

Cross-sectoral trends and outlook

Commodity prices moderate to pre-war levels; may remain above the pre-pandemic mark in the near to medium term

February 2023



Commodity prices declined from their peaks and moderated to pre-war levels following monetary tightening, the global slowdown and easing supply chain pressures

However, with Chinese demand likely to rebound and global growth unlikely to fall further, commodity prices will not correct substantially in the near term.

Accordingly, prices of many commodities may remain above the pre-pandemic levels in the near to medium term.



- Commodity prices across energy and non-energy sectors declined from their peaks following monetary tightening, a global slowdown and easing supply-chain pressures



- Although most commodities reached their pre-war levels, they are unlikely to revert to the pre-pandemic range, which will keep the corporate margins under pressure in the second half of FY2024.



- Inflation levels too have corrected from their peaks with correction in commodity prices. According to the International Monetary Fund (IMF), global inflation is expected to fall in CY2023 and CY2024, although it is still above pre-pandemic (CY2017–19) levels.



- To achieve the targeted inflation, global central banks are expected to tighten monetary policies further in the near to medium term, which may act in favour of commodity prices.



- However, China – one of the major economies, has shown a positive recovery trend in February 2023. The Purchasing Manager Index (PMI) of Chinese industries (manufacturing and non-manufacturing) exceeded the threshold of 50 on the back of recent reopening in China. The stronger demand rebound may pave the way for a faster-than-expected recovery. As per Industry reports, Chinese Government has set a growth target of ~5% for 2023 in annual Government work report.



- The IMF too has revised the growth projections upwards for major developed and developing economies for CY23, as a result of better consumption, investment and fiscal support.



- With Chinese demand likely to rebound and global growth unlikely to fall further, commodity prices will not correct substantially in the near term.

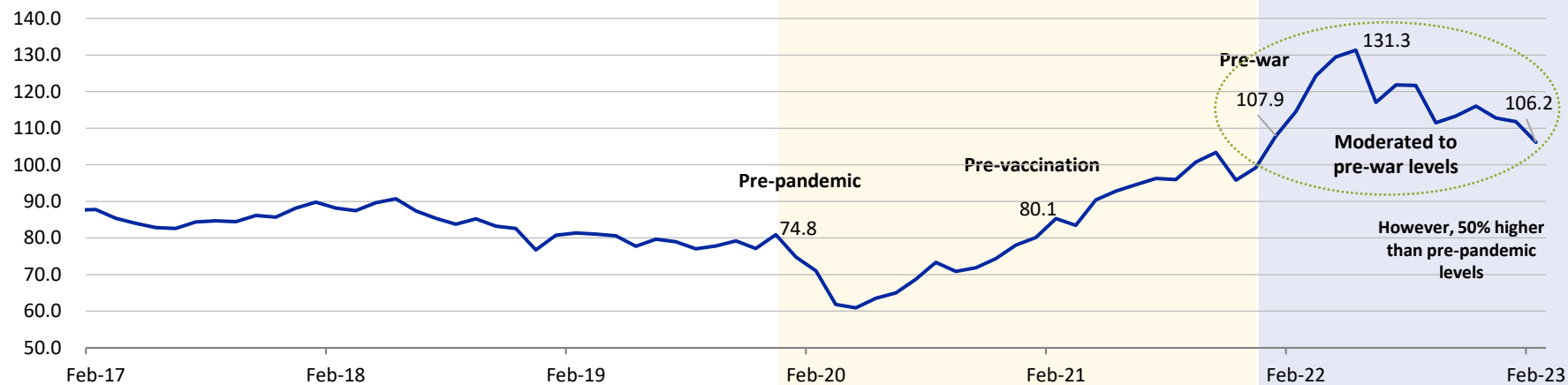


- Accordingly, prices of many commodities may remain above the pre-pandemic levels in the near to medium term, displaying volatility within a narrow band.

Commodity index moderates to pre-war levels, while remaining significantly higher than pre-pandemic levels

Commodity index declines as underlying components such as energy, food and metals fall

Bloomberg Commodity Index (BCOM)



- BCOM was at 74.8 before the pandemic, which increased by 7% to 80.1 before the vaccination drive started around Jan 2021. However, the index increased by ~35% to 107.9 by January 2022, primarily driven by the surge in metals and energy prices.
- With start of the war, the index peaked to 131.3 in May 2022 because of supply chain disruptions triggered by the war.
- However, the index dropped ~20% from its peak on the back of anti-inflationary measures by countries and is similar to pre-war levels at 106.2 as on February 2023.



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