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HWWI commodity price index increases slightly in October

Sharp price increase on the grain markets

- **HWWI overall index rose by 3.1 % (US dollar basis)**
- **Crude oil prices fell by 0.7 %**
- **Grain prices increased by 7%**

(Hamburg, November 17, 2020) The development on the international commodity markets was significantly influenced by the increasing corona infections in the U.S. and Europe, especially in the second half of October. The announcement of further lock-down measures in many European countries led to falling prices on the crude oil markets in the second half of the month. The second wave of the corona pandemic in Europe and the U.S. worsened the outlook for the global economy, but had only a minor impact on prices for industrial raw materials in October. Due to the continuing increase in demand from China, prices, particularly for base metals, remained at a high level. Significant price increases could be observed on the markets for food and beverages in October. Overall, the HWWI commodity price index recorded a slight average increase in October compared to the previous month.

Index for energy raw materials: +3.8 % (Euro basis: +3.9 %)

After crude oil prices initially rose slightly at the beginning of October, the prices of all three types of crude oil included in the index fell in the second half of the month. At the end of the month, prices were only just over 37 US-Dollar per barrel for the European reference grade Brent and 35 US-Dollar per barrel for the American reference grade WTI. The renewed sharp rise in corona infections in the U.S. and also in Europe and the announcement of further lockdown measures in many European countries clouded the outlook for the global economy and led to expectations of a further decline in demand for crude oil.

In addition, an expansion of supply in October put pressure on crude oil prices. On the one hand, the North African country Libya, which has been in civil war for years, announced that it would again significantly increase its own production volume. Oil production in Libya has been blocked by rebels for several months and has been under the control of the state oil company (NOC) again since October. On the other hand, Iraq again exceeded the production cuts agreed by OPEC+ in October and produced above the agreed limit.

A new meeting of the OPEC+ states including Russia is planned for the end of November to discuss an extension of the supply cuts. Given the continued weak demand and the expansion of crude oil production from non-OPEC countries, a mere extension of the easing may not be sufficient. It remains to be seen whether Saudi Arabia will be able to push through an additional cut in production volume within OPEC+.

European and American natural gas prices rose sharply on average over the previous month. The approaching winter and rising natural gas consumption by private households due to curfews drove up natural gas prices in October. The U.S. Energy Information Administration estimates a 5 percent increase in U.S. natural gas consumption compared to winter 2019, due to expected colder temperatures and additional heating requirements due to curfew restrictions.

South African and Australian coal prices also saw an average increase in October compared with the previous month. The price of Australian coal rose on average by more than 10 % compared with the previous month, but is still well below the level of October 2019.

Overall, the sub-index for energy commodities rose by 3.8 % (Euro basis: +3.9 %) to 82.3 points (Euro basis: 77.5 points).

Index for industrial raw materials: -0.8 % (Euro basis: -0.7 %)

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 upward trend in the prices of industrial metals caused by rising demand from China slowed down in October or was interrupted for some industrial metals. While the Chinese economy continued to recover, the sharp rise in the number of infections in Europe and the U.S. increased the uncertainty on the markets and depressed the prices of base metals. Especially in the second half of the month, when renewed lock-down measures were announced in many European countries, the growth of base metal prices slowed down or the markets even recorded slight price losses.

Thus, copper prices, driven by demand from China, recorded increases in the first half of the month, but fell slightly in the second half of October. Nevertheless, copper prices remained at a high level, averaging 16.6 % above the average price in October 2019.

Iron ore prices also fell by an average of 3.7 % in October compared to the previous month. The aluminium and nickel markets continued to show rising prices in October. Nickel prices in October continued to be driven by rising demand from Chinese stainless-steel production.

Australian wool prices recovered after the price low in September and also benefited from rising demand from China. However, after an increase of over 16 % compared with the previous month, average October prices are still 24.6 % lower than the corresponding value for the prior-year month.

Overall, the index for industrial raw materials fell by 0.8 % (euro basis: -0.7 %) on a monthly average to 147.4 points (euro basis: 139.0 points).

Index for food and beverages: +2.9 % (Euro basis: +3.1%)

In October, prices for food and beverages continued to rise, mainly due to the sharp price increases on the grain markets. In particular, prices for wheat and barley increased significantly in October, rising by an average of over 12 % compared to the previous month. Compared to the previous year, the average price of barley in October was 17 % higher than in October last year, and the price of wheat was even 30 % higher.

As the corona crisis worsened, global export demand for wheat increased in October. At the



same time, supply declined due to poor growing conditions in Argentina and the continuing drought in other important harvesting areas. Corn prices also rose, reflecting the strong increase in demand from China.

The markets for luxury food and beverages showed opposing trends in October. While sugar prices increased, coffee and cocoa prices decreased on average compared to September. The price increase on the sugar markets reflected in particular the prospects for lower sugar production due to below average rainfall in Brazil and India. India and Brazil are the two largest sugar producers in the world. Sugar production in Thailand has also declined this year due to persistent drought, which further supports the sugar price.

The price declines on the coffee and cocoa markets reflect a decline in global demand. The worldwide social distancing measures, which have recently been tightened again in many countries, have led to a collapse in demand for coffee and cocoa products. Recently imposed contact restrictions and increased work from home have led to a decline in out-of-home sales of coffee and chocolate.

Overall, the index for food and beverages rose by +2.9 % on a monthly average (euro basis: +3.1 %) to 102,1 points (euro basis: 96,2 points).

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The HWWI Commodity Price Index is a comprehensive, weekly calculated indicator for the price developments on the world commodity markets, which contains the important internationally traded commodities. Since 1960, the HWWI Commodity Price Index has been measuring the price changes in the raw material import accounting of the industrialized countries. It is thus an indicator for the cost development of imported raw materials and serves, among others, central banks, research institutes and international institutions for their analyses.