

RESEARCH
BOB Economics Research | Commodity Trends

Where are commodity prices headed?

SUMMARY
India Economics: Commodity Trends

The escalating geopolitical tension between Russia and Ukraine has impacted commodity prices to a considerable extent. Since 24 Feb 2022, when the speech was made by the Russian President indicating an imminent attack, international oil prices increased sharply by ~21%. In absolute terms, crude prices went up by US\$ 20/bbl to its current trading level of US\$ 116/bbl. Not only oil, other commodities also faced the brunt. Wheat prices are currently at a 14-year high while aluminum prices also rose to a record peak level.

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Daily macro indicators

Indicator	01-Mar	02-Mar	Chg (%)
US 10Y yield (%)	1.73	1.88	15
India 10Y yield (%)	6.77	6.82	5
USD/INR	75.34	75.71	(0.5)
Brent Crude (US\$/bbl)	105	112.9	7.6
Dow	33,295	33,891	1.8
Hang Seng	22,762	22,344	(1.8)
Sensex	56,247	55,469	(1.4)
India FII (US\$ mn)	25-Feb	28-Feb	Chg (\$ mn)
FII-D	71.4	(93.1)	(164.5)
FII-E	(589.0)	(547.7)	41.3

Source: Bank of Baroda Economics Research



COMMODITY TRENDS

03 March 2022

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Dipanwita Mazumdar
Economist

What Russia and Ukraine's trade basket says?

We have looked closely at the exports basket of Russia and Ukraine, to understand which commodities will be impacted the most in the near term. Evidently, crude oil is the first commodity to be impacted followed by petroleum products and natural gas. Other than that, Russia also exports coal, metals, petrochemicals and fertilizers. Notably, Russian high-quality exports meet 10% of European coal-fired plant demand.

OPEC has already signaled that it would not ramp up production to lower prices. Thus, oil would continue to see its upward spiral. Interestingly during the financial crisis oil had crossed the US\$ 146/bbl mark.

Another important commodity that would be impacted is palladium. It is used by automakers for catalytic converters to curb emissions. Russia is the biggest producer of palladium (91 metric tons in 2020 compared to 80 metric tons in 2015). This is an important commodity as the world is focusing on ESG goals.

Speaking of Ukraine, cereals have the major share in export basket followed by iron and steel and animal or vegetable fats. Within cereals, corn, wheat, rapeseed and soybeans have a dominant share. Agri Index (Roger) thus increased by 4%, post the announcement of war.

How have prices moved in February over January 2022?

Recent data published by World Bank on commodities also show the impact of war. In Feb'22, major commodity prices rose following escalated geopolitical tensions. We believe the uptrend in commodity prices is likely to persist until some dialogue on peace is forthcoming. Central banks worldwide are also anticipating the shocks. Bank of Canada raised rates for the first time since Oct-18 by 25bps. Even US Fed Chair signalled of a 25bps rate hike in Mar'22, on account of overheating of inflation. Thus, it poses serious risk to inflation print globally which is already running at record high levels for US, Germany and UK.



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Note: Recommendation structure changed with effect from 21 June 2021

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