

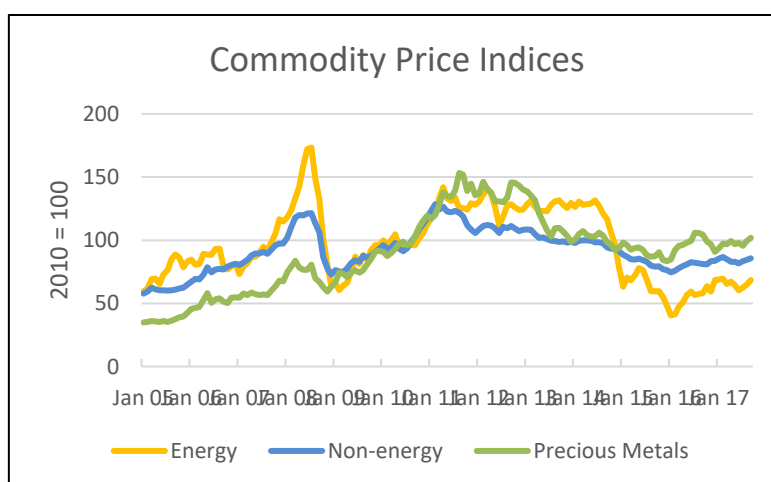


# Commodities Outlook

4<sup>th</sup> Quarter 2017

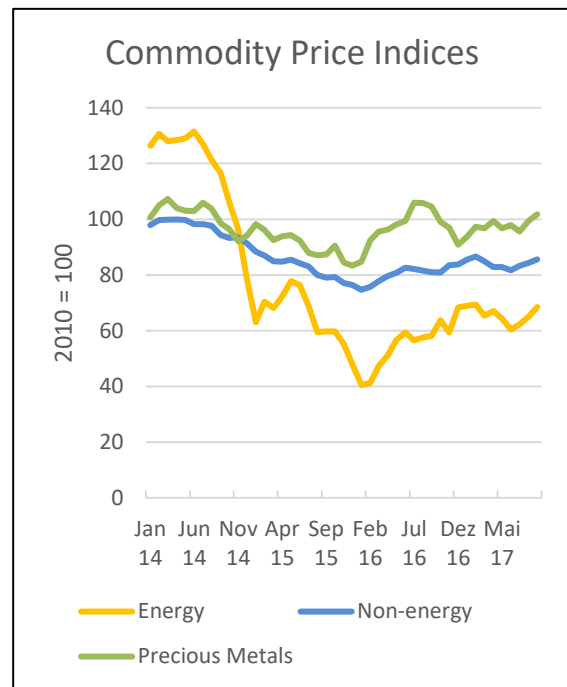
## HIGHLIGHTS

- Most of the **commodity price indices** for developing and low income countries rose in the third quarter. The energy price index grew 13.4% while the non-energy price index increased by 4.8% in Q3.
- The majority of commodity prices are expected to **remain steady or increase modestly** in the coming quarter, supported by stronger global economic growth. However, there are several downside risks, including geopolitical tensions centred on the Korean peninsula and in the Middle East, as well as uncertainty surrounding monetary and trade policies.
- Brent **crude oil** rallied by nearly 30% in the 3<sup>rd</sup> quarter, supported by faster demand growth in both OECD and emerging market economies, and also by geopolitical tensions in the Middle East. Brent is expected to trade at around \$53-58/b for the remainder of the year and into 2018, barring unforeseen shocks.
- The prices of all three **precious metals** increased in the 3<sup>rd</sup> quarter. Gold increased by 4.3% to reach \$1314/ounce, the highest level in a year, while platinum gained 3.6% and silver edged up by 3%. Geopolitical risks could continue to support the gold price, despite the low inflation environment.
- All seven **base metals** registered strong price gains in the 3<sup>rd</sup> quarter, supported by the global pick-up in economic growth and hence demand. In the short to medium term, base metal prices should for the most part hold their value. One exception could be iron ore, as new mining projects are still coming on stream.
- The prices of **grains** showed mixed results in the third quarter, with declines for rice, maize and wheat, and a rise for barley.
- Mutton prices continued their upward trend, while beef dipped in the last quarter.
- **Beverage** prices changed little – there were mixed fortunes for Arabica and Robusta coffee, while cocoa and tea prices were flat.
- **Timber** prices firmed in Q3, especially logs and sawn wood. Plywood prices barely rose and wood pulp remained constant.
- In the coming year, **agricultural commodity** prices are not expected to increase much, as modest demand growth will likely be offset by productivity gains.



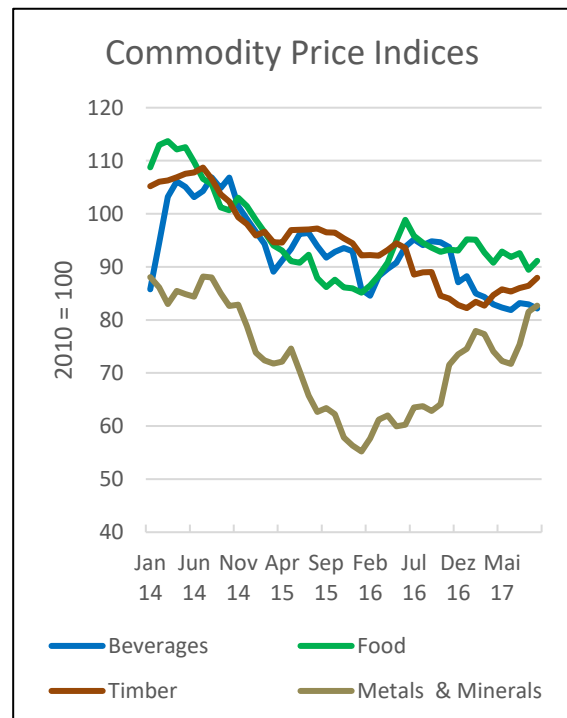
Source: World Bank

The majority of the World Bank's commodity price indices for developing and low income countries increased in the third quarter. The energy price index grew 13.4% in 2017Q3, and was up 17.8% year-on-year. The energy index has climbed almost 70% since the trough of January 2016, but is still just over half the level it was before the oil price collapse began in mid-2014. The non-energy price index rose 4.8% in Q3, and was 5.7% high than in September last year. Non-energy prices have risen 14.7% since the beginning of 2016, but remain below their pre-July 2014 levels. The precious metals price index ticked up by 4% in the quarter, but was 2.7% softer than a year earlier. The precious metals index has gained 20% since January 2016.



Source: World Bank

The beverage price index inched up by 0.3% in 2017Q3, but has dropped by 13.4% in the past 12 months. The food price index was the only major sub-index to decline in the 3<sup>rd</sup> quarter, dipping by 0.8% - dragged down mainly by lower grain prices. The food price index is down by 2.6% over the past year but is 7.1% higher than the low reached in January 2016. Timber prices rose by 3% in the quarter, but are 1.2% lower year-on-year. Metals and minerals have performed strongly, growing 15% in Q3. The metals and minerals index has climbed by 31.6% since September last year and an impressive 50% since the low point registered at the start of 2016. But despite these gains, all the indices remain lower than the levels seen between 2011 and 2014. The slowdown in global growth – and especially Chinese growth – is the main reason for this broad-based commodity price decline.



Source: World Bank

## Global Demand

In the October edition of its World Economic Outlook 2017, the IMF raised its global economic growth forecasts by 0.1% compared to its April outlook, citing robust investment, trade, industrial production, and strengthening consumer and business confidence. The IMF expects global economic growth to average 3.6% this year and 3.7% in 2018 and 2019. The United States economy is forecast to expand by 2.2% in 2017, which assumes the Trump administration will not succeed in getting a fiscal stimulus package through Congress. Growth rate projections for the euro zone and Japan have been revised upwards, offsetting downward revisions for the US, UK and India. The IMF raised its outlook for China's growth this year to 6.8% (from 6.6% in April) and 6.5% in 2018, but warns of an elevated risk of a sharp slowdown later on. Emerging and developing economies are expected to grow at a rate of 4.6% this year and 4.9% next year.

