HWWI-Commodity Price Index rose in December

Price increases in the markets for crude oil

- HWWI-Commodity Price Index rose by 2.4 % (US dollar base)
- Crude oil price rose by 4.1 %
- Index for food and beverages rose by 3.9 %

(Hamburg, January 17, 2020) The HWWI Commodity Price Index rose by an average of 2.4 % (Euro base: +1.8 %) in December compared to the previous month and featured a value of 115.9 points (Euro base: 115.7 points). All sub-indices included in the HWWI Commodity Price Index increased on average in December. The sub-index for energy commodities rose by 2.2 % (Euro base: +1.6 %) to 116.6 points (Euro base: 116.4 points) and the sub-index for food and beverages rose by 3.9 % (Euro base: +3.3 %) to 95.8 points (Euro basis: 95.6 points). The sub-index for industrial raw materials, which fell briefly in November, rose by 3.9 % in December (Euro base: + 3.3 %) to 122.8 points (Euro base: 122.7 points). Therefore, the index excluding energy rose by 3.9 % (Euro base: +3.3 %) to 111.8 points (Euro base: 111.6 points).

Index for energy raw materials: +2.2 % (Euro base: +1.6 %)

To reduce oversupply in order to stabilize the crude oil price, the OPEC+ members agreed on further production cuts in the first week of December. The OPEC, Russia and other oil producing nations, have agreed to cut the oil production by further 500,000 barrels a day. According to the agreement, in 2020 the OPEC+ will produce 2.1 million barrels of crude oil less per day than in October 2018. The prices of all three types of crude oil (Brent, WTI, Dubai) that are included in the sub-index for crude oil increased after the announcement. Overall, the sub-index for crude oil rose by 4.1 % (Euro base: + 3.5 %).

In contrast, the index for natural gas fell on average by 9.6 % (Euro base: -10.1 %) in December. The upward trend in the European natural gas price did not continue in December and the price fell by 5.8 % (Euro base: -6.3 %) compared to the previous month. The decline in the European gas price was due to an agreement between Russia and Ukraine signed in December. The agreement between the Russian state company Gazprom and the Ukrainian energy supplier Naftogaz allows Russia to transit gas through Ukrainian territory and will secure the European gas supply for the next five years. After the price of American natural gas rose in October and in November due to fears of the approaching winter, it fell again in December. Contrary to the weather forecasts in November, temperatures in December were relatively mild in many parts of America, which reduced the demand for American natural gas and led to a price decline.
In December, the sub-index for coal rose by 2.1 % (Euro base: +1.5 %), due to the continuing price increase in the South African coal market. While the price of South African coal has been rising since October, the price of Australian coal fell slightly in December. The upward trend in the South African coal price cannot be explained by changes in fundamental values. Since neither the demand for South African coal nor its supply significantly changed in the last months, only financial factors can be considered as price drivers. However, the Australian coal price fell slightly in December, reflecting the declining demand from Europe, the United States and China. For reasons of climate protection, the use of coal power is declining in many countries. In addition, China is increasingly relying on its own coal mining and reduces its coal exports.

*Overall, the sub-index for energy raw materials rose by 2.2 % (Euro base: +1.6 %).*

**Industrial raw materials index: +3.9 % (Euro base: +3.3 %)**

The sub-index for industrial raw materials is divided into the index for agricultural raw materials, the index for non-ferrous metals and the index for iron ore and steel scrap. The sub-index for industrial raw materials rose in December, which can be explained by strong price increases in the markets for iron ore and steel scrap. The prices for steel scrap, which fell in previous months due to the poor economic forecast, rose sharply in December. The main reason for this increase is the announcement of a partial agreement between China and the United States in their trade war. This partial agreement alleviates tensions between the two world powers and raises expectations that the global economy will recover, which will lead to an increase in the demand of steel. The expected increase in the steel production drove up prices for iron ore and for steel scrap. The rise in the copper price, which is often used as an economic barometer, also indicates that the trade deal between China and the United States is expected to improve the global economy. The index for iron ore and steel scrap rose by 10.4 % (Euro base: +9.8 %) compared to the previous month.

The index for non-ferrous metals fell slightly in December compared to the previous month, which can be explained by the price reductions of the raw materials nickel, zinc and lead. Nickel is mainly used to produce stainless steel. The production of stainless steel is currently declining worldwide, except for China. The index for agricultural industrial raw materials also rose in December by an average of 2.4 % (Euro base: +1.8 %) due to the price increase in the rubber market.

*Overall, the index for industrial raw materials rose on average by 3.9 % (Euro base: +3.3 %) to 122.8 points (Euro base: 122.7 points).*

**Food and beverages index: +3.9 % (Euro base: +3.3 %)**

The index for food and beverages rose on average in December. The sub-index for luxury foods recorded the strongest increase compared to the two other sub-indices grains and oil and oilseeds, which was mainly due to price increases in the markets for coffee and sugar. The price of coffee rose in December as production declines from Brazil and Vietnam are expected in 2020. In addition, the increasing coffee consumption in China drives the coffee demand and thus the coffee price. Sugar prices also continued to rise in December, as India,
the world's second largest sugar producer, announced to reduce its sugar production in 2020.

Strong price increases were also observed in the markets for soybean oil, coconut oil and palm oil. The price increase for soybean oil is indirectly related to the effects of the African swine fever. The decline in the pig production led to a reduction in the demand for soybeans used in feed manufacturing and thus to a decline of the supply of soybean oil, which is a by-product of the feed production. The reduction of the supply led to a rise in the price for soybean oil in December. The price of coconut oil continued to rise in December due to the constantly growing demand for coconut oil. Coconut oil is increasingly used to produce vegetarian food and cosmetics. The price of palm oil also rose on average in December, as the demand for palm oil for the biofuel production continued to increase.

*Overall, the index for food and beverages rose on average by 3.9 % (Euro base: +3.3 %) to 95.8 points (Euro base: 95.6 points).*

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*The HWWI Commodity Price Index is a comprehensive, weekly calculated indicator of price developments in world commodity markets, which includes the major internationally traded commodities. Since 1960, the HWWI Commodity Price Index measures the price changes in the raw material import calculation of the industrialized countries and is thus an indicator for the cost development of imported raw materials and serves among other things central banks, research institutes and international institutions for their analyses.*