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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 74/204, highlights recent developments and prospects in key commodity markets and analyses factors that contributed to the trends in commodity prices observed in 2020 and early 2021. It shows that most commodity prices declined sharply in the first four months of 2020, largely owing to a contraction in demand triggered by restrictions to control the spread of the coronavirus disease (COVID-19) pandemic. The downward trend was followed by rising prices through the remaining months of the year into February 2021 (the most recent month for which data are available) owing to various factors, including the strengthening of demand driven in part by fiscal stimulus packages in China and other countries to boost their economies, the easing of restrictions to control the COVID-19 pandemic, adverse weather conditions and increases in freight charges. The prices of a few agricultural commodities such as maize, wheat, soybean meal and oil, and palm oil, as well as the prices of some metals, including copper, nickel and silver, rose to their highest levels in many years. The report explores strategies that could help commodity-dependent developing countries to mitigate exposure to the large price fluctuations observed in the commodity markets and achieve the Sustainable Development Goals of the 2030 Agenda for Sustainable Development.

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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 74/204. The report analyses 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 examines value addition, diversification and industrialization as a strategy to address commodity price volatility and highlights the efforts by UNCTAD to promote the strategy in commodity-dependent developing countries.

II. Recent developments in commodity markets

A. General overview

3. The UNCTAD free market commodity price index[1] for all commodity groups stood at 114.2 points in January 2020 but by April 2020 was down by almost 36 per cent, to 73.5 points. The sharp decline was driven largely by low prices of crude oil in the heavily weighted petroleum subgroup. In May 2020, the index for all groups reversed its downward trend and reached 131.9 points in February 2021. All commodity group sub-indices experienced an upward movement.

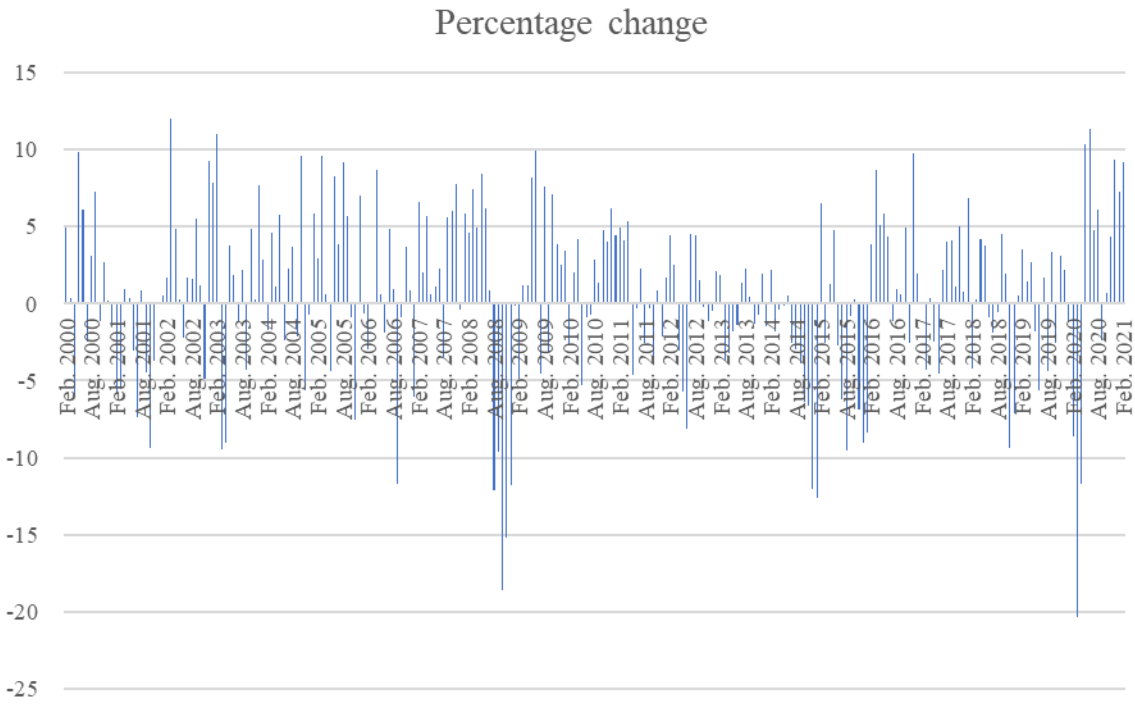
Figure I
UNCTAD free market commodity price index, all groups
(2015 = 100)

Source: UNCTAD secretariat calculations based on data from UNCTADstat.

[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. All websites referred to in the present report were accessed in April 2021.

4. The monthly variations of the UNCTAD free market commodity price index for all groups illustrate the degree of fluctuation in commodity prices (see figure II). In 2020, the index showed wide monthly variations owing to a variety of factors (see section II). The highest and lowest changes occurred in June (11.32 per cent) and March (-20.3 per cent) respectively. In the first two months of 2021, the monthly fluctuations were positive, at 7.3 and 9.2 per cent respectively, compared with the negative fluctuations of 1.1 per cent and 8.6 per cent respectively in the corresponding period of the previous year. The following sections review market developments in major commodity groups.

Figure II
Monthly fluctuations of the UNCTAD free market commodity price index, all groups



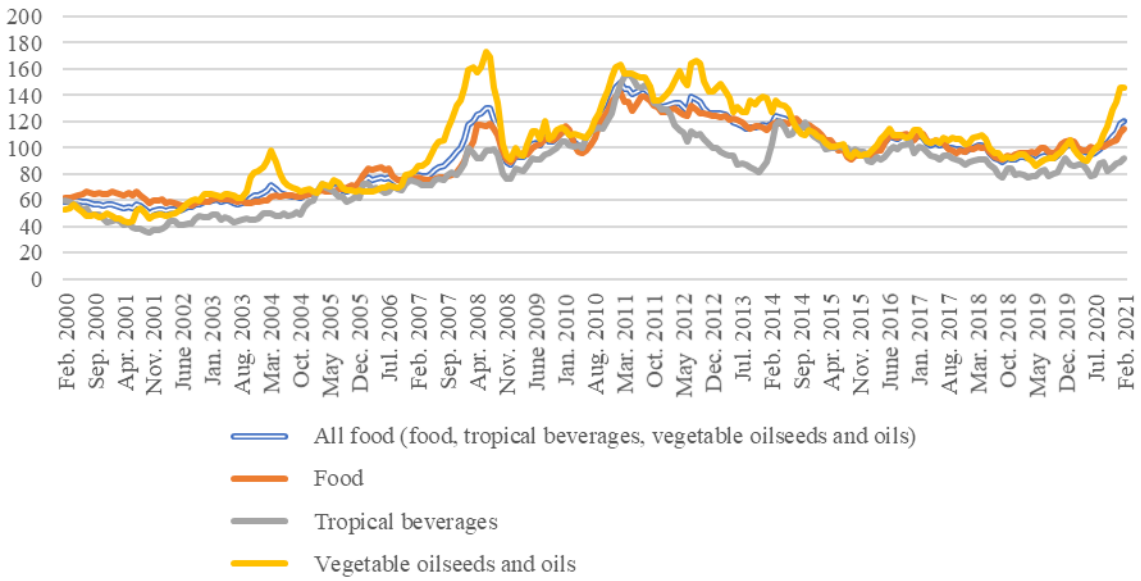
Source: UNCTAD secretariat calculations based on data from UNCTADstat.

B. Developments in key commodity sectors

1. Food and agricultural commodities

5. The UNCTAD food price index stood at 105.4 points in January 2020, declining to 97.6 points in May 2020. Thereafter, the index rose by 17.7 per cent to reach a value of 114.9 points in February 2021 (see figure III). The upward trend was due largely to increases in prices of the heavily weighted commodities in the group, namely, maize, rice and sugar. In the first two months of 2021, the index rose by almost 9 per cent to reach 114.9 points, the highest level in seven years and almost 10 per cent higher than a year earlier.