**Table 1: Economic growth forecasts**

Region	2017	2018	2019
World	3.6	3.7	3.7
USA	2.2	2.3	1.9
Euro zone	2.1	1.9	1.7
Japan	1.5	0.7	0.8
EMDEs	4.6	4.9	5.0
China	6.8	6.5	6.3
India	6.7	7.4	7.8
Sub-Sah. Africa	2.6	3.4	3.4

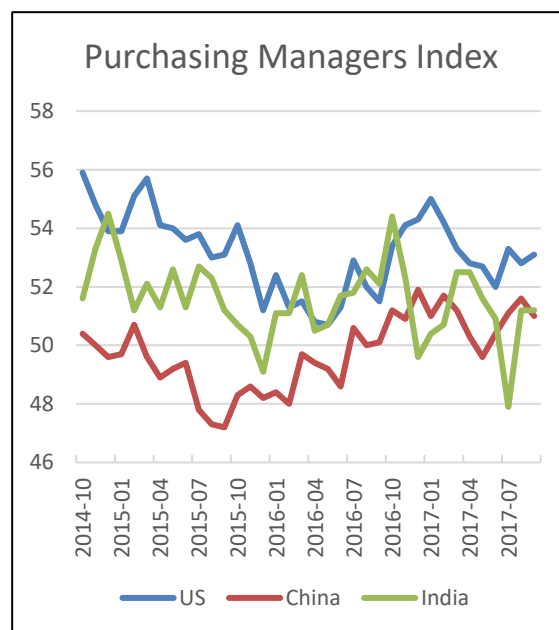
Source: IMF, World Economic Outlook, October 2017. EMDEs = Emerging Market and Developing Economies.

Thus overall, economic activity is looking more positive, which should mean higher demand and support for a wide range of commodity prices. Nevertheless, the IMF cautions that growth remains subdued in many countries, and inflation is under the target level in most advanced economies. In the short term, upside potential for further recovery is underpinned by robust consumer and business confidence

and benign financial conditions. However, these are balanced by downside risks stemming from policy uncertainty and geopolitical tensions, which could undermine market confidence and result in tighter financial conditions with reduced asset prices.

Medium-term risks to global growth are tilted to the downside. These include: possible monetary policy tightening and higher long-term interest rates; the risk of a sharp correction in China as a result of slower economic rebalancing and rising debt levels; an increase in protectionist trade policies; and a reversal of improvements in financial regulation since the global crisis. Non-economic risks include extreme weather events, geopolitical tensions, domestic political upheavals in some countries, and international security and terrorism threats.

The manufacturing Purchasing Managers Indices (PMI) for the US, China and India edged up slightly in the third quarter, indicating a mild expansion of manufacturing activity in these countries. The US PMI rose one point to 53.1 in September from 52 in June, while China's PMI inched up from 50.4 to 51. India's PMI plunged to 47.9 in July before recovering to 51.2 in September. These movements indicate moderate support for commodity prices.



Source: Bloomberg

## OIL

### Demand

According to data provided by the International Energy Agency (IEA), world oil demand grew robustly in 2017Q2, rising by 2.3 mb/d (2.4%) compared to a year earlier. Global demand stood at 97.9 mb/d in the second quarter.

The IEA has raised its demand growth forecast for 2017 as a whole to 1.6 mb/d. American and European demand has been particularly strong of late. This demand growth could help to reduce stockpiles and balance the oil markets.

The latest projection of the US Energy Information Administration (EIA) has demand growing by 1.35 mb/d in 2017. This is down from its growth forecast of 1.54 mb/d in June.

OPEC is anticipating world oil demand growth of 1.42 mb/d in 2017, which is 150 kb/d higher than its June forecast. This is on the back of its higher forecast of global economic growth of 3.5% for 2017, which recognises recent economic strength in North America, Europe and China. OPEC projects oil demand growth of 1.35 mb/d in 2018, supported by faster growth than previously anticipated in Europe and China. Demand in developing countries excluding China is expected to rise by 0.56 mb/d in 2017, with OECD demand expanding by 0.37 mb/d and Chinese demand by 0.39 mb/d. India's consumption is expected to rise

by just 0.1 mb/d this year as economic growth has decelerated.

OPEC anticipates demand for its collective output will average 32.7 mb/d in 2017, which is close to the level it targeted for supply in its May meeting at which the production cap was extended.

Looking ahead to the longer-term future, the biggest demand-side issue appears to be the increasingly rapid shift towards electric vehicles, which will reduce demand for oil. All the major car-makers have developed EV models, and most R&D is now being channelled in this direction. The trend is being spurred by several factors, including the rapid growth of renewable power generation, government policies to curb air pollution, and advances in battery technology that are bringing down costs. Chinese policy might be a game-changer, given that the country has the largest vehicle market: 28 million were sold domestically in 2016, including 500,000 EVs. Nevertheless, there are several transport sectors that are relatively unaffected by the EV revolution, including shipping, aviation and heavy-duty vehicles like trucks and mining and construction vehicles. But this is definitely an issue to watch.

**Table 2: World oil demand forecasts (million barrels per day)**

Agency	2017 average	2017 growth	2018 average	2018 growth
International Energy Agency <sup>1</sup>	97.7	1.60	99.10	1.40
U.S. Energy Information Administration <sup>2</sup>	98.3	1.35	99.95	1.69
OPEC <sup>3</sup>	96.8	1.42	98.12	1.35

*Sources:*

1. *IEA Oil Market Report, September 2017.*
2. *EIA Short-Term Energy Outlook, September 2017.*
3. *OPEC Monthly Oil Market Report, September 2017.*

## Supply

According to the IEA, global oil supplies fell by 720 kb/d in August, reaching 97.7 mb/d. The output decline – the first in four months – was attributed to unplanned outages and scheduled maintenance, mostly in non-OPEC producers. However, supply was 1.2 mb/d higher than a year ago, thanks mainly to robust non-OPEC production. OPEC crude production decreased by 210 kb/d in August to 32.67 mb/d. This was the first fall in five months, partly a result of supply disruptions in Libya following renewed political strife.

The 12 members of OPEC that are subject to agreed-upon supply restrictions boosted their compliance rate to 82% in July and 86% for the year thus far. The 10 non-OPEC producers that joined the supply cuts have recorded full compliance for the first time. However, both Nigeria and Libya – which are exempt from the cuts – have raised output by over 300 kb/d since December. Nevertheless, OPEC reports that the group as a whole had cut production by a net 517 kb/d by August. At a meeting in September, OPEC members agreed to delay any extension of its output cut until next January, given signs of oil market rebalancing.

The EIA expects world liquids supply to increase by about 0.6 mb/d in 2017 to 98.3 mb/d, up from the 92.7 mb/d average in 2016. Non-OPEC production is anticipated to expand by 0.86 mb/d in 2017, with about half of this net increase coming from the US. Further output declines due to reserve depletion are expected in the North Sea, China and Mexico.

OPEC forecasts that non-member producers will expand supply by 0.78 mb/d in 2017. The largest increases in production are projected for the US (0.63), Brazil (0.24), Canada (0.19) and Kazakhstan (0.18). These will be partially offset by reduced output from countries such as Mexico, China, Azerbaijan and Colombia.

Hurricanes Harvey and Irma battered the US Gulf Coast, the country's major oil producing and refining region. Harvey disrupted production and distribution in the area, giving rise to local shortages and higher gasoline prices. However, the ample cushion provided by commercial and strategic petroleum stocks, as well as surplus refined products from Europe, limited the economic impact. The recovery process is already underway.

