Executive Summary

Most commodity prices gained momentum in the first quarter of 2019 following last year's declines, and many have recovered from the previous quarter's lows. Energy prices have diverged as OPEC production cuts have lifted oil prices while record-high U.S. shale gas exports have depressed natural gas and, indirectly, coal prices. Most metal and mineral prices have recovered from losses in the last quarter of 2018, amid strengthening growth prospects for China and supply bottlenecks. Agricultural prices rose moderately in the first quarter on expectations of lower plantings. Crude oil prices, which averaged $68/bbl in 2018, are expected to average $66/bbl over 2019 and $65/bbl in 2020, with balanced risks primarily related to policy outcomes. Non-energy prices in 2019 are expected to remain below 2018 averages, before rising moderately in 2020 as the global economy emerges from its recent soft patch. A Special Focus section illustrates the adverse poverty implications of food price spikes that tend to be amplified by commonly used trade-related government responses.

Recent trends

The majority of energy, metal and mineral, and agricultural commodity prices declined in the last quarter of 2018, only to rebound in the first quarter of 2019 (Figure 1). By March, more than half (although virtually none of the energy prices) had recouped their losses and returned to September 2018 levels. The weakness of energy, as well as metal and mineral prices in late 2018, mainly reflected concerns about global growth, especially in China amid trade tensions. Renewed fiscal stimulus and the resumption of U.S.-China trade negotiations in January, however, improved growth prospects and supported a rebound in commodity prices. This rebound was compounded by a series of commodity-specific supply factors.

Since the beginning of 2019, the juxtaposition of soaring U.S. shale oil and gas output and production restraint by the Organization of the Petroleum Exporting Countries (OPEC) has driven a wedge between *oil* and *other energy* prices. In the last quarter of 2018, against a backdrop of global growth concerns, rising oil production by OPEC, and U.S. waivers on sanctions on Iran had triggered a plunge in *Brent crude oil prices* to a low of $52/bbl in mid-December from a peak of $83/bbl in early October. Since then, oil prices have recouped most of these losses on subsequent production cuts by OPEC and its partners. In contrast, Asian spot *liquefied natural gas (LNG) prices*—which, on average through 2017 to mid 2018 were almost triple U.S. prices—plunged by more than one-third between September 2018 and March, and reached levels of European natural gas prices by mid-April. This has in part reflected a one-third increase in U.S. LNG exports and new capacity coming onstream in Australia and Qatar.

Having fallen or having remained subdued in the last quarter of 2018, most *non-energy prices* had recovered their losses by March, with particularly strong rebounds in metals and minerals. This recovery in *metal prices* reflected improving growth prospects for China—which accounts for half of global consumption—as well as a series of supply bottlenecks and concerns: the Vale dam accident in Brazil (iron ore, nickel); heavy floods in Chile (copper); protests in Peru (copper); smelter restrictions in response to environmental concerns in China (lead, zinc); and export restrictions in Indonesia (tin). Similarly, supply factors buoyed the return to 2018 levels for most *agricultural commodity prices*. These included weather-related planting delays for U.S. wheat and corn as well as lower expectations for U.S. soybean plantings on concerns about trade tensions.

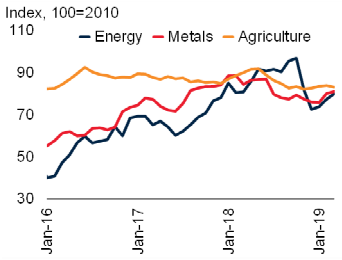
Outlook and risks

As a result of the weak start into the year, *energy* prices are expected to average 5.4 percent lower in 2019 than in 2018 (a downward revision from October) followed by a slight decline in 2020 (Table 1). *Non-energy* prices are projected to decline 2.1 percent in 2019 (a modest downward revision from October) followed by a pick up in 2020. The outlook for commodity prices, especially oil, is vulnerable to policy-related risks.

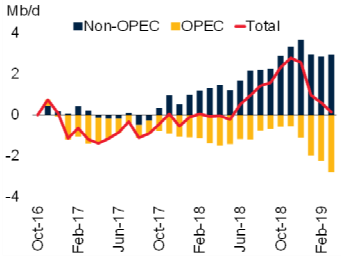
FIGURE 1 Commodity market developments

Most commodity prices gained momentum during the first quarter of 2019. Production cuts by OPEC and its partners have substantially reduced global supply and supported oil prices. In contrast, prices of Asian LNG imports have plunged on weaker demand and surging U.S. exports, which rose by one-third between 2018 Q3 and 2019 Q1. In 2019-20, U.S. farmers intend to substitute soybean plantings with other crops, including maize.