Figure III
Price indices of selected commodity groups
(2015 = 100)



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

6. Maize prices declined from an average of $176.42 per metric ton in January 2020 to $150.05 per metric ton in May 2020, owing to various factors, including abundant supply and good production prospects in South America and a contraction in demand for the manufacture of maize-based ethanol and animal feed.[2] The downward trend reversed in June 2020, and prices rose to an average of $218.89 per metric ton in December 2020, owing in part to strong import demand and supply concerns caused by adverse weather conditions affecting production prospects.[3] Prices continued rising in the first two months of 2021 to reach an average of $249.65 per metric ton, the highest level since August 2013 (see figure IV). The rapid rise in maize prices in early 2021 was supported by lower production in the United States of America and concerns that world production would fall due to adverse weather for cropping in Brazil and Argentina.[4] Prices are forecast to come under upward pressure in 2021 owing to strong demand, concerns about dry cropping weather in Brazil and Argentina and tight export stocks.[5]

7. The international benchmark price of United States wheat (hard red winter No. 2, free on board) declined from an average of $235.85 per metric ton in January 2020 to $214.88 per metric ton in June 2020 (see figure IV). The decline was driven largely by improved production prospects in a number of major exporting countries owing to favourable weather conditions, and a slump in demand resulting from the COVID-19 pandemic.[6] Prices reversed in July 2020 and rose by 15 per cent, to an average of $270.27 per metric ton in December 2020, owing in part to a combination of strong global demand and increased uncertainties about production prospects in

[2] See http://www.fao.org/news/story/en/item/1273914/icode.
[3] See http://www.fao.org/3/cb2424en/CB2424EN.pdf.
[4] See www.reuters.com/article/global-grains-idUSL4N2FC1ME.
[5] See www.eiu.com/industry/commodities/article/600717443/maize/2021-03-01.
[6] See www.feedandgrain.com/news/wheat-falls-on-expected-abundance-of-global-supply.

Argentina caused by dry conditions.[7] In January 2021, prices rose by 6.5 per cent compared with the previous month to $287.89, reaching their highest level since December 2014, but dipped slightly in February owing to a positive outlook for global production and tepid demand.[8] Prices are forecast to decline in 2021 and 2022 owing to high production in key producing regions in Argentina, the European Union, Ukraine and the United States, outpacing demand.[9]

8. The benchmark price of Thailand rice (white, milled, 5 per cent broken, free on board) increased from an average of $451 per metric ton in January 2020 to $564 per metric ton in April 2020, the highest level since January 2013 (see figure IV). The increase in prices was driven in part by a severe drought that began in late 2019 in key producing regions in Asia and strong demand from importers in Africa and Asia.[10] That coincided with temporary export restrictions by Viet Nam to mitigate the potential impact of the pandemic on domestic supply.[11] The rising trend reversed in May 2020 and, in subsequent months, prices followed a volatile path of upward and downward movements to reach an average of $557 in February 2021. The increase in prices was driven in part by fluctuating demand amid tight supplies as well as concerns about limited water availability affecting production prospects.[12] The forecast is that production will exceed consumption in the 2021–2022 crop season and inventories will rise. That is likely to exert a downward pressure on prices.[13]

9. The monthly average of International Sugar Agreement daily prices declined by 28 per cent in the first four months of 2020, to 10 cents per pound in April 2020, owing largely to falling demand triggered by the onset of the pandemic and a decline in demand for sugar to produce ethanol, as crude oil prices fell (see figure IV).[14] Sugar prices rebounded in May 2020 and rose by 59 per cent, to reach an average of 16.2 cents per pound in February 2021. The price increase was driven by strong buying amid heightened concerns about tighter global supply in 2020–2021, owing to the impact of adverse weather conditions on sugar production in Brazil and France.[15] Recent developments concerning a global shortage of containers has also contributed to constraining supply and tightening the market.[16] Sugar prices are forecast to rise in 2021–2022 owing to consumption exceeding supply, and container shortage is expected to underpin prices in the short term.[17]

10. The price of Australia and New Zealand beef (frozen; cost, insurance and freight) fell from an average of $5.03 per kilogram in January 2020 to $4.4 per kilogram in April 2020. The decline was driven in part by pandemic-related measures that led to a decline in global import demand and substantial volumes of unsold meat products, as well as logistical bottlenecks.[18] Thereafter, prices followed a volatile path of upward and downward movements, to reach an average of $4.66 per kilogram in February 2021 (see figure IV). The volatile movement was due in part to tightening

[7] Food and Agriculture Organization of the United Nations (FAO), "Monthly report on food price trends", Food Price Monitoring and Analysis bulletin No. 10 (10 December 2020).
[8] Agricultural Market Information System, "Market monitor", No. 90 (July 2021). Available at www.amis-outlook.org/fileadmin/user_upload/amis/docs/Market_monitor/AMIS_Market_Monitor_current.pdf.
[9] See www.agriculture.gov.au/abares/research-topics/agricultural-outlook/crop.
[10] See www.cnbc.com/2020/04/08/rice-prices-surge-to-7-year-high-as-coronavirus-sparks-stockpiling.html.
[11] See www.reuters.com/article/us-vietnam-rice-exports-idUSKCN22A1SN.
[12] See www.eiu.com/industry/commodities/article/1250715308/rice/2021-03-01.
[13] Ibid.
[14] See https://reliefweb.int/report/world/global-food-commodity-prices-drop-further-april.
[15] See www.fao.org/worldfoodsituation/foodpricesindex/en.
[16] See www.eiu.com/industry/commodities/article/1470831930/sugar/2021-04-01.
[17] Ibid.
[18] FAO, *Food Outlook: Biannual Report on Global Food Markets – June 2020* (Rome, 2020).

supply driven by short-term disruptions at processing plants in response to pandemic-related regulations for physical distancing,[19] and the curtailment of imports by many leading meat-importing countries owing to reduced food services sales, lower household incomes and logistical hurdles that resulted from the global health crisis.[20] The forecast is that prices will come under upward pressure in 2021 as demand picks up in the food service sector, which is recovering from pandemic restrictions.[21]

11. Soybean meal prices averaged $362.87 per metric ton in January 2020 but fell to $339.1 per metric ton in May 2020, with short-term fluctuations in between (see figure IV). The rise in prices during that period was influenced largely by logistical disruptions caused by pandemic-related measures introduced at ports, which led to supply chain disruptions.[22] Thereafter, prices rose for eight consecutive months, to reach an average of $561.71 per metric ton in January 2021, the highest level in seven years, before dipping slightly in February 2021. The rapid increase in prices was due in part to robust demand from China and tightening supply triggered by adverse weather conditions in major growing regions in South America.[23] The forecast is that prices will rise in 2021 owing to tightening markets and a sharp contraction in United States stocks.[24]

[19] See www.reuters.com/article/us-australia-china-beef/china-halts-beef-imports-from-four-australian-firms-as-covid-19-spat-sours-trade-idUSKBN22O0FB.

[20] See www.fao.org/3/cb2423en/cb2423en.pdf.

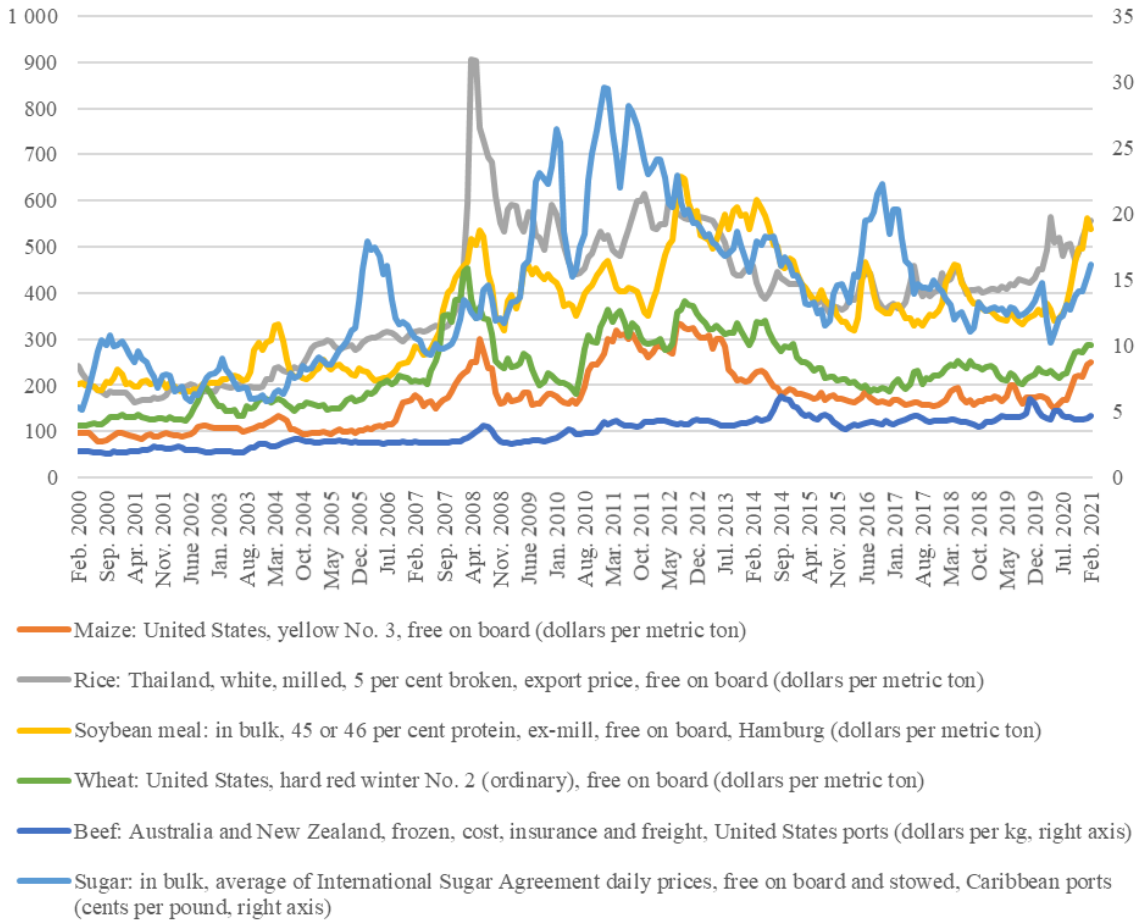
[21] See www.mla.com.au/prices-markets/market-news/2021/a-year-of-challenges-for-red-meat-exports.

