

Executive Summary

Almost all commodity prices recovered in the third quarter of 2020 following steep declines earlier in the year due to the COVID-19 pandemic. Crude oil prices have doubled since their April low, supported by sharp oil supply cuts by OPEC+, but prices remain one-third lower than their pre-pandemic levels. Metal prices recovered rapidly in response to a faster-than-expected pick up in China's industrial activity. Some food prices have also risen due to production shortfalls in edible oils. Looking ahead, oil prices are expected to increase very gradually from current levels and average \$44/bbl in 2021, up from an estimated \$41/bbl in 2020, as a slow recovery in demand is matched by an easing in supply restrictions. Metal and agricultural prices are projected to see modest gains of 2 percent and 1 percent, respectively, in 2021. The main risk to the price forecasts is the duration of the pandemic, including the risk of an intensifying second wave in the Northern Hemisphere and the speed at which a vaccine is developed and distributed. The COVID-19 pandemic is a shock to global commodity markets that presents a challenge to policy makers in commodity exporters: to the extent that it is short-lived, policy stimulus can buffer its impact; to the extent that it is lasting, policy makers need to allow their economies to adjust smoothly to a new normal. Identifying the duration of commodity price shocks is a challenge that frequently confronts policy makers in commodity exporters, as documented in a Special Focus section. The Focus finds that industrial commodity markets are mainly buffeted by transitory shocks, whereas agricultural commodity markets are chiefly subject to permanent shocks.

Recent trends

The COVID-19 pandemic has delivered a significant shock to commodity markets but its impact has varied in magnitude for different types of commodities (figure 1.A). This contrasts with the previous global recession in 2008-09, when almost all commodity prices saw large, and persistent, declines.

Energy prices rebounded by one-third in 2020Q3 following their steep fall in 2020Q2, but remain nearly one-third below their pre-pandemic levels. *Crude oil prices* drove the recovery, almost doubling to an average of \$41/bbl in September from their low of \$21/bbl in April. The recovery in prices was driven by a sharp reduction in production, particularly among OPEC+ (figure 1.B). Compared to the fall in oil prices during the global financial crisis, the most recent decline was a little steeper but also saw a faster recovery (figure 1.C). However, the recovery in prices stalled in September amid renewed outbreaks of COVID-19. *Natural gas prices* also rose sharply in 2020Q3, while *coal prices* were broadly stable.

Non-energy prices rose by 10 percent in 2020Q3, with increases in almost all commodities. The *metals and minerals price index* rose 20 percent (q/q) and most metal prices are above their pre-

pandemic levels. The robust recovery in China has led to a surge in consumption of metals, while consumption in advanced economies has proved resilient. The rapid rebound in prices is a marked difference compared to the global financial crisis, when prices saw larger declines that lasted for many months (figure 1.D). *Precious metal prices* also rose sharply, boosted by the depreciation in the U.S. dollar and lower interest rates. *Agricultural commodity prices* rose by 6 percent in 2020Q3, but with divergence between broadly stable grain prices and rising prices of other agricultural commodities.

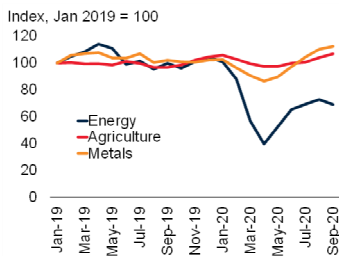
Outlook and risks

Energy prices are expected to average one-third lower in 2020 than in 2019 (an upward revision from April) and are forecast to see a sizeable rebound in 2021 (table 1). *Non-energy prices* are projected to see a modest increase in 2020 as a small fall in metal prices is offset by an increase in agricultural prices, and see a further rise in 2021. The outlook remains exceptionally uncertain and depends on the duration and severity of the pandemic, including the risk of an intensifying second wave during the Northern Hemisphere winter and the speed at which a vaccine is developed and distributed.

