

Global Price Outlook *19th May 2010*

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Price Overview

According to the **World Bank**, global prices have started showing an upward proclivity in the last few quarters.

- The higher prices observed in case of energy and metals may be attributed to the resurgence in growth witnessed in several regions including USA. These higher prices are associated with better growth prospects also in the emerging markets in Asia. While the recent crisis in the Euro region could put a brake on the increase in prices of metal products and energy it is believed that the decoupling of the growth process between the emerging markets and the western nations will counter this force effectively.
- Fertilizers have also shown a mixed trend in terms of changes in prices but the higher output of agriculture has necessitated higher demand for fertilizers which in turn has put pressure on prices. Further, the increase in price of crude oil has had its impact on the cost of production of fertilizers which has also provided an upward thrust to prices.
- Farm products have displayed a mixed trend with grains showing a decline in prices while edible oils have increased quite sharply. The soy complex however has shown a trend towards a decline in prices as output is expected to be higher in the major producing countries. This can change if the market dynamics change this year with China being a potential high consumer of the products.
 - o Sugar, has tended to show softening of prices since the fourth quarter of 2009. This may be attributed to better production prospects.

Following their collapse in the wake of the financial crisis, commodity prices bottomed out in early 2009 and staged a sharp rebound thereafter. With global economic and financial conditions improving through 2009, commodity price volatility normalized after rising sharply during the slowdown. A sharp decline and subsequent rebound in commodity prices over the past year and a half is in contrast to previous global downturns and recoveries.

A possible conclusion is that a number of factors help explain why commodities have recovered more quickly and more extensively during this recovery. Most notable are the stronger-than-expected global recovery and the increasingly important role of emerging and developing economies in global commodity markets. In particular, the pace of recovery has been far quicker than anticipated in emerging Asian economies, where consumption of commodities has grown fastest in recent years. Another factor is smaller increases in excess inventories relative to average stock-use ratios (inventory-to-sales ratios) for many commodities. In addition, the U.S. dollar depreciation during this recovery and steady, low real U.S. interest rates stand in contrast to previous cycles, when real interest rates steadily increased and the U.S. dollar appreciated. Despite the rapid price rebounds during this global recovery, a number of key commodity markets remain in *contango*, with spot prices below futures prices, suggesting the absorption of excess inventories after the global recession—the inventory adjustment process—is ongoing.

Table 1: Trends in Price Movements of Energy products (%)

| | 2009 Q2 over Q1 | 2009 Q3 over Q2 | 2009 Q4 over Q3 | 2009-10 Q1 over Q5 | 2010 April over Q1 | Actual price April 2010 | Unit |
|-------------|-----------------------|-----------------------|-----------------------|--------------------------|--------------------------|----------------------------------|----------|
| Crude oil | 34.2 | 15.2 | 10.7 | 2.1 | 9.2 | 84.2 | \$/bbl |
| Natural gas | -31.5 | -15.6 | 13.0 | 13.3 | 5.8 | 9.4 | \$/mmbtu |
| Coal | -7.6 | 7.3 | 8.9 | 22.6 | 5.2 | 100.2 | \$/mt |

Source: World Bank

The near -term outlook for oil prices depends importantly on the interaction between upward pressure from demand increases as global growth accelerates in 2010 and the supply response. Indeed, the recent rise in prices above the \$70 to \$80 range has largely reflected expectations of accelerating global economic growth and stronger-than-expected oil demand increases. With both OPEC spare capacity and OECD inventories still above recent historical averages, upward price pressure should remain moderate for some time, barring any significant change to the medium-term outlook. Even so, the call on OPEC (difference between global demand and non-OPEC supply) is expected to increase markedly in 2010, and the price dynamics will depend on producers' readiness to tap their spare capacity.

The recent dip in prices in May could be considered to be an aberration as there are growth fears on account of the Euro crisis, which should settle down soon in which case the pressure on prices would remain.

Table 2: Trends in price movements of Agricultural Products (%)

