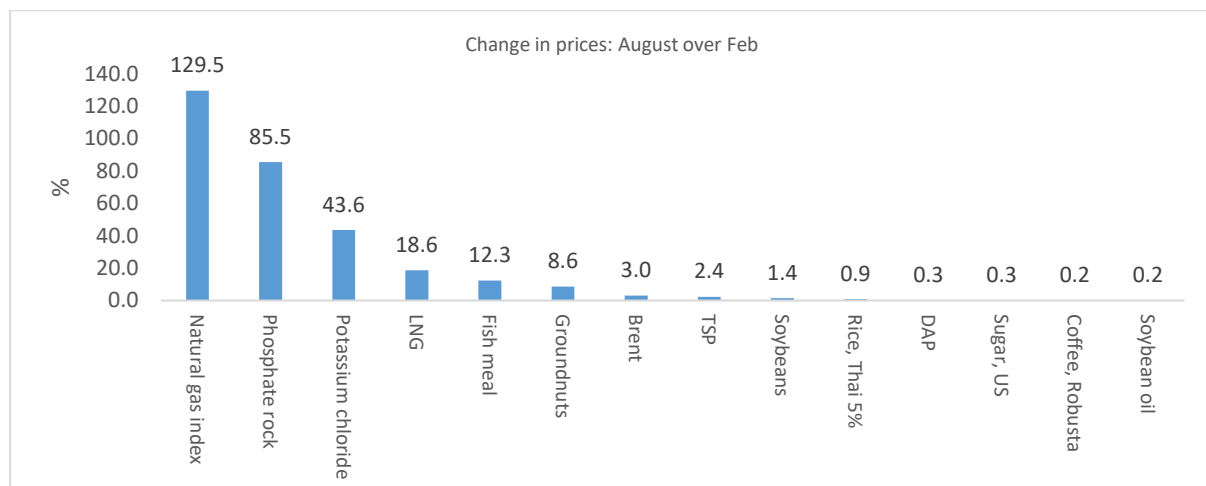


Have global prices retreated?

There have been significant developments in the global scene this year. Starting with the Russia-Ukraine war from March onwards, there have been attempts made by various central banks to slow down their economic growth to curb inflation. The rise in commodity prices started last year and was exacerbated by the war when prices of fuel, food, fertilizers and metals increased for a variety of reasons. It was more due to supply disruptions rather than upsurge in demand. China's flip flop with fighting the new wave of covid through lockdowns added to supply disruptions. Hence prices were driven downwards by lockdowns and rate hikes while they moved northwards due to disruptions.

Against this background, it would be interesting to view how prices have moved for various commodities in this period. This will give an idea as to where the world stands on commodity prices. The important question to be asked is whether or not prices have moved back to the pre-war levels. For this purpose IMF data on commodity prices, which have been updated till August, is compared with that in February which is the pre-war month.

Where have prices continued to be up?