Looking ahead to the medium term, oil trader Trafigura is one of a few voices saying that oil prices could move out of the \$40-60/b band by the end of 2019, as the lack of upstream investment in the past couple of years begins to bite on supply. The IEA has also issued warnings about a major price spike in 3-4 years.

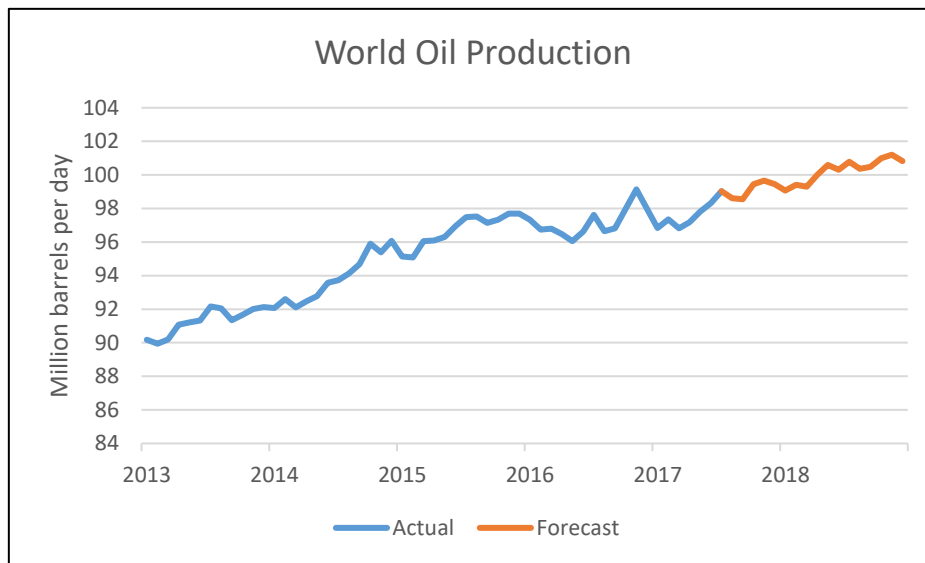
Recent research conducted at the China University of Petroleum suggests that the country's crude oil production could reach a peak next year. This would likely raise China's oil imports, already the largest in the world at 11 mb/d. The government plans for 10% of new vehicles sold to be electric by 2019, but in a market of some 18 million vehicles per year this will do little to cut oil demand in the short term.

**Table 3: Forecasts of non-OPEC oil supply (million barrels per day)**

Agency	2017 average	2017 growth	2018 average	2018 growth
International Energy Agency <sup>1</sup>	58.1	0.70	59.6	1.50
U.S. Energy Information Administration <sup>2</sup>	58.8	0.86	60.2	1.40
OPEC <sup>3</sup>	57.8	0.78	58.8	1.00

Sources:

1. IEA Oil Market Report, September 2017.
2. EIA Short-Term Energy Outlook, September 2017.
3. OPEC Monthly Oil Market Report, September 2017.



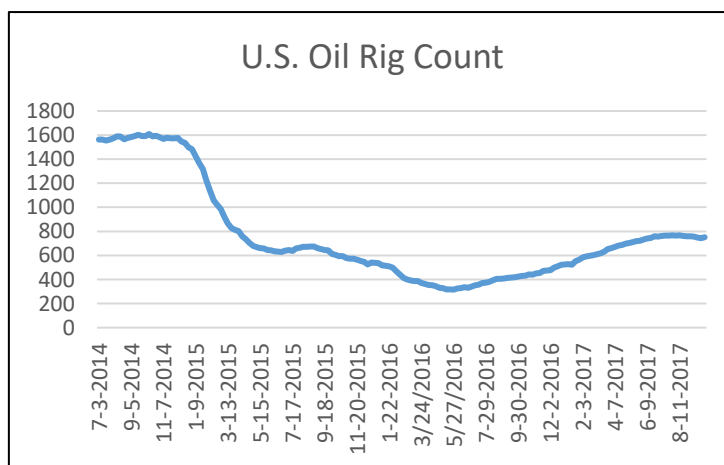
Source: U.S. EIA (2017)

The EIA estimates that US crude oil output averaged 9.2 mb/d in August, having fallen by about 40 kb/d from July's level. The EIA forecasts that US oil output will average 9.3 mb/d in 2017 and 9.8 mb/d in 2018, which would be a historical record level, surpassing the previous peak of 9.6 mb/d recorded in 1970. Most of the increase is anticipated to come from unconventional oil and natural gas plant liquids.

The active US oil rig count continued its slow but steady increase to reach a peak of 768 in mid-August, the highest level since April 2015. However, the rig count fell consecutively in the

following six weeks, reaching 744 on 23 September, before picking up to 750 by month-end. This decline came despite a marginal uptick in the West Texas Intermediate oil price to \$48/b in August from \$46/b in July. This casts some doubt on expectations for sustained production increases in about 6 months' time.

Production in the Bakken and Eagle Ford shale oil basins has hardly grown in recent months, as the 'sweet spots' have largely been exhausted. There are also doubts about the potential for rapid output increases from the Permian Basin, the third main shale oil basin.



Source: Baker Hughes (2017)

## Market balance and inventories

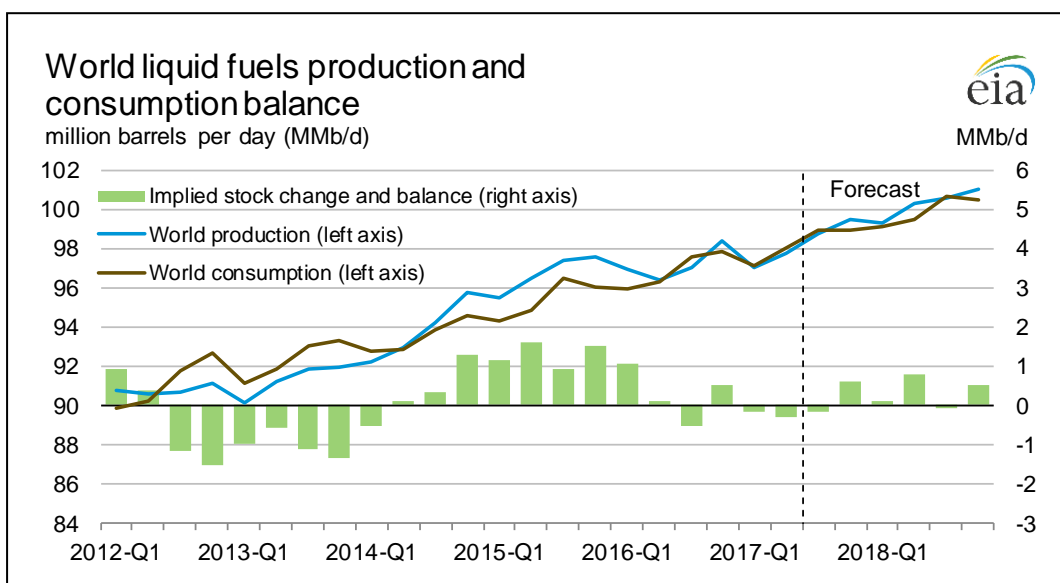
According to the IEA, OECD commercial oil inventories remained steady in July at 3 016 mb, whereas they usually rise at this time of year. The surplus over the five-year average dipped slightly to 190 mb. OECD oil stocks were just 35 mb higher than the five-year average, and could decline in the coming months owing to the impact of Hurricane Harvey.

