Commodities Outlook

2<sup>nd</sup> Quarter 2017

HIGHLIGHTS

- **Overall, commodity prices have been quite stable** in the three months since December. Energy prices eased slightly while non-energy indices have firmed a little thanks to stronger market sentiment.
- **Most commodity prices are expected to remain relatively steady or increase slightly** this year, as global demand is expected to strengthen somewhat on the back of faster economic growth. However, risks abound, notably regarding President Trump’s trade policies and geopolitics.
- **Oil** prices remained range-bound around $55/barrel in January and February as OPEC and some non-OPEC producers implemented their agreed production cuts. However, growing shale oil production and swelling oil stocks in the US pulled Brent down to average $52/bbl in March. Looking ahead, much will depend on whether OPEC+ agrees to extend their output cuts for six months from July.
- **Precious metal** prices did not change much in the first quarter. Gold and silver are up slightly since January, but platinum recently reversed its February gains.
- **Most non-precious metal** prices rose quite strongly in the first quarter, led by iron ore and uranium. The medium-term outlook is for little change in most base metal prices over the coming year or two, with the exception of iron ore, which is likely to begin trending down by 2017Q3.
- The prices of **grains** firmed in the first quarter, led by wheat with a 17% rise. Wheat, maize and rice are likely to strengthen moderately in the next few quarters, while barley prices are forecast to remain flat.
- **Meat** price trends have been variable of late. No changes are foreseen for lamb and poultry prices over the next few quarters, but beef is projected to fall substantially. The price of pork is likely to rise moderately over the next two quarters, before dipping seasonally in Q4.
- **Beverage** prices have shown mixed fortunes of late, with a marked increase for tea and a large decline for cocoa on the back of excess supply. Coffee has been less volatile, although ‘other mild Arabica’ coffees have softened recently.
- Both hardwood and softwood prices have eased in the past quarter. The outlook for **timber** prices is stable over the next few quarters as moderate gains in demand are expected to be matched by expanded supply.

![Commodity Price Indices](source: IMF (2017))
The IMF’s All Commodities Price Index barely moved in the three months to March, but has gained 37% since the low point recorded in January 2016. Energy prices (including oil, natural gas and coal) fell 2.6% in the first quarter, having strengthened by about 12% between November and December. Fuel prices are up 61% since January 2016. The non-energy price index rose each month from November to February, before falling slightly in March. The index gained 2.9% in Q1 and 17% since last January. On average, however, commodity prices were lower in 2016 than in 2015. The All Commodities Index shed 11.1% last year compared to the preceding year, thanks mainly to a 16% fall in energy prices. Non-energy prices averaged 2.4% lower in 2016 compared to 2015.

The figure to the right displays the indices for more disaggregated groups of commodities. It is evident that fossil fuels have experienced the greatest price volatility in recent years. Of the five indices, only beverage prices have been trending downward over the past year, shedding 3.9% since January 2016. Agricultural raw material prices (including timber, cotton, wool, hides and rubber) have gained 8.7% in the past 15 months, while base metal prices have climbed an impressive 44%. Food prices rose to an 18-month high in June 2016 before dipping to a trough in September and recovering somewhat since then.

In annual terms, food prices were up 2.8% in 2016, whereas all the other indices fell last year compared to 2015. The agricultural raw materials index was down in 2016 by 6.8%, metals by 6.4%, and beverages by 8.7%. These price declines highlight the continued weakness in global demand, although in the case of some commodities production has been strong as well.

Source: IMF (2017)
Global Demand

The OECD expects global economic growth to increase from 3.0% in 2016 to 3.3% this year, and to accelerate further to 3.6% in 2018. Growth in the United States is forecast to pick up to 2.4% in 2017 on the back of Trump’s mooted stimulatory fiscal policies. Eurozone and Japanese growth rates are projected to remain stable at comparatively low levels. China’s deceleration is expected to continue over the coming two years as the economy matures and restructures, while the outlook for India is more positive, once it gets over its money shock of late last year.

However, the global economic outlook is clouded by uncertainty surrounding the economic policies of the Trump Administration, especially with regard to international trade. Thus far, the Administration has not followed through on campaign rhetoric which promised increased protectionism, although under US pressure the recent G20 statement dropped the usual reference to upholding free trade. President Trump also cancelled the US’s involvement in the Trans-Pacific Partnership, which had been negotiated by his predecessor but not yet implemented. The major risk is of a trade war between the US and China, which could dampen demand for several internationally traded commodities.