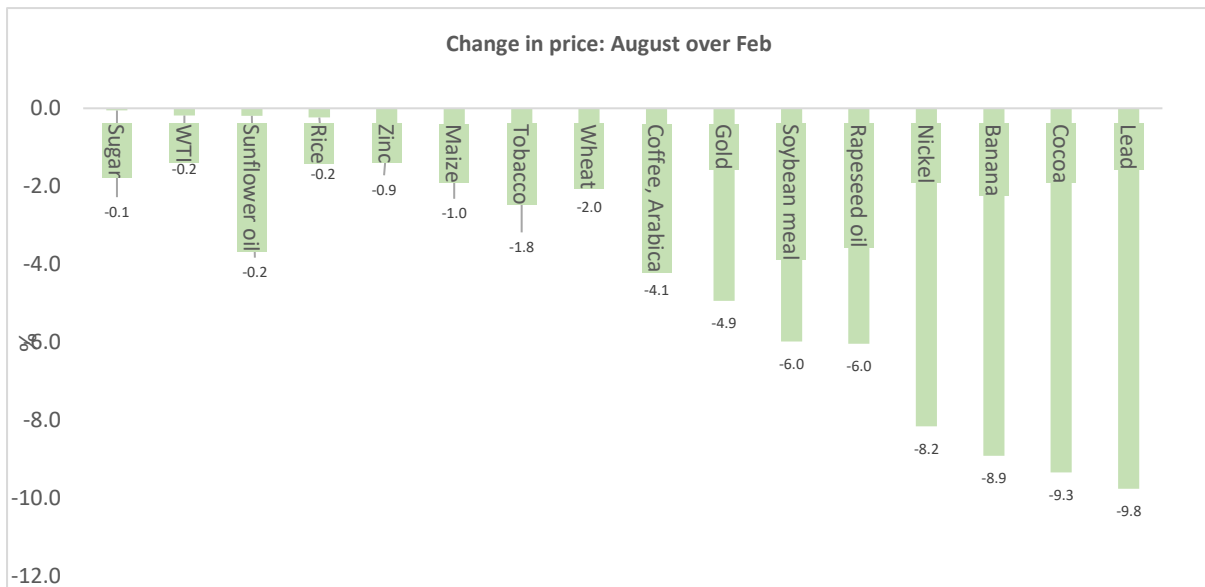


Prices continue to increase mainly in the energy and fertilizers groups. This is where there is still impasse when it comes to supplies from Russia with the latest being the increased demand from Europe as we near winter time. Russia is also a dominant supplier of fertilizers in the global market. On the oilseeds front there still remains some pressure on soybean and groundnuts. It is marginal for soya oil, rice, coffee, sugar.

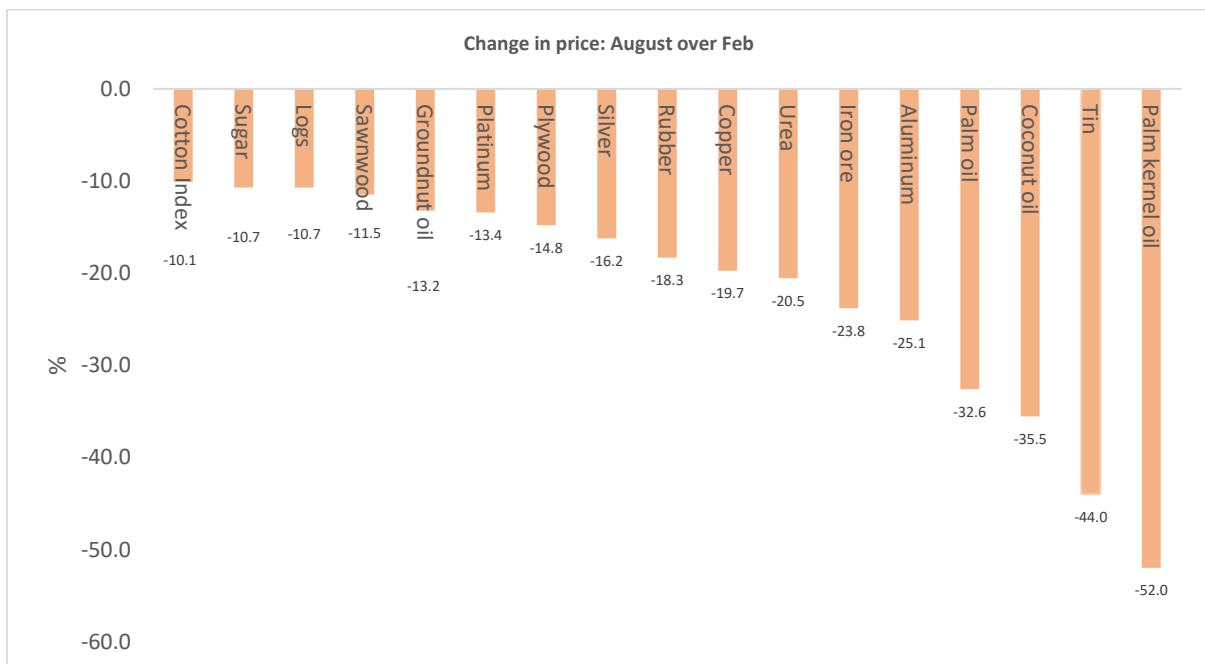
Where have prices fallen ?

There have been price corrections in the downward direction for several commodities as depicted in the two charts below. The first one provides an illustration where prices fell by up to 10%. This has been more in the agricultural space, though WTI has just about retreated while lead, nickel in the metals segment have come down sharply. Quite significant is the movement in wheat prices which have now come down by 2% over February considering that both Russia and Ukraine are major contributors to global supplies. This will come as a relief for us where wheat prices have witnessed a sharp spike.

Products where prices have fallen by up to 10%



Products where prices have fallen by above 10%



Here the significant commodities are palm oil and palm kernel oil which are imported in substantial quantity by India. There were disruptions caused due to policy restrictions in exporting countries like Indonesia which did get reversed gradually.

Also the three precious metals platinum, gold and silver witnessed decline in prices. This can be attributed more to the dollar strengthening against the euro which has gone now below the parity level in favour of the former. As gold price moves in the opposite direction to dollar movement such a tendency is to be expected.

Aluminium and copper have witnessed decline in prices as demand has weakened in accordance with the slowdown being seen in growth across the developed economies in particular as well as China.

In conclusion, it can be said that commodity prices have been retreating to normal and have tended to move below the pre-war levels. Energy will continue to be a concern not just because of the Russia factor but also the approaching winter which will witness higher demand for both oil and gas. To this extent it does look like that imported inflation will be a limited concern for us going ahead.