The EIA anticipates a reasonably balanced oil market in 2017 and 2018. Supply is expected to exceed demand by 600 kb/d in 2017Q4 and by

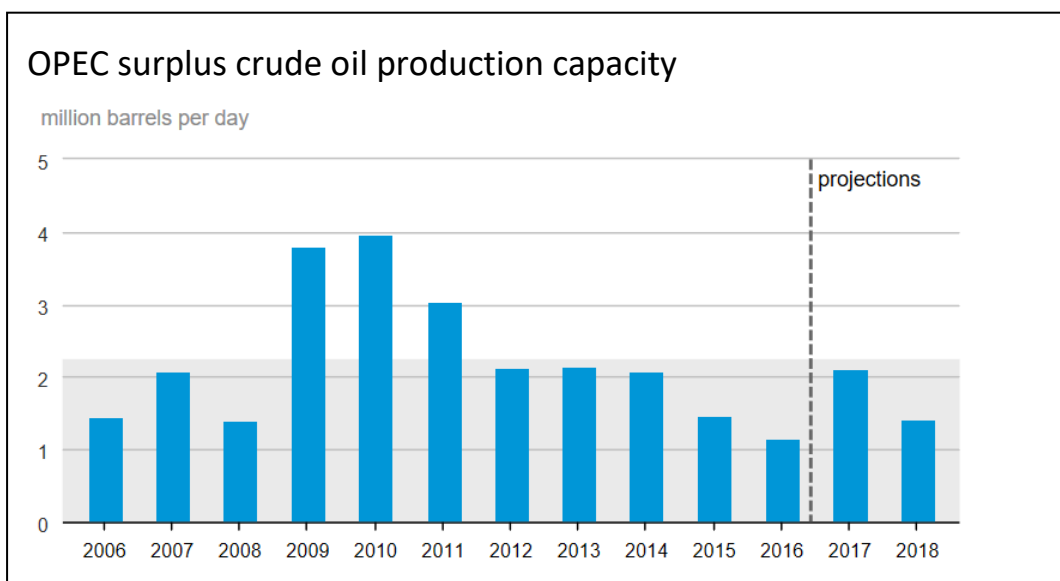
similar amounts in the second and fourth quarters of 2018, while demand and supply will likely be very close in the intervening quarters.

OPEC spare production capacity is projected at slightly over 2 mb/d in 2017, providing an additional buffer against oil supply shocks.

Consequently, sustained higher oil prices do not seem likely in the foreseeable future, barring major geopolitical events that increase the risk premium or disrupt supply.



Source: EIA (2017)



Source: EIA (2017)



## Prices

The price of Brent crude oil softened in July to slightly below \$47/b, but recovered somewhat to hover around \$52/b in August. In September, the heating up of geopolitical tensions in the Middle East led to further gains in Brent crude. By late September the spot price was over \$55/b and the front month futures contract was selling for up to \$59/b at one point. These were the highest levels reached by Brent in over two years.

The rally in Brent – up nearly 30% since June – has been supported by faster demand growth in both OECD and emerging market economies, and also by geopolitical tensions in the Middle East. Turkey’s president threatened to shut down Iraqi Kurdistan’s oil export pipeline in reaction to the autonomous region’s referendum on independence.

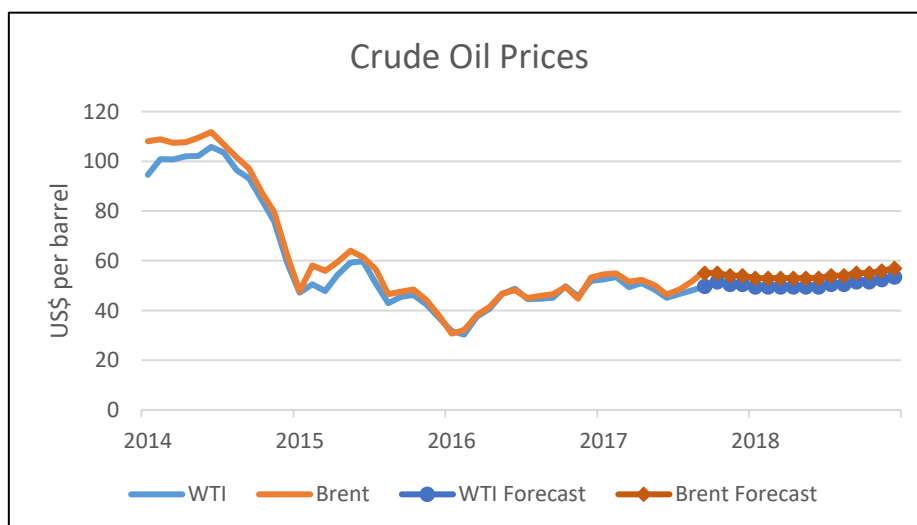
It remains to be seen how long-lived the price rally will be, as the medium-term fundamentals of demand and supply do not seem to be supporting a sustained increase.

In its October *Short Term Energy Outlook*, the US EIA forecast that Brent crude will average \$52/b in 2017. This is down somewhat from its June forecast of \$53/b and its January projection of \$54.6/b. The OPEC supply cuts have evidently done very little to boost prices in the face of rising non-OPEC production, particularly in the US. The EIA forecasts Brent spot prices to average \$54/b in 2018.

The spread between Brent and WTI spot prices widened to \$5/b in late August as US refinery demand eased, giving further impetus to US exports of light sweet crude. West Texas Intermediate prices are expected to average about \$2/b lower than Brent this year.

The weakening of the US dollar against the euro and other currencies this year has helped support oil prices, as the dollar and oil tend to move in opposite directions. The US Federal Reserve’s decision to reduce its balance sheet (i.e. to begin unwinding the quantitative easing programme), while the ECB continues its programme, could see the dollar strengthen somewhat. The longer-dated oil futures markets show that investors anticipate somewhat tighter markets ahead with modestly increasing prices.

The tense global geopolitical environment is supporting a risk premium for oil prices. One issue is the Trump Administration’s recent decision to pull out of the nuclear deal with Iran. Another is the tensions between the US and Russia. However, the major geopolitical risk of the moment is the escalation of rhetoric exchanged between the leaders of the US and North Korea about the latter’s nuclear weapons programme. Should conflict break out, it could have a negative impact on economic confidence and growth, and consequently oil demand and prices.



Source: EIA (2017)

## Oil developments in Africa

OPEC reports that top African producer **Nigeria's** crude oil output averaged 1.86 mb/d in August, a substantial increase from the second quarter average of 1.62 mb/d. This comes as the disruptive security challenges in the Niger Delta have subsided. **Angola** has maintained its oil production around 1.65 mb/d in the past quarter, adhering to its OPEC production cap commitment. Angola is the continent's second-ranked producer after Nigeria.

**Algeria**, Africa's third largest oil producer, held output steady at around 1.06 mb/d in August, according to OPEC figures. **Libya's** oil production averaged 890 kb/d in August, up from 709 kb/d in 2017Q1. However, this is just more than half of the pre-conflict output level of 1.6 mb/d.

Plans are progressing in **Uganda** to exploit the country's hydrocarbon resources, estimated at 6.5 billion barrels of oil and nearly 500 billion cubic feet (bcf) of gas. Oil exports require the construction of a pipeline to the Tanzanian port of Tanga. This will be the world's longest electrically heated pipeline. A recent IMF projection suggests that with sound management, oil production could contribute about 4% of Uganda's GDP within a few years.<sup>1</sup>

French oil major Total has signed a Technical Evaluation Agreement with **Guinea's** National Office of Petroleum (ONAP), to study deep and ultra-deep offshore areas totalling about 55,000 sq km.<sup>2</sup>

The Special Chamber of the International Tribunal of the Law of the Sea (ITLOS) has handed down a decision on the maritime boundary dispute between **Ghana** and Côte d'Ivoire. The boundary does not affect Ghana's TEN oil fields, and Tullow Oil aims to restart drilling near the end of the year, with a view to ramping up production towards the FPSO design capacity of 80,000 bpd.

