

By
HWWI Consult GmbH

HWWI commodity price index fell in January

Falling prices on markets for crude oil

- HWWI overall index fell by 3.3 % (US dollar base)
- Crude oil prices declined by 2.4 %
- Index for industrial raw materials rose by 1.5 %

(Hamburg, February 13, 2020) In January, the HWWI commodity price index fell by an average of 3.3 % (Euro base: -3.2 %) compared with the previous month and showed a value of 112.1 points (Euro base: 112 points). The decline in the price index was due to falling crude oil and natural gas prices. The sub-index for energy raw materials fell by 4.0 % (Euro base: -3.9 %) on average in January to 111.9 points (Euro base: 111.8 points), while the indices for food and beverages and industrial raw materials recorded slight increases compared with the previous month. The index for food and beverages rose by 0.3% (Euro base: +0.4%) to 96.1 points (Euro base: 96.0 points) and the index for industrial raw materials by 1.5% (Euro base: +1.7%) to 124.7 points (Euro base: 124.8 points). Consequently, the index excluding energy also rose by 1.1 % (Euro base: +1.2 %) to 113 points (Euro base: 113 points).

Index for energy raw materials: -4.0 % (Euro base: -3.9 %)

At the end of 2019, crude oil prices rose because the OPEC, together with other oil-producing countries (including Russia), agreed to deepen their production cuts. However, the price increase did not continue in January and the prices for all three types of crude oil included in the index (Brent, WTI, Dubai) fell on average. At the beginning of January, prices initially rose sharply as the conflict between Iran and the USA escalated again. On January 2, the Iranian General Qassem Soleimani was killed by the US military. Iran reacted by attacking international military bases in Iraq. As a result of these events, oil prices soared, reaching a monthly high of US\$ 69 per barrel of Brent crude oil and US\$ 63 per barrel of WTI crude oil on 3 January. The high price level persisted for only a few days and from January 7 onwards, oil prices fell steadily until the end of the month. One exception was January 27, when oil prices rose because Iran attacked the American embassy in Baghdad.

The oil prices predominantly fell in the second half of January mainly because of the outbreak of the coronavirus in China. Due to the virus and the lockdown of the metropolis of Wuhan, there were major traffic and travel restrictions in China, which led to a decline in the demand for oil. In addition, fears that the coronavirus will weaken the Chinese economy also depressed the oil prices.

European and American natural gas prices also fell on average in January compared with the previous month. The price of European natural gas fell particularly sharply. On the one hand, the unusually mild temperatures in Europe in January have led to a reduction in European consumption of natural gas, and on the other hand the European gas market is currently well supplied.

The sub-index for coal, however, rose by an average of 4.2 % in January compared with the previous month (Euro base: +4.3 %). Both Australian and South African coal prices increased last month. While European and US American coal-based electricity are declining, demand for coal from India, Vietnam, Indonesia, Bangladesh and Pakistan is still growing.

Overall, the sub-index for energy raw materials fell by 4.0 % (Euro base: -3.9 %) to 111.9 points (Euro base: 111.8 points).

Industrial raw materials index: +1.5 % (Euro base: +1.7 %)

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 continued to rise in January, which can be explained by the significant price increases on the markets for steel scrap. The index for iron ore and steel scrap rose by 4.0 % (Euro base: +4.1 %) compared with the previous month. The rapprochement between China and the USA in the trade conflict, and the signing of a partial agreement at the beginning of January, led to an increase in the prices of iron ore and steel scrap particularly in the first half of January. In the second half, fears that the coronavirus will slow down China's economic growth had a price-depressing impact.

The index for non-ferrous metals fell slightly in January compared to the previous month, which can be explained by price reductions for the industrial metals copper, nickel and tin. Prices also fell particularly in the second half of the month due to the outbreak of the coronavirus. One exception is the price of zinc, which rose on average in January. However, the increase, which was due to low inventories, was also limited to the first half of January. In the second half of January, zinc prices fell as well.

The index for agricultural industrial raw materials rose by an average of 0.9 % in January (Euro base: +1.0%) due to price increases in cotton, Australian wool and hides markets. At the beginning of the year, the signing of the partial agreement between China and the USA also suggested an increase in Chinese demand for cotton. In addition, poor harvest expectations in China, India, the USA and Pakistan increased cotton prices. Expectations that the outbreak of the coronavirus might reduce Chinese demand for cotton caused cotton prices to fall at the end of the month.

Overall, the index for industrial raw materials rose by 1.5% (Euro base: +1.7%) to 124.7 points (Euro base: 124.8 points) on a monthly average.

Food and beverages index: +0.3% (Euro base: +0.4%)

On a monthly average, the index for food and beverages remained almost unchanged and rose by only 0.3% (Euro base: +0.4%). While the two sub-indices for cereals and oils and oilseeds rose in January, the index for luxury foods declined. In January, the index for luxury food fell by 3.5% on average (Euro base: -3.4%), which can be explained by a sharp decrease in coffee prices. Overcapacity on the markets for coffee led to falling prices, although the global demand for coffee is steadily increasing. Cocoa and sugar prices, however, rose in January mainly due to poor harvest expectations caused by unfavourable weather conditions in the growing regions.

Particularly sharp price increases were also observed on the markets for palm oil. Prices rose in January as palm oil supply became scarcer due to drought in the growing regions.

The price development on the grain markets in January was similar to the one on the markets for industrial metals. Grain prices initially rose at the beginning of January due to the



trade deal between China and the USA. In the second half of January, however, the outbreak of the coronavirus caused prices to fall.

Overall, the index for food and beverages increased by 0.3 % on a monthly average (Euro base: +0.4 %) and stood at 96.1 points (Euro base: 96.0 points).

Contact:

Dr. Claudia Wellenreuther

Hamburg Institute of International Economics
(HWWI)
Oberhafenstr. 1
D-20097 Hamburg
T: 040 340576-337
Email: wellenreuther@hwwi.org

Press contact:

Elzbieta Hagemann

Hamburg Institute of International Economics (HWWI)
Oberhafenstr. 1
D-20097 Hamburg
T: 040 340576-100
Email: hagemann@hwwi.org

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.