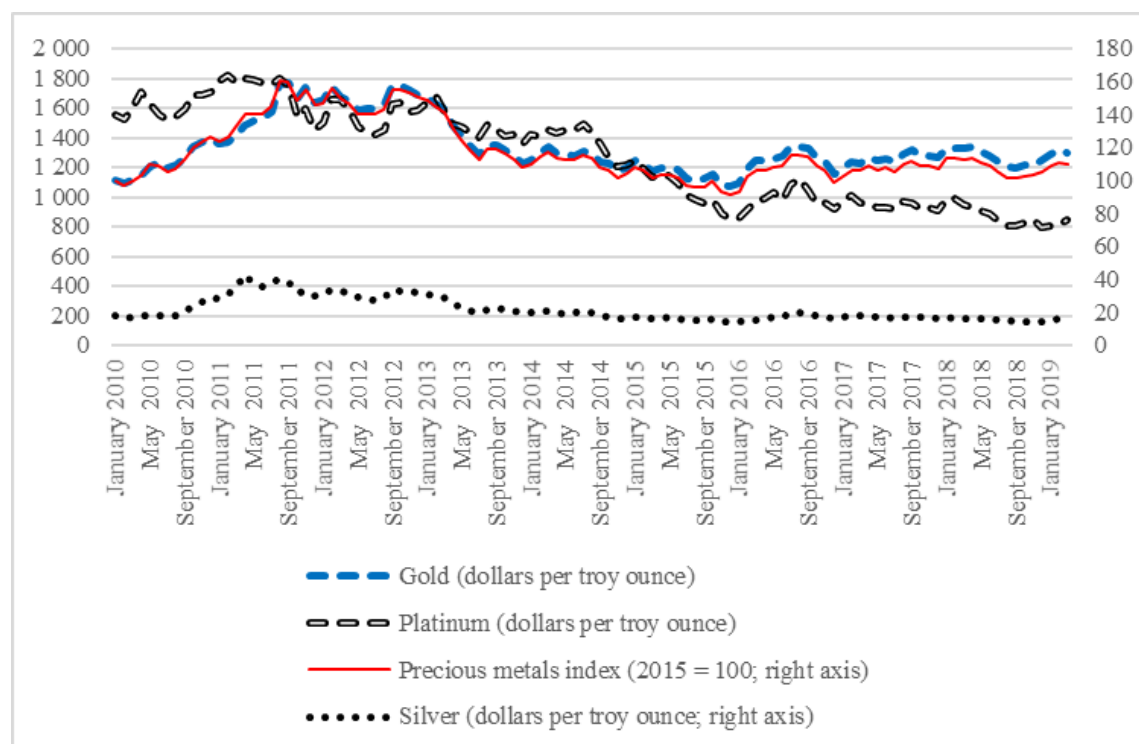
28. The price of gold trended upwards, with a high degree of volatility, from \$1,192.10 per troy ounce in January 2017 to \$1,314.07 in September 2017. The rise in gold prices was supported by a weak United States dollar and increasing geopolitical risk of conflict on the Korean Peninsula, leading investors to seek safer

²¹ See http://insg.org/wp-content/uploads/2019/05/pressrel_INSG-Press-Release-May2019.pdf.

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 in December. The volatility observed was due in part to speculative trading and a rise in interest rates in the United States (see figure IX).

Figure IX

Price trends of selected precious metals, January 2010 to March 2019



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, owing in large part to falling demand for gold bars and exchange-traded funds backed by gold bars.²² In April 2018, prices rose briefly to \$1,334.76 per troy ounce before falling to \$1,198.39 in September. In October 2018, the downward trend reversed, and prices increased for six consecutive months to \$1,300.90 per troy ounce in March 2019, owing to various factors, including fears over a slowdown in global growth, concerns about a rise in interest rates in the United States,²³ ongoing global trade tensions between China and the United States and safe-haven buying. These effects are expected to continue to exert pressure on gold prices in 2019.

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. In addition, silver is cheaper than gold, which allows investors to take positions hoping to make quick gains or exit the

²² See www.gold.org/research/gold-demand-trends.

