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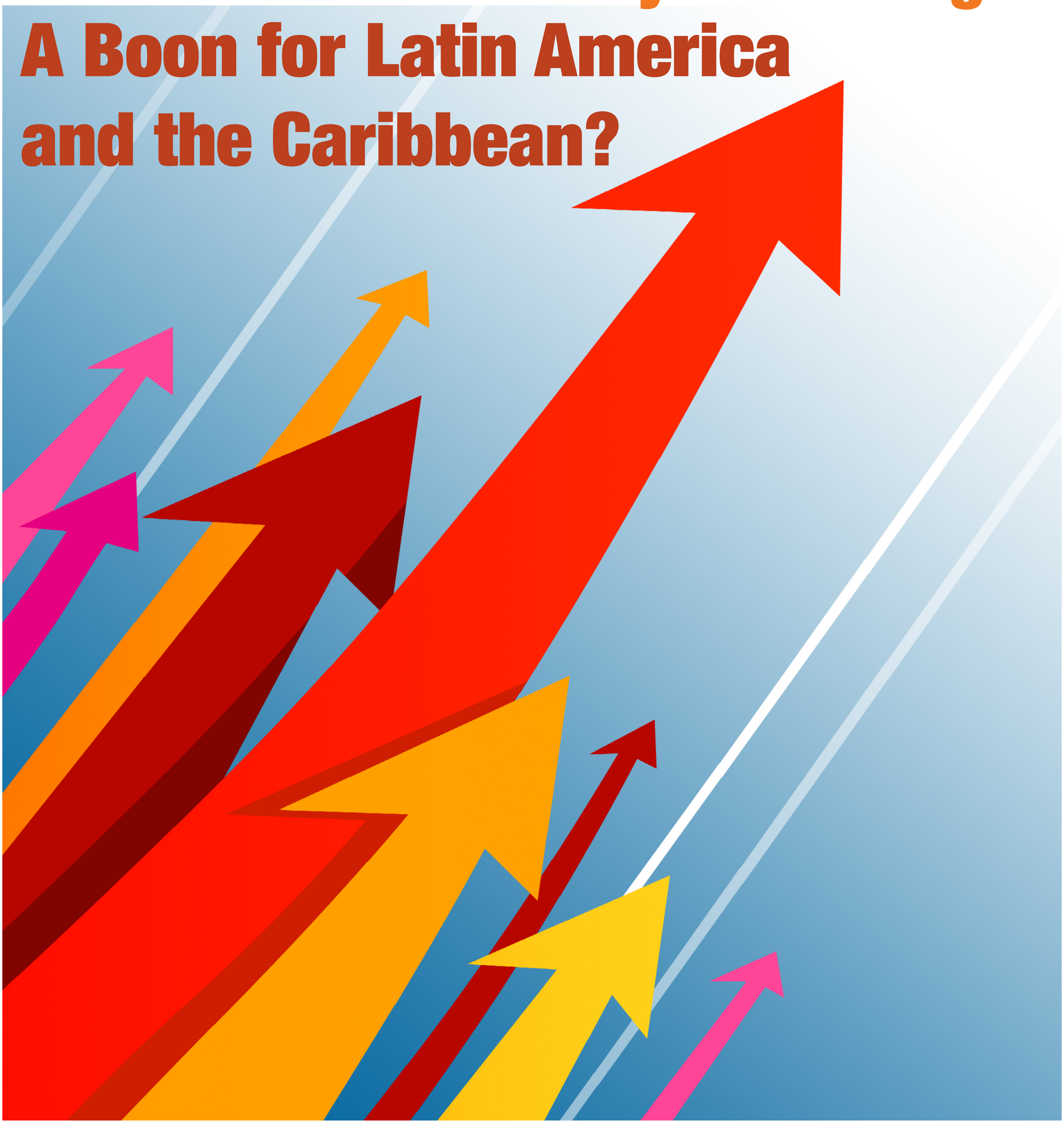
The Recent Commodity Price Surge: A Boon for Latin America and the Caribbean?



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Notes

Use of the term “dollar” ($) refers to United States dollars.

The term “billion” signifies 1 000 million.

The term “tons” refers to metric tons.

Use of a dash between years (e.g. 2000–2001) signifies the full period involved, including the initial and final years.

