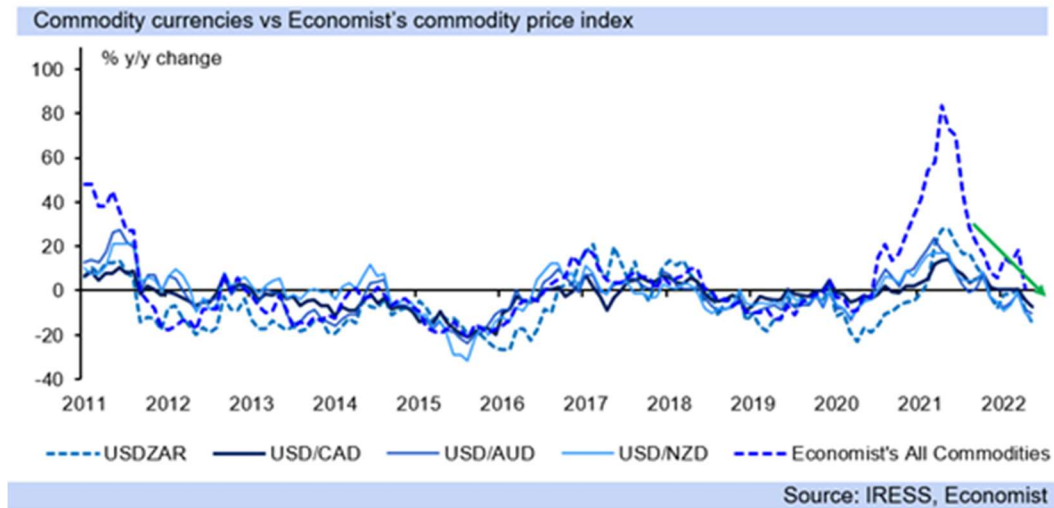


Wednesday 11 May 2022

Commodity currencies note: sanctions, lockdowns and supply shortages increase protectionism and commodity prices, but limit exports dulling associated commodity currencies