²³ See www.eiu.com/industry/commodities/article/897744273/gold/2019-04-01.

market without substantial amounts of money. In January 2018, silver prices rose by 5.9 per cent over the previous month to \$17.13 per troy ounce owing in part to financial speculation – short covering – but followed a volatile trajectory thereafter to \$14.77 in December 2018 as a result of a strengthening United States dollar, rises in interest rates and deteriorating industrial demand that has its roots in the threat of trade tensions (see figure IX). From January to December 2018, silver prices declined by 13.8 per cent. In January 2019, prices rose by 5.7 per cent, compared with the previous month, to \$15.62 per troy ounce, owing in part to falling stocks and speculation, and remained relatively stable over the next two months to settle at 15.30 in March. Silver prices are forecast to strengthen in 2019 as mine production decreases and industrial and jewellery demand strengthens.²⁴

31. 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 January 2018, prices climbed to \$990.12 per troy ounce as investors took positions in the market but subsequently declined steadily to \$791.16 in December 2018 owing to 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. In the first quarter of 2019, prices rebounded by 4.5 per cent on the back of rising automotive demand, owing in part to the increased use of platinum catalysts and speculation. The forecast is for demand from the automotive sector to increase sharply as tighter emission legislation is implemented in China and India amid a potential marginal increase in supplies.²⁵ A narrowing of the market balance is therefore likely to exert upward pressure on prices in 2019 (see figure IX).

32. Cobalt²⁶ 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.²⁷ 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 declined to approximately \$55,000 in December, owing in large part to excess supply driven by increased production from the Democratic Republic of the Congo and weakened demand. In the first quarter of 2019, excess supplies continued to exert downward pressure on cobalt prices to under \$30,000 per metric ton. Prices are forecast to rise in the second half of 2019 as sales volumes of electric cars increase around the world.²⁸

Fuels

33. The UNCTAD fuel price index fell from 106.54 points in January 2017 to 91.69 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 118.99 points in December 2017 and again by 8.6 per cent in January 2018, marking the seventh consecutive month of a rise (see figure X). The upward trend was driven in large part by strengthening crude oil and coal prices,

²⁴ See www.silverinstitute.org/silver-market-trends-2019/.

²⁵ See www.bloomberg.com/press-releases/2019-05-13/rising-auto-demand-and-surge-in-investment-to-push-platinum-market-into-deficit-says-johnson-matthey-s-latest-pgm-market-jvmbfrlf.

²⁶ Cobalt is not included in the free market commodity prices of UNCTADstat and is therefore not reflected in figure IX.

²⁷ See www.mining.com/cobalt-price-bulls-worst-fears-may-just-confirmed/.

²⁸ See www.mining.com/cobalt-uranium-silver-prices-expected-rally-2019/.

owing to increasing demand from a growing world economy. In February, the index dropped by 7.5 per cent to an average of 120.61 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. The sudden drop was short-lived, however, and the index rose by 23.4 per cent to 148.92 points in October, owing to a strong recovery of crude oil prices driven by rising demand and production cuts by key producers. In the following two months, the index fell by 22.6 per cent to an average of 115.29 points in December as it came under pressure from falling crude oil and coal prices, but higher crude oil prices interrupted the downward trajectory and the index rose to 122.98 points in March 2019.

Crude oil

34. The rising trend in crude oil prices observed in 2017 continued in 2018. In May, Brent oil prices reached \$76.65 per barrel, owing in large part to geopolitical tensions and fears of a potential disruption in supplies in the Middle East. Nevertheless, an agreement was concluded between members of the Organization of the Petroleum Exporting Countries (OPEC) and non-member allies²⁹ 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 to meet growing global demand and cool down oil prices. As a result, oil prices were under downward pressure from June to August 2018. Trade tensions and their expected effects on world economic growth appear to have contributed to that price movement. Prices rose in the following two months to reach \$80.47 per barrel in October 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, but declined to \$56.46 per barrel in December owing to increased production in the United States and slowing demand growth. From January to December 2018, Brent oil prices declined by approximately 18 per cent, compared with a 17 per cent gain in the corresponding period in the previous year. The downward pressure eased in the first quarter of 2019 and prices increased by 12.0 per cent from January to \$66.41 per barrel in March, owing in part to agreed production cuts by OPEC and non-member allies in December 2018. Crude oil prices are forecast to average \$65 per barrel in 2019 owing to the weaker-than-expected global growth outlook and greater-than-anticipated production in the United States.³⁰