[22] World Food Programme, “Economic and market impact analysis of COVID-19 on West and Central Africa” (30 March 2020).

[23] See www.world-grain.com/articles/14661-ingredient-markets-up-and-down-in-volatile-year.

[24] See www.eiu.com/industry/commodities/article/1620925745/soybeans/2021-05-01.

Figure IV
Nominal prices of selected food and agricultural commodities



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

12. From January to May 2020, the UNCTAD vegetable oilseeds index declined from 105 points to 90 points, largely influenced by declining soybean prices owing to weak demand and abundant supply, driven by pandemic-related measures (see figure V). Thereafter, the index rebounded and rose by 62 per cent, to reach 146 points in February 2021, the highest level reached in eight years. The rise in the index was due largely to a rebound in soybean oil and palm oil prices. In January and December 2020, the vegetable oilseeds and oils index rose by 28 per cent, in contrast to a 3 per cent decline in the corresponding period in the previous year.

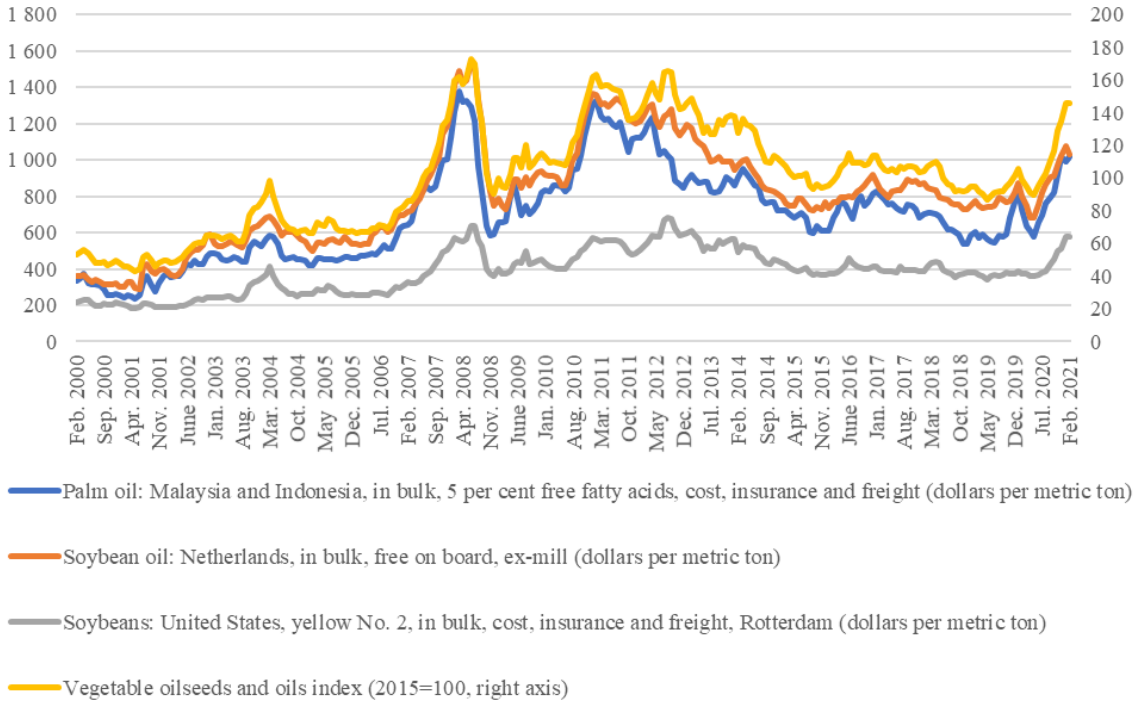
13. Soybean oil prices declined from an average of $874 per metric ton in January 2020 to $680 per metric ton in April 2020, owing largely to concerns about the impact of the pandemic on global demand (see figure V). Prices reversed in May 2020 and rose by almost 50 per cent, to reach $1,026.19 per metric ton in December 2020. The rising trend in prices was supported largely by strong global import demand, especially from China, and firm demand from the biodiesel industry in the United States.[25] In January 2021, soybean oil prices continued their seven-month rising trend at a slightly slower pace, to reach $1,075.52, the highest level since April 2013, before dipping slightly in February 2021 to an average $1,032.67 per metric ton. The forecast

[25] See www.fao.org/3/cb2931en/cb2931en.pdf.

is that soybean oil prices will increase in 2021, owing largely to rising demand from a growing diesel industry.[26]

14. Palm oil prices declined from an average of $834.85 per metric ton in January 2020 to $576.56 per metric ton in May 2020, owing largely to a fall in demand from global food and non-food uses triggered by the pandemic, and depressed crude mineral oil prices (see figure V).[27] The downward trend reversed in June 2020, and prices rose to $1,016.37 per metric ton in December 2020, the highest level reached since August 2012, owing to increasing global demand following the easing of initial pandemic-related lockdowns and concerns about tight inventory levels in major exporting countries.[28] In January 2021, prices declined by almost 3 per cent compared with the previous month but recovered losses the following month, to average $1,017.33 per metric ton, owing to concerns about declining supply due to heavy rains.[29] The forecast is that prices will rally in the first half of 2021 owing to low stocks and disruptions caused by heavy rainfalls induced by the La Niña weather pattern in the production regions of Indonesia and Malaysia.[30]

Figure V
Price trends of selected commodities in the vegetable oilseeds and oils market



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

15. The UNCTAD tropical beverages index was at 88.6 points in January 2020 and was largely unchanged in December 2020, at 88.5 points (see figure VI). However, in the first half of 2020, the index trended downwards owing to declining prices of the commodities making up the index. That was followed by a rising index in the second

[26] See www.foodbusinessnews.net/articles/18741-usda-price-forecasts-for-2021-22-a-mixed-bag.
[27] FAO, *Food Outlook: Biannual Report on Global Food Markets – June 2020*.
[28] See www.fao.org/3/cb4547en/cb4547en.pdf.
[29] Ibid.
[30] See www.reuters.com/article/india-palmoil-idINL4N2GZ2RJ.

half of the year, which extended into 2021, to reach 91.6 points in February. The upward pressure on the index was driven largely by rising coffee prices.