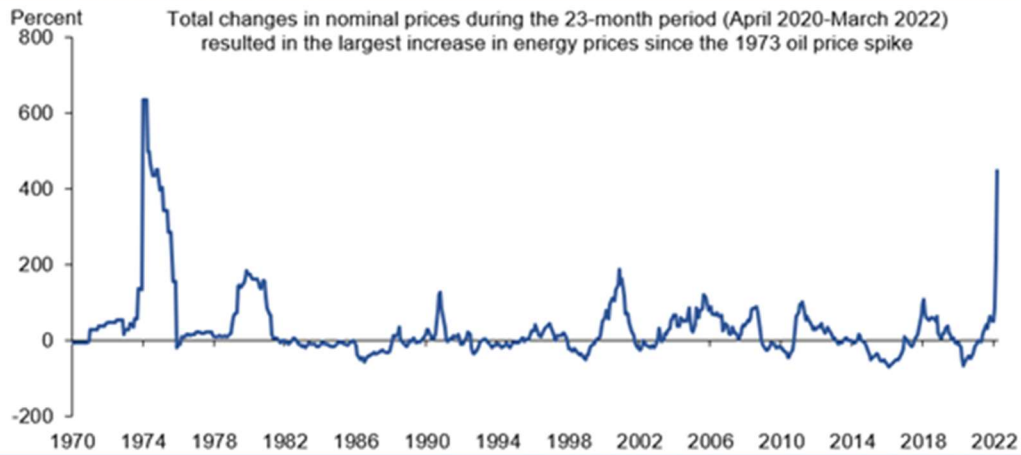


Commodity prices

Commodity	% Ytd	Month on month % change
Energy		
NYM WTI crude	+36.64%	+9.36%
ICE Brent crude	+35.66%	+7.44%
ICE ARA Gasoil	+72.83%	+10.67%
NYM NYH Gasoline	+60.84%	+19.71%
NYM NYH heating oil	+71.97%	+23.12%
NYM HH Nat gas	+99.22%	+12.33%
ICE NBP Nat gas	-15.71%	-31.57%
Metals		
LME Aluminum	-1.92%	-18.40%
LME Copper	-5.06%	-10.61%
Spot Gold	+1.12%	-5.20%
DCE Iron ore	+45.10%	+4.53%
LME Nickel	+36.89%	-16.07%
Spot Silver	-6.56%	-13.07%
SHF Steel Rebar	+11.26%	+1.10%
Agriculture		
CME Live cattle	-4.68%	-3.94%
ICE Coffee	-9.77%	-11.94%
CBT Corn	+32.83%	+3.07%
ICE Cotton	+27.61%	+5.96%
CBT Soybeans	+22.67%	-1.53%
ICE sugar	-1.48%	-8.57%
CBT SRW Wheat	+40.54%	+3.02%

Source: Bloomberg

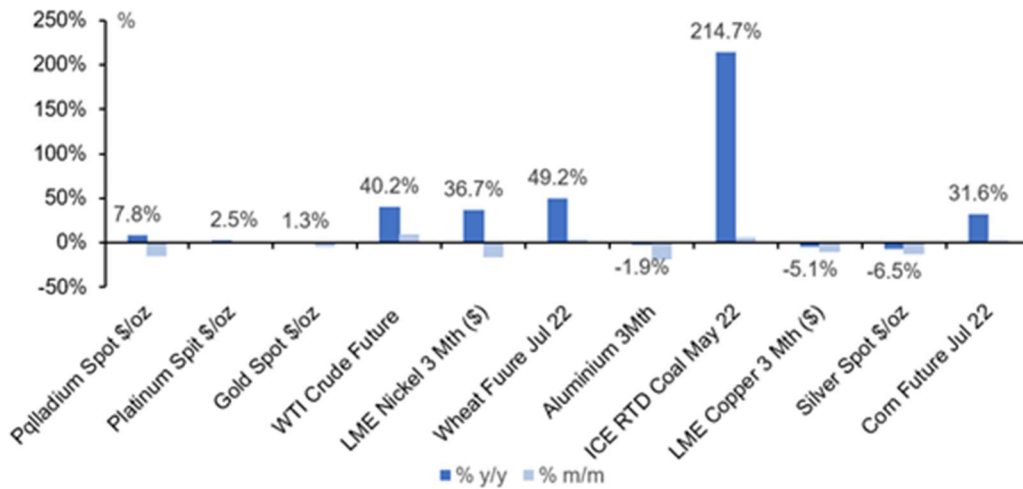
The largest energy price spike in decades



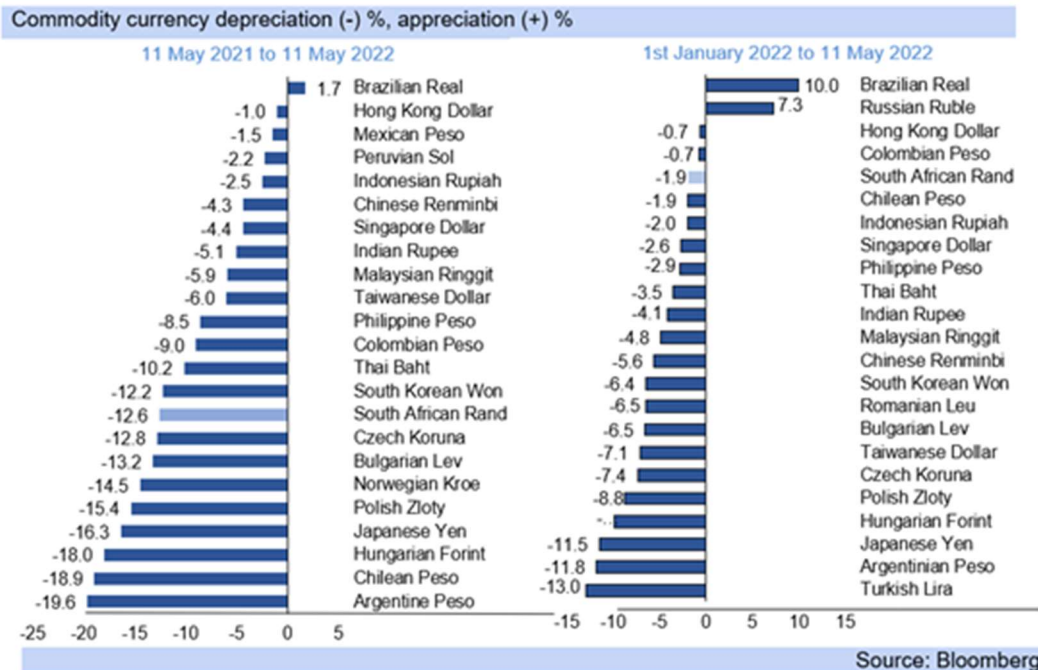
Source: The World Bank, Commodity Outlook April 2022