On the other hand, Trump’s proposed $1 trillion infrastructure spending plan could boost demand for certain commodities, notably base metals. However, given recent political setbacks, it is unclear whether the Republican-led Congress will approve the plan. Furthermore, the Federal Reserve’s signals of a likely further two interest rate hikes later this year could lead to dollar strengthening, with consequent easing of dollar-denominated commodity prices.

Another factor that continues to support a recovery in global commodity prices that began last year is measures taken by the Chinese government to limit air pollution in some of its major cities. This has involved the closure of some coal mines, and authorities recently announced plans to limit steel and aluminium production during the winter.

The US PMI has shed nearly 3 points since January but was still a reasonably healthy 53 in March. China’s PMI has hardly budged this year, averaging 52.1 in March. India’s PMI has bounced back into positive territory (52.3 in March) after plunging into the red in response to the government’s bungled bank-note recall. This indicates that all three of these economies are in expansion mode, albeit a cautionary one.

Table 1: Economic growth forecasts

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.0</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>USA</td>
<td>1.6</td>
<td>2.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Eurozone</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0</td>
<td>1.2</td>
<td>0.8</td>
</tr>
<tr>
<td>China</td>
<td>6.7</td>
<td>6.5</td>
<td>6.3</td>
</tr>
<tr>
<td>India</td>
<td>7.0</td>
<td>7.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Rest of World</td>
<td>2.3</td>
<td>2.7</td>
<td>3.2</td>
</tr>
</tbody>
</table>

OIL

Demand

According to data provided by the International Energy Agency (IEA), world oil demand rose to 97.9 million barrels per day (mb/d) in the 4th quarter of 2016, the fourth successive quarterly increase. For 2016 as a whole, oil consumption was up by 1.6 mb/d over 2015, thanks to growing demand in developing countries and relatively low oil prices.

The IEA predicts demand growth of 1.4 mb/d in 2017, amidst an uncertain economic outlook. In January, demand slackened somewhat in Germany, Japan, South Korea and India. The US Energy Information Administration (EIA) is projecting demand growth of 1.5 mb/d in 2017, supported by stronger global economic growth.

OPEC is anticipating world oil demand growth of 1.26 mb/d in 2017, on the back of global economic growth of 3.2%. This demand projection was recently raised due to increased optimism about consumption in Europe. OPEC anticipates demand for its collective output will average 32.4 mb/d in 2017, which is about the level it targeted for supply in its November meeting.

The EIA projects that China’s oil consumption will expand by 0.33 this year, while US demand will rise by 0.21 mb/d. China’s net oil imports could rise around 0.5 mb/d because the country’s own oil production is set to decline by about 0.16 mb/d in 2017, according to the EIA.

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

<table>
<thead>
<tr>
<th>Agency</th>
<th>2017 average</th>
<th>2017 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Energy Agency(^1)</td>
<td>97.5</td>
<td>1.40</td>
</tr>
<tr>
<td>U.S. Energy Information Administration(^2)</td>
<td>98.2</td>
<td>1.51</td>
</tr>
<tr>
<td>OPEC(^3)</td>
<td>96.3</td>
<td>1.26</td>
</tr>
</tbody>
</table>

Sources:

2. EIA Short-Term Energy Outlook, March 2017.
Supply

According to the IEA, global oil supplies rose by 260 kb/d in February to reach 96.52 mb/d, which is 170 kb/d less than a year ago. OPEC’s output declined compared to a year earlier for the second month in a row, but increased in February by 170 kb/d to 32 mb/d. This was accompanied by increased non-OPEC supply.

Thus far, it appears as though OPEC members are sticking to the agreed output cut that was announced on 30 November. The IEA puts the compliance rate at 98%, although Saudi Arabia has done more than its fair share, with 135% compliance. The output figures for the 11 non-OPEC producers that joined the pledged cut are less clear. Russia had said that it would take some time to implement its supply reduction. The IEA estimates that 37% of the non-OPEC cut of 558 kb/d has materialised thus far.

The IEA estimates that US crude oil output averaged 8.9 mb/d in 2016 and will rise to 9.2 mb/d in 2017 and 9.7 million b/d in 2018.

History has shown that the EIA tends to err on the optimistic side. In recent months, US crude oil production has risen somewhat, as shale drillers have raised output in response to higher prices.