Coal

35. The upward trajectory of Australian thermal coal prices 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 reach \$119.57 per metric ton in July 2018. The main drivers of that volatile path included the easing of market tightness, which caused prices to decline; robust demand from utilities in Asia, in particular China, for industrial and residential cooling, owing to a heatwave in the summer; and the replenishing of stocks. Other factors that contributed to the upward pressure on prices included constraints on supply due to earlier mine closures and high hurdles to developing new mines amid concerns about pollution and global warming. In the second half of 2018, Australian thermal coal prices trended downwards to \$101.37 per metric ton in December, owing in large part to a sharp slowdown of Chinese imports. From January to December 2018, coal prices declined by 4.8 per cent, a reversal of the 20 per cent gain during the corresponding period in the previous year. In the first

²⁹ Non-member allies refers to non-Organization of the Petroleum Exporting Countries (OPEC) oil producers cooperating with OPEC to effect production cuts.

³⁰ See www.worldbank.org/en/news/press-release/2019/04/23/oil-prices-to-be-lower-in-2019-on-slower-than-expected-global-growth-rising-non-opec-supply.

quarter of 2019, prices declined further, by 5.5 per cent, on the back of weak demand driven by falling gas prices and the greater availability of natural gas. Data from the Economist Intelligence Unit suggest that prices are likely to come under downward pressure in 2019 owing to higher production offsetting an expected slight increase in demand.³¹

Natural gas

36. 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 the United States, Asia and Europe. 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 the demand of end users, supply, the extent of liberalization in the market, weather and storage.

37. 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 in December 2017, a drop of 18 per cent, owing in large part to record production and mild weather. In January 2018, however, a combination of extremely cold temperatures throughout much of the United States increased exports of liquefied natural gas and a sharp drawdown in gas inventories caused prices to rise to \$3.54 per million Btu, but that was short-lived. Average monthly prices fell to \$2.67 per million Btu in February as a result of increased production. Prices recovered in March and trended upwards to \$4.07 per million Btu in December 2018, owing to rising demand and low inventories. In January 2019, the upward trend reversed and prices fell in consecutive months to \$2.94 per million Btu in March, owing in large part to warmer-than-normal temperatures, which induced less demand for heating and higher levels of storage. The United States Energy Information Administration expects strong growth in natural gas production to exert downward pressure on prices in 2019.³²

38. The European gas market was characterized by volatile prices, with no clear trend during the first half of 2017. In January 2018, prices dropped by 6.7 per cent, compared with the previous month, but recovered slightly in February, driven in part by a late-winter cold spell and dwindling gas stocks. Thereafter, they trended upwards until September to reach \$9.52 per million Btu at key trading hubs, owing to various factors, including demand for liquefied natural gas in the Asian market, a heatwave throughout much of the northern hemisphere and the maintenance of pipelines and facilities. Prices trended downwards in the last quarter of 2018 and continued a downward path in the first quarter of 2019 to \$5.18 per million Btu in March, owing to rising production as demand slowed.

39. In the Asian liquefied natural gas market, prices rose to \$9.34 per million Btu in January 2018, up by 8 per cent from the previous month, and continued an upward trend until the end of the year. This trend was driven in part by winter demand and rising imports of liquefied natural gas into China in the wake of the Government's efforts to reduce urban air pollution. In December 2018, liquefied natural gas prices were up by 28.4 per cent from their starting point at the beginning of the year. Prices stabilized briefly in January 2019 but fell in subsequent months to \$11.29 per million