Note: Chart shows the percent change in monthly price indices over a 23-month period. This facilitates a comparison of the April 2020 trough with the most recent data (March 2022). Due to data limitations, prior to 1979, the energy price change is proxied using the oil price change

Commodity price performance



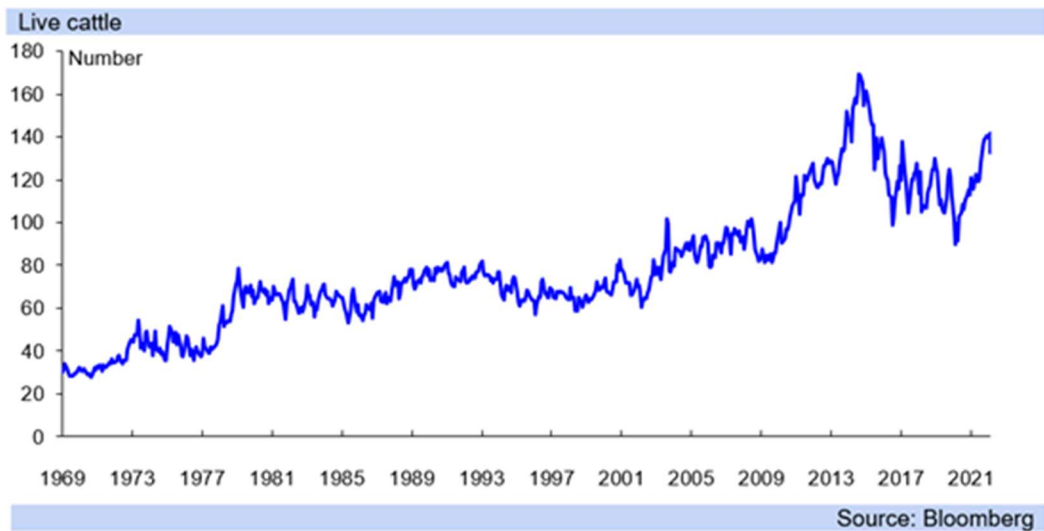
Source: Bloomberg



- Commodity currencies have generally weakened since November on a year on year basis, although the Brazilian real continues to prove the exception, still up 1.7% y/y, and 10% since the start of the year, aided by its strong export-led performance.
- However, compared to a month ago all the commodity currencies are generally weaker, with the rand leading the pack at -9.1% depreciation m/m, and this has been the case both this month so far, and the last week of April.
- Commodity prices have seen a varied performance over the month, with energy prices strongly up on both the year and month, but most metals prices lower, and food prices seeing a mixed outcome. Most commodity prices are however higher y/y.
- The World Bank has said that “(t)he war (in the Ukraine) ... will likely shave a full percentage point off global growth in 2022, ... having delivered the largest commodity-price shock we’ve experienced since the 1970s.”
- Additionally, “global patterns of trade, production, and consumption of commodities (have shifted) in ways that might keep prices high for years. Many countries are turning away from Russia as a coal and oil supplier and have been finding alternatives in more distant locations.”
- “For nearly thirty years, greater trade, investment and innovation bolstered an unprecedented era of prosperity—and brought the world closer to ending extreme poverty.” “(I)ncomes of the poorest nations ... narrow(ed) the gap with the wealthiest.”
- The IMF in turn warns that “(r)ising protectionism is exacerbating chaos in global food markets brought on by the war in Ukraine, with governments clamping down on exports of staples including grains, cooking oil and pulses”.
- This is echoed by the European Bank for Reconstruction and Development (EBRD), which highlights that increased protectionism artificially boosts prices, which are already at record levels, fueling global food insecurity, and “increase(ing) global poverty rates.”

