

Wednesday 16 March 2022

Commodities note: progress in ceasefire talks, along with indicated additional Chinese policy support measures, has seen elevated commodities' prices calming further

Gasoline price 2021 - 2022



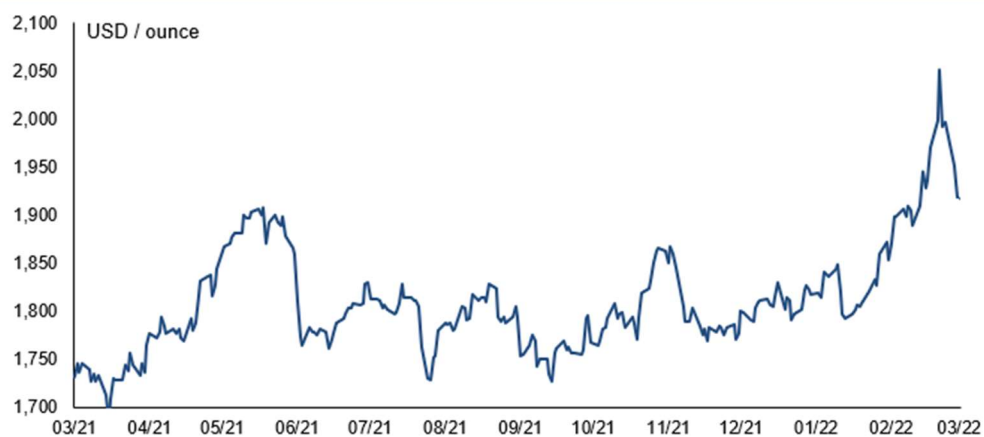
Source: Bloomberg

Iron ore price 2021 - 2022



Source: Bloomberg

Spot Gold price 2021 - 2022



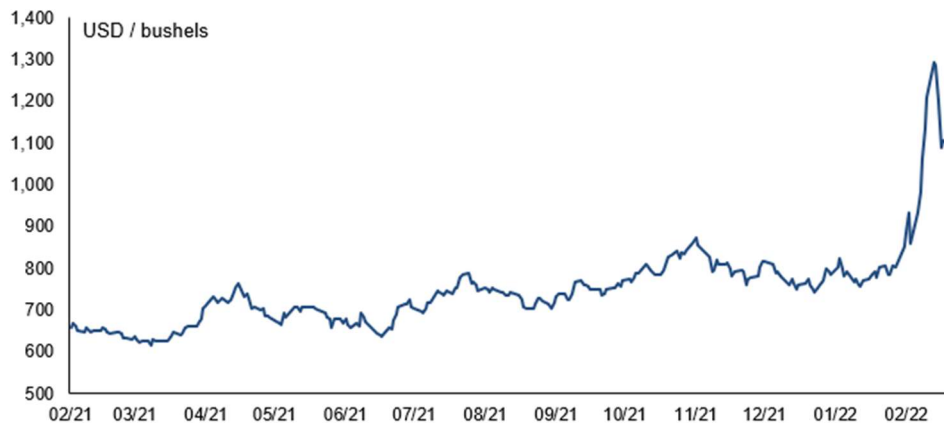
Source: Bloomberg

Brent crude future price 2021 - 2022



Source: Bloomberg

Wheat price 2021 - 2022



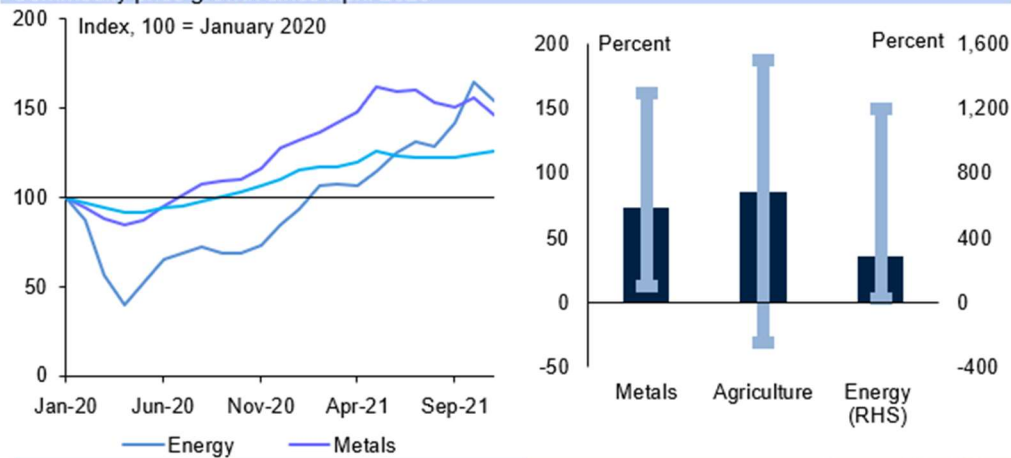
Source: Bloomberg

- Calming commodity prices have reduced SA's expected fuel price hike for April, pulling it back towards R2.00/litre and likely eventually below this as oil prices subside to a degree and the rand has seen mild strength, although there is another 15 days still for the price determination.
- With heady inflation pressures from wheat and fuel prices (with around a quarter lag for wheat) and a month for fuel prices, April is currently expected to see a R2.15/litre, R2.95/litre and R2.51/litre hikes in petrol, diesel and paraffin prices respectively without state intervention.
- The winter wheat harvest in SA will not cover domestic demand, with SA importing about 50% of its needs, and this expected price elevation risks higher Q2.22 and Q3.22 inflation figures from this source if prices do not moderate instead, heavily pushing up bread prices.
- The state could institute bread price controls in extremis, but on a longer term basis this would risk limiting supply. The perceived progress towards a ceasefire has cheered markets, and investors have retreated from safe havens, with the gold price moderating.
- However, the Russian/Ukraine war will still have a negative effect on affected crops, and so their prices, along with oilseed crops (particularly sunflower), and also soyabeans which is significantly used in animal feed, all likely contributing to higher food price inflation in SA.