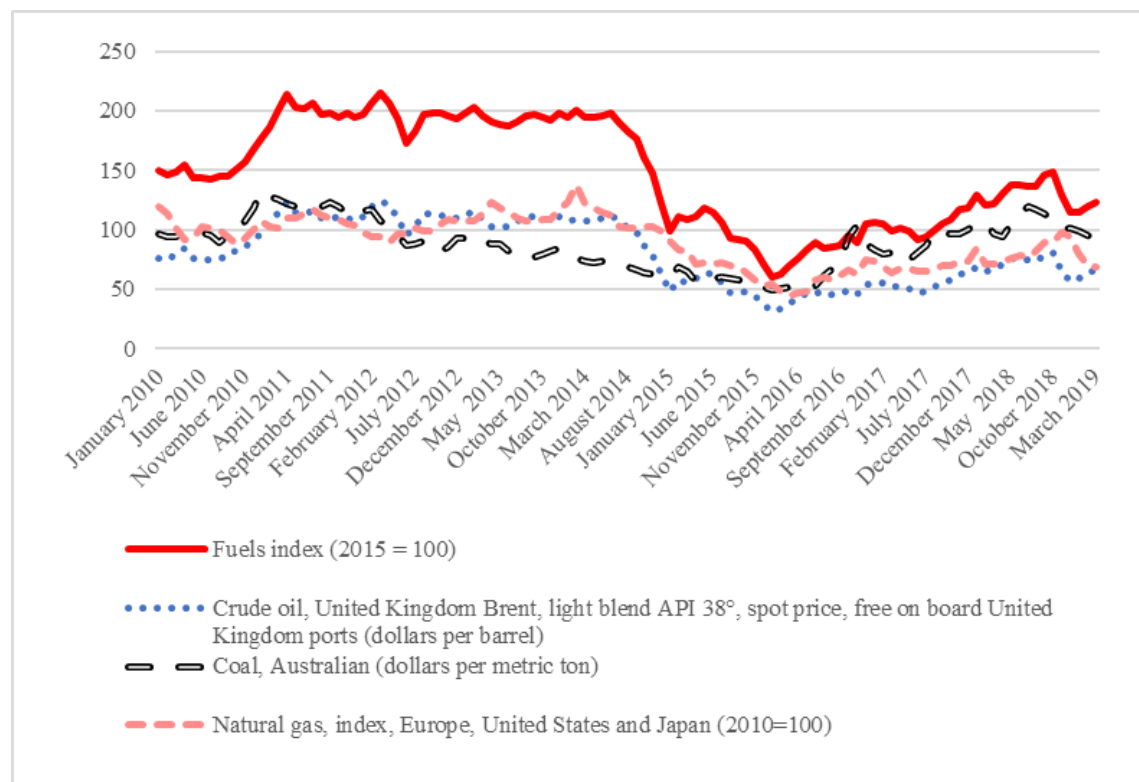
³¹ See www.eiu.com/industry/commodities/article/1577237341/coal/2018-11-01#.

³² See www.eia.gov/outlooks/steo/report/natgas.php.

Btu in March as mild weather reduced heating demand and new liquefaction projects boosted supply.³³

Figure X

Price trends of selected fuels, January 2010 to March 2019



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

Renewable energy

40. Renewable energy plays a critical role in the transition to a less carbon-intensive energy system in which greenhouse gas emissions are reduced to a sustainable level. In 2018,³⁴ renewables grew by more than 4 per cent and met approximately one quarter of the growth in total primary energy demand.³⁵ The main area of expansion was in electricity generation, which accounted for 45 per cent of the growth.³⁶ The rapid growth in renewables was driven in large part by the falling costs of solar photovoltaics and wind power, as well as procurement and investment decisions by the private sector. Indeed, the corporate sourcing of renewables more than doubled during 2018, and renewable energy has spread in significant amounts around the world.³⁵ The annual consumption growth rates for major renewable resources are shown in figure XI.³⁷

41. 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 implement the 2030 Agenda for Sustainable Development, in particular in reducing

³³ See www.icas.com/explore/press-releases/global-spot-lng-prices-slide/.

³⁴ Data available only up to the year 2018.

³⁵ See www.ren21.net/gsr-2019/pages/summary/summary/.

³⁶ See www.iea.org/geco/.

