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World Bank view on Commodity prices

A sharp global growth slowdown and concerns on a possible global recession are weighing on commodity prices. In many economies, however, prices in domestic-currency terms remain elevated due to currency depreciations. This could deepen the food and energy crises already underway in a number of countries. As the global growth slowdown intensifies:

- Commodity prices are expected to ease in the next two years, but they will remain considerably above their average over the past five years.
- Energy prices are expected to fall by 11% in 2023 and 12% in 2024.
- Agricultural and metal prices are projected to decline 5 and 15%, respectively, in 2023 before stabilizing in 2024
- The slowdown has already contributed to a decline in copper prices from their peak in March 2022, and a shift in demand from aluminum has contributed to lower aluminum prices.

Major risks:

- Energy markets face an array of supply concerns as worries about the availability of energy during the upcoming winter intensify in Europe. Higher-than-expected energy prices could pass through to non-energy prices, especially food, prolonging challenges associated with food insecurity.
- A sharper slowdown in global growth presents a key downside risk, especially for crude oil and metal prices.

Prices will likely remain volatile as the energy transition unfolds and demand moves from fossil fuels to renewables, which will benefit some metal producers.

Energy

- Brent crude oil prices are forecast to average $92/bbl in 2023, down from a projected $100/bbl in 2022, before easing to $80/bbl in 2024.
- Oil consumption is expected to continue to increase by just under 2% in 2023 as China gradually reopens, besides countries switching from natural gas to oil for electricity generation.

A sharper-than-expected slowdown in global growth and continued COVID restrictions in China are the key downside risks to oil consumption. During previous global recessions oil demand has declined by about 2% in the first year and 1% in the second.

Oil markets are expected to tighten over the next few months as additional sanctions restrict exports from Russia, releases of oil from strategic reserves in several countries come to an end, and as OPEC+ members cut production (even if somewhat less than the announced 2 mb/d since many of the OPEC+ members are already producing below quota). This will more than offset the effect of rising production in a few countries, primarily the United States.

The outlook is subject to numerous risks, especially on the supply side.

- Production in the United States could disappoint as producers prioritize returning cash to shareholders over increasing output as higher input costs constrain new investment.

- The outlook for Russia's production depends on the impact of trade measures. Russia's exports next year could be as much as 2 mb/d lower, as the EU embargo on Russian oil and oil products (as well as restrictions on access to EU insurance and shipping services) comes into effect. The proposed G7 oil price cap could affect the flow of oil from Russia, but it is an untested mechanism and would need the participation of large emerging market and developing economies to achieve its objectives.
- Releases of crude oil from strategic reserves, including the U.S. are due to end this year. While these could be extended further, it would risk leaving strategic inventories at very low levels. Amid low levels of inventories, limited spare production capacity, and ongoing geopolitical events, the oil market is susceptible to price spikes. The materialization of some of these risks could intensify challenges associated with energy security in many countries.

Natural gas and coal prices are also expected to ease in 2023 and 2024 but remain at much higher levels than their pre-pandemic averages. By 2024, Australian coal and U.S. natural gas prices are expected to be double their average over the past five years, while European natural gas prices could be four times higher. The expected easing of prices next year is due to weaker demand for natural gas as households and industries curtail their consumption and switch to substitutes, while coal production is expected to increase as China, India, and seaborne exporters boost output.

The near term outlook for natural gas and coal prices will depend heavily on the severity of the winter in Europe. As with crude oil, slower global growth is a key downside risk to the outlook for next year. Recent government policy announcements to sharply increase the installation of renewable energy and reduce overall energy consumption may feed through into lower energy prices, but this will take time, and a worsening supply outlook in the winter of 2023 is possible.

Further the current high inflation and high interest rate environment will make financing investment in new energy production (both fossil fuels and renewables) more challenging, even if recent declines in metal prices provide some reduction in project costs.

Metals

Following an estimated decline of nearly 2%, metal prices are forecast to fall more than 15% in 2023 before stabilizing in 2024. The weakness reflects the deterioration of global growth prospects along with China's softening demand (due to its zero COVID policy and the slowdown of its real estate sector). Risks to the short-term outlook for metals are on the downside and reflect slower-than-expected global growth and a further deterioration of China's property sector.

One upside risk is higher-than-expected energy prices which could lead to increased production costs for metal refiners. In the longer term, however, metal demand is expected to increase, stimulated by recent government policies to accelerate the energy transition and boost renewables, which are metals intensive.

Agricultural products

Agricultural prices are forecast to decline by 5% in 2023 before stabilizing in 2024. The projected decline in 2023 reflects a better-than expected global wheat crop, stable supplies in the rice market, and the resumption of grain exports from Ukraine (although the maize crop is expected to contract materially during the 2022-23 season). However, there are numerous upside risks to the price forecast.

- First, disruptions in exports from Ukraine or Russia, both key grain exporters, could once again interrupt global supplies, as they did in the early stages of the war in Ukraine.