Acronyms

AMIS .... Agricultural Market Information System

IGC.......... International Grains Council

Bpd .... barrels per day

LAC .... Latin America and the Caribbean

CDDCs .... Commodity-Dependent Developing Countries

OPEC ...... Organization of Petroleum Exporting Countries

CLP .... Chilean peso

PEN .... Peruvian nuevo sol

COP .... Colombian peso

VIX........... Chicago Board Options Exchange Market Volatility Index

Abstract

This study reviews and analyses the evolution of commodity prices between the start of the Covid-19 pandemic and mid-2021, a period during which commodity prices have increased, in some cases very substantially. It presents the key factors driving these price increases and discusses potential impacts for Commodity-Dependent Developing Countries (CDDCs) in the Latin America and the Caribbean (LAC) region.

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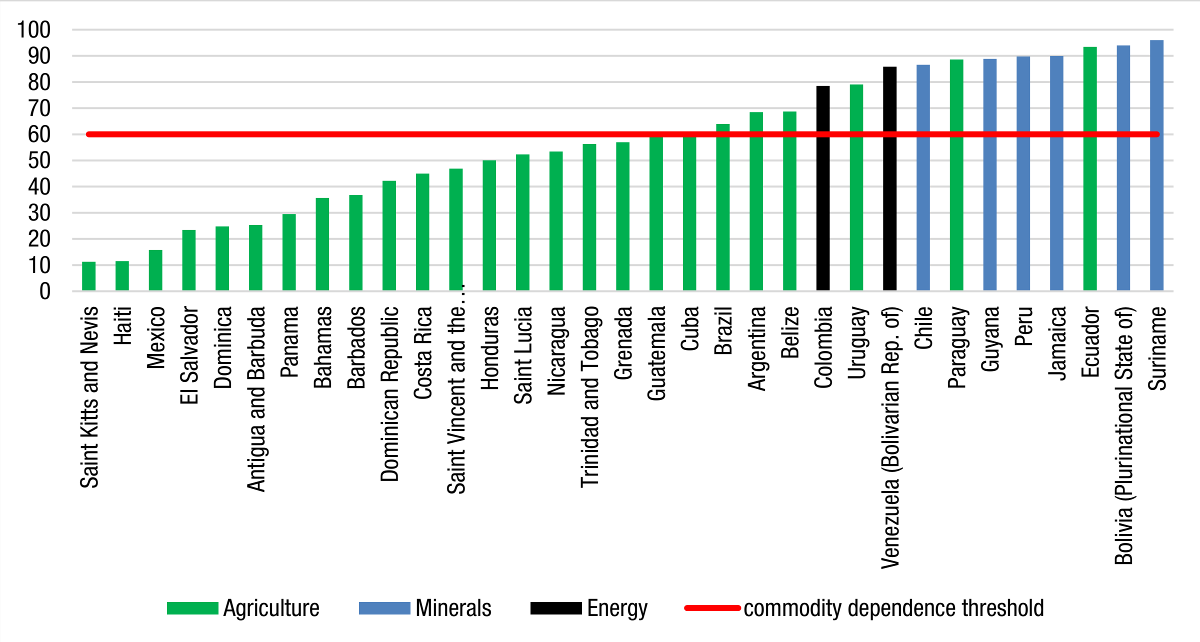
I. Introduction

In recent months, commodity prices across the board have increased significantly. This is an important development for the countries in Latin America and the Caribbean (LAC) since commodity sectors play a vital role for many economies in the region. This is illustrated by the fact that 14 countries in LAC are classified as commodity dependent (Figure 1).

Figure 1: Share of primary commodities in total merchandise exports of countries in Latin America and the Caribbean (per cent, average 2015-19)



Source: Authors' calculations using data from UNCTADStat.
Notes: (1) The three categories agriculture, minerals and energy highlight the commodity group with the largest average share in total merchandise exports. (2) Agriculture = SITC 0, 1, 2 (less 27 and 28) and 4; Minerals= SITC 27, 28, 667, 68 and 971; Fuels = SITC 3.

In this note, we analyze the recent rise in commodity prices, highlight its main drivers, and discuss potential implications for the LAC region.