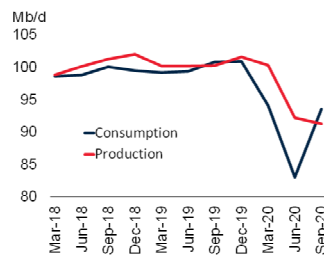
FIGURE 1 Commodity market developments

The impact of the COVID-19 pandemic on commodity prices has varied. Oil prices have partially recovered as large production cuts by OPEC+ helped bring the level of global supply closer to demand. Compared to the global financial crisis, the most recent decline in oil prices was a little steeper but also saw a faster recovery. In contrast, metal prices saw a particularly strong recovery and now are above their pre-pandemic levels, a marked contrast to their behavior during the global financial crisis when the drop in prices was larger and more prolonged.

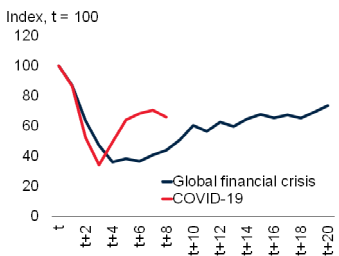
A. Commodity price indexes, monthly



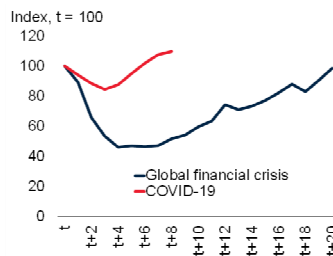
B. Global oil consumption and production



C. Comparison of oil prices around global recessions



D. Comparison of metal prices around global recessions



Source: Bloomberg; International Energy Agency; World Bank.

A. Last observation is September 2020.

B. Consumption in September 2020 shows the International Energy Agency's estimate based on available data.

C.D. Figure compares oil (metal) prices during the global financial crisis (blue line) and the COVID-19 pandemic (red line). For the global financial crisis, t = September 2008; for COVID-19, t = January 2020. Last observation for COVID-19 is September 2020.

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Oil prices are projected to average \$41/bbl in 2020 before rising to \$44/bbl in 2021, an upward revision from the April forecast of \$35/bbl and \$42/bbl. The forecast anticipates a slow recovery in consumption that is countered by a gradual easing in production restrictions among OPEC+. However, oil consumption is expected to remain below its pre-pandemic level until 2023. The main risk to the price forecast is an increase in the severity of the pandemic that could lead to renewed lockdowns, dampening economic growth and reducing travel. This would affect oil demand significantly more than other commodities. Risks to the upside include an extension of the OPEC+

cuts at their current levels and a decline in U.S. production if new drilling fails to pick up.

The pandemic could also have lasting impacts on oil demand through changes in consumer and employment behavior. Air travel could see a permanent reduction, as business travel is curtailed in favor of remote meetings, reducing demand for jet fuel. A shift to working from home could reduce gasoline demand, but may be somewhat offset by increased use of private vehicles if people remain averse to using public transport. Long-term projections for oil demand have been revised down by major forecasters as a result of COVID-19 (in part due to weaker economic growth), with some scenarios suggesting demand may have already peaked in 2019. Several oil companies have announced changes in strategy including a significant reduction in investment in new hydrocarbon projects. Energy use more broadly is expected to increasingly shift away from fossil fuels toward renewables, in large part due to their increasing competitiveness, with several countries announcing plans to reach “net-zero” carbon emissions within the next 40 years. The recovery from COVID-19 offers an opportunity to direct stimulus funds toward green energy and infrastructure, however, so far more government stimulus has been directed to fossil fuel energy than clean energy.

Metal prices are projected to increase modestly in 2021 following a slight fall in 2020, boosted by the recovery in the global economy and continued stimulus from China. While the growth rate for 2021 is a little lower than in the previous report, the level of metal prices is significantly higher, as the anticipated decline in 2020 is much less than expected. Risks to this outlook are slightly to the downside, including a more prolonged global recession.

