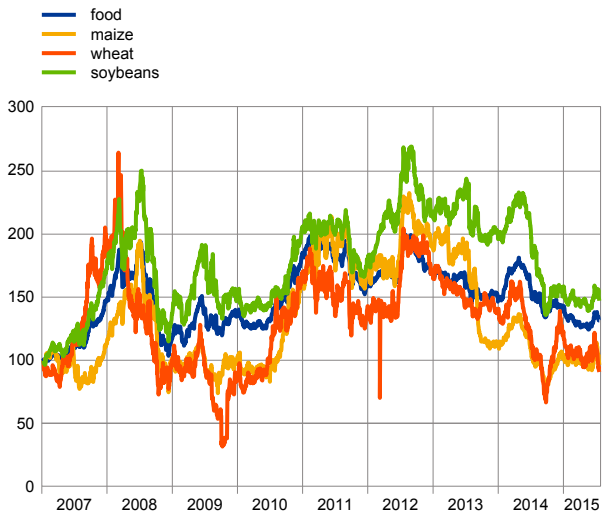
Box 1
Recent developments and outlook for non-oil commodity prices

Global prices for non-oil commodities have come under scrutiny in recent months, as continuing downward pressures have resulted in lows not seen over the past five years. Despite broadly similar trends in commodity prices for food and metals, supply and demand factors specific to individual markets warrant a careful analysis of price developments for key commodities. This box discusses the main drivers of recent developments in, and the outlook for, the prices of selected non-oil commodities.

Chart A
Food commodity prices

(index: 1 January 2007=100)



Sources: Hamburg Institute of International Economics (HWWI) and Bloomberg.

Food commodity prices have been declining since mid-2012 as a result of oversupplied markets on the back of consecutive good harvests. Ample supply and high inventories have contributed to a fall in wheat and maize prices, especially since the beginning of 2015 (see Chart A). The restrictions on wheat exports from Russia in the first half of 2015 did not counter this decline. Concerns about weakening demand for ethanol inputs and slowing Chinese import activity have also contributed to the decline in maize prices. Soybean prices have likewise fallen as a result of plentiful supply.

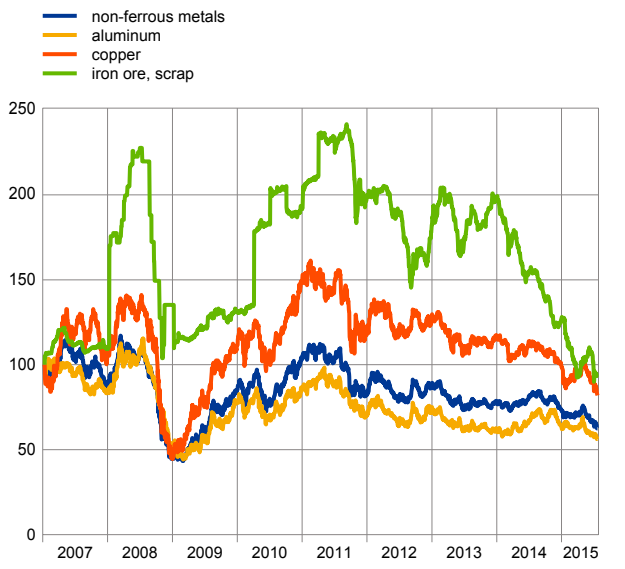
The outlook for global food commodity prices remains subdued. Wheat and maize production levels are expected to decline only marginally in the 2015-16 season, while the production of oilseeds (particularly soybeans) is expected to increase. Price risks on the upside could result from adverse weather conditions, while, on the downside, a stronger than expected slowdown in the production of biofuels could further weaken demand for some agricultural commodities.

Metal commodity prices have been declining since mid-2011 owing to continued supply increases and weakening demand growth, particularly in China. In comparison with food commodities, metals tend to be more sensitive to developments in global economic activity. As China imports a substantial proportion of global metal output, metal prices are particularly responsive to Chinese economic growth. Accordingly, market concerns about the strength of Chinese demand have accelerated the decline in metal prices since the beginning of 2015 (see Chart B). Ongoing increases in supply and high inventories also explain part of this fall. The continued growth in production is supported by large investments in production capacity made in previous years, which were motivated by high prices at the time.

Chart B

Metal commodity prices

(index: 1 January 2007=100)



Sources: Hamburg Institute of International Economics (HWWI) and Bloomberg.

The decline during 2015 has been broad-based across different metal commodities, with prices for iron ore (the main input for steel) declining by 26%, aluminium by 13% and copper by 20% since the start of the year.

Oversupply and the slowdown in the growth of emerging market economies are likely to dampen metal prices in the short term. Growth in demand for commodities in China is expected to remain weaker than in the past, consistent with the gradual rebalancing of the country's growth path. More generally, growth in emerging market economies, whose output tends to be more commodity-intensive than that of advanced economies, is slowing. The outlook for metal prices is therefore one of only gradual rises, as the supply side is expected to rebalance only slowly. The main downside risks relate to a sharper than expected slowdown in the demand growth of emerging market economies, particularly China, and a higher resilience of supply to declining prices.