- While commodity prices saw some moderation in recent days as markets had worried about a lengthier war and a further dimming in global economic growth prospects, there is also a high level of uncertainty, driven also by the recent Chinese lockdowns on new cases.
- Global financial market investors have been spooked by rising risks in different geographies, and policy maker support will be key to weather the crises. China's planned growth stimuli and market measures has had some recent calming effect, with the rand targeting R15.00/USD again.
- The war in the Ukraine and the hard lockdowns in China will still have lingering negative effects on supply of goods, which will keep prices relatively elevated, even if the recent panic pricing ascent has subsided for many, and levels are back to a few weeks earlier for a number.

- Commodity prices were elevated before the war began on 24th February, and while many have returned to levels around 22nd February, still relatively high prices (even excluding the price hump of early March), will keep SA's inflation above 5.0% y/y for the majority of 2022.

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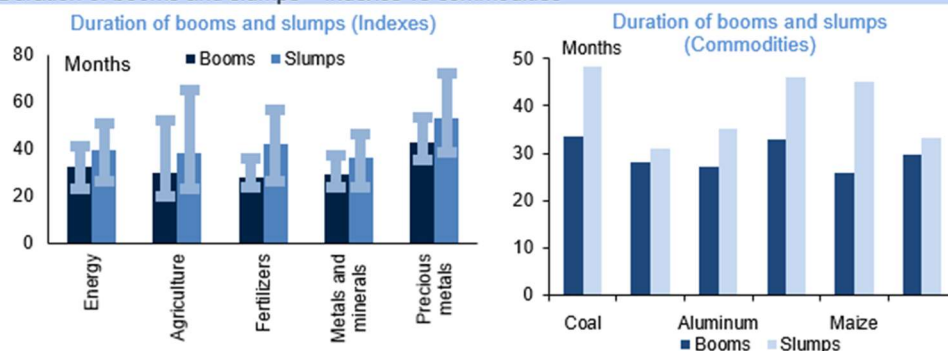
Commodity price growth since April 2020



Source: World Bank

Note: Monthly average commodity prices, in U.S. dollar terms. Last observation November 2021. Bars show commodity price growth for each group from the trough in April 2020 to November 2021. Light blue whiskers show the range of price increases across commodities for each group. For energy commodities, the minimum and maximum values indicate the increases in the price of liquified natural gas in Japan and Europe, respectively. For metals, the minimum and maximum price increases were for iron ore and tin, respectively. For agriculture, Thai rice prices increased the least while Palm kernel prices increased the most.