| | 2009 Q2 over Q1 | 2009 Q3 over Q2 | 2009 Q4 over Q3 | 2009- 10 Q1 over Q5 | 2010 April over Q1 | Actual price April 2010 | Unit |
|-----------------|-----------------------|-----------------------|-----------------------|------------------------------|--------------------------|----------------------------------|-------|
| Rubber RSS3 | 13.9 | 19.8 | 28.7 | 24.2 | 23.9 | 394.8 | ¢/kg |
| Copra | 14.7 | -8.6 | 4.6 | 13.5 | 12.8 | 628.0 | \$/mt |
| Coconut oil | 15.0 | -8.7 | 3.3 | 13.6 | 12.5 | 939.0 | \$/mt |
| Palm kernel oil | 32.1 | -8.3 | 8.7 | 21.2 | 10.6 | 1020.0 | \$/mt |
| Cotton | 9.6 | 7.2 | 11.1 | 13.4 | 8.3 | 193.6 | ¢/kg |
| Barley | 11.4 | -5.8 | 19.3 | -1.3 | 5.6 | 151.7 | \$/mt |
| Coffee | -6.0 | -3.2 | -2.3 | -3.6 | 4.6 | 157.7 | ¢/kg |
| Palm oil | 28.7 | -8.7 | 7.9 | 10.3 | 2.8 | 830.0 | \$/mt |
| Groundnut oil | -9.1 | -2.8 | 1.6 | 17.9 | 0.2 | 1361.0 | \$/mt |
| Wheat | 8.2 | -16.7 | -1.6 | -4.8 | -1.3 | 192.9 | \$/mt |
| Soybeans | 16.9 | -1.4 | -3.3 | -5.1 | -1.4 | 411.0 | \$/mt |
| Soybean oil | 14.3 | -0.8 | 7.6 | -0.4 | -1.6 | 903.0 | \$/mt |
| Cocoa | -0.6 | 14.9 | 15.3 | -3.5 | -2.5 | 321.3 | ¢/kg |
| Sugar | 4.5 | 3.1 | -11.4 | -5.6 | -3.0 | 45.0 | ¢/kg |
| Maize | 5.4 | -14.0 | 10.9 | -3.0 | -3.5 | 157.1 | \$/mt |
| Sorghum | 7.2 | -10.5 | 17.6 | -4.2 | -4.7 | 149.4 | \$/mt |
| Tea | 22.1 | 14.1 | -0.6 | -7.6 | -6.6 | 260.7 | ¢/kg |
| Soybean meal | 16.3 | 1.6 | -4.4 | -10.3 | -7.9 | 340.0 | \$/mt |
| Rice | -5.8 | -2.4 | 0.6 | -1.1 | -11.3 | 475.7 | \$/mt |

Products in shaded zone indicate declining prices.

Source: World Bank

- All major grains, rice, wheat, maize and sorghum have shown a declining trend over the time period considered. The USDA estimates that the gap between global grain production and consumption is expected to narrow in 2010-11. Higher prices, and thus expanded acreage, in combination with favorable weather (i.e., higher yields), have helped production expand sharply over the past several years. Consumption has consistently grown by nearly 40 MMT annually over the last 10 years on rising worldwide population and income, and greater use of grains as bio-fuels. Surging production has—temporarily, at least—allayed recent concerns about the world’s ability to meet rising food, feed, and fuel needs. The sharp production expansion has helped rebuild global stocks, which could mitigate any potential supply shock in 2010-11. Global carry-in stocks have surged 135 MMT, or nearly 40%, in just 3 years, with wheat and coarse grains accounting for most of the growth.
- The soy complex has been showing a declining trend in prices in 2009-10. However, the gap between global soybean production and consumption is forecast to tighten in 2010-11 according to USDA. Production in key producing countries is expected to moderate from last year’s record level. At the same time, global consumption continues to grow, largely fueled by expanding demand for protein meal for animal feed. This is particularly the case in China, which is forecast to account for nearly 60% of global soybean import demand. Despite the projected shrinking surplus, the strong rebound in carry-in stocks may be sufficient to dampen stronger prices that may be caused by a production shortfall for crops that have not yet been planted; as

- is the case in South America where crops will not be planted for another five months.
- The other oils, coconut, palm etc. are expected to continue be under pressure due to demand-supply imbalances in the coming year.
 - World consumption of cotton in 2010-11 is forecast to exceed production for the fifth year in a row, for the first time in 50 years. Shrinking stocks will drive the stocks to use ratio to the lowest level in 16 years. The supply picture is further clouded by concerns about availability from India, the second largest exporter, which recently banned exports for the remainder of the current season. The government has announced its intention to manage exports next season to assure adequate supplies for its domestic industry. The tightening supply has already caused higher world prices and which could in turn stifle demand, especially if the global economic recovery weakens from current forecasts. Global economic growth is the largest driver of cotton and textile demand. China, which depends on imports to supply its growing textile sector, is likely to be especially affected by the tightening world stock situation, since it accounts for nearly one-third of world import demand.
 - The second revision of the world sugar balance forecast from ISO for the period from October 2009 to September 2010 shows a widening gap between world consumption and global output. The world sugar economy is facing the second consecutive year of a significant gap between world consumption and production. World production is now put at 157.2 mn tonnes, up by 4.7 mn tonnes or 3.1% from the last season. World consumption is expected to grow at a rate significantly lower than the long-term 10 year average (1.5% and 2.7%, respectively). The ISO does not anticipate that the projected renewed global economic growth will significantly stimulate sugar consumption in the course of 2009-10, particularly taking into account high world market prices. Even so, global use of sugar is expected to reach 166.6 mn tonnes. Therefore, the growth in global production is far too small to cover anticipated increases in sugar consumption, and the world statistical deficit is expected to reach 9.4 mn tonnes as against 7.2 mn tonnes projected in November.