The EIA expects world liquids supply to increase by about 1.1 mb/d in 2017 compared to the average for 2016. Non-OPEC production is anticipated to expand by 0.53 mb/d in 2017, with approximately 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. The EIA expects OPEC to produce an average of 32.7 mbpd in 2017.

OPEC forecasts that non-member producers will expand supply by 400 kb/d in 2017. This is higher than the 300 kb/d increment that was projected last December, and is due mainly to an improved outlook for production in North America (US shale and Canadian oil sands), as a result of slightly higher oil prices.

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

<table>
<thead>
<tr>
<th>Agency</th>
<th>2017 average</th>
<th>2017 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Energy Agency¹</td>
<td>58.1</td>
<td>0.40</td>
</tr>
<tr>
<td>U.S. Energy Information Administration²</td>
<td>58.7</td>
<td>0.53</td>
</tr>
<tr>
<td>OPEC³</td>
<td>57.7</td>
<td>0.40</td>
</tr>
</tbody>
</table>

Sources:

2. EIA Short-Term Energy Outlook, March 2017.
The active US oil rig count has continued to increase almost every week over the past three months. Since bottoming out at the end of May 2016 at 318, the total number of active oil rigs has reached 631 as of mid-March. This is similar to the number of rigs in action in June 2015. It seems, therefore, that while US shale oil output could increase somewhat after the usual time lag of around 6 months, the increase will not be very large at first. One other factor is that drilling has become more productive, as fewer well-pads have to be drilled for the same volume of extraction compared to a few years ago. Nonetheless, as demand for drilling services rise, so do their costs – thus crimping profits.
Market balance and inventories

OECD commercial oil inventories reversed their downward trend in January, rising sharply by 48 mb (translating to 1.5 mb/d). Preliminary data for February indicates only a slight decline in stocks. The accumulation of stocks was particularly marked in the US, and news of this on 7 March caused a notable slide in crude oil prices. Oil inventories are still 300 mb greater than the five-year average, providing a cushion against the effects of a likely tightening in the demand/supply balance.

The EIA anticipates a relatively balanced oil market in 2017 and 2018, with stock accumulations averaging 0.1 mb/d next year and 0.2 mb/d the following year. Assuming that OPEC maintains its production at current rates, the IEA projects that demand will exceed supply in the first two quarters of 2017 by an average of 0.5 mb/d. This would help to rebalance the oil market and support prices at or above their current level, assuming no other significant changes in the market.
Prices

After the initial modest rally in oil prices following the OPEC+ decision late last year, prices have been remarkably stable. Brent crude oil spot prices averaged close to $55/b in January and February, but dipped to $52/b in March following the larger-than-expected inventory accumulation in the US.

In its March *Short Term Energy Outlook*, the US EIA forecast that Brent crude will average $54.6/b in 2017, up from an average of $43.7/b in 2016. It projects a slight increase to $57.2/b in 2018. West Texas Intermediate prices are expected to be just $1/b lower than Brent. The gap between the two has narrowed since the US lifted its oil export ban last year.

The IMF’s March forecasts put average oil prices (Brent, West Texas and Dubai) at $54.3/b in 2017Q1, rising marginally to $55.7/b by 2017Q4.1

The outlook for prices in the second half of 2017 depends on a range of factors, including whether OPEC+ extends their production cut, the supply response of shale oil producers, the Trump Administration’s economic and trade policies, the path of US interest rates and the value of the dollar, as well as global demand and in particular the pace of growth in China and India. If the US Fed follows through with further interest rate hikes later this year following the January increase, this could strengthen the dollar and hence put downward pressure on oil prices. Some forecasts are shown in the figure below, assuming no changes to current OPEC production policy.

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Oil market analysis

The supply cut announced by OPEC+ in November/December has largely been implemented, although the non-OPEC parties such as Russia are taking more time to limit production. The announcement made an initial impact on oil prices, raising them about $5 per barrel. However, production from other countries – including the United States shale oil producers – has ramped up somewhat. Overall, there appears to be slight over-production still as inventories rise, but at the very least the OPEC+ move avoided a large glut as was seen a year ago.

At this point, it seems likely that OPEC will extend its output cut for another six months from July. However, Iraq’s oil minister stated that his country wants to raise oil output to 5 mb/d by the end of the year, from 4.57 mb/d in February. Meanwhile, oil production in Nigeria – which was exempt from the supply cut – has rebounded in recent months as the government cut a deal with militants in the Niger Delta region.