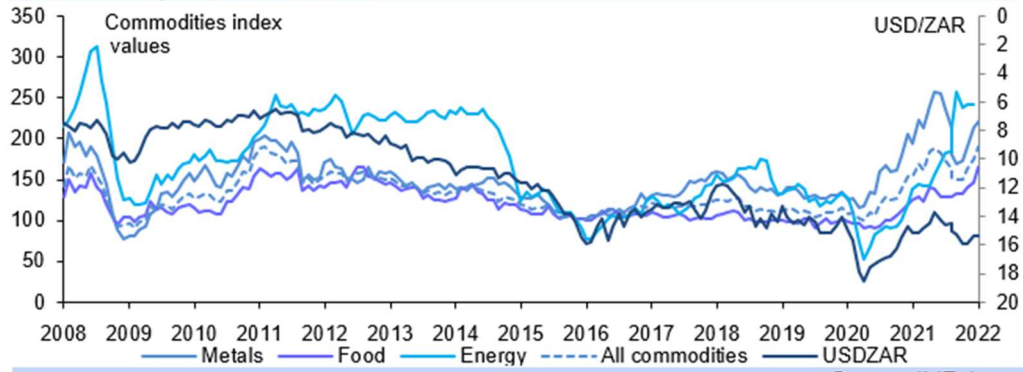
Duration of booms and slumps – indexes vs commodities



Source: World Bank

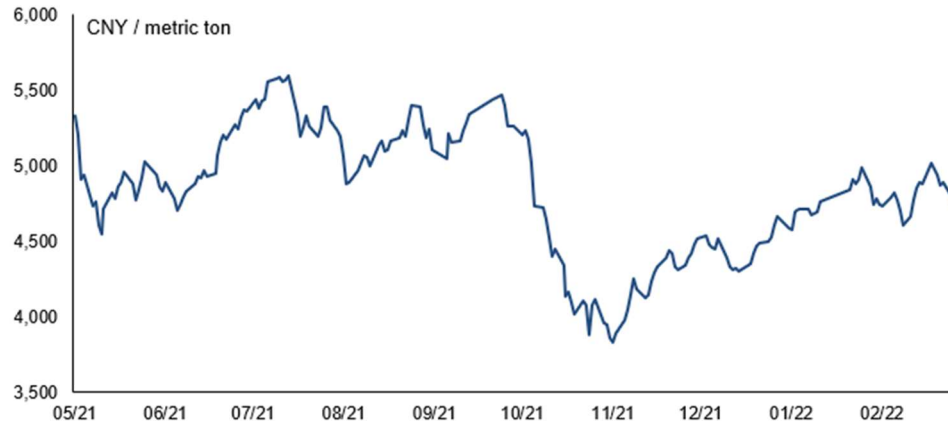
Note: Data from January 1970 to October 2021. Light blue whiskers indicate minimum and maximum range. Duration measures the average length (in months) of a phase (booms or slumps).

