

## Movements in Global Commodity Prices

Global commodity prices have been declining over the last year and have been manifested in all segments. While the slowdown in growth in most countries, especially China, has been a factor lowering demand for most commodities, better supply of farm products relative to demand has led to the lowering of prices. World inflation came down from 3.9% in 2013 to 3.5% in 2014 and is expected to go down further to 3.2% in 2015. For advanced economies, the rate was unchanged at 1.4% in 2014 but is expected to decline to 0.4% in 2015 according to the IMF. For emerging markets and developing countries inflation had come down sharply from 5.9% in 2013 to 5.1% in 2014, but is expected to increase to 5.4% in 2015.

Lower crude oil prices have meant that all countries have benefited from this drop, especially those which are large users of the product. India has also benefited from lower prices of import of metals and metal products and fertilizers. The tables below present the changes in prices on an annual basis (April 2015 over April 2014) and April 2015 over December 2014 based on World Bank data. The trends are similar and indicate a continuation of a decline in prices almost across the entire spectrum of commodities.

### A. Oil related products

**Table 1: Changes in Oil related prices (%)**

Commodity	April-April	April over Dec
Crude oil, average	-45.1	-5.2
Crude oil, Brent	-44.9	-4.7
Crude oil, Dubai	-43.9	-2.8
Crude oil, WTI	-46.7	-8.1
Coal	-20.6	-7.4
Natural gas	-30.8	-24.5
Liquefied natural gas	-18.6	-12.5
Natural gas index	-36.1	-23.4

Source: World Bank

The genesis of oil prices moving down last year was in the fact that OPEC decided to stop targeting a price just at a time when unconventional sources of oil started to come in. This maintained equilibrium in prices when there were disruptions in the Middle East due to political problems. However, with normalcy returning the supplies were restored and production flows increased substantially which led to the rapid decline in the prices.

There are hence oversupplies in the market despite an increase in demand, with large inventories, especially in the USA. According to the World Bank, the U.S. rig count fell by half in the past five months, but oil production continues to climb by more than 1 mb/d year-on-year. OPEC production too has increased during the quarter with Saudi Arabia averaging 10 mb/d in March. The main risks remain in the areas of cutback in production by the OPEC countries and earlier than expected closure of high cost operations especially in the USA.

From our perspective, with 36% of imports coming from the mineral oils and related products during the first 10 months of the year (40% for FY14), intuitively the gain on our imports can be gauged. Also fuel products have a weight of close to 15% in the WPI and a reduction of around 45% in crude oil prices has had a positive impact on inflation from this group.

## B. Plantation crops

Prices of all these crops ranging from cocoa, which is produced in restricted countries, to tea, coffee and sugar have shown a decline in prices in 2014 which continues even in 2015. Higher production of these crops has been mainly responsible for the decline in prices. Coffee production especially in Brazil was high which led to a decline in prices. Tea supplies increased from India and African countries.

**Table 2: Changes in price of Planation crops (%)**

Commodity	April- April	April over Dec
Cocoa	-6.0	-2.7
Coffee, arabica	-26.6	-16.7
Coffee, robusta	-12.8	-7.6
Tea	-8.3	-6.7
Sugar, world	-26.3	-14.7
Tobacco	-1.6	1.7

Source: World Bank

## C. Fruits

**Table 3: Changes in prices of fruits (%)**

Commodity	April- April	April over Dec
Banana	-25.4	-3.6
Orange	-27.7	-20.4

Source: World Bank

International prices of fruits like bananas and oranges had come down by a quarter last year and the trend appears to be the same this year too with high production levels leading to this decline. However, as India is self-sufficient in fruits being the second largest producer, domestic prices would be driven by demand-supply conditions within the country. Last year, WPI of fruits had risen by 12.6% as we continue to meet the challenge on cutting down on wastages in this segment.

## D. Cereals

Table 4: Changes in prices of cereals (%)

Commodity	April-April	April over Dec
Barley	51.2	17.2
Maize	-22.6	-3.7
Sorghum	6.1	14.4
Rice	1.0	-4.5
Wheat	-31.3	-17.2

Source: World Bank

Production of rice, corn and wheat has been higher in 2014 thus keeping prices down. Higher output combined with larger carryover stocks has exerted downward pressure on prices. This situation is likely to continue in 2015. From our point of view this could be negative news for our exports as we do tend to export these products where realizations would tend to be lower. However, our production numbers remain vulnerable to the monsoons, which have been projected by the IMD in its April forecast at 93% of normal.