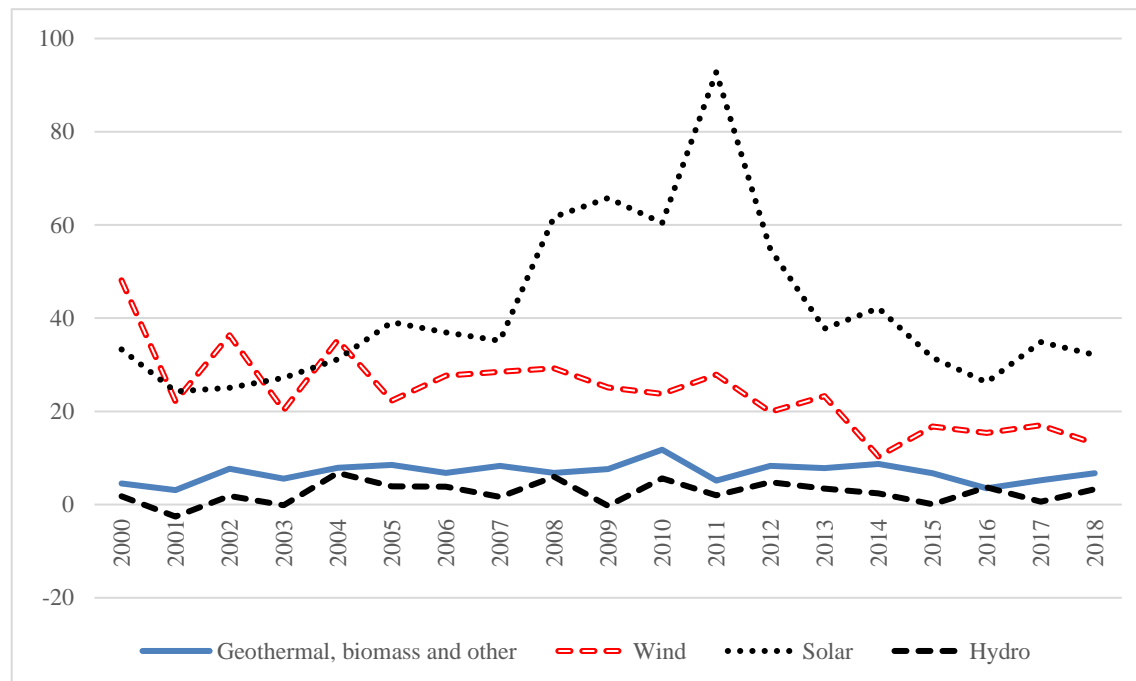
³⁷ See www.ren21.net/gsr-2019/pages/foreword/foreword/.

global emissions of greenhouse gases to keep average global temperature within the limits agreed to in the Paris Agreement under the United Nations Framework Convention on Climate Change. According to the International Energy Agency, the share of renewables is expected to grow by one fifth over the coming five years to reach 12.4 per cent in 2023.³⁸ 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.³⁸

Figure XI

Annual growth rates of renewable energy consumption by type, 2000–2018

(Percentage)



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

III. Some policy issues arising from recent market developments

42. Market trends, as analysed in this report, showed falling prices for most commodities, as well as high price variations across different commodity groups in 2018 and the first quarter of 2019. Such price movements have both macro and micro economic implications for commodity-dependent developing countries, as well as net commodity-importing developing countries, in particular net food and fuel importers. For example, a rise in commodity prices may contribute to improvements by exporting countries in their export and fiscal revenue, allowing them to increase current and capital government expenditure. By contrast, a decline in commodity prices may lead to shortfalls in export and fiscal earnings and the inability of Governments to deliver basic goods and services. High price volatility also undermines the development efforts of commodity-dependent developing countries, given that it could discourage investment, widen the trade deficit and aggravate household poverty. This section contains a brief discussion of policy issues arising from the recent developments in commodity markets highlighted in this report. It is suggested that policy options are important to strengthening the resilience of

³⁸ See www.iea.org/renewables2018/.

commodity-dependent developing countries to price shocks by allowing them to derive revenue from various sources, thus improving the capacity of these countries to achieve the Sustainable Development Goals by 2030.

A. Diversification, value addition and industrialization

43. 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. A decline in commodity prices can therefore have a negative impact on export and fiscal revenue, as well as economic growth, and may lead to increased poverty and slow development. In this context, economic and export diversification, value addition and industrialization can contribute to strengthening the resilience of these countries to price shocks by allowing them to derive revenue from various sources.

44. 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 and exporting to different markets. To be effective, diversification should be directed towards commodities or products that are not subject to the same or similar price risks. The other strategy is to diversify vertically through value addition. For example, commodity-dependent developing countries can diversify horizontally both within agriculture, by producing high-value, non-traditional exports, and outside agriculture, as Costa Rica did. Moreover, countries could diversify vertically by adding value to primary commodities. The pineapple industry in Costa Rica is a good illustration. Vertical diversification may also be achieved in a country such as Côte d'Ivoire by reducing its exports of cocoa beans and increasingly exporting 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. In the extractive sector, commodity-dependent developing countries may diversify vertically by participating in activities further downstream in the mineral value chain, as in the case of Botswana, with polishing raw diamonds, manufacturing jewellery and retailing.