- Second, further increases in energy prices or disruptions in energy supplies (especially natural gas and coal, which are key inputs to fertilizers) could exert upward pressure on grain and edible oil prices.
- Third, adverse weather patterns can reduce yields; indeed, 2023 is likely to be the third La Niña year in a row, potentially reducing yields of key crops in South America and Southern Africa.

On the downside, weaker-than-expected growth, especially in China, could affect the prices of certain agricultural commodities such as maize and soybeans, which are used as animal feed.

Price outlook

	Unit	**2020**	**2021**	**2022f**	**2023f**	**2024f**	**2022f**	**2023f**
Energy							Change	
Coal, Australia	$/mt	60.8	138.1	320.0	240.0	212.3	131.8	-25.0
Crude oil, Brent	$/bbl	42.3	70.4	100.0	92.0	80.0	42.0	-8.0
Natural gas, Europe	$/mmbtu	3.2	16.1	40.0	32.0	28.0	148.2	-20.0
Natural gas, U.S.	$/mmbtu	2.0	3.9	6.6	6.2	6.0	71.4	-6.1
Liquefied natural gas	$/mmbtu	8.3	10.8	18.4	17.0	15.9	71.0	-7.6
Beverages								
Cocoa	$/kg	2.37	2.43	2.35	2.30	2.34	-3.2	-2.1
Coffee, Arabica	$/kg	3.32	4.51	5.90	5.50	5.41	30.8	-6.8
Coffee, Robusta	$/kg	1.52	1.98	2.35	2.10	2.11	18.6	-10.6
Tea	$/kg	2.70	2.69	3.10	2.80	2.82	15.3	-9.7
Oils and Meals								
Coconut oil	$/mt	1,010	1,636	1,660	1,670	1,672	1.4	0.6
Groundnut oil	$/mt	1,672	…	2,200	2,100	2,091	…	-4.5
Palm oil.	$/mt	752	1,131	1,275	1,050	1,054	12.8	-17.6
Soybean meal	$/mt	394	481	550	540	539	14.4	-1.8
Soybean oil	$/mt	838	1,385	1,675	1,550	1,537	20.9	-7.5
Soybeans	$/mt	407	583	680	650	641	16.6	-4.4
Food								
Barley	$/mt	98	…	200	175	172	…	-12.5
Maize	$/mt	165	260	315	290	287	21.4	-7.9
Rice, Thailand, 5%	$/mt	497	458	435	435	436	-5.1	0.0
Wheat, U.S., HRW	$/mt	232	315	430	410	405	36.4	-4.7
Sugar, World	$/kg	0.28	0.39	0.40	0.38	0.38	2.7	-5.0
Other Raw Materials								
Cotton	$/kg	1.59	2.23	2.95	2.90	2.86	32.2	-1.7
Rubber, RSS3	$/kg	1.73	2.07	1.80	1.90	1.94	-13.1	5.6
Tobacco	$/mt	4,336	4,155	4,200	4,100	4,116	1.1	-2.4
Fertilizers								
DAP	$/mt	312	601	790	750	650	31.5	-5.1
Phosphate rock	$/mt	76	123	270	200	175	119.1	-25.9
Potassium chloride	$/mt	218	210	520	500	479	147.4	-3.8

TSP	$/mt	265	538	735	650	550	36.6	-11.6
Urea, E. Europe	$/mt	229	483	720	650	600	49.0	-9.7
Metals and Minerals								
Aluminum	$/mt	1,704	2,473	2,700	2,400	2,434	9.2	-11.1
Copper	$/mt	6,174	9,317	8,700	7,300	7,361	-6.6	-16.1
Iron ore	$/dmt	108.9	161.7	120.0	100.0	98.0	-25.8	-16.7
Lead	$/mt	1,825	2,200	2,100	1,900	1,917	-4.6	-9.5
Nickel	$/mt	13,787	18,465	25,000	21,000	20,708	35.4	-16.0
Tin	$/mt	17,125	32,384	31,000	22,000	22,257	-4.3	-29.0
Zinc	$/mt	2,266	3,003	3,500	2,800	2,771	16.6	-20.0
Precious Metals								
Gold	$/toz	1,770	1,800	1,775	1,700	1,650	-1.4	-4.2
Silver	$/toz	20.5	25.2	21.3	21.0	21.0	-15.6	-1.2
Platinum	$/toz	883	1,091	940	1,000	1,050	-13.9	6.4

Source: World Bank

The major takeaway from these forecasts is that with the exception of metals (both base and precious), while prices would come down in 2023 and 2024 relative to 2022, they would remain higher than 2021. In case of metals it can be seen that with the exception of nickel, prices would be lower than 2021 too.

The decline in prices of commodities relative to 2022 will be good for India's inflation. Imported inflation has been a concern in a rising global inflation scenario as the ratio of imports to GDP is around 15%. With prices moving southwards, there would be benefits on this end especially for crude oil, coal, natural gas, vegetable oils, fertilizers and precious metals. To the extent that domestic prices which are linked with global prices correct, there is scope for lower input costs which if passed to the consumer can result in lower prices of final goods.

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