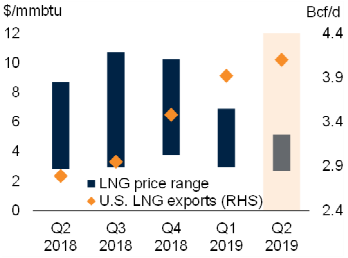
A. Commodity price indexes, monthly



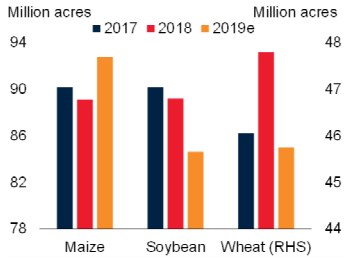
B. Oil production, cumulative change since October 2016



C. Natural gas: International prices and U.S. LNG exports



D. U.S. crop planting intentions



Source: Bloomberg, EIA, IEA, USDA, World Bank
A. Last observation is March 2019.
B. Last observation is February 2019.
C. Range of quarterly average natural gas prices in Japan, Europe, and the United States, with prices in Japan systematically the highest and those in the United States the lowest. Data for 2019 Q2 show EIA expectations for LNG exports, and average prices for the first week of April 2019 .
D. Years represent crop seasons (e.g., 2018 refers to 2018-19); 2019e refers to estimates from the March 29 USDA's Prospective Plantings Report.
Download data and charts.

Oil prices are expected to average $66/bbl in 2019 and $65/bbl in 2020, lower than the October projections (by $8/bbl and $4/bbl, respectively). The downward revisions reflect a weaker outlook for global growth in 2019 and much larger than expected increases in U.S. shale production. The forecast assumes that production cuts by OPEC and its partners will be sustained throughout 2019, and that demand will strengthen in 2020 in tandem with a recovery from the current soft patch in the global economy. Risks to the oil price outlook—which are broadly balanced—relate primarily to policy outcomes. These include OPEC's June meeting regarding production cuts, the impact of the removal of waivers to the U.S. sanctions on Iran, and the effect of the International Maritime Organization's sulfur emissions regulation that takes effect on January 1, 2020. Other risks include geopolitical events such as conflict in Libya, weaker-than-expected growth in major oil consumers, especially China and the United States, and environmental policies.

Metal prices are expected to continue their recovery in 2019 and 2020 following sharp drops in the second half of 2018. Supply concerns (especially in copper and zinc), disruptions (in iron ore production due to the tailings dam disaster in Brazil), and China's fiscal stimulus are expected to provide support. Risks are broadly balanced. Downside risks include a weaker-than-expected demand boost from China's fiscal stimulus and a prolonged stall in U.S.-China trade negotiations; upside risks include tighter-than-expected environmental policies and slower-than-expected easing of supply bottlenecks.

Agricultural prices are expected to fall 2.6 percent in 2019, on average, amid ample stocks. In 2020, prices are expected to rise 1.7 percent on expected cuts in U.S. crop plantings and higher costs of energy and fertilizers. Risks to this outlook are to the upside. Higher-than-expected energy costs could lift prices of some crops such as grains and oilseeds. Greater-than-projected growth in biofuel production could also lead to higher prices for some food commodities.

Special focus on food prices

In the event of large swings in world food prices, countries often intervene to dampen the impact on domestic prices and to lessen the burden of adjustment for vulnerable population groups. While individual countries can succeed at insulating their domestic markets, the collective intervention of many countries may amplify movements in world prices. Trade policies introduced during the 2010-11 food price spike accounted for about 40 percent of the increase in the world price of wheat and one-quarter of the increase in the world price of maize at that time. Combined with government policy responses, the 2010-11 price spike tipped 8.3 million people (about 1 percent of the world's poor) into poverty.

TABLE 1 Nominal price indexes and forecast revisions

	Price Indexes (2010=100)[1]					Change (%) q/q		Change (%) y/y		Index revision[3]	
	2016	2017	2018	2019f[2]	2020f[2]	2018Q4	2019Q1	2019	2020	2019f[2]	2020f[2]
Energy	55	68	87	82	81	-9.5	-8.0	-5.4	-1.4	-9.6	-4.6
Non-Energy[3]	79	84	85	83	85	-1.5	0.9	-2.1	1.4	-2.4	-2.2
Agriculture	87	87	87	84	86	-2.2	0.9	-2.6	1.7	-3.2	-3.2
Fertilizers	78	74	82	86	88	6.6	-5.4	4.8	1.7	3.6	3.4
Metals and minerals	63	78	83	81	82	-1.0	1.7	-1.9	0.8	-1.2	-0.8
Precious metals[4]	97	98	97	100	103	0.7	6.1	2.6	3.1	4.0	7.8
Memorandum items											
Crude oil ($/bbl)	43	53	68	66	65	-11.9	-6.0	-3.4	-1.5	-8.0	-4.0
Gold ($/toz)	1,249	1,258	1,269	1,310	1,360	1.3	6.1	3.2	3.8	65.1	129.0

Source: World Bank.

Notes: (1) Numbers may differ from tables A.1-4 due to rounding. (2) "f" denotes forecasts. (3) Denotes revision to the forecasts from the October 2018 report (expressed as change in index value except for $/bbl for crude oil, and $/toz for gold). (4) The non-energy price index excludes precious metals. See Appendix C for definitions of prices and indexes.