<sup>1</sup><http://www.oilreviewafrica.com/exploration/exploration/bright-future-for-ugandan-oil-and-gas-sector-says-siemens>

Table 4 shows the major crude oil reserve holders and producers in Africa as of 2016. Despite severe disruptions to its oil production caused by militants damaging pipelines and other infrastructure, Nigeria maintained its top producer position on average for the year (2.05 mb/d). It was followed closely by Angola with 1.8 mb/d. Algeria was the other major producer, with average output of 1.58 mb/d. The largest oil reserve holders are Libya (48 billion barrels) and Nigeria (37 bn bbl). Algeria and Angola are the only other two producers with very substantial remaining reserves. Libya was producing far below its potential as a result of the ongoing political strife. Kenya and Uganda have more recently discovered oil reserves, but have yet to begin production on any significant scale. Africa as a whole accounts for 7.5% of the world's remaining conventional oil reserves.

**Table 4: Oil reserves and production in Africa, 2016**

Country	Reserves (billion bbl)	Production (kb/d)
Algeria	12.2	1 579
Angola	11.6	1 807
Chad	1.5	73
Republic of Congo	1.6	238
Egypt	3.5	691
Equatorial Guinea	1.1	280
Gabon	2.0	227
Libya	48.4	426
Nigeria	37.1	2 053
South Sudan	3.5	118
Sudan	1.5	104
Tunisia	0.4	63
Other Africa	3.7	233
<b>Total Africa</b>	<b>128.0</b>	<b>7 892</b>

Source: BP Statistical Review (2017)

<sup>2</sup>

<http://www.oilreviewafrica.com/exploration/exploration/total-sign-study-agreement-for-offshore-ares-of-guinea>

## NATURAL GAS

### Prices

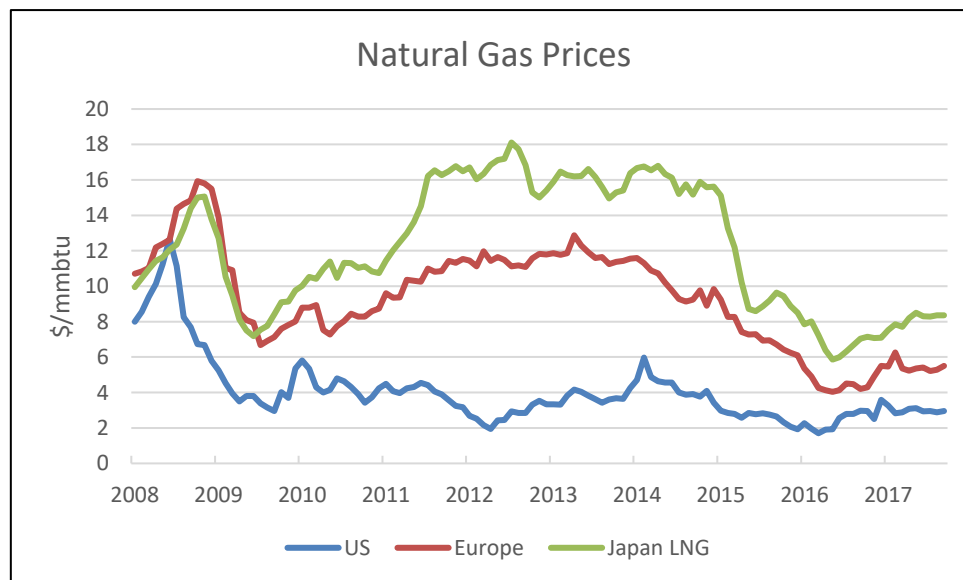
The figure below displays natural gas prices in the US, Europe and Japan (liquefied natural gas in the latter case). Global LNG prices tend to follow crude oil prices quite closely, since there is some degree of substitution between the two energy sources. However, prices for regional, land-based gas supplies tend to be somewhat delinked from global prices. For example, low natural gas prices in the US in recent years have been sustained by the massive output of shale gas. In Europe, gas prices have been influenced to a greater extent by global energy prices because of substitution possibilities on the margin.

### Prospects

In its recently released LNG Outlook 2035, the International Association for Natural Gas (Cedigaz) projects that expanding supply will outstrip demand growth in the medium term. Rebalancing of the global LNG market is not expected to occur before 2024.<sup>3</sup>

Cedigaz estimates that total LNG supply from existing capacity and new projects will rise from 244 million tonnes per annum (mmtpa) in 2015 to 387 mmtpa in 2021. The major capacity growth is currently occurring in Australia and the US, although there are also newcomers from Africa expected to come on stream in the coming years, such as Mozambique and Equatorial Guinea.

Demand from established markets such as Japan, Taiwan and South Korea is expected to remain flat, while major growth will likely come from Asian emerging markets including China, India, Malaysia, Pakistan, Singapore and Thailand. Imports from this group could increase from 41 mmtpa in 2015 to 193 mmtpa in 2035, according to Cedigaz. Demand is also expected to grow from the 2020s in a second wave of Asian countries including Bangladesh, Indonesia, the Philippines and Vietnam, whose imports could rise to nearly 40 mmtpa in 2035. Asia is projected to maintain its 70% share of the market for LNG imports throughout the forecast period.



Source: World Bank

<sup>3</sup> <http://www.oilreviewafrica.com/gas/gas/global-lng-market-rebalancing-unlikely-before-2024-says-credigaz>

## Natural gas developments in Africa

**Angola LNG** has announced a multi-year deal to supply liquefied natural gas to Glencore, the international commodity trading company. This follows earlier supply contracts signed with traders Vitol and Germany's RWE.<sup>4</sup> Production at Angola's LNG facility is expected to restart this year after a long outage.

Italian firm Eni is making progress with its Coral South floating liquefied natural gas (FLNG) project offshore of **Mozambique**. Eni has contracted Baker Hughes to supply power and refrigeration equipment. This will be the country's first project to commercialise its huge gas reserves in the Rovuma basin. Coral South will draw on a resource of approximately 16 tcf of gas in-place. The US\$8bn facility is anticipated to come on stream in 2022 with an annual capacity of 3.4 million tonnes (mt).<sup>5</sup>

**Cameroon** will host the continent's first small-scale FLNG project. The project is slated to begin production at the end of 2017 with a capacity of 1.6 billion cubic metres (bcm) per year. Russia's Gazprom will be the off-taker.<sup>6</sup>

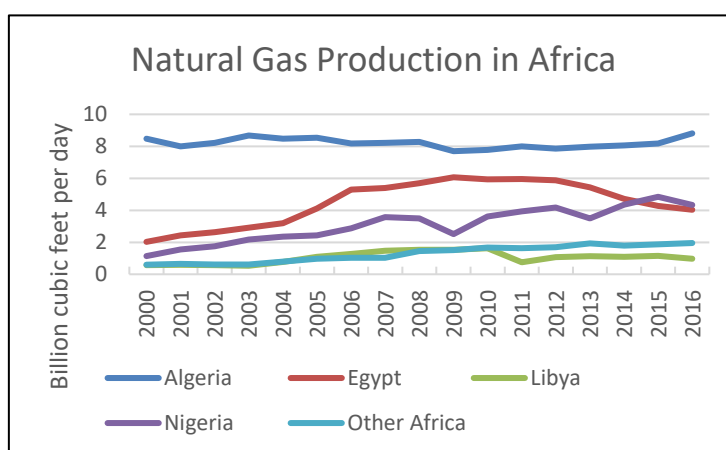
**Equatorial Guinea** is set to become Africa's first deep-water LNG producer. Output from its floating liquefaction export terminal Fortuna FLNG is expected to be 2.2mt a year by 2020.

Fortuna is located close to the abundant Niger Delta complex and will tap a gas-in-place resource estimated to contain 553 bcf.

**Ghana** National Petroleum Corporation (GNPC) has inked a contract with Russian state-owned gas company Gazprom for the latter to supply liquefied natural gas (LNG) for a 12-year period beginning in 2019.

In **South Africa**, a newly published scientific study estimates the country's shale gas resources at just 13 tcf, a mere 30<sup>th</sup> of a previous estimate by the US Energy Information Administration, which estimated technically recoverable resources of 390 tcf in a desktop 2015 report.