45. In mineral-rich countries, large extractive projects can operate as enclaves without forging links with the broader economy. Expanding linkages between the extractive sector and the broader economy could offer a pathway to resource-based industrialization, provided that conducive policies are in place. From 2016 to 2018, UNCTAD implemented a project to assist oil/mineral-dependent countries in the Economic Community of Central Africa States to establish linkages between their extractive sectors and their broader economies. The overall objective of the project was to strengthen the capacity of policymakers, technical specialists and national institutions in the region to enhance domestic production linkages from the mineral resources sector. The project's capacity-building workshops enabled policymakers in the beneficiary countries to understand critical factors that influence linkage development and resource-based industrialization, and value addition. In this regard, the beneficiary countries, through their national task force set up as part of the project, produced action plans for the implementation of policies towards the diversification of their hydrocarbon sectors.

46. Another contribution by UNCTAD in diversifying commodity exports from commodity-dependent developing countries is in the cotton sector in Africa. Cotton is crucial to generating export revenue, as well as employment and incomes for families in rural areas of many African countries. Although cotton is used primarily for lint, it can produce several by-products by adding value to the primary commodity,

benefiting all value-chain stakeholders, including farmers, processors and traders. Cotton by-products include cottonseed oil used for human consumption and soap manufacturing; cake used for animal feed; and waste used for industrial settings such as polishing cloths and wipers. In addition, cotton stalks can be used in the production of particle board, paper, pulp and corrugated boxes.

47. Notwithstanding these potentially high economic benefits, cotton by-product industries are underdeveloped in Eastern and Southern Africa owing to several impediments. These include the lack of adequate downstream infrastructure; weak enabling policy and institutional environment to support the development of cotton by-product industries; poor market information for cotton by-products; and the lack of data to assess the economic viability of and opportunities for investment in cotton by-product industries. In this regard, following a request from the secretariat of the Common Market for Eastern and Southern Africa, UNCTAD is implementing a project to strengthen the capacity of selected countries in Eastern and Southern Africa to assess the economic viability of the development of cotton by-products and formulate evidence-based policies that promote their value addition.

48. The expected outcome from this project is twofold. First, stakeholders, including government officials, the private sector and farmers' associations in target beneficiary countries, will improve their capacity to assess the potential value, market situation and prospects for cotton by-products. Second, policymakers in the beneficiary countries and region will improve their capacity to formulate evidence-based policies that promote the value addition of cotton by-products. In addition, they will be able to create investment profiles to attract potential investors. The implementation of this project will end in December 2019. To reach the diversification goal, Governments will need to invest in the development of human capital and the accumulation of physical capital, including infrastructure. Developing countries need to improve their science and technology capabilities and strengthen their institutions and governance. Furthermore, macroeconomic and political stability are needed for diversification policies to be successful. The diversification strategies and initiatives outlined above can contribute to creating sustained jobs and inclusive growth (Sustainable Development Goal 8) and foster the process of industrialization (Goal 9).

IV. Conclusion

49. Commodity prices were volatile in 2018 and in the first quarter of 2019. Most commodities exhibited a downward trend, driven by a variety of factors relating to supply and demand, changing inventories and speculation. The exposure of commodity-dependent developing countries to negative price shocks and volatility in commodity markets can contribute to an economic slowdown mainly because of volatile and uncertain revenue flows, which can complicate not only fiscal management, but also budgetary and long-term planning. It is therefore prudent for commodity-dependent developing countries to avoid commodity dependence and pursue diversification strategies to minimize the adverse effects of price volatility in international markets.

50. Nevertheless, policies designed to address commodity dependence and export concentration should consider country specificities, including the type of commodity that a country is dependent on and the major constraints on diversification. For example, the type of diversification strategy that may be carried out in a country dependent on energy exports such as oil might be different from a strategy that is feasible in a country relying on an agricultural commodity such as cotton. While the former might wish to focus on building linkages between the enclave oil sector and

the rest of the economy, the latter might consider adding value to cotton lint as the most relevant strategy to produce cotton fabrics and clothes for final consumption. Commodity-dependent developing countries need technical support for the development and diversification of their domestic productive sector. Such support is needed to enhance the domestic capacity of these countries to formulate, implement and evaluate their home-grown policies. This may require establishing capacity-building projects on the ground, as illustrated by the work of UNCTAD in a number of countries.