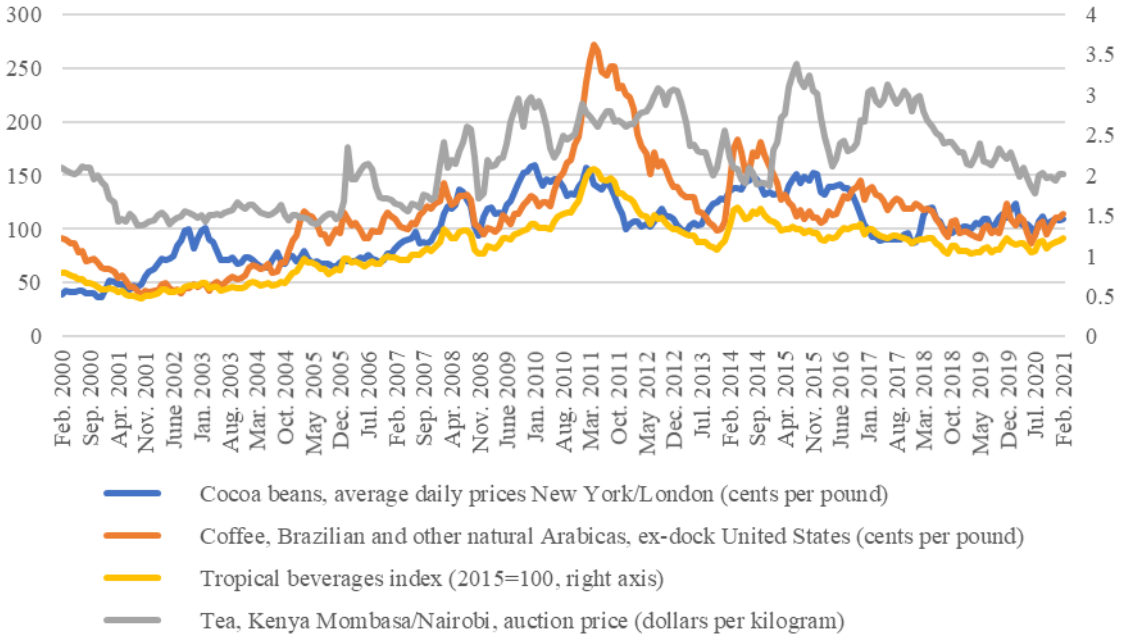
16. The International Coffee Organization average monthly composite indicator price increased from 107 cents per pound in January 2020 to 119 cents per pound in February 2021, with short-term fluctuations in between (see figure VI). In the first half of 2020, prices exhibited upward and downward movements, to reach 99 cents per pound in June 2020. The upward movement in prices was due to a surge in demand at the start of the pandemic, but was followed by declining prices owing to various factors, including a weak outlook for demand and expectations of a large harvest in Brazil amid a slowdown in global economic growth.[31] From July 2020 to February 2021, prices rallied, to reach 119.35 cents per pound, owing to concerns about a temporary tightness in supply and adverse weather conditions in Brazil fuelling expectations of a deficit in the next season.[32] The forecast is that stocks will fall in 2021–2022 as production declines in India and Viet Nam, putting upward pressure on prices.[33]

17. Cocoa bean prices were volatile in 2020 but declined overall from an average of 118.07 cents per pound in January 2020 to an average of 109.11 cents in February 2021. The price movements in between were driven largely by a favourable crop outlook and declining demand triggered by the pandemic exerting downward pressure in the first two quarters of 2020.[34] That was followed by adverse weather conditions expected to impact production levels in the main cocoa-producing regions in West Africa[35] that exerted upward pressure in the second half of 2020 through to February 2021. The forecast is that the ongoing COVID-19 pandemic will slow demand in 2021, but it is expected to pick up in 2022. However, stronger production is likely to subdue the rise in 2022 prices.[36]

18. Tea prices declined from an average of $2.28 per kilogram in January 2020 to $1.78 per kilogram in July 2020, owing to oversupply in the market driven in part by good weather in growing regions in Kenya, the leading tea exporter, and weak demand (see figure VI). In the following months, prices followed a volatile path of upward and downward movements, to reach $2.02 per kilogram in February 2021. The price fluctuations were driven largely by a range of factors, including a pick-up in demand, decreasing production caused by adverse weather conditions[37] and pandemic-related movement restrictions.[38] The forecast is that tea prices will trend upwards in 2021 owing to concerns about supply in Kenya and in India, and a recovery in demand.[39]

[31] See www.ico.org/documents/cy2019-20/cmr-0620-e.pdf.
[32] See www.ico.org/documents/cy2020-21/cmr-0221-e.pdf.
[33] See www.eiu.com/industry/commodities/article/690924252/coffee/2021-05-01#.
[34] See https://insights.abnamro.nl/en/2020/04/strong-price-fluctuations-in-sugar-coffee-and-cocoa.
[35] See www.comunicaffe.com/cocoa-prices-rally-as-below-average-rainfalls-are-recorded-in-the-main-areas-of-west-africa.
[36] See www.eiu.com/industry/commodities/article/1190906702/cocoa/2021-05-01#.
[37] See https://cytonnreport.com/news/tea-prices-increase-as-production-is-expected-dip.
[38] See www.reuters.com/article/india-tea-output-idUSKBN2A41UP.
[39] See www.eiu.com/industry/commodities/article/560986239/tea/2021-06-01.

Figure VI
Price trends of selected tropical beverage commodities



Source: UNCTAD secretariat calculations based on data from UNCTADstat.

19. The UNCTAD agricultural raw materials index declined from 99 points in January 2020 to 90.48 points in May 2020, owing largely to declining rubber and cotton prices, the commodities that make up the index. In June 2020, the downward trend reversed, and the index rose in consecutive months to reach 110.39 points in February 2021, owing largely to a rebound in rubber prices. From June 2020 to February 2021 the index rose by 22 per cent.

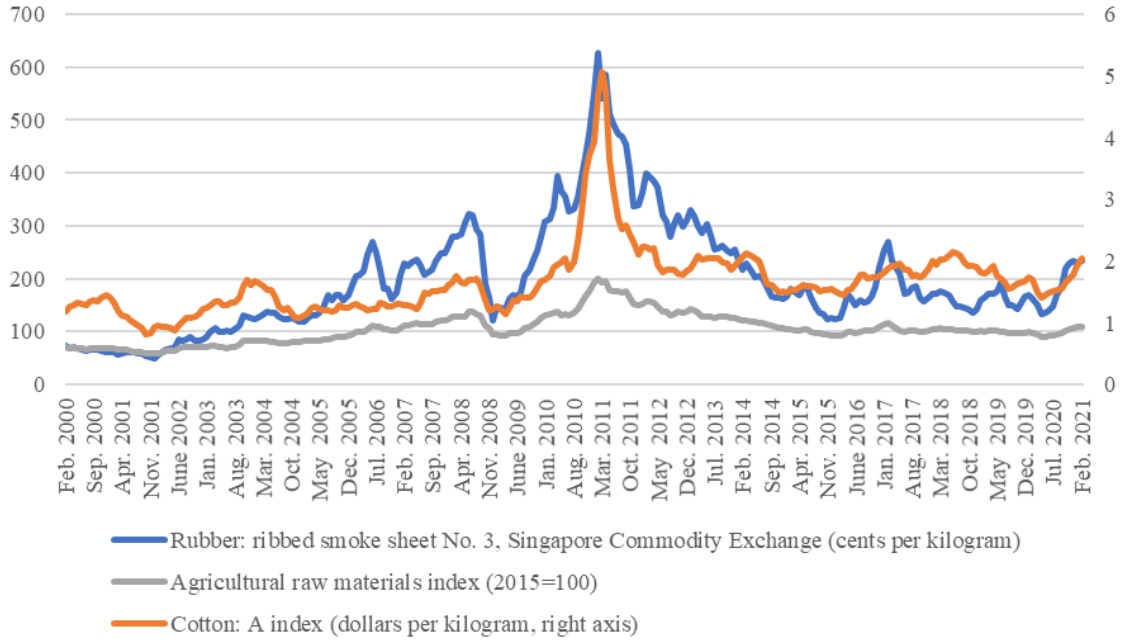
20. The cotton A index price, a benchmark for world cotton prices, declined by almost 20 per cent, from an average of $1.74 per kilogram in January 2020 to $1.40 per kilogram in April 2020, the lowest price since March 2009 (see figure VII). The decline was due largely to a decline in global consumption triggered by the pandemic.[40] Prices reversed direction in May 2020 and rose to $2.05 per kilogram in February 2021, owing to a combination of increased demand helped by a weak dollar[41] and a recovery in consumption growth, in particular in China.[42] The forecast is that global production will decrease in the 2020–2021 season, given that low prices and food security concerns have led to fewer planted areas in some countries and consumption is expected to increase.[43] That is likely to exert an upward pressure on prices.

21. Natural rubber prices declined from an average of 168.34 cents per kilogram in January 2020 to 133.42 cents per kilogram in April 2020, the lowest level since October 2015 (see figure VII). The decline was driven largely by reduced demand caused by the slowdown in economic activity triggered by the pandemic. In May 2020, the downward trend reversed and prices rose by 75 per cent, to reach an average

[40] See https://icac.org/News/NewsDetails?NewsId=2336&YearId=2020.
[41] See www.fao.org/3/ne984en/ne984en.pdf.
[42] See www.cotlook.com/information-2/cotlook-monthly/january-2021-market-summary.
[43] International Cotton Advisory Committee, “Annual report 2020” (Washington, D.C., 2020).

of $234.61 in February 2021, as pandemic-related concerns caused demand for rubber products such as protective gloves to increase and also due to a rebound in the manufacturing sectors and automotive industries in China and India.[44] The forecast is that supply will remain stable and demand will continue to rise as the global automotive industry recovers. This is likely to exert upward pressure on prices in 2021.[45]

Figure VII
Price trends of selected agricultural raw materials



Source: UNCTAD secretariat calculations based on data from UNCTADstat and World Bank Global Economic Monitor commodities database (accessed 1 April 2021).