The figure below shows historical **natural gas production** by Africa's leading producers between 2000 and 2016. Algeria has been the top producer throughout the period, exporting much of its gas to Europe. Egypt was in second place until 2014, when it was overtaken by Nigeria, whose production has been rising – albeit somewhat erratically – since 2000. Egypt's gas supply has fallen by a third since peaking in 2009. Libya's gas production halved following the outbreak of civil war in 2011, and subsequently has made only a partial recovery.



Source: BP

<sup>4</sup><http://www.oilreviewafrica.com/gas/gas/glencore-signs-multi-year-contract-with-angola-lng>

<sup>5</sup><http://www.oilreviewafrica.com/gas/gas/baker-hughes-receives-contracts-for-coral-south-flng-in-mozambique>

<sup>6</sup><http://www.oilreviewafrica.com/gas/gas/analysis-prospects-for-commercialisation-of-gas-in-africa>

## MINERALS

### Precious metals

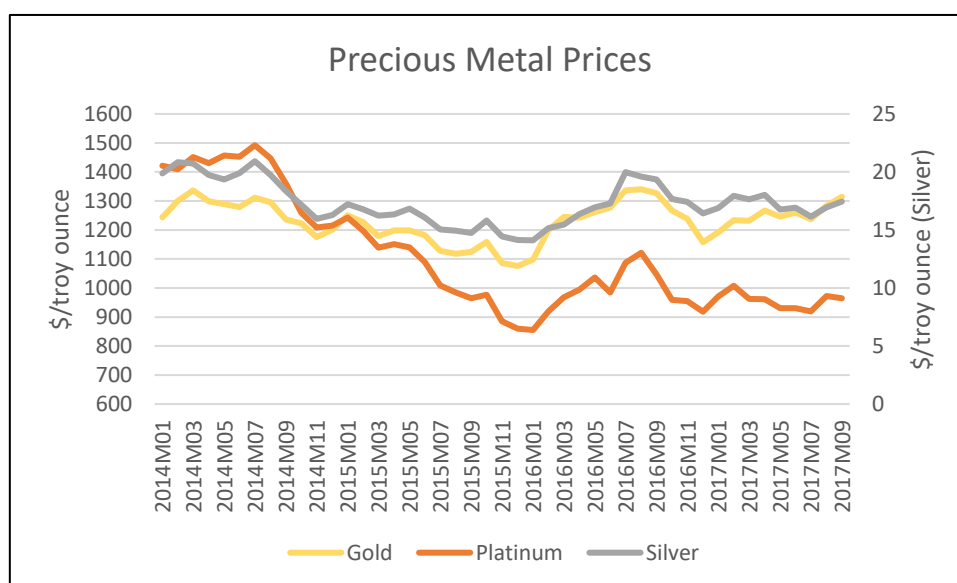
The prices of all three precious metals rose in the third quarter. Gold climbed by 4.3% between June and September to reach \$1314/ounce, the highest level in a year. The yellow metal has been bolstered by geopolitical tensions surrounding North Korea's nuclear weapons and missile programme and continuing strife in the Middle East, which have spooked investors.

The price of platinum rose from \$931/ounce in June to \$964/ounce in September, a 3.6% gain. Strengthening global growth is also supporting industrial demand for platinum used in catalytic converters in automobiles. However, platinum is still far below the high of \$1500

reached before the commodity price slump began in July 2014.

Silver edged up by 3% from \$16.93/ounce in June to \$17.43/ounce in September. This is still considerably lower than the peak of \$20 recorded in July last year.

The decision of the US Federal Reserve to maintain interest rates, and the IMF's recent pronouncement that inflation remains low in the industrialised countries and many emerging markets, suggests that there will not be much upward pressure on precious metal prices from inflation hedging or from a strengthening dollar in the foreseeable future.



Source: World Bank

## Non-precious metals

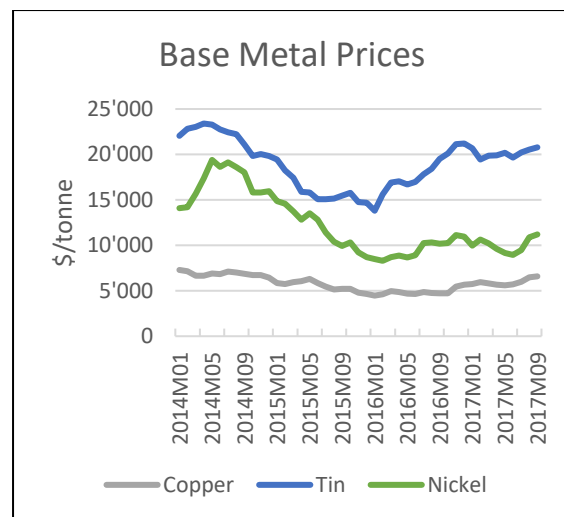
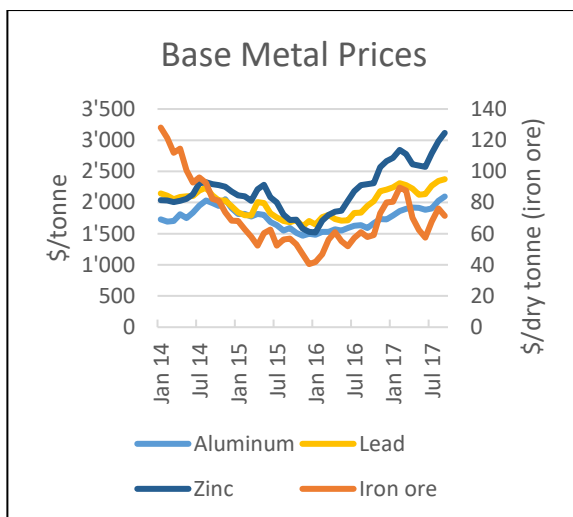
All seven base metals registered strong price gains in the third quarter, supported by the global pick-up in economic growth and hence demand. The best performer was nickel, which gained 25.6% between June and September. Nickel is in increasing demand for the high-tech renewables and battery sectors. Zinc climbed by 21%. Iron ore rebounded by a solid 24% from the low of \$57.5/tonne reached in June. Aluminium and lead each rose by 11%, while copper gained 15%. Tin was the only base metal to grow in single digits, rising 5.8% in the quarter. Aluminium, copper, lead and tin prices have all gained between 40-50% since the lows of January 2016, while iron ore is up 70% and Zinc has risen 105%.

Earlier this year, Chinese regulators were cracking down on speculative commodities futures trading, especially in steel and nonferrous metals. This action, together with softening demand, contributed to a weakening of base metal prices. Chinese demand for metals weakened somewhat as a result of

slower growth in infrastructure and property development. Furthermore, Chinese steel capacity is being reduced in order to lower particulate pollution. However, China's growth has picked up again, or at least is not decelerating as quickly as many feared.

In the short to medium term, base metal prices should for the most part hold their value. One exception could be iron ore, as new projects are still coming on stream.

In the longer term, there could be significant changes in the pattern of demand for metals as a result of fundamental technological shifts. A major driver is likely to be the energy revolution, with renewables (and batteries) playing an increasingly large role, at the expense of coal. Demand for metals such as copper, tin, aluminium, lithium and cobalt is likely to grow, while coal, iron ore and steel could see demand slacken as a result of restrictions on pollution and emissions.