- Climate change and the impact of COVID-19 has also increased protectionism on food exports, and so prices, fuelling global inflation, with these effects not yet at an end. Commodity currencies afflicted by curbs on their countries' commodities exports have tended to dull.

Please scroll down to the second section below

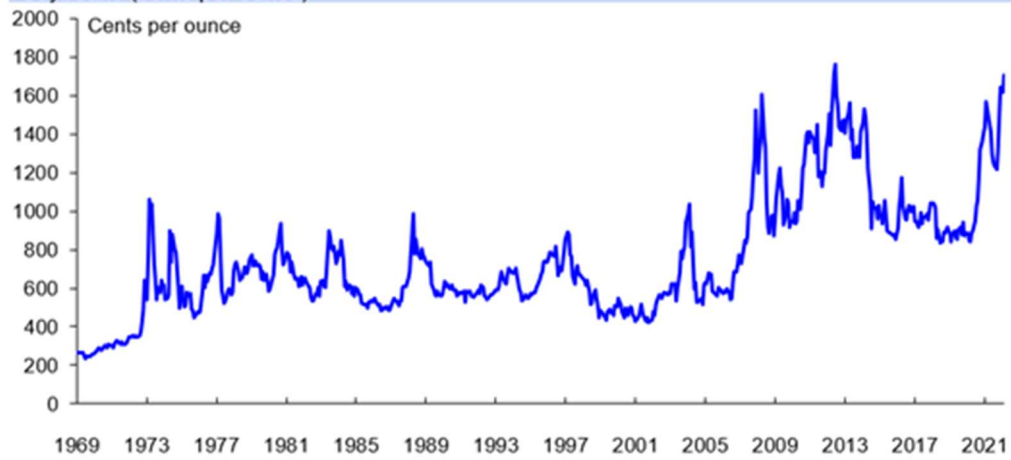


Raw Sugar



Source: Bloomberg

Soybeans (cents per ounce)

