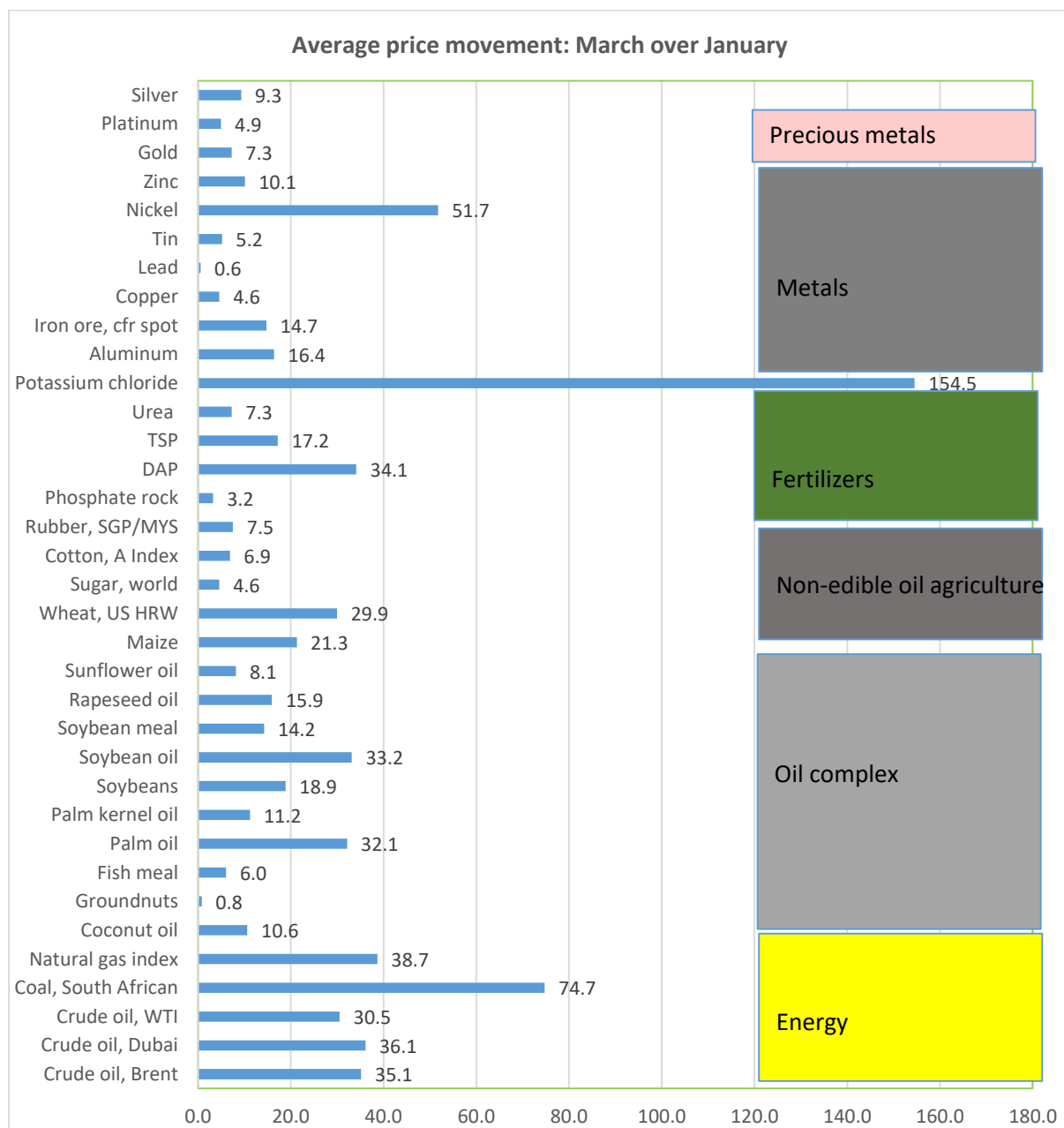


How have prices moved since the Ukraine war?

Global commodity prices have moved quite significantly in the upward direction due to the war. Two sets of factors contributed to this increase. The first was the physical supply of commodities which are exported by Russia and Ukraine. The second was due to rebalancing acts by various countries to match supply with demand on account of supply-chain disruptions.

High commodity prices work in two ways. The first is through the imported inflation route when commodities are purchased by domestic players. The other is where domestic prices tend to match those overseas. For example, wheat price have started increasing in India as the export market opens up and matches the higher price in the global market.



Source: World Bank

The table shows how the war has destabilized prices of commodities across the board.

- Precious metals which are also investment options have risen by 4.9-9.3%, though gold has increased by 7.3%.
- Metal prices have increased disparately. Iron ore, aluminium and nickel have increase at high double digit rates while the others have been modest.
- Within fertilizers which are gas intensive, TSP and DAP have increased by 17.2% and 34.1% respectively.
- Wheat and maize have increased by over 20% each.
- Soya complex and palm oil within the edible oils basket have increased as the substitution effect has taken place with sunflower oil being squeezed out.
- Energy segment has been affected the most with coal too increasing by over 75%.

Higher global commodity prices would enter our imports basket. In FY22 for instance, crude basket was around \$ 161 bn, followed by \$ 31.5 bn of coal, \$ 39.8 bn machinery and \$ 18.9 bn of vegetable oils. These groups would witness upward pressure in the absence of any moderation in demand.

Inflation going by WPI is already in double digits for wheat, crude oil, edible oils, fuel and chemicals. Therefore the overall impact of the increase in global commodity prices will be sharp and a worry for India.

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