II. Export commodity dependence in Latin America and the Caribbean

An important determinant of a country's sensitivity to commodity price shocks is the share of commodities in its exports,[1] which is the basis of the concept of commodity dependence. A country is export commodity-dependent when commodities account for 60 per cent or

[1] Another consideration is the degree to which countries import commodities, as any net effect of a commodity price change depends on the net overall commodity import position and the magnitude of the changes of each commodity imported and exported. For countries that are large importers of food and energy commodities, for example, but only moderate net exporters of other commodities, the dominant effect of an overall commodity price increase can be the opposite of that experienced by net commodity exporters. In this note we mainly focus on the effects of the price increase on export commodity-dependent countries.

more of its total merchandise export revenue. According to this criterion, all countries in South America as well as Jamaica and Belize can be classified as commodity-dependent developing countries (CDDCs). This means that 14 out of 33 countries (42 per cent) in the LAC region are commodity-dependent. Additionally, 7 countries in the region do not meet the 60 per cent threshold but have a commodity share of 50-60 per cent so that the commodity sectors play a major role in their economies.[2]

Table 1 shows the average commodity export shares as well as the leading export commodity groups for the 14 CDDCs in the LAC region. In these countries, the average (median) share of the leading commodity group in total merchandise exports was 27.0 per cent (24.2 per cent) in the period 2015-2019.

Table 1: Leading commodity exports in LAC CDDCs (2015-2019)

Country	Leading commodity export product group	Average annual share of leading commodity group in total merchandise exports (per cent)	Average annual share of commodities in total merchandise exports (per cent)
Argentina	Feeding stuff for animals (no unmilled cereals)	17.0	68.5
Belize	Sugar, molasses and honey	21.8	68.7
Bolivia (Plurinational State of)	Natural gas, whether or not liquefied	33.5	94.0
Brazil	Oil seeds and oleaginous fruits (excluding flour)	11.8	63.9
Chile	Copper ores and concentrates; copper mattes; cement copper	23.4	86.6
Colombia	Petroleum oils, oils from bitumin. materials, crude	31.3	78.5
Ecuador	Petroleum oils, oils from bitumin. materials, crude	34.0	93.4
Guyana	Gold, non-monetary (excluding gold ores and concentrates)	47.1	88.9
Jamaica	Aluminium ores and concentrates (incl. alumina)	48.4	90.0

[2] These are Cuba, Guatemala, Grenada, Trinidad and Tobago, Nicaragua, Saint Lucia and Honduras.

Country	Leading commodity export product group	Average annual share of leading commodity group in total merchandise exports (per cent)	Average annual share of commodities in total merchandise exports (per cent)
Paraguay	Oil seeds and oleaginous fruits (excluding flour)	24.9	88.6
Peru	Copper ores and concentrates; copper mattes; cement copper	24.9	89.7
Suriname	Gold, non-monetary (excluding gold ores and concentrates)	74.7	96.0
Uruguay	Meat of bovine animals, fresh, chilled or frozen	21.4	79.1
Venezuela (Bolivarian Republic of)	Petroleum oils, oils from bitumin. materials, crude	67.0	85.9