Minerals, ores and metals

22. The UNCTAD minerals, ores and non-precious metals index dropped from 132 points in January 2020 to 117 points in April 2020, owing to the declining prices of all commodities in the group (see figure VIII). However, the greatest impact on the index during the first four months of the year came from the falling prices of heavily weighted copper and iron ore. In May 2020, the downward trend reversed, and the index climbed by 63 per cent, to reach 191 points in February 2021, owing largely to a rebound in the prices of iron ore and copper. That level of the index in February was almost 14 per cent higher than a year earlier.

23. Iron ore prices declined from an average of $96 per dry metric ton in January 2020 to $85 per dry metric ton in April 2020, owing to falling demand resulting from a slowdown in economic activity triggered by the pandemic (see figure VIII). The decline in activities by end users in construction, automobile manufacturing and other industrial applications played a major role in weakening prices. In May 2020, the downward trend reversed, and prices rebounded by 80 per cent, to an average of

[44] See www.therubbereconomist.com/rubber-news/global-demand-for-rubber-gloves-continues-to-surge-during-the-pandemic.

[45] See www.bloomberg.com/news/articles/2021-05-19/rubber-giant-sees-prices-rising-on-jump-in-auto-sales-and-travel.

$169.63 per dry metric ton in January 2021, the highest price since September 2011, before dipping slightly in February to average $163.8 per dry metric ton. The increase in prices was driven largely by rising demand in China, owing in part to pandemic-related stimulus measures[46] and constraints in supply due to weather and pandemic-related production disruptions in Brazil, the world's second-largest producer.[47] Prices are expected to decline by about 50 per cent by the end of 2022, as mines in Brazil steadily return to normal output levels by the end of 2021.[48]

24. Copper prices declined from an average of $6,031 per metric ton in January 2020 to $5,058 per metric ton in April 2020, largely owing to a combination of slump in demand due to a slowdown in industrial activity and an increase in inventories (see figure VIII). Prices rebounded in May 2020 and climbed by 72 per cent to average $8,471 per metric ton in February 2021, the highest price since August 2011. The rise in prices was due to a number of factors, including stimulus-related infrastructure investment in China contributing to a recovery in demand, improvement in global economic activity, and speculative buying.[49] Furthermore, the increasing price movement was due to the tightening of supply triggered by pandemic-related measures, including the halting of production in major producing countries such as Chile and Peru.[50] The forecast is that prices will continue rising into 2022 because of strong demand and limited supply.[51]

25. Aluminium prices trended downwards in the first four months of 2020, falling from an average of $1,773 per metric ton in January 2020 to $1,460 per metric ton in April 2020 (see figure VIII). That decline was due to a combination of high production levels caused by the continued operations of aluminium smelters despite declining prices resulting from the high costs associated with smelter closure, and a slowdown in demand from end users in the automotive and construction sectors triggered by the pandemic.[52] The downward trend in prices reversed in May 2020, and prices rose by 49 per cent, to an average of $2,078.59 in February 2021. The increase in prices was driven largely by a recovery in global economic activity causing industrial activity and demand to improve in the automotive sector amid declining inventories, and speculation.[53] Prices are forecast to rise in 2021 because of increasing demand supported by the automotive and aerospace sectors and low growth in supply, keeping the market tight and inventories low.[54]

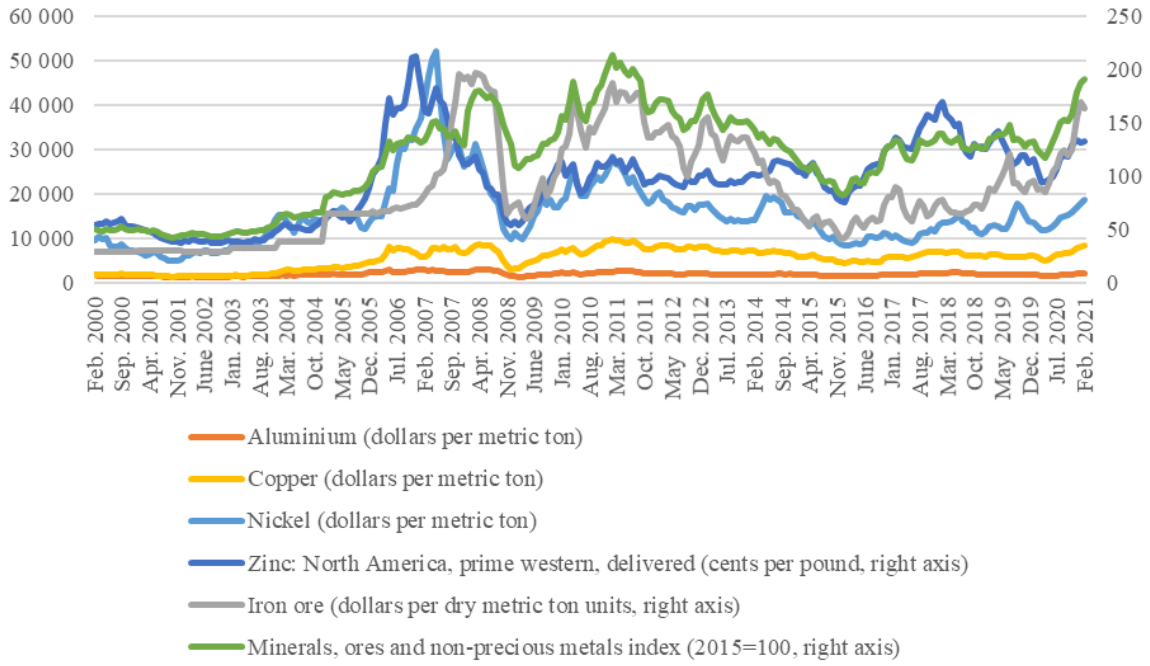
26. Zinc prices declined from an average of 115 cents per pound in January 2020 to 94 cents per pound in April 2020, owing largely to oversupply and a fall in demand due to a slowdown in global economic activity that affected major end-user industries such as automotive manufacturers (see figure VIII). Prices rebounded in May, reaching 134 cents per pound in December 2020 owing to various factors, including a rebound in economic activity following the easing of some pandemic-related measures, and tightening supply owing in part to suspended operations at the San Cristobal mine in the Plurinational State of Bolivia, and at the Gambsberg mine in

[46] See www.cnbc.com/2020/08/21/iron-ore-prices-hit-multi-year-highs-on-china-infrastructure-investment.html.
[47] See www.mining.com/rising-supplies-set-to-undermine-iron-ore-price-rally.
[48] See www.mining.com/top-iron-ore-producer-forecasts-50-fall-in-price.
[49] See www.reuters.com/article/global-metals-idUSL1N2JP10J.
[50] See www.spglobal.com/platts/en/market-insights/latest-news/metals/011821-copper-price-to-rise-in-2021-analysts.
[51] See www.metalbulletin.com/Article/3964633/Goldman-Sachs-expects-copper-price-to-break-all-time-high-in-2022.html.
[52] See www.reuters.com/article/metals-aluminium-ahome-idUSL5N2CA4W9.
[53] See www.mining.com/web/aluminum-commands-record-premium-in-us-amid-economic-recovery.
[54] See www.miningweekly.com/article/aluminium-demand-growth-will-soon-outpace-production-growth-2020-10-30.