## E. Oilseeds and edible oils

Table 5: Changes in prices of oilseeds/edible oils (%)

Commodity	April-April	April over Dec
Coconut oil	-20.4	-11.3
Copra	-21.1	-12.2
Groundnuts	4.6	-4.4
Groundnut oil	14.8	-1.6
Palm oil	-27.3	-4.5
Palm kernel oil	-24.2	1.8
Soybeans	-23.4	-11.4
Soybean oil	-25.2	-8.9
Soybean meal	-30.2	-15.6
Rapeseed oil	-27.2	-9.0
Sunflower oil	-11.2	-4.7

Source: World Bank

Higher production of oilseeds has resulted in lower prices in global markets. In fact for the 2014-15 season production of soybean is expected to peak in both USA and Latin America. This has in a way had a positive impact on our imports and inflation. We do import around \$ 9 bn of edible oils but as they account for between 45-50% of our portal consumption have an impact on domestic prices too. The WPI for edible oils had declined by 0.75%

in FY15 and if this trend continues, there will be a positive impact on inflation and hence for monetary policy too as this component is important in the food inflation basket.

#### F. Meat products

**Table 6: Changes in prices of Meat/poultry products (%)**

Commodity	April- April	April over Dec
Beef	12.0	-12.0
Meat, chicken	7.3	1.0
Meat, sheep	-16.6	-8.8
Shrimps	-8.4	-2.7
Fish meal	-7.2	-16.9

Source: World Bank

#### G. Wood products

**Table 7: Changes of wood related products (%)**

Commodity	April- April	April over Dec
Logs	-21.9	-12.4
Plywood	-14.2	-0.1
Cotton	-23.9	5.0
Rubber	-20.8	-4.7

Source: World Bank

#### H. Fertilizers

**Table 8: Changes in prices of fertilizers (%)**

Commodity	April- April	April over Dec
Phosphate rock	6.5	0.0
DAP	-1.4	1.0
TSP	2.4	-5.2
Urea	-11.0	-17.1
Potassium chloride	7.0	0.4

Source: World Bank

Higher production of fertilizers has caused a decline in prices and given that there are accumulated stocks, prices may be expected to decline further in 2015. Add to this the fact that natural gas prices have come down, the cost of production has reduced significantly.

From India's point of view this will be good news both from the point of view of lower imported cost as also pressure on the subsidy of the government. The expectations are that demand for fertilizers would be low this year as farmers too may consume less given that there are surplus stocks of both fertilizers as well as farm produce.

### I. Metals

**Table 9: Changes in prices of metals (%)**

Commodity	April-April	April over Dec
Aluminum	0.5	-4.7
Iron ore	-54.6	-23.5
Copper	-9.5	-6.3
Lead	-3.9	3.5
Tin	-32.1	-19.8
Nickel	-26.1	-19.6
Zinc	9.2	1.7

Source: World Bank

Global metal prices have come down mainly due to increased capacities in the past preparing of higher world growth. However, with China, one of the main consumers (accounting for 45-50% of total consumption at its peak growth level in 2011-2013), moving in a slowdown mode, excess supplies have resulted in lower prices. This situation according to the World Bank is likely to continue this year too as supply rebalancing would take time.

Metals account for around 6% of total imports but are more decisive when it comes to metal-related products which account for around 18% of our imports. Hence nearly a quarter of our imports are affected by these prices and declining prices across the board has helped to keep manufactured inflation under check.

In the WPI prices of basic metals and alloys/parts fell by 3.1% and iron and semis by 6%. Machinery increased by just 1.6% and transport equipment by 0.74%.

### J. Precious metals

**Table 10: Changes in prices of precious metals (%)**

Commodity	April-April	April over Dec
Gold	-7.7	-0.1
Platinum	-19.5	-5.3
Silver	-17.2	0.3

Source: World Bank

Prices of all the precious metals have fallen sharply with gold faring relatively better with a decline of 7.7% compared with numbers of above 175 for silver and platinum. Weaker demand conditions could be one of the factors that led to prices declining besides the general trend in all commodity prices.

Going ahead, investment demand would be the driving factor for platinum and silver, while gold will be driven more by the strength of the dollar. Strengthening of the dollar will keep gold weak. The Fed action on rates will also influence these prices as funds move to areas which deliver better returns.

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