In Libya, oil production continues to be volatile in the face of ongoing conflict that affects the oil export terminals. If security at the terminals could be restored, Libya’s oil exports could increase by several hundred thousand barrels per day.

The situation in Venezuela is still highly unstable, with the country descending a seemingly inexorable path to failed state status. This could at some point have a major impact on the country’s oil production and exports. There are reports that the national oil company, PDVSA, has been losing skilled staff for political reasons.

Another factor that could impact the oil markets is the Trump Administration’s policies aimed at boosting US production. However, assuming they are in fact enacted, some of these policies – such as opening up more of the Arctic to drilling – will take quite some time to yield significant results, if any.

China’s oil production appears to have peaked, with the result that imports are increasing significantly – by 12.5% in January and February compared to a year earlier. China is therefore putting even more effort into securing long-term oil deals with key suppliers, including Saudi Arabia.

Another issue that has been garnering more attention later is the impact of environmental policies on demand for petrol and diesel cars and therefore oil. The Chinese government is considering a plan to force all new taxis to be electric or gas powered in major cities, in an effort to curb dangerous levels of air pollution. Should this be implemented more widely, the world’s biggest market for new cars could tip towards electric vehicles. On the other hand, President Trump is rolling back environmental regulations in the US, likely including vehicle fleet fuel efficiency standards that were mandated by the Obama Administration late last year.

OPEC’s spare production capacity is expected by the EIA to average just 1.71 mb/d in 2017, which is somewhat less than the historical average of 2.3 mb/d recorded between 2005 and 2015. However, coupled with the near-record oil inventories in the OECD, this suggests some flexibility in the event of an unforeseen supply disruption due to geopolitical or weather-related events.

Looking further down the road, the precipitous drop in upstream oil sector investment in the past two years is causing concerns of a possible supply crunch and price volatility around 2020. While most attention is placed on global production, the issue of world oil exports is arguably more important for oil prices. World net exports – the amount that producers collectively export after deducting their own consumption – has been stagnant since about 2005. This is basically because domestic oil consumption is rising faster than production in some of the biggest producers, notably in the Middle East. As more individual countries pass their peak rates of production, there will be an increasing number of net oil importers. In the past few years several large oil producers, such as Indonesia and the UK, have swung from being net exporters to net imports.
Oil & gas developments in Africa

Nigeria’s oil production rose by 134 kb/d to 1.61 mb/d between December and February, following a deal between the government and the militants in the Niger Delta that has resulted in fewer attacks on oil pipelines. Nigeria is exempt from the OPEC+ cuts.

Angola still tops the African oil producer table, with output at 1.64 mb/d, despite having shed 33 kb/d since December – in line with the OPEC+ agreement. This is considerably below the 1.75 mb/d average rate of production in 2015.

Operators of Ghana’s only oil refinery, located in the port city of Tema, announced that the capacity of a proposed second plant could be doubled to 200,000 b/d. Ghana, whose oil production is only around 100 kb/d, is looking to increase refined fuel exports to neighbouring countries in West Africa. It currently imports crude from Nigeria for refining.

Offshore Congo, French oil major Total has said it has begun production at a deep-water prospect offshore of the Republic of Congo. Moho Nord is the country’s largest oil development to date, with a production capacity of 100,000 barrels per day.

Edinburgh-based Cairn Energy is reviewing the results from its fifth appraisal well at the SNE offshore basin off the coast of Senegal. Cairn estimates the oil field could hold in excess of 2 billion barrels of oil.

Development of Uganda’s oil reserves has been delayed for a number of years due to ownership changes, low oil prices and difficulties on the part of the government and the consortium comprising Total, Tullow and China National Offshore Oil Corporation to agree on a development strategy. The parties are looking to take a final investment decision by the end of 2017, but it could take another three years before production begins and is gradually ramped up to around 230,000 b/d.

Table 4 shows the top natural gas reserve holders in Africa as of December 2015, along with 2015 production. The established major producers are in North Africa and Nigeria, while Mozambique and Tanzania are newcomers.

The prolific natural gas discoveries in Mozambique’s northern offshore Rovuma basin since 2010 could make the country a significant exporter of liquefied natural gas (LNG) on the global stage. Proved reserves are estimated at 100 trillion cubic feet (Tcf). However, international gas companies have yet to make a final investment decision, and so LNG exports are not expected to begin before about 2020.