South Africa because of quarantine measures related to the COVID-19 pandemic.[55] In the first two months of 2021, prices stabilized at about 131 cents per pound. The forecast is that prices will be sustained over the near term owing to strong economic activity in China.[56]

27. Nickel prices averaged $13,506.86 per metric ton in January 2020 but dropped in consecutive months to average $11,804.01 per metric ton in April 2020, owing largely to the onset of the pandemic, which disrupted global demand (see figure VIII). Thereafter, the declining trend reversed, and prices rose by 57 per cent, to reach an average of $18,584.38 per metric ton in February 2021, the highest price since August 2014. The increase in prices was due to a combination of factors, including disruption to production triggered by pandemic-related measures, restrictions in major producing countries on the export of nickel ores and growing demand for electric vehicle batteries.[57] Prices are expected to increase in 2021, owing in part to supply disruptions and rising demand for nickel use in the electric vehicle industry.[58]

Figure VIII
Price trends of selected minerals, ores and non-precious metals



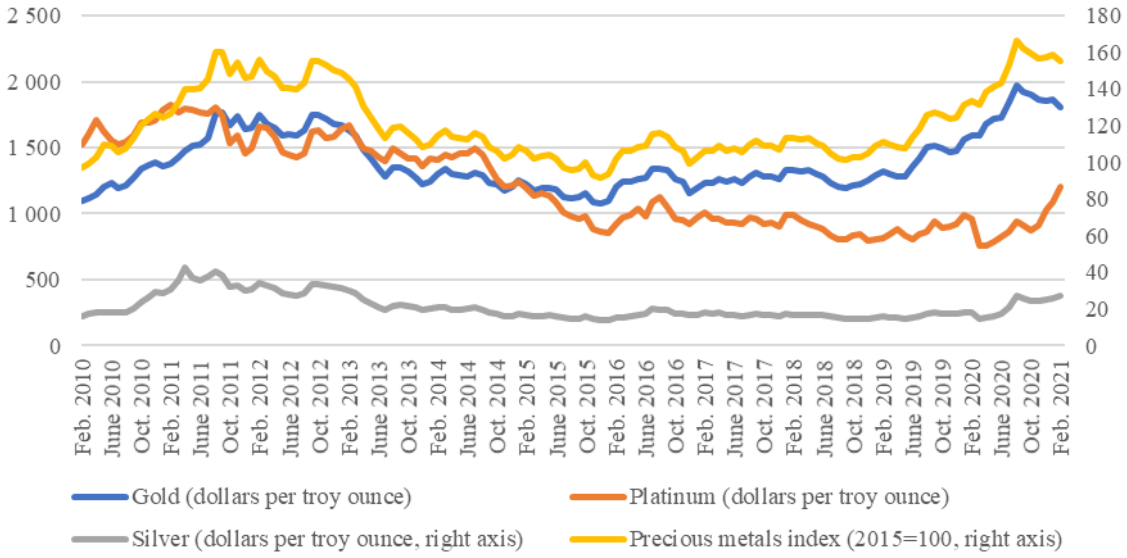
Source: UNCTAD secretariat calculations based on data from UNCTADstat and World Bank Global Economic Monitor commodities database (accessed 1 April 2021).

28. The UNCTAD precious metals price index rose from 131 points in January 2020 to 166 points in August 2021 before trending downwards to 155 points in February 2021. The upward movement was driven largely by the influence of heavily weighted gold in the index (see figure IX). The prices of silver and platinum exhibited upward

[55] See www.mining-technology.com/features/coronavirus-timeline.
[56] See www.mining.com/zinc-prices-to-rise-in-2020-lose-steam-in-2021-report.
[57] See www.spglobal.com/marketintelligence/en/news-insights/research/covid-19-impacts-to-metals-prices-the-end-of-the-beginning.
[58] See www.miningweekly.com/article/fitch-solutions-raises-nickel-price-forecast-2021-06-02/rep_id:3650.

and downward movements during the period, but the downward movements were not strong enough to weigh down the index. In the period from September 2020 to February 2021, the index declined by almost 7 per cent on the back of falling gold prices.

Figure IX
Price trends of selected precious metals



Source: UNCTAD secretariat calculations based on data from UNCTADstat and World Bank Global Economic Monitor commodities database (accessed 1 April 2021).

29. The price of gold trended upwards in the first eight months of 2020, rising from an average of $1,560.67 in January to an average of $1,968.83 per troy ounce in August 2020 (see figure IX). That was due largely to concerns about a sharp global economic slowdown driven by uncertainty created by the outbreak of the pandemic, prompting investment in gold as a safe-haven asset. Thereafter, prices declined to an average of $1,808.17 in February 2021, owing in part to rising United States treasury bond yields attracting investors and a positive outlook for economic recovery.[59] The forecast is that prices will be steady in 2021 but will depend on the ongoing impact of the pandemic. A sharp drop is expected if the vaccine rollout brings the pandemic under control.[60]

30. Silver prices declined from an average of $18 per troy ounce in January 2020 to $15 per troy ounce in March 2020, owing largely to a slump in demand as the coronavirus pandemic led to slowed-down activities in the electronics and solar-based industries, which account for over 50 per cent of consumption. In April 2020, the downward trend reversed, and prices followed a volatile path of upward and downward movements to reach an average of $27.29 per troy ounce in February 2021, the highest since March 2013. The upward fluctuations in prices were influenced by increased demand from investors for silver as a safe-haven asset,[61] while changing demand and output from mines influenced the downward movement of prices in the fourth quarter of 2020 (see figure IX). The forecast is that prices will rise in 2021 as

[59] See www.mining.com/gold-price-slides-to-10-month-low-may-fall-further.
[60] See www.eiu.com/industry/commodities/article/470675630/gold/2021-03-01#.
[61] See www.reuters.com/article/precious-silver-idUSL1N2KG0XF.

demand outstrips supply owing to an appeal from investors in both precious and industrial metals.[62]

31. Platinum fell from an average of $987.36 in January 2020 to $753.86 per troy ounce in April 2020 (see figure IX) owing in part to a slump in demand in the automotive, chemical, oil-refining and glass-manufacturing sectors, caused by pandemic-related measures that limited operations. The downward trend in prices reversed in May 2020 and prices rose by 60 per cent, to reach $1,206.7 per troy ounce in February 2021, owing largely to strong investment demand and concerns about supply tightening.[63] Prices are forecast to decline in 2021 as a result of the easing of supply constraints in South Africa, pushing the market to a marginal surplus and subduing a recovery in demand to pre-pandemic levels.[64]

Fuels

32. The UNCTAD fuel index fell from 112 points in January 2020 to 49 points in April 2020, owing to a sharp drop in the price of heavily weighted crude oil, as well as weakened prices of coal and natural gas (see figure X). The downward trend reversed in May 2020 and the index rose by 104 per cent, to 122 points in February 2021, owing to a rally in the prices of all the commodities making up the index. Although crude oil prices declined in September and October, the impact on the index was minimal owing to the combined effect of high coal and natural gas prices subduing fluctuations in crude oil prices.

Crude oil

33. The Brent benchmark for crude oil prices declined from an average of $64 per barrel in January 2020 to $23.34 in April 2020 as a result of various factors, including a drop in demand caused by reduced economic activity and transportation disruptions owing to pandemic-related measures, excess oil supply and record high levels of global inventories. Failed attempts to reduce the glut of crude oil on the market by the Organization of the Petroleum Exporting Countries (OPEC) and oil-producing allies contributed to the exacerbation of the sharp drop in prices. The West Texas Intermediate benchmark for crude oil declined by 71 per cent in the first four months of 2020 to reach $16.52 per barrel and the price of delivery in May 2020 fell below $0 per barrel as lack of storage space, inter alia, led to producers offering to pay buyers to take the barrels of oil.[65] From May to February 2021, prices for both Brent and West Texas Intermediate benchmarks rebounded to reach $61.96 and $59.06 per barrel, respectively, owing largely to production cuts from members of OPEC and partners.[66] The forecast is that there will be a strong recovery in demand in 2021 as concerns about the pandemic ease as a result of a high vaccine rollout. However, output targets from members of OPEC and partners are expected to increase later in the year, which is likely to slow down price growth.[67]

Coal

34. Australian thermal coal prices declined steadily from $69.66 per metric ton in January 2020 to $50.14 in August 2020. The downward price trend was due largely to excess supply and weak demand owing to pandemic-related measures.[68] In the

[62] The Silver Institute, *World Silver Survey 2021* (London, 2021).
[63] See www.mining-journal.com/pgms/news/1405389/platinum-market-to-remain-in-deficit-in-2021-wpic.
[64] See www.miningreview.com/gold/commodity-outlook-precious-metals.
[65] See www.bnnbloomberg.ca/negative-prices-for-oil-here-s-what-that-means-1.1424306.
[66] See www.opec.org/opec_web/en/press_room/6257.htm.
[67] See www.eiu.com/industry/commodities/article/520717435/crude-oil/2021-03-01.
[68] See www.eiu.com/industry/commodities/article/450047828/coal/2020-09-01.

following months, coal prices rose by 73 per cent, to reach $86.74 per metric ton in February 2021. The upward trajectory was driven largely by rising demand in Asia owing to the region's economic recovery, cold weather conditions and geopolitical tensions between China and Australia.[69] The forecast for demand will rise in 2021[70] amid sluggish growth in supply, which may lead to prices rising further.