Commodities price indices vs rand



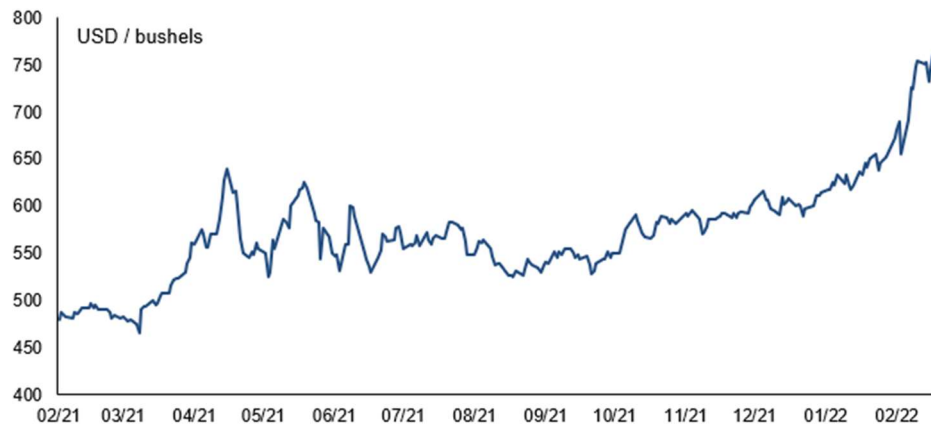
Source: IMF, Iress

Steel price 2021 - 2022



Source: Bloomberg

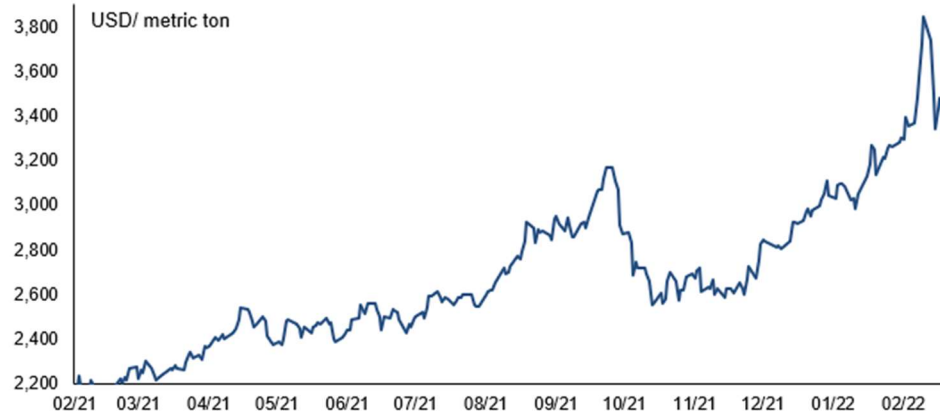
Corn price 2021 - 2022



Source: Bloomberg

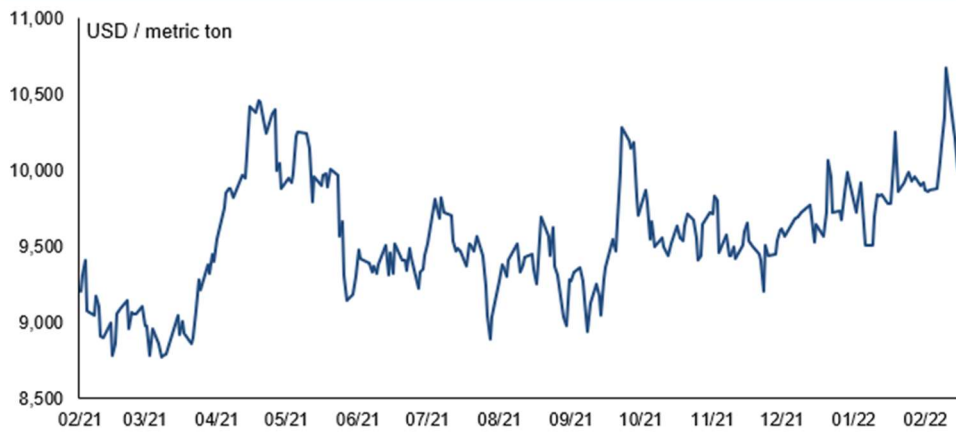
- Government recently indicated it could shave 86c/litre off the petrol price, but this is directed at retailers, not its high tax and levies component, which means that without lower rand oil prices for the rest of this month, a hefty petrol price hike would still be on the cards.
- Should the ceasefire talks prove successful, oil prices are still not expected to collapse back to US60/bbl this quarter or next, but rather see a gradual moderation towards US90/bbl, and then potentially to US80/bbl over Q2.22, although quicker if Iranian oil comes online.
- High commodity prices, even before the Ukrainian crisis, posed risks to the domestic and global inflationary environment, particularly energy commodity prices, although SA's inflation rate is still generally more suppressed than the global on weak consumer affordability.
- Retail price inflation is at 3.0% y/y for December and 3.9% y/y for January. CPI inflation at 5.9% y/y and 5.7% y/y respectively for the two months, drops to 3.4% y/y and 3.5% y/y respectively if high food, fuel and energy prices are excluded from the overall index.
- The slate account, which was used in January and February to absorb a substantial portion of sharp pending fuel price increases, has been depleted and cannot absorb April's hike. Consumers risk a very large fuel price increase in April, if oil prices don't subside quickly.
- SA's food price inflation rose to 6.2% y/y in February, but is not reflective of the war's effects on commodity prices yet as inflation is calculated from the 7th of the month back to the 8th of the previous month. Food price inflation will likely rise higher over March, and Q2.22.
- March is also a month higher prices come through from increases in the budget. SA will gain, as previously indicated, from likely twin surpluses in March, and also improved government and trade balances in February to some extent, and potentially into Q2.22.
- However, much depends on the length of the war and COVID-19 impacts on China, along with easing supply chain constraints (which had showed marked progress before the war) and no further serious supply disruptions, with goods prices driving SA's inflation.
- SA's goods' price inflation reached 8.1% y/y in January (in comparison services inflation was 3.4% y/y), and if commodity prices in general accelerate substantially further from here, as opposed to subside moderately, CPI inflation is likely to average above 5.5% y/y for 2022.