About 38 Tcf of recoverable natural gas resources (not the same as proved reserves) have been discovered in Tanzania’s offshore Rovuma basin since 2010. These resources are big enough to support an LNG plant, but the international companies involved, led by BG (recently acquired by Shell) have not yet made a final investment decision.

Table 4: Natural gas reserves and production in Africa, 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Reserves (tcf)</th>
<th>Production (bcf/day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>159.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Egypt</td>
<td>65.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Libya</td>
<td>53.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Mozambique</td>
<td>100.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Nigeria</td>
<td>180.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Other Africa</td>
<td>38.8</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Total Africa</strong></td>
<td><strong>596.7</strong></td>
<td><strong>20.7</strong></td>
</tr>
</tbody>
</table>

Source: BP Statistical Review (2016), EIA

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3 http://africanbusinessmagazine.com/sectors/energy/kenya-large-scale-oil-production-moves-step-closer/#sthash.gwrEQb5S.dpuf
4 https://www.eia.gov/beta/international/analysis.cfm?iso=MOZ
5 https://www.eia.gov/beta/international/analysis.cfm?iso=TZA
MINERALS

Precious metals

Gold and silver prices rose very slightly between January and March, ending at $1,231 and $17.6 per ounce, respectively. Platinum increased in February and subsequently retreated in March to average $963 per ounce in the month. On a quarterly basis, gold eased 0.2% lower in 2017Q1, whereas silver firmed by 1.7% and platinum by 3.9%.

In early April Thomson Reuters released its ‘Gold Survey 2017’, which forecasts the gold price to average $1,259/oz this year. Demand in the key Indian market is expected to firm this year, after a 37% annual fall in 2016. In China, jewellery fabrication has collapsed by 40% since 2013 as the economy has cooled. World gold output increased again in 2016, reaching a record 3,222 tonnes, but is expected to fall this year due to declining discoveries, lower ore grades, and challenging regulatory conditions in some countries.6

A softening gold price has recently weighed on platinum, but the fundamentals look more solid for the coming quarters. ‘Dieselgate’ – the Volkswagen emissions scandal – has had less impact than some analysts feared on automotive demand, which constitutes about 40% of total platinum demand. The World Platinum Investment Council forecasts a deficit of 120,000 ounces in 2017 as a result of robust demand and falling supply.7

One of the main downside risks to precious metal prices is the prospect of further interest rate hikes by the US Federal Reserve.

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7 www.mining.com/dieselgate-hasnt-hurt-platinum-price/
Non-precious metals

Most non-precious metal prices recorded quarterly increases in 2017Q1, following gains in the fourth quarter of last year. The biggest increases occurred in the cases of iron ore (21%) and uranium, which rebounded 22% after falling 23% in 2016Q4. Zinc and copper also posted double-digit growth rates, following similar gains in the previous quarter. Aluminium gained 8% and lead 6.5%. The exceptions to the growth trend were tin and nickel, whose prices declined by 4% and 5%, respectively.

The medium-term outlook is for little change in most base metal prices over the coming year or two. The major exception is iron ore, which is expected to post one more quarterly increase to around $85 per million tonnes (MT) in 2017Q2 before trending gradually downwards towards $60/MT by the end of 2018. This is mainly due to continuing global overcapacity, with new low-cost mines in Brazil and Australia due to come on-stream soon. The price of tin is likely to fall somewhat next quarter, before stabilising. Lead and uranium prices could firm marginally in the coming quarters. Aluminium prices could be volatile as a result of actions by the Chinese government to limit production in order to curb air pollution in major cities.

In the longer term, the major demand-side drivers of base metals will continue to be economic growth in China, India and other major emerging markets. With China’s real estate sector beginning to cool, and industrial production growth still decelerating, it seems unlikely that Chinese demand for base metals will increase significantly in the near term. Given recent political setbacks to Trump’s policy agenda, it remains to be seen whether the Republican Party will agree to his planned $1 trillion infrastructure spending programme. Even if this does materialise, it could take several quarters to substantially affect demand. Supply of metals will likely remain robust over the next few years as a result of large capacity expansions that were made during the recent boom years. However, recent falls in investment spending sets the stage for a sharper rebound in prices in a few years’ time.