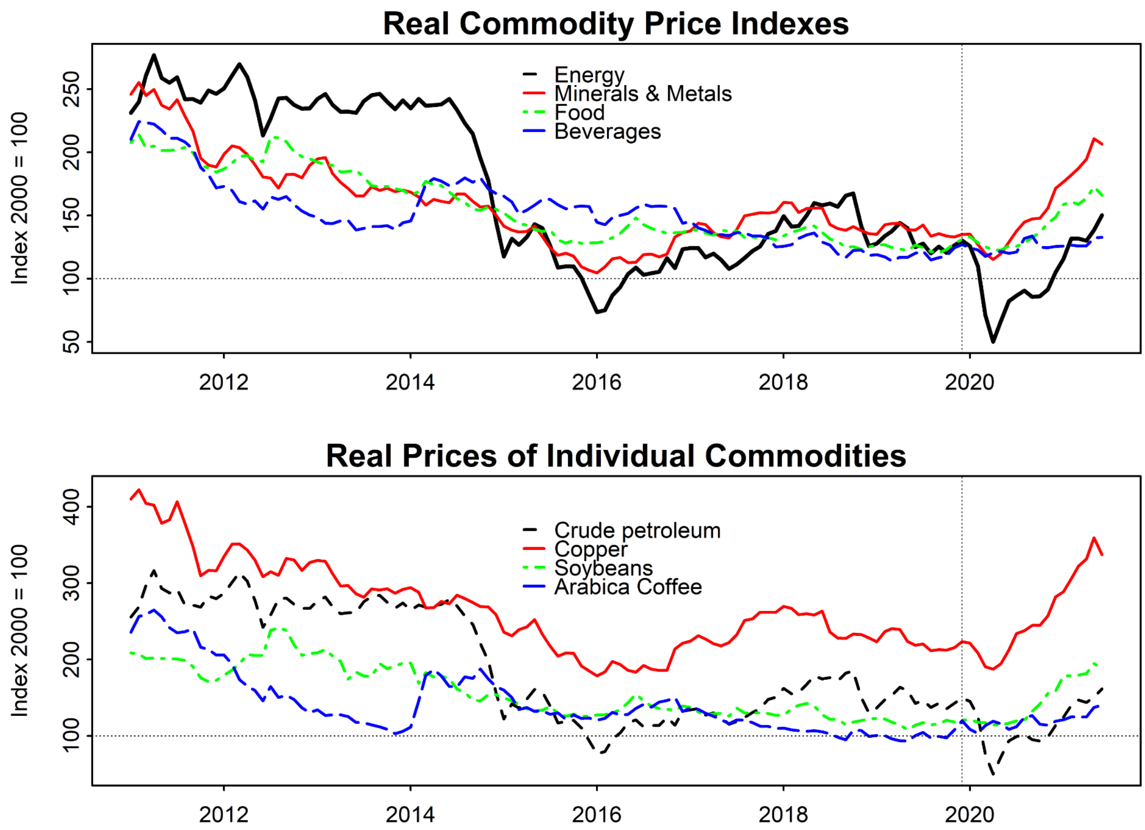
Source: Authors' calculations using data from UNCTADStat.
Note: Leading commodity export product groups are based on average export values at SITC 3-digit level within primary commodities defined as SITC 0, 1, 2, 3, 4, 68, 667 and 971 in the period 2015-2019.

III. Recent commodity price evolution

The upper panel of Figure 2 presents the monthly evolution of four major commodity price indexes between 2011 and 2021 while the lower panel shows real prices of key commodities included in each of the indexes. All series are deflated by the monthly United States Consumer Price Index. Figure 2 also includes a horizontal line marking the level of each index in the year 2000, when prices across all commodity categories were low, and a vertical line marking the "start" of the Covid-19 pandemic in December 2019.

Figure 2 is very informative about the impact of the pandemic on the different commodity prices, and three points are worth highlighting. First, we can observe that Energy was the only commodity group that suffered a severe decline in early 2020 following the onset of the Covid-19 pandemic, with a price decline of 61.5 per cent in real terms in the four months January - April 2020. Minerals and Metals experienced a much smaller decline (14.7 per cent) during the same period and prices of the Food and Beverage groups were little affected. Indeed, prices of commodities like soybeans and arabica coffee, as shown in the lower panel of Figure 2, were not affected except for an increase in short-term volatility. These developments reflect the impact of the restrictions to movement that were imposed around the world in 2020 to slow the spread of Covid-19, which affected in particular energy prices; and the increase in uncertainty that brought about a slowdown in investment, which affected the prices of minerals and metals.

Figure 2: Real prices of selected individual commodities and group indexes



Source: Authors' calculations using World Bank and United States Bureau of Labor Statistics data.

Second, what is extraordinary about the drop in energy prices was not only its size but also its speed: the 61.5 per cent real price decline in four months was identical in terms of percentage and speed (but smaller in terms of price declines, due to base differences) to the hitherto largest and fastest fall in energy prices, which occurred between August and December 2008 as a result of the global financial crisis.

Third, recent price increases for the Mining and Metals, Food and Energy groups resulted in real price levels in June 2021 previously not seen since September 2011, June 2014 and October 2018, respectively. For the Minerals and Metals commodity group prices in June 2021 were 22.5 per cent below the peak levels attained in March 2008 before the global