Source: World Bank

## Mineral developments in Africa

**Mali** is Africa's fourth largest gold producer, but the country's exports are falling. New discoveries are not occurring fast enough to offset declining output from its large older mines. The future is uncertain for one of the biggest gold mines, Sadiola, which requires an investment of \$380 million to maintain production for another 10 years. Negotiations between the mining companies, AngloGold Ashanti and IAMGOLD, and the Government of Mali, have stalled. Sadiola is estimated to still contain 3.4 million ounces in gold reserves.<sup>7</sup>

In **Burundi**, mining company Rainbow Rare Earths recently announced that it will soon start production at its Gakara mine. RRE expects to process between 3,000 to 4,000 tonnes of ore in 2017-18. Gakara contains several high-grade rare earth elements, including lanthanum, cerium and neodymium, which are used in the manufacture of batteries, magnets and electric vehicles.<sup>8</sup>

In **Tanzania**, the government authorised Petra Diamonds to resume diamond exports. However, there is an ongoing dispute after the government recently seized a diamond parcel from the Williamson mine, which Petra had valued at \$15m but the government claimed was worth \$29.5m. Mining accounts for 3.5% of Tanzania's GDP.<sup>9</sup> The government has recently been cracking down on the mining industry and is trying to raise tax revenues from the sector. Shares of several companies operating in the country have fallen since new legislation was introduced in July.

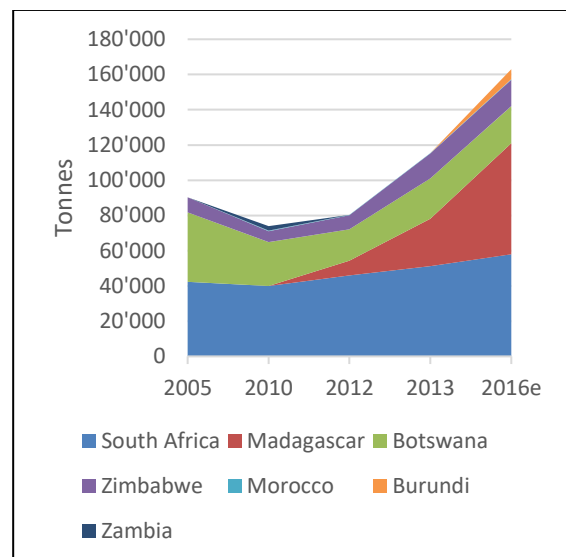
Canada's Endeavour Mining will invest \$412 million to extend the life of the Ity mine in **Côte d'Ivoire** by 14 years. An updated feasibility study estimates current reserves at 2.9 million ounces. After a carbon-in-leach plant has been built, the mine will produce some 144,000 ounces of gold a year for at least the first nine

years. The all-in-sustaining costs of \$507 per ounce should make it a profitable venture.<sup>10</sup>

London-listed mining company Sula Iron & Gold said in September it had found gold of almost "bonanza grade" in **Sierra Leone**. Exploration at the Ferensola gold project revealed gold at a grade of 19.3 grams per tonne.<sup>11</sup>

Table 5 displays Africa's **nickel** producers. South Africa was the top producer from 2005 to 2014, although the USGS projected that Madagascar would rapidly ramp up production and overtake SA by 2016 and further extend its lead in the coming years. Botswana, which rivalled its southern neighbour in 2005, has since then seen its output of nickel almost halve. Zimbabwe is the continent's other significant nickel producer. Morocco is a very small producer, while Burundi is a newcomer and Zambia has been an erratic producer of the lustrous metal.

**Table 5: Nickel production in Africa**



Source: US Geological Survey, e = estimate

<sup>7</sup> <http://www.mining.com/web/can-mali-maintain-gold-mining-status/>

<sup>8</sup> <http://www.mining.com/rainbow-rare-earths-closer-ever-kick-off-production-burundi/>

<sup>9</sup> <http://www.mining.com/petra-jumps-tanzania-letting-resume-diamond-exports/>

<sup>10</sup> <http://www.mining.com/endeavour-add-14-years-ity-mine-life-kicks-off-plant-construction/>

<sup>11</sup> <http://www.mining.com/web/sula-strikes-bonanza-grade-gold-sierra-leone/>

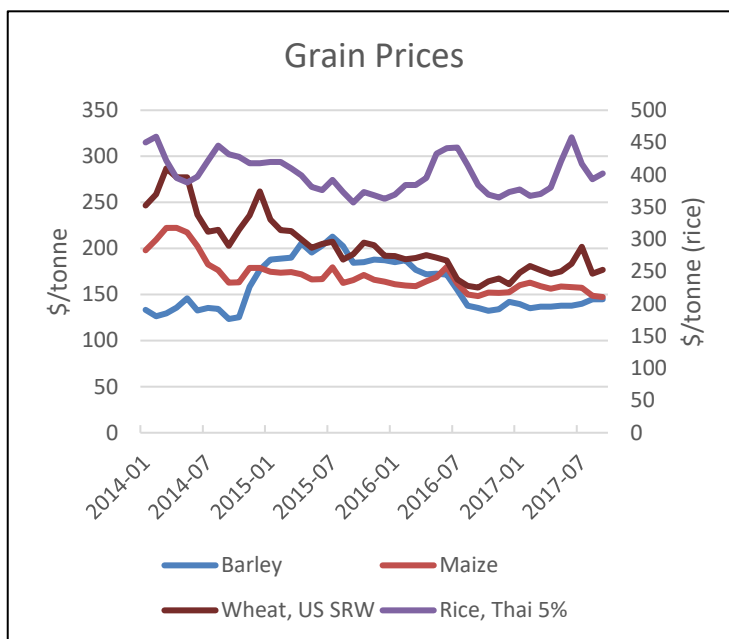
## AGRICULTURAL COMMODITIES

According to the OECD-FAO Agricultural Outlook for 2017-2026, record levels of production and high levels of stocks for most commodities in 2016 have continued to put

downward pressure on prices this year. Over the coming few years, “growing demand for agricultural commodities is projected to be matched by efficiency gains in production which will keep real agricultural prices relatively flat.”

### Grains

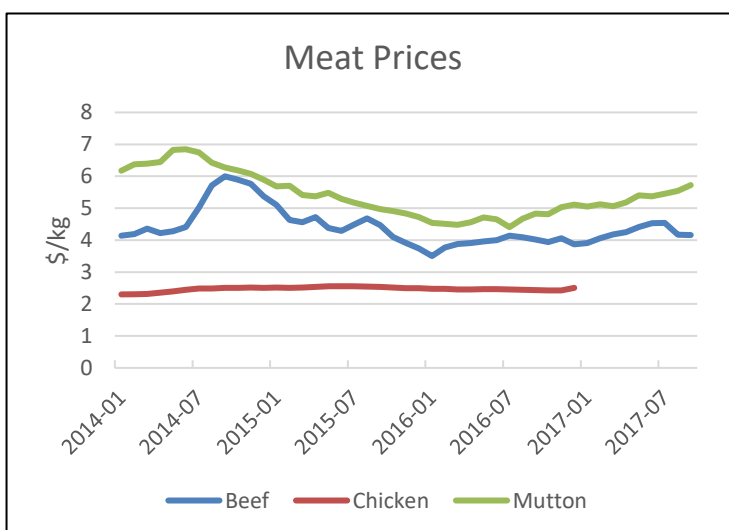
The price of wheat fell 3.5% in Q3, although in September it was 12.3% higher than a year earlier. The price of maize dropped 6.7% in the quarter and is down slightly over 12 months. Rice has declined even more, shedding 12% in the quarter. Only Barley increased, rising 5.1% in Q3 and 7% year-on-year. Wheat and maize have been on a declining trend for a few years, as a result of successive good harvests globally. Rice was somewhat volatile until the past year.



Source: World Bank (2017)

### Meat

The price of beef fell 8.2% in Q3, losing all the ground it gained in the previous quarter. Beef is just 3.4% higher than it was a year ago, but is up 18.7% since the low point reached in January 2016. Mutton gained 6.5% in Q3, a similar gain to the preceding quarter. It has now climbed 26% since the slump in early 2016. Rising demand for meat products in major emerging markets like China is in turn increasing demand for feed, but the ample grain harvests have kept prices of feed and meat products in check.