Source: IMF Commodity Price Forecast, March 2017
Mineral developments in Africa

Africa currently has three notable uranium producers, namely Niger (4th in the world in 2015), Namibia (6th) and South Africa (11th). Niger boasted nearly 7% of world output in 2015, and 7% of recoverable resources. The French nuclear power company Areva is embroiled in a ‘uranium-gate’ scandal surrounding alleged embezzlement of public funds and fraud to the tune of $3.25 million.8

A new uranium mine is due to start production in Namibia this year, and is anticipated to boost the country to third in the world rankings.

South Africa’s uranium production has fallen substantially, mainly because it is largely a by-product of gold mining, which has been steadily declining for decades.

Malawi began producing uranium from its Kayelekera open cast mine in 2009, with production ramping up to 1,132 tonnes in 2013. However, output fell to 369 tonnes the following year and was subsequently suspended following the collapse in uranium prices caused by the Fukushima nuclear disaster in Japan.

Table 5: Uranium production and reserves in Africa

<table>
<thead>
<tr>
<th></th>
<th>2015 output (tonnes)</th>
<th>% of world output</th>
<th>% of world resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Niger</td>
<td>4116</td>
<td>6.8%</td>
<td>7%</td>
</tr>
<tr>
<td>Namibia</td>
<td>2993</td>
<td>4.9%</td>
<td>6%</td>
</tr>
<tr>
<td>South Africa</td>
<td>393</td>
<td>0.6%</td>
<td>6%</td>
</tr>
<tr>
<td>Malawi</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Botswana</td>
<td>0</td>
<td>0%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: World Nuclear Association

8 http://www.mining.com/areva-faces-uranium-gate-niger/
13 http://www.mining.com/acacia-mining-says-west-kenya-project-holds-high-grade-gold/
AGRICULTURAL COMMODITIES

Grains
The price of wheat rose by 17% in the first quarter, after a dip of 4.4% in 2016Q4. Prices of maize (5.5%) and barley (4.6%) also picked up moderately, while the rice price rose marginally by 1.2%, after falling nearly 13% in the previous quarter.

Looking ahead further into 2017, wheat is forecast to strengthen by around 3-6% for the next three quarters, following 5 years of decline. The price of maize is expected to grow more slowly, around 1-3%. Rice prices are also likely to pick up moderately this year (2-4%), while barley is expected to remain flat.

The FAO projects that the global grain production will reach 2 597 million tonnes in 2017, only 9 mt short of the record set in 2016. This depends on forthcoming climate conditions and on farmers’ planting decisions, which are price-sensitive.

Meat
Prices of all four categories of meat grew in 2017Q1. Beef rose 2.5% after a 3% dip in 2016Q4. Lamb posted a moderate increase (3.2%), while poultry prices grew more strongly (5.8%). The big mover was pork, which rebounded by 34% after declining by 25% in the previous quarter.

Looking ahead, no changes are foreseen for lamb and poultry prices over the next few quarters. However, beef is projected to fall about 6-8% in each of the next two quarters. Pork is likely to rise moderately over the next two quarters, before dipping seasonally in Q4.

Beef prices have trended downwards over the past two years, whereas lamb dipped in 2015 before recovering last year. Poultry has been stable, while pork prices have followed seasonal fluctuations around a largely flat trend.14

Source: IMF (2017)

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Beverages

Beverage prices had very mixed results in 2017Q1. Robusta coffee continued its upward trend from last year, increasing by 4.2%. However, ‘other mild Arabica’ coffee prices fell by 6.3%. Coffee prices have generally been supported by demand growth in Asia, as consumers shift from tea to coffee, and by concerns over harvests in leading producer countries such as Columbia, Vietnam and Brazil.

The price of tea climbed by 14.2% in Q1, on the back of two successive 13% increases in the previous quarters. Tea prices are not forecast to change under expected market conditions, although clearly there has been considerable volatility in recent years.

The price of cocoa beans plunged by 16% in Q1, following a similar decline in 2016Q4. This is due to a large supply glut as key West African producers have expanded production while demand has stagnated. Cocoa prices are anticipated to fall a little further in 2017Q2 before consolidating.

Materials

International prices of agricultural raw materials showed mixed results in 2017Q1, although all were positive. Rubber gained an impressive 32%, on the back of a 15% rise in 2016Q4. Fine wool rose 15%, while coarse wool increase slightly by 2.3% following a dip late last year. Hide prices remained relatively flat, while cotton increased by 7%.