Aluminium price 3-month rolling forward 2021 - 2022



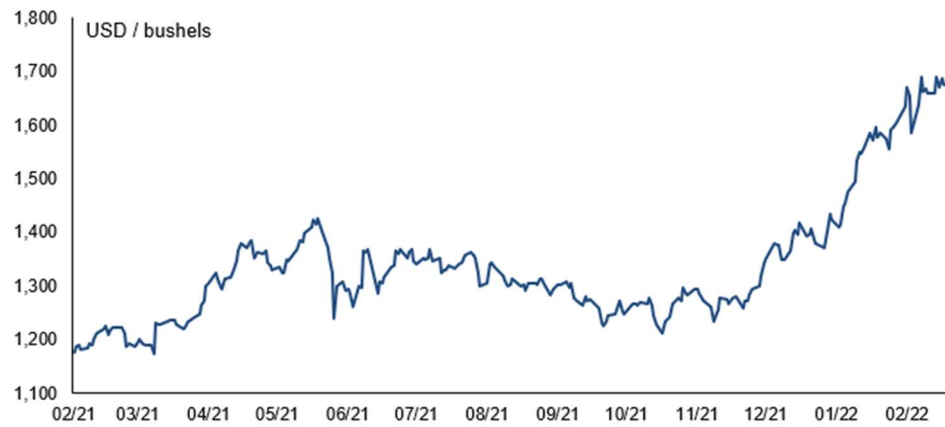
Source: Bloomberg

Copper price – three month rolling forward 2021 - 2022



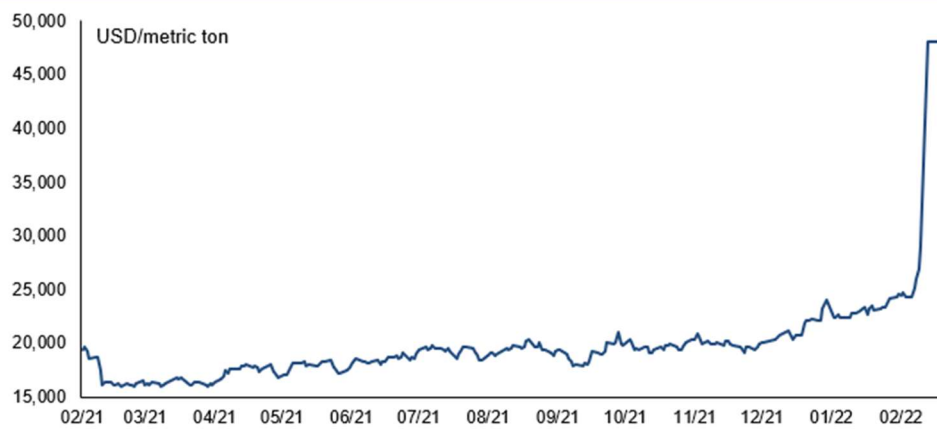
Source: Bloomberg

Soybean price 2021 - 2022



Source: Bloomberg

Nickel price – 3-month rolling forward 2021 - 2022



Source: Bloomberg

Sugar price 2021 - 2022



Source: Bloomberg