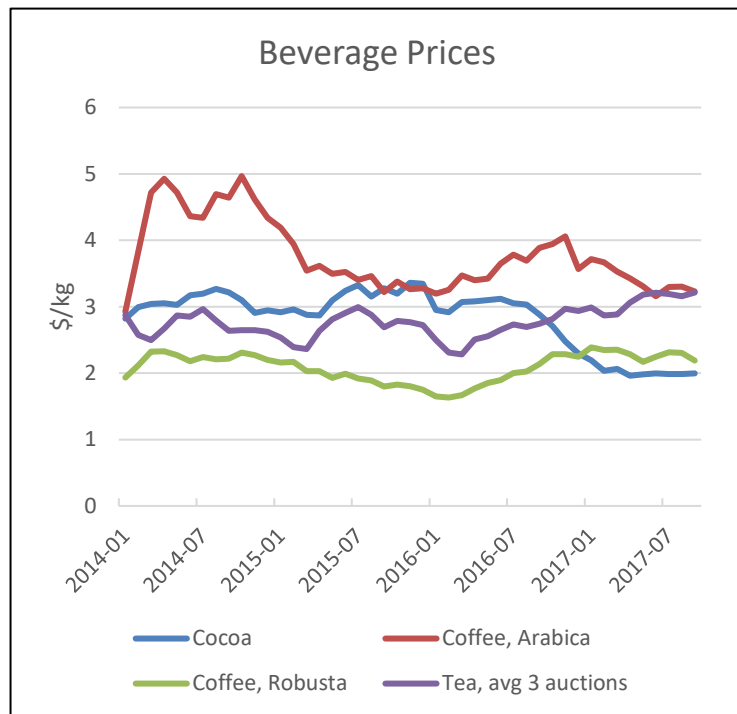


Source: World Bank (2017)

## Beverages

Arabica coffee prices edged up by 2.3% in the 3<sup>rd</sup> quarter, while Robusta coffee fell by 2.7%. Arabica is down 17% year-on-year, but Robusta rose 2.4% over the same period. The price of tea barely moved in Q3, rising just 0.1%. But tea prices are still 17% higher than in September last year.

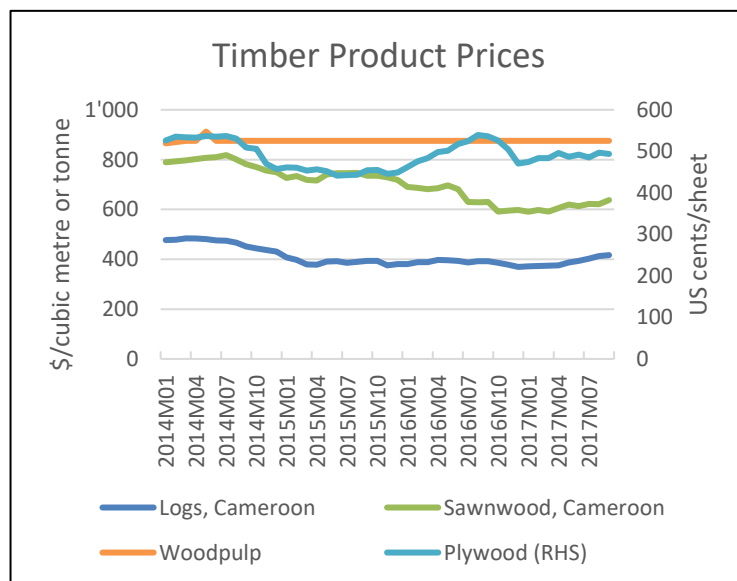
The price of cocoa beans was unchanged in Q3 at \$2/kg. However, in September cocoa was down 31% compared to a year earlier as a result of a supply glut since key West African producers ramped up production. The price collapse has had a major impact on the economy of Côte d'Ivoire, where the cocoa industry contributes 15% to GDP and comprises 50% of exports. The government has had to reduce its expenditure as revenues have fallen.



Source: World Bank (2017)

## Timber

The price of Cameroonian logs climbed by 6.2% in the 3<sup>rd</sup> quarter, very similar to the 6.3% year-on-year increase. Sawnwood prices rose by 4% in Q3, but are up just 1.2% over 12 months. Plywood increased marginally by 0.2% in the quarter, and is down almost 8% from a year ago. There has been no change in the price of wood pulp, which remains at \$875 per tonne. As usual, no significant changes are foreseen in the outlook, as both demand and supply tends to shift slowly for timber products. However, the gradual global economic growth acceleration could support somewhat firmer timber prices.



Source: World Bank

## Agricultural developments in Africa

The **Horn of Africa** continues to be at risk of famine as a result of a persistent drought, heavy livestock losses, outbreaks of diseases, and ongoing obstacles to the delivery of humanitarian aid.<sup>12</sup> Many parts of the eastern Horn have experienced very low rainfall over the past three consecutive rainy seasons. Forecast models indicate an elevated probability of a La Niña episode between October 2017 and February 2018. La Niña events are usually associated with reduced rainfall in the Horn region. Communities in Somalia and Ethiopia are experiencing the brunt of the drought, but other neighbouring countries are also affected.

In **Kenya**, notable offseason rains in the past few months occurred in western pastoral areas, boosting water and forage availability. However, food security continues to worsen in other pastoral areas, especially the north-east.

The Western Cape region of **South Africa** remains in the grip of a three-year drought, reputed to be the worst in about 100 years. This has had a major impact on agricultural production in the country's main export region, which produces wine and fruits. Cape Town's major dams are at just 38% of capacity at the end of the winter rainfall season, whereas they are usually full in non-drought years.

The CEO of Dangote Group announced that the company would invest \$4.6 billion in **Nigeria's** agricultural sector over the next five years. The targeted commodities include sugar, rice, tomatoes and oil palm.<sup>13</sup>

The **International Cocoa Organization** has released its latest forecast for the 2016/17 crop year. It estimates global output of 4.7 million tonnes (mt), up from 3.98 mt in the previous year – an 18% rise.<sup>14</sup> This largely explains the approximately 33% decline in the cocoa price in the past year.

Table 6 shows **coffee** production (total and exportable) by Africa's top producers and exporters. The production figures are for both Arabica and Robusta varieties, for the 2016/17 season. Ethiopia – the 'home' of coffee – is the continent's top producer and exporter, followed by neighbour Uganda and Côte d'Ivoire. Tanzania and Kenya are also major producers. Ethiopia is the 5<sup>th</sup> largest producer in the world, Uganda 9<sup>th</sup> and Côte d'Ivoire 13<sup>th</sup>. Madagascar is a significant producer, but consumes most of its own coffee beans. Other smaller producers, such as Burundi, Rwanda and Togo, export almost all of their coffee output. Many African countries could boost coffee production given their favourable climates, notably Nigeria and Angola.

**Table 6: Africa's top coffee producers, 2016/17 (thousand 60kg bags)**

	Africa	Total output	Exportable output
1	Ethiopia	6 600	3 560
2	Uganda	3 800	2 900
3	Côte d'Ivoire	2 000	1 683
4	Tanzania	900	805
5	Kenya	783	733
6	Cameroon	480	403
7	Madagascar	415	55
8	Congo, Dem. Rep.	335	135
9	Burundi	258	256
10	Rwanda	251	250
11	Guinea	200	150
12	Togo	119	119
13	Central African Rep.	100	80
14	Sierra Leone	50	45
15	Angola	45	15
16	Nigeria	42	2

Source: *International Coffee Organisation*

<sup>12</sup><http://www.fews.net/east-africa/alert/september-29-2017>

<sup>13</sup><https://www.premiumtimesng.com/business/business-news/244180-dangote-group-invest-4-6-billion-agriculture.html>

<sup>14</sup><https://www.icco.org/about-us/icco-news/378-quarterly-bulletin-of-cocoa-statistics-august-2017.html>