Agricultural prices are expected to rise slightly in 2021 following a projected 3 percent increase in 2020. Despite a modest increase in prices, concerns about food insecurity in several EMDEs have risen. In addition to lowering incomes, the pandemic has created bottlenecks in food availability at the local level due to supply chain disruptions and border closures that have

TABLE 1 Nominal price indexes and forecast revisions

	Price Indexes (2010=100) ¹					Change (%) q/q		Change (%) y/y		Forecast revision ³	
	2017	2018	2019	2020f ²	2021f ²	2020Q2	2020Q3	2020f ²	2021f ²	2020f ²	2021f ²
Energy	68	87	76	51	56	-35.8	33.9	-32.7	9.3	7.6	-9.5
Non-Energy⁴	84	85	82	83	84	-4.7	9.6	1.1	1.7	6.2	-0.8
Agriculture	87	87	83	86	87	-4.3	5.7	2.8	1.4	3.9	-0.4
<i>Beverages</i>	83	79	76	81	82	-1.6	8.1	6.6	1.1	11.9	-1.2
<i>Food</i>	90	90	87	90	91	-4.8	5.0	3.4	1.5	3.9	-0.4
Oils and meals	88	85	77	85	87	-7.5	14.3	10.2	1.8	10.1	-0.9
Grains	81	89	89	90	92	-2.3	-1.4	1.4	1.5	2.9	-0.4
Other food	102	99	98	96	97	-3.9	0.6	-2.0	1.0	-1.7	0.1
<i>Raw Materials</i>	81	81	78	77	79	-4.5	6.3	-1.0	1.6	-0.1	0.0
Fertilizers	74	83	81	73	75	-3.4	7.1	-10.3	3.2	-0.3	0.0
Metals and Minerals	78	83	78	77	79	-5.6	19.5	-1.1	2.1	12.1	-1.9
Precious Metals	98	97	105	134	129	6.2	16.5	27.3	-3.7	14.2	-3.4
Memorandum items											
Crude oil (\$/bbl) ⁵	53	68	61	41	44	-38.3	38.8	-33.2	7.3	9.8	-12.7
Gold (\$/toz)	1,258	1,269	1,392	1,775	1,740	8.0	11.8	27.5	-2.0	12.6	-1.3

Source: World Bank.

Notes: (1) Numbers may differ from tables A.1-4 due to rounding. (2) "f" denotes forecast. (3) Denotes percentage points revision to the growth forecasts from the April 2020 report. (4) The non-energy price index excludes precious metals. (5) Average of Brent, Dubai, and WTI. See Appendix C for definitions of prices and indexes.

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restricted food flows and movements of labor. Food prices have spiked in several countries, especially in South and East Asia.

Special focus: Persistence of commodity shocks

The pandemic has dealt a major blow to the global economy and global commodity markets. Policy makers in commodity-exporting economies need to consider the degree to which the pandemic-induced disruptions are likely to be short-lived or lasting in calibrating their policy responses. Short-lived shocks can be buffered by temporary macroeconomic stimulus; lasting shocks require long-term adjustment to a new economic reality. Historically, commodity markets have been prone to large swings, some of which were short-lived ("transitory") and others highly persistent ("permanent"). Based on an analysis of 27 commodity prices during 1970-2019, this Focus finds that permanent and transitory shocks have contributed almost equally to commodity price variation, although with wide heterogeneity across commodities. Permanent shocks accounted for

two-thirds of the variability in prices of annual agricultural commodities; for these commodities, high substitutability of inputs and uses as well as common policies help dampen any short-term fluctuations. In contrast, permanent shocks accounted for less than 50 percent of the variability in the prices of base metals, which are typically widely used in industrial production and, hence, highly cyclical. Since 1970, there have been two highly synchronized medium-term cycles which included all commodities (with median peaks in 1978 and 2010) and a cycle that peaked in the mid-1990s and involved fewer commodities. EMDEs that depend on exports of highly "cyclical" commodities that are subject to frequent transitory shocks may want to build fiscal buffers during the boom phase and use them during the bust period in order to support economic activity. In contrast, for economies that rely heavily on commodities that are subject to permanent shocks, structural policies may be needed to facilitate adjustments to new economic environments.