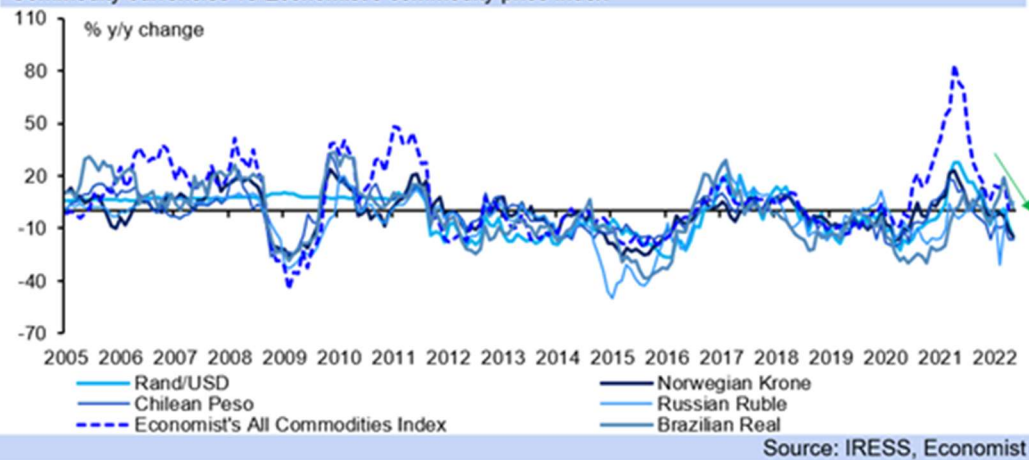


Source: Bloomberg

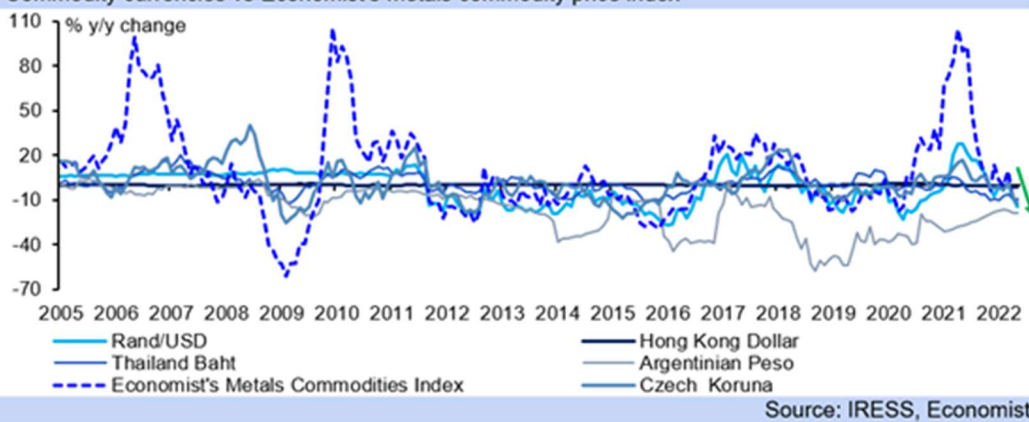


- The International Food Policy Research Institute (IFPRI) has tallied twenty-three countries so far that have instituted food protectionism, finding that the share of restricted food products equates to that of the 2007-08 food and energy crisis.
- The multilaterals concur, with the UN stating that Africa faces an "unprecedented" crisis caused by soaring food and fuel prices as a consequence of "the Russian invasion of Ukraine", which is also disrupting the supply of wheat, fertilizer and other goods.
- Commodity prices are expected to stay elevated this year, and see less moderation than was previously hoped for, which will cause inflation to be 'sticky', a term used to describe a slow pace of declining inflation, as heady price increases take longer to moderate.
- Today's print of the US CPI figures evidences this, with April's CPI inflation rate at 8.3% y/y, slightly lower than the 8.5% outcome for March, but not dropping to the expected 8.1% y/y widely surveyed across economists by Bloomberg.
- The core reading also disappointed, at 6.2% y/y for April; versus March's 6.5% y/y outcome, and the consensus estimate of 6.0% y/y once again proving too low for the US consumer price inflation figures in April.
- Indeed, while base effects helped the measures move slightly lower, high food price increases counteracted some of the moderation. The rand weakened to R16.19/USD in response from close to R16.00/USD, and both EM and commodity currencies were generally afflicted.
- The rand has since cooled somewhat, but will remain volatile. A slow pace of declining inflation risks further boosting FOMC hawkishness, which is negative for global growth perceptions, and so for commodities' prices and so currencies.
- The extended conflict between Russia and the Ukraine has made it likely that commodity prices will remain elevated for longer, and so high inflation will take longer to cool, with evidence of second round effects apparent in the recent US CPI readings.
- For South Africa, protectionism is not the issue dulling its export capacity, instead it is severely restricted transport capacity (on the rails and at the ports), as well as higher electricity capacity needed to drive production, and SA also losing out on higher imported production costs.

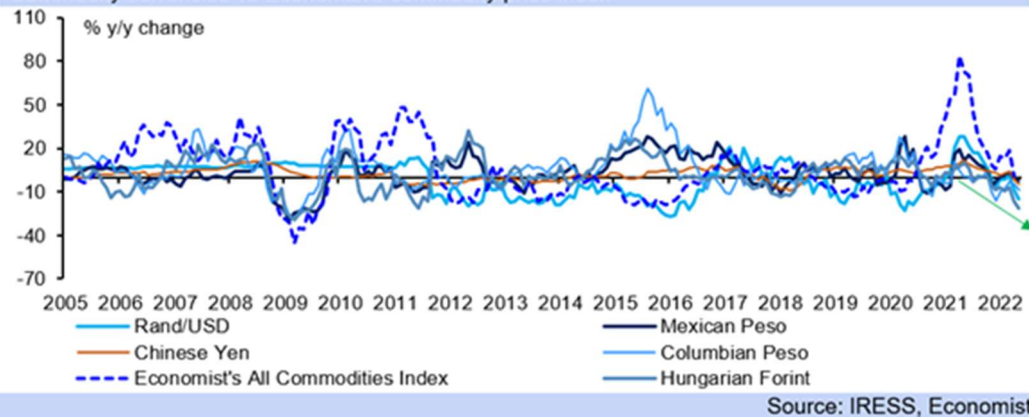
Commodity currencies vs Economist's commodity price index