Natural gas

35. All three major markets in which natural gas is traded, namely, the United States Henry Hub, Europe and Japan, experienced large price fluctuations in 2020 and the early months of 2021. The monthly average price of natural gas in the United States Henry Hub declined from $2.03 per million British thermal units (Btu) in January 2020 to $1.61 per million Btu in June 2020. The decline in prices was due largely to a combination of factors, including mild weather at the start of 2020, followed by the economic slowdown induced by pandemic-related measures.[71] The downward trend reversed in July and prices rose to $5.07 in February owing to a recovery in demand amid lower levels of natural gas production. The forecast is that Henry Hub prices will average $3.14 per million Btu in 2021 owing to rising domestic demand, liquefied natural gas exports and reduced production.[72]

36. The average monthly European gas market declined from $3.63 per million Btu in January 2020 to $1.58 per million Btu in May 2020, before recovering, to reach $6.16 per million Btu in February 2021. The decline was due largely to depressed natural gas consumption owing to a combination of pandemic-related measures, mild temperatures and strong energy generation from wind.[73] The recovery was driven largely by increasing demand and concerns about tightening supply.[74]

37. The average monthly Japan liquefied natural gas market was relatively stable in the first quarter of 2020, at about $10 per million Btu, but declined in the second and third quarters, by 42 per cent, to $5.88 per million Btu in September 2020. The decline was due largely to a combination of factors, including high levels of inventory and the effects of the pandemic on demand. Thereafter, prices rebounded to reach $9.88 per million Btu in February 2021 on the back of high demand from China amid cold weather conditions, low stocks and a sharp increase in freight costs[75] (see figure X).

[69] See www.ft.com/content/ceffdada-e4bb-4ef1-99cc-c9713d729de9.

[70] See www.iea.org/news/a-rebound-in-global-coal-demand-in-2021-is-set-to-be-short-lived-but-no-immediate-decline-in-sight.

[71] See https://www.eia.gov/todayinenergy/detail.php?id=44337.

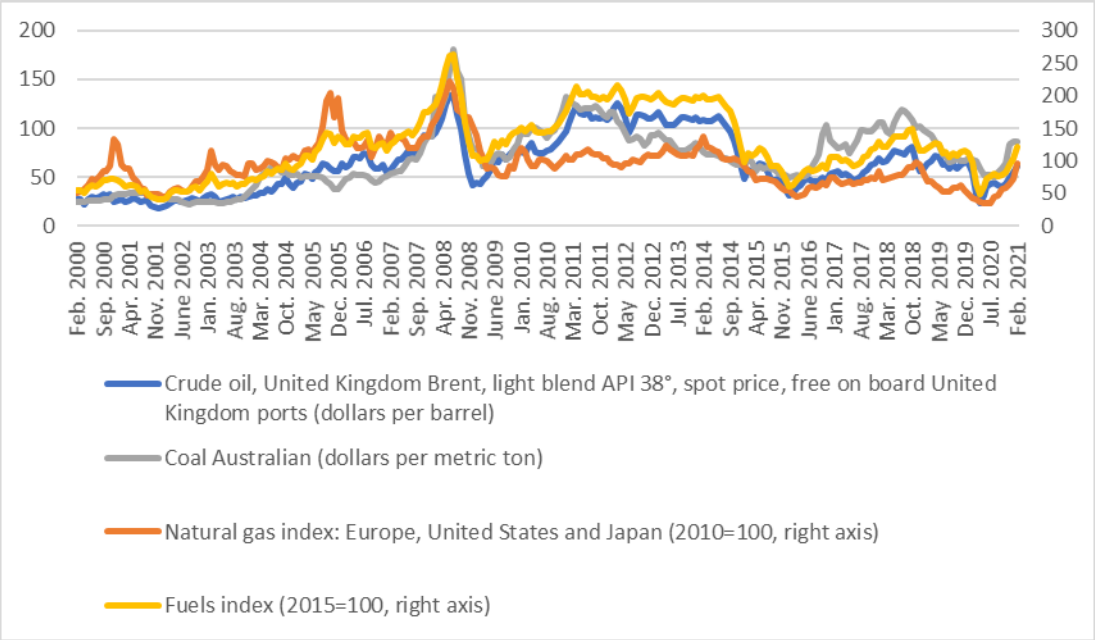
[72] Ibid.

[73] International Energy Agency, *Gas 2020* (Paris, 2020).

[74] See www.cedigaz.org/quarterly-report-q3-2020-international-natural-gas-prices.

[75] See www.argusmedia.com/en/news/2178177-japans-lng-stocks-on-the-rise.

Figure X
Price trends of selected fuels



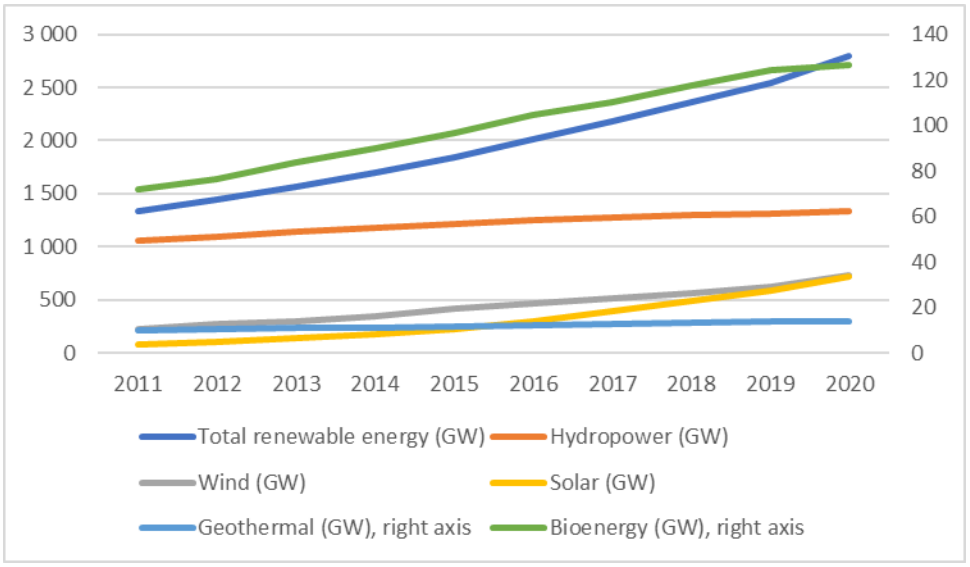
Source: UNCTAD secretariat calculations based on data from UNCTADstat and World Bank Global Economic Monitor commodities database (accessed 1 April 2021).

Renewable energy

38. The total renewable energy generation capacity grew from 2,538 gigawatts (GW) to 2,799 GW in 2020. Most of the contribution to that growth came from solar energy with 127 GW, followed by wind energy with 111 GW and hydro energy with 20 GW. Bioenergy and geothermal energy contributed smaller amounts of 2 GW and 164 megawatts, respectively (see figure VI).[76] The increase in renewable energy expansion in 2020 was driven largely by China, being the dominant generator. The increase in those renewables reflects the rapid and increasing growth in the use of renewables and the declining expansion of non-renewable capacity.[77] The forecast is that renewable electricity generation in 2021 will expand by more than 8 per cent, to reach 8,300 terawatt-hours, the fastest year-on-year growth since the 1970s.[78] About two thirds of the growth in renewables is expected to come from solar PV and wind. China is forecast to account for almost half of the global increase in renewable electricity in 2021, followed by the United States, the European Union and India[79] (see figure XI).

[76] See www.irena.org/-/media/Files/IRENA/Agency/Publication/2021/Apr/IRENA_-RE_Capacity_Highlights_2021.pdf?la=en&hash=1E133689564BC40C2392E85026F71A0D7A9C0B91.
[77] Ibid.
[78] See www.iea.org/reports/global-energy-review-2021/renewables.
[79] Ibid.

Figure XI
Renewable energy generation, by type



Source: UNCTAD secretariat calculations based on data from International Renewable Energy Agency, *Renewable Capacity Statistics 2021*, Abu Dhabi.

