HWWI Commodity Price Index rises in September

Strong increase in energy commodity price

- HWWI overall index rose by 8.8% (US dollar basis)
- Crude oil prices went up by 5.3%
- Natural gas prices increased by 31.1%

(Hamburg, October 12, 2021) The HWWI Commodity Price Index rose by an average of 8.8% in September compared to the previous month and was thus 91.5% higher than the corresponding figure for the previous year. The increase in the HWWI Commodity Price Index is due to strong price increases in the energy commodity markets. In addition to coal and natural gas prices, crude oil prices also rose sharply in September. The background to the price increases is that the increased demand for energy commodities during the recovery of the global economy is currently being offset by a shortage of supply. The strongest price increases were recorded on the markets for European natural gas, reflecting the empty natural gas storage facilities in Europe. In contrast, prices for industrial commodities and food and beverages fell on average in September.

Index for energy raw materials: +11.3% (euro basis: +11.4%)

A clear upward trend in oil prices was observed on the crude oil markets in September. At the end of the month, prices for European reference Brent grade approached the USD 80 per barrel mark, which had not been exceeded since 2018. The American reference grade WTI ended the month at USD 75 per barrel. Compared to September 2020, crude oil prices rose by more than 77% on average. The price increases are due to higher demand for crude oil as a result of the global upswing following the Corona recession combined with tight supply. Despite the sharp rise in prices, OPEC+ announced that it would stick to its production policy and not increase supply further than planned. OPEC+, which is currently benefiting from high crude oil prices, justifies its policy with the uncertainty about a fourth Corona wave, which could again depress demand for crude oil.

Coal and natural gas prices also continued their strong upward trend in September. The increased prices for coal and natural gas are due to a sequence of events that increased demand as well as tightened supply. An important price driver is the increased demand for electricity from China triggered by the economic recovery after the Corona pandemic and a heat wave that caused a strong increase in demand for electricity for air conditioning. A decline in the supply of hydropower due to a drought in China further increased Chinas demand for energy commodities such as coal and natural gas. Other economies also saw a rise in demand for coal and natural gas as a result of the global economic recovery, which drove up prices.
Prices for European natural gas reached historic highs in September and were more than four times as high as in September of the previous year. The natural gas storage facilities in Europe were already heavily depleted as a result of the long, cold winter of 20/21 and could not be completely refilled due to the increased demand. In addition, the supply of natural gas in Europe has decreased. In particular, the Netherlands, an important natural gas producer in the EU, had to severely restrict the supply of natural gas.

*Overall, the energy raw materials sub-index rose by 11.3% (euro basis: 11.4%) to 166.0 points (euro basis 156.5 points).*

**Index for industrial raw materials: -7.6% (euro basis: -7.6%)**

The industrial commodities sub-index, which is divided into the agricultural commodities index, the non-ferrous metals index and the iron ore and steel scrap index, fell by 7.6 % in September compared to the previous month.

The sub-index for iron ore and steel scrap continued its downward trend in September, falling by a further 21.6% compared to the previous month. China, the world's largest iron ore consumer, curtailed its iron ore imports as Chinese steel production was sharply reduced due to climate change measures. In addition, the impending collapse of the large Chinese real estate company Evergrande created uncertainty about the future of the Chinese construction sector and thus about the future development of steel consumption.

Aluminium prices continued to increase in September. The supply of aluminium continues to suffer from the electricity shortages in China, which caused the energy-intensive aluminium production to be reduced. China's goal of reducing emissions also implies that production will not be expanded further in the near future. Aluminium prices rose 8.6 % in September compared to the previous month and were almost 63 % higher than the corresponding values of the previous year.

Lead prices, on the other hand, fell in September compared to the previous month, after rising in August due to supply chain disruptions. While inventories were historically low last month on the commodity exchange in London, the LME, the Chinese exchange recorded high stocks of lead. Panic buying occurred in the spot market, as evidenced by the high price differentials between spot contracts and futures contracts on the LME. Immediate delivery of the commodity was significantly more expensive than later delivery. In September, the situation eased and lead prices slowed down again.

Despite the uncertainty about the future impact of the impending Evergrande bankruptcy on demand for industrial metals, prices for nickel, zinc and copper remained at a high level and recorded only moderate price fluctuations on average in September. The prices for nickel and zinc recorded a slight increase in September, while the copper price fell slightly on average for the month.

*Overall, the index for industrial raw materials fell by a monthly average of -7.6% (euro basis: -7.6%) to 175.6 points (euro basis: 165.6 points).*

**Index for food and beverages: -0.7% (euro basis: -0.7%)**

The index for food and beverages fell by an average of 0.7 % in September compared to the
previous month and was thus 32.5 % higher than the corresponding value for the previous year. While prices for grains and vegetable oils fell slightly, prices for luxury food rose slightly in September.

Wheat and barley prices remained at a high level in September, but the strong price increase of the previous month did not continue. Thus, barley recorded only a slight price increase and wheat prices declined slightly on average compared to the previous month.

Corn and rice prices fell on average in September compared to the previous month. Upward pressure on corn markets, triggered by port disruptions caused by hurricanes in the US, was offset by improved global crop prospects. Palm oil prices, on the other hand, rose for the third consecutive month, reaching a ten-year high. Palm oil prices continue to be supported by robust global import demand. In addition, the supply of palm oil from Malaysia remains tight as production in Malaysia continues to suffer from a labour shortage due to the Corona pandemic.

Prices for luxury food products, especially coffee and cocoa, continued to rise in September compared to the previous month. For example, coffee prices were almost 50% higher on average compared to September 2020. The price increase is due to poor crop forecasts from Brazil. The Brazilian coffee harvest was significantly affected by a severe drought at the beginning of the season and later by intense frosts. Cocoa prices reacted to heavy rains in Côte d'Ivoire, which triggered an outbreak of a fungal disease harmful to cocoa plants in some growing regions.

Overall, the food and beverages index fell by a monthly average of -0.7% (euro basis: -0.7%) and stood at 131.5 points (euro basis: 123.9 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. www.hwwi-rohindex.de