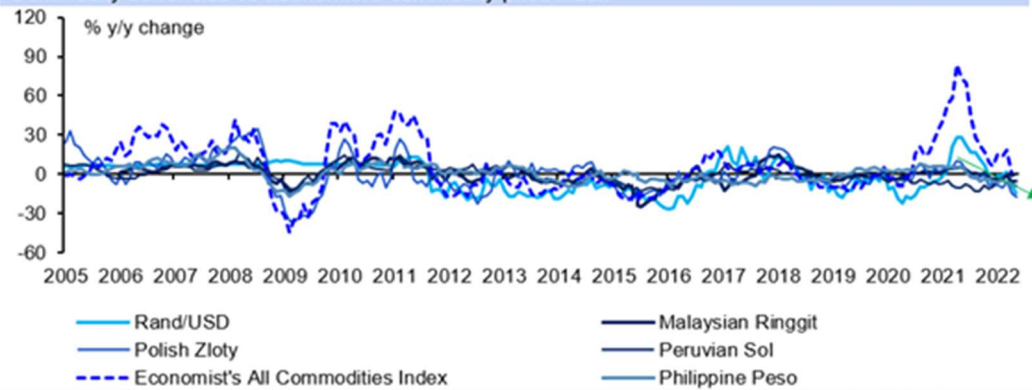
Commodity currencies vs Economist's metals commodity price index



Commodity currencies vs Economist's commodity price index

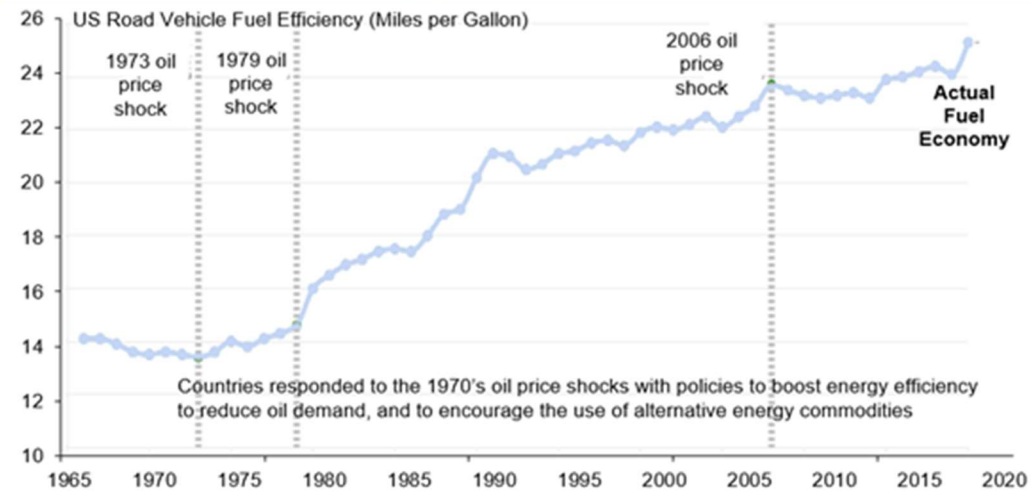


Commodity currencies vs Economist's commodity price index



Source: IRESS, Economist

Oil price spikes can lead to beneficial change



Source: The World Bank, Energy Information Administration (EIA)

Note: Figure shows the fuel efficiency of US vehicles in miles drive per gallon of gasoline consumed. Shaded areas refer to oil price shocks in 1973, 1979 and 2008.