Table 3: Trends in price movements of Fertilizers (%)

| Fertilizers | 2009 Q2 over Q1 | 2009 Q3 over Q2 | 2009 Q4 over Q3 | 2009- 10 Q1 over Q5 | 2010 April over Q1 | Actual price April 2010 | Unit |
|--------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------------|-----------------------------------|--------------------------------------------|-------------|
| Phosphate rock | -41.4 | -20.6 | 0.0 | 13.4 | 22.4 | 125.0 | \$/mt |
| TSP | -23.0 | -9.3 | 4.9 | 34.5 | 17.6 | 372.5 | \$/mt |
| DAP | -16.2 | 2.0 | 2.4 | 46.6 | 0.3 | 466.0 | \$/mt |
| Potassium chloride | -16.0 | -30.3 | -16.5 | -21.1 | -5.9 | 314.4 | \$/mt |
| Urea | -9.8 | 0.2 | 2.8 | 13.2 | -10.1 | 252.7 | \$/mt |

Source: World Bank

According to International Fertilizers Association, after several consecutive years of strong growth, world fertilizer consumption was strongly impacted by the financial and economic downturn. Aggregate consumption in 2008-09 fell by 6.7%. Demand increased in two regions only: South Asia, and Eastern Europe and Central Asia. It remained fairly stable in Africa and declined in all the other regions. Due to the persistent depressed context in 2009, and in anticipation of a progressive recovery in 2010, tentative forecasts for global fertilizer consumption in 2009-10 point to a small rebound of 1.0%. Projections to 2010-11 are very speculative. Provided world

economic activity recovers, and agricultural market fundamentals remain positive, global fertilizer demand in 2010-11 could come back to positive growth rates 4.9%.

Table 4: Trends in price movements of Metals (%)

| Metals | 2009 Q2 over Q1 | 2009 Q3 over Q2 | 2009 Q4 over Q3 | 2009- 10 Q1 over Q5 | 2010 April over Q1 | Actual price April 2010 | Unit |
|---------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------------|-----------------------------------|--------------------------------------------|-------------|
| Nickel | 23.4 | 37.0 | -1.0 | 13.9 | 30.4 | 26,030 | \$/mt |
| Steel cr coil sheet | -32.3 | 0.0 | 0.0 | 3.6 | 12.1 | 812 | \$/mt |
| Tin | 22.5 | 8.0 | 3.9 | 13.5 | 8.6 | 1,868 | ¢/kg |
| Silver | 8.8 | 7.3 | 19.1 | -3.8 | 7.3 | 1,816 | ¢/toz |
| Aluminum | 9.2 | 22.0 | 10.5 | 8.0 | 7.1 | 2,316 | \$/mt |
| Copper | 36.0 | 25.6 | 13.5 | 8.8 | 7.1 | 7,745 | \$/mt |
| Gold | 1.4 | 4.2 | 14.7 | 0.7 | 3.6 | 1,148 | \$/toz |
| Zinc | 25.7 | 19.6 | 25.7 | 3.4 | 3.4 | 236 | ¢/kg |
| Lead | 29.5 | 28.6 | 18.9 | -3.1 | 2.0 | 226 | ¢/kg |

Source: World Bank

Metals posted the second largest price rebound (after petroleum) among all commodity groups in 2009. After losing more than half its pre-crisis peak value, they bottomed out around February 2009, doubling its value from the trough by the end of 2009, with the largest price gains posted by copper, lead, and zinc. The sharp price rebound was largely driven by the stronger-than-expected recovery in emerging economies with supply factors also playing a supportive role.

On the demand side, although metal consumption declined in most economies in 2009, Chinese demand grew about 24%, reflecting the effect of China's stimulus package and public investment. On the supply side, the price rebound impetus was also supported by sustained production cuts. Labor disputes (such as strikes) and stricter environmental standards (such as those pertaining to lead production and China's energy surcharge on aluminum production) have also aided the price rebound. With strong demand and limited domestic supply, China's metal imports rebounded sharply in 2009, with imports of nickel, tin, and lead growing more than fivefold between their post-crisis lows and the subsequent peaks

According to the IMF, the key factor underpinning the direction of metal prices is the growth path of metal demand in China—the largest metal consumer. During 2003–08, China's metal consumption grew at an average annual rate of about 16% accounting for more than 80 percent of world demand growth. China's metal demand increased at a faster rate than output, and so its metal intensity—metal consumption per unit of GDP—increased during this period. In contrast, cross-country evidence suggests that metal intensity tends to decrease when per capita income rises. If China's metal intensity were to normalize to cross-country norms, this would imply a slowing of its own metal consumption growth as well as slower growth in total global consumption.

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