The outlook for wool prices is stable, while cotton could see some small gains in the coming two quarters. Rubber, on the other hand, is likely to pare some of its recent gains; the price of rubber has nearly doubled since late 2015.
Timber

Prices of all four timber categories declined in Q1. The price of hardwood logs dipped by 4% after a 6% fall in the previous quarter. Sawn hardwood prices were shaved by 0.3%. The price of softwood logs eased down by 1.1%, on the back of an 8% increase in the previous quarter. Sawn softwood fell by 3% in Q1.

In the outlook, the timber prices are expected to remain stable at current levels over the coming year, with the exception of an increase in softwood log prices next quarter. Beyond that, the current outlook is stable for all four timber categories over the next five years as gains in demand are expected to be matched by expanded supply.

The price of wood pulp traded on the Chicago commodities exchange has barely moved over the past half year, rising from US$805 per tonne in June 2016 to US$809 per tonne in January. There is no expectation of any major movement in the coming quarter.

Source: IMF (2017)

Source: National Institute of Statistics and Economic Studies (France)
Agricultural developments in Africa

After two successive strong El Niño years which caused severe droughts in Southern Africa and Ethiopia, the Southern Oscillation in the Pacific swung into the opposite La Niña pattern. This brought heavy rains with flooding in South Africa and Zimbabwe, causing damage to infrastructure and crops in some areas.

Another blight affecting crops in Southern Africa is an infestation of army worms, an invasive alien species from the Americas, which may reduce Zimbabwe’s maize yield by around 10% this season.

Nevertheless, South Africa’s maize crop is expected to rebound by 50% from 2016’s drought reduced total output of 7.7 million tonnes.

Meanwhile, the Horn of Africa remains in the grip of a drought that may become the most serious in decades. The drought is causing hunger among some 16 to 20 million people in Somalia, Ethiopia, South Sudan, Kenya and northern Uganda. If the spring rains fail, the crisis will continue until October. The drought has been exacerbated by a phenomenon called the "Indian Ocean Dipole". This involves a warming of surface temperatures in the eastern end of the Indian Ocean, which reduces monsoon rains in East Africa.

West Africa’s drive to increase cocoa production has contributed to a supply glut that has led to a nearly one-third fall in prices since September 2015.

Table 6 shows maize production (million tonnes), area planted (million hectares) and yields (t/ha) for the top 15 producers in Africa. Egypt and South Africa stand head and shoulders above the rest in terms of yield, as they have the only predominantly industrialised maize farming systems on the continent. Of course, yields (and area planted) fluctuate from year to year, depending largely on rainfall. The generally very low yields contain an upside in terms of the potential for much more productive maize farming in Africa.

<table>
<thead>
<tr>
<th>Africa</th>
<th>Production (mt)</th>
<th>Area (m ha)</th>
<th>Yield (t/ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 South Africa</td>
<td>14.3</td>
<td>2.7</td>
<td>5.3</td>
</tr>
<tr>
<td>2 Nigeria</td>
<td>10.8</td>
<td>5.8</td>
<td>1.8</td>
</tr>
<tr>
<td>3 Egypt</td>
<td>8.1</td>
<td>1.0</td>
<td>7.8</td>
</tr>
<tr>
<td>4 Ethiopia</td>
<td>7.2</td>
<td>2.1</td>
<td>3.4</td>
</tr>
<tr>
<td>5 Tanzania</td>
<td>6.7</td>
<td>4.1</td>
<td>1.6</td>
</tr>
<tr>
<td>6 Kenya</td>
<td>3.5</td>
<td>2.1</td>
<td>1.7</td>
</tr>
<tr>
<td>7 Zambia</td>
<td>3.4</td>
<td>1.2</td>
<td>2.8</td>
</tr>
<tr>
<td>8 Malawi</td>
<td>2.8</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>9 Uganda</td>
<td>2.8</td>
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<tr>
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<td>1.7</td>
</tr>
<tr>
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<tr>
<td>13 Cameroon</td>
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</tr>
<tr>
<td>14 Zimbabwe</td>
<td>1.5</td>
<td>2.3</td>
<td>0.6</td>
</tr>
<tr>
<td>15 Burkina Faso</td>
<td>1.4</td>
<td>0.7</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: FAOSTAT (2017)

15 http://news.trust.org/item/20160908172922-m249y/
19 http://www.reuters.com/article/us-cocoa-surplus-idUSKBN16S266