

By  
HWWI Consult GmbH

HWWI commodity price index rises for the first time since the beginning of the year

## Price increase on crude oil markets

- HWWI commodity price index increases by 21.7 % (US dollar base)
- Crude oil prices rise by 39.9 %
- Slight decline of 1.8 % in prices on the markets for food and beverages

(Hamburg, June 17, 2020) The decline of the HWWI commodity price index caused by the corona crisis did not continue in May. The HWWI commodity price index rose by an average of 21.7 % (euro base: +21.2 %) compared with the previous month and now stands at 65.3 points (euro base: 66.5 points). The increase in the HWWI commodity price index can be explained in particular by the rise in crude oil prices. The sub-index for energy raw materials rose by an average of 28.5 % (euro basis: +28.1 %) to 59.7 points (euro basis: 60.7 points) and the index for industrial raw materials by 3.5 % (euro base: +3.2 %) to 110.5 points (euro base: 112.5 points). The index for food and beverages moved in the opposite direction and fell by an average of 1.8 % (euro base: -2.1 %) to 86.9 points (euro base: 88.5 points) in May. Compared with the previous month, the index excluding energy increased on average by 1.6 % (euro base: +1.2 %) to 100.8 points (euro base: 102.7 points).

### Index for energy raw materials: +28.5 % (euro base: +28.1 %)

The decline in crude oil prices since the beginning of the year, caused on the one hand by the spread of the corona crisis and on the other hand by the price war between Saudi Arabia and Russia, did not continue in May. Compared to the previous month, prices of all three types of crude oil included in the index rose by an average of 39.9% in May (euro base: +39.3 %). The rise in crude oil prices is particularly caused by a shortage of supply.

In April, an agreement was reached in the price war between Russia and Saudi Arabia and the OPEC+ countries decided to massively reduce oil production. For May and June, the OPEC+ countries committed to cut oil production by 9.7 million barrels per day, which corresponds to a global supply cut of around 10 percent. The OPEC+ countries planned to continue the reductions on a smaller scale until April 2022. In addition to the production cutbacks by OPEC+ countries, US shale oil production has collapsed, as the sharp drop in crude oil prices has forced American shale oil producers to close unprofitable wells. The recovery of the Chinese economy also led to an increase in demand for oil, which in turn pushed up prices.



In contrast to crude oil prices, coal prices continued to fall in May. Australian coal prices in particular fell sharply compared with the previous month. The global industry, which slowed down due to the corona crisis, also reduced demand for coal and thus lowered coal prices.

European and American natural gas prices developed in opposite directions in May. While American natural gas prices rose slightly, prices for European natural gas fell sharply compared with the previous month. The decline in prices on the markets for European natural gas has continued since the beginning of the year, reflecting falling demand and well-filled natural gas storage facilities.

*Overall, the sub-index for energy raw materials rose by 28.5 % (euro base: +28.1 %) to 59.7 points (euro base: 60.7 points).*

#### **Industrial raw materials index: +3.5 % (Euro base: +3.2 %)**

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.

For the first time since the end of January 2020, prices for industrial raw materials rose on a monthly average. Developments on the markets for industrial raw materials in May were particularly influenced by the recovery of Chinese industry. A sharp increase was recorded in the price of iron ore, which can be explained by China's rising steel production. In addition, market participants expect that state-financed infrastructure projects in response to the corona crisis will continue to increase the demand for steel and thus for iron ore in the future.

A similar situation was found on the markets for non-ferrous metals. The recovery of the Chinese economy increased the demand for copper, nickel, zinc and tin and caused a rise in prices on these markets.

The fall in prices on the markets for agricultural raw materials did not continue in May, as particularly cotton prices rose compared with the previous month. The Chinese textile industry recovered in May, after the corona restrictions in China were eased. This led to a significant increase in demand for cotton.

*Overall, the index for industrial raw materials rose by 3.5 % (euro base: +3.2 %) to 110.5 points (euro base: 112.5 points) on a monthly average.*

#### **Food and beverages index: -1.8 % (euro base: -2.1 %)**

While the majority of prices included in the index for food and beverages fell on average in May, the prices for cocoa, sugar and tea rose. Sugar prices rose particularly sharply, reflecting unfavourable harvest expectations of the major producer countries India and Thailand. In addition, the rise in crude oil prices had a price-increasing effect on the sugar markets, as sugar is used for the production of biofuels and the price of sugar therefore depends on the price of crude oil.



The ongoing lockdown in India continued to affect tea production in May. The imposed curfews led to a shortage of labour in India and thus to problems in the tea harvest. As a result of reduced supply from India, prices for tea rose on average in May compared to the previous month.

Prices for grains, in particular prices for rice, which rose in recent months due to fears of food shortages, fell again on average in May. In some rice producing countries, such as China and Vietnam, the lockdown measures were eased, leading to increased supply and falling prices for rice. However, the ongoing curfews in India continue to affect rice supply.

*Overall, the index for food and beverages fell by -1.8 % (euro base: -2.1 %) on a monthly average to 86.9 points (euro base: 88.5 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.*