III. Policy issues arising from recent market developments

39. The market trends analysed in the present report show a sharp decline in most commodity prices in the first four to five months of 2020. That was followed by a period of price recovery in which some agricultural commodities (wheat, soybean and palm oil) and metals (nickel, copper and silver) rose to their highest levels in many years. Such price variations have significant implications for commodity-dependent developing countries. For example, a rise in commodity prices may contribute to an improvement in the export and fiscal revenues of exporting countries, 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 and threatens debt positions. High price volatility also undermines the development efforts of commodity-dependent developing countries, given that it could discourage investment, widen trade deficits and aggravate household poverty.

40. Revenues from exports are critical for commodity-dependent developing countries in the context of the implementation of the 2030 Agenda for Sustainable Development, given that developing countries need to mobilize resources to achieve the Sustainable Development Goals. The present section explores strategies and recommendations to strengthen the resilience of commodity-dependent developing countries to price shocks and derive revenues from various sources that are more sustainable and provide a more stable path for equitable growth and development.

A. Diversification, value addition and industrialization

41. There are two main diversification strategies that can be used by commodity-dependent developing countries to mitigate their exposure to price volatility in international markets. One approach is to diversify horizontally by exporting non-traditional commodities (for example, fruit, cut flowers, spices and so forth) and organically grown traditional export crops that command a market premium in industrialized nations. That could lead to expanding markets, export growth and compensation for loss of earnings from the collapse of sales of existing exports, thus providing more stability in export earnings. However, for that strategy to be successful, it should be directed towards commodities or products that are not subject to the same or similar price risks. The other approach is to diversify vertically through value addition. That can be achieved by differentiating a traditional product by quality, origin or production method to create a substantially new product. If the transformation of a primary commodity is not deep enough, a new product may appear to have been created, yet it may be affected by the same problems affecting primary commodities.[80] The value-addition approach can spur the growth of other sectors through the development of linkages and potentially drive industrial development in commodity-dependent developing countries. The diversification strategies outlined above can contribute to the creation of decent work and economic growth (Goal 8) and build resilient infrastructure, promote sustainable industrialization and foster innovation (Goal 9).

42. The development of local value-addition activities and beneficiation to the natural resources could potentially accelerate industrial development in commodity-dependent developing countries given the right supporting policies. Examples include attracting investment in the sector, promoting technology transfer and skills development and developing production linkages with the local industrial sector (backward linkages in the supply of inputs; forward linkages in the processing of commodities; and horizontal linkages, in which capabilities developed in backward and forward linkages into commodities serve the needs of other sectors).[81] There is scope for the expansion of such linkages because the commodity sector requires unique inputs, many of which can be used to promote distinct local industrial (and agricultural and service) capabilities.[82]

43. To successfully implement a diversification strategy, most commodity-dependent developing countries need to overcome several constraints, including lack of experience and knowledge in manufacturing and marketing non-traditional commodities in international markets, inadequate infrastructure, low access to finance for new industries, low technological capabilities, weak regulatory and legal frameworks stifling the ease of doing business and increasing risks to the profitability of new investments.[83] Other constraints that are likely to present challenges to commodity-dependent developing countries in diversification are international trade rules such as tariff escalation and peaks, as well as non-tariff measures such as sanitary and phytosanitary standards required to meet health and quality standards, packaging and labelling. Overall, those constraints have proved to be a burden that stalls progress in embarking on a diversification strategy.

44. Despite such challenges, a few commodity-dependent developing countries have successfully employed diversification strategies to reduce their exposure to price

[80] See TD/B/C.I/EM.10/2.

[81] Raphael Kaplinsky, “Commodities for industrial development: making linkages work”, working paper 01/2011 (Vienna, United Nations Industrial Development Organization, 2011).

[82] Ibid.

[83] See TD/B/C.I/MEM.2/42.

volatility. For example, Costa Rica diversified from traditional exports of coffee to non-traditional exports such as pineapples, of which it is has now become the world's largest exporter.[84] The growth of the pineapple sector also led to exports of pineapple-based products such as frozen pineapple, dried pineapple, juices and concentrates. Costa Rica was successful in diversifying its exports over time, not only by expanding its agricultural exports beyond its traditional commodities of banana and coffee, but also by developing advanced export-oriented manufacturing enterprises and the services sector. Another example is that of Botswana, where the Government has benefited from technology transfer and know-how and has acquired skills by fostering the development of production linkages through association and collaboration with De Beers, the world's leading diamond company.[85] To some extent, that has stimulated private-sector participation in downstream value-addition activities such as diamond cutting and polishing factories; diamond jewellery manufacturing; and rough and polished diamond trading centres. It has also contributed to the establishment of a 50/50 joint venture between the Government of Botswana and De Beers, the Diamond Trading Company Botswana, which is the world's largest and most sophisticated rough diamond sorting and valuing operation in the world.[86] The improvement of skills through the development of linkages to the mining sector in Botswana has the potential to expand business activities into other sectors of the economy.

B. Summary of policy recommendations

45. The experience of Costa Rica and Botswana suggest that different types of diversification and value-addition strategies can be carried out in a country that is dependent on commodities. On the one hand, promoting linkages may be appropriate for an oil-dependent country because of the wide range of opportunities from exploration to production that can stimulate local entrepreneurs in participating in the industry. On the other hand, an agricultural-dependent commodity-dependent developing country may wish to focus on adding value to the product as the most relevant strategy as well as diversifying into new products and markets.[87] Each strategy can present challenges to commodity-dependent developing countries, but there have been some success stories, such as those mentioned above. The following policy recommendations, as analysed in a report by UNCTAD on diversification and value addition,[88] can contribute to fostering economic and export diversification in commodity-dependent developing countries:

(a) Given that diversification requires macroeconomic stability, commodity-dependent developing countries must implement macroeconomic policies, especially fiscal and monetary policies that ideally mitigate fluctuations in macroeconomic variables such as gross domestic product, inflation and exchange rates, or at the minimum do not contribute to instability;

(b) A successful diversification strategy requires human and physical capital accumulation, including infrastructure; the improvement of science and technology capabilities; and the strengthening of institutions and governance. Commodity-dependent developing countries can use rents obtained from periods of buoyant commodity prices or, in general, the export of natural resources to build capacities in

[84] See TD/B/C.I/MEM.2/45.
[85] See www.debeersgroup.com/~/media/Files/D/De-Beers-Group-V2/documents/reports/botswana/deb081-02-executivesummary.pdf.
[86] See www.dtcbotswana.com/about-us/home.
[87] See TD/B/C.I/MEM.2/42.
[88] Ibid.

new capabilities and in a comprehensive educational strategy that supports those processes;

(c) Provide technical assistance to reduce information deficiencies and asymmetries, which are likely to be an impediment to the survival of new export flows. That may include providing technical assistance to ensure conformity with overseas market standards and setting up export promotion agencies;

(d) Foster foreign direct investment in specific areas of the value chain, strengthen business associations that focus on sectoral competitiveness and moving up the quality ladder, and facilitate technology acquisition or innovation to address specific challenges;

(e) Provide financial incentives to encourage the establishment of non-traditional industries. That may include tax exemptions for certain exports and imports of capital goods, subsidies, credit facilities such as low-cost loans and other export incentives;

(f) Analyse the products involved in the sector that needs diversification, including characteristics and opportunities, identify bottlenecks and other constraints on moving up the value chain or adding value through quality improvements and differentiation, and put in place adequate complementary policy measures to tackle the challenges identified.

46. UNCTAD has been implementing projects that help commodity-dependent developing countries to diversify their economies, improve value addition and transform their commodity sectors into major sources of growth and sustainable development. A recent technical cooperation activity undertaken by UNCTAD funded by the 2030 Agenda for Sustainable Development Sub-Fund had an overall objective of supporting integrated value-chain development in four landlocked commodity-dependent developing economies (Ethiopia, the Lao People's Democratic Republic, Mongolia and Uzbekistan) by enhancing their capacities in development policies and strategies to promote better integration in regional and global value chains and create development linkages at the national, regional interregional and intercontinental levels.[89]

47. Under that project, through workshops, training, advisory services and policy analyses, UNCTAD was able to: (a) improve the statistical and analytical capacity of beneficiary countries in effective policy formulation to promote regional and global value chain integration and enhance development linkages; and (b) strengthen the capacity of the private sector in beneficiary countries to assess market prospects, identify market opportunities and overcome market barriers to better integrate in regional and global value chains. In addition, the UNCTAD Division of International Trade and Commodities biannual report *Commodities and Development Report 2021: Escaping from the Commodity Dependence Trap through Technology and Innovation* highlights the role of technology in helping to break with commodity dependence and achieving more diversified economies.

[89] See https://unctad.org/project/integrating-landlocked-commodity-dependent-developing-countries-regional-and-global-value.