Afreximbank African Commodity Index (AACI) H1-2023

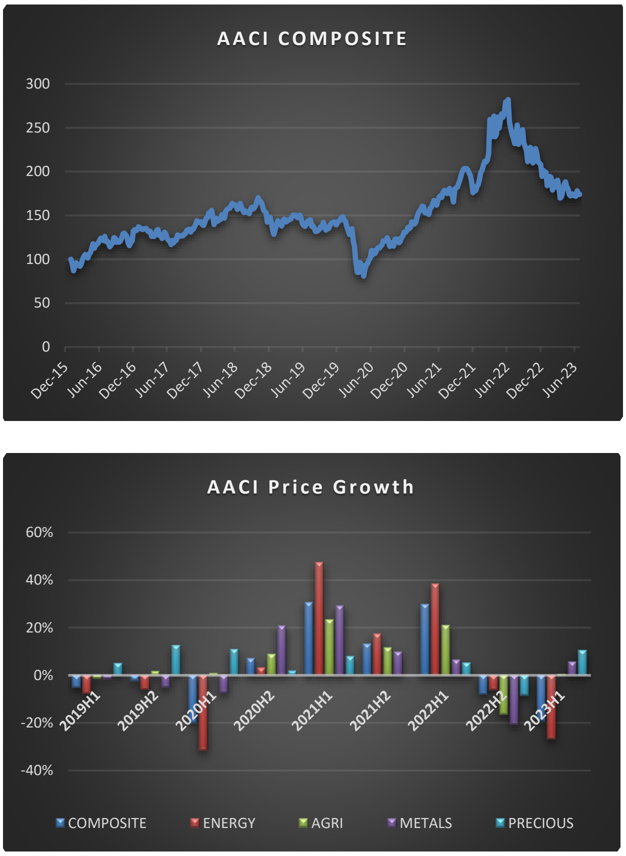
The recurrence of adverse shocks in commodity terms of trade has severely constricted growth in African economies, which continue to depend heavily on primary commodities and natural resources for foreign exchange earnings. This makes it crucial for businesses and policymakers alike to consistently monitor trends in the region's key commodity markets. The Afreximbank African Commodity Index (AACI) accurately reflects the composition of African commodities and tracks the movements of commodity prices on a biannual basis. In so doing, the AACI highlights areas that require preemptive measures by the Bank, its key stakeholders, policymakers, and global institutions interested in the African market, to effectively mitigate risks associated with volatility in commodity prices.

The AACI reflects dynamics of 14 key commodities that are of export interest to Africa. The commodity list is divided into three main categories: seven agricultural (cocoa, coffee, cotton, corn, sugar, wheat, and palm oil), five metal (aluminum, cobalt, copper, gold, and zinc) and two energy (crude oil and natural gas). This report focuses on price movements, including growth rates and volatility, over time, particularly during the first half of 2023.

During H1-2023, commodity markets experienced marked improvements in exports across the main sub-classes, reflecting positive developments in production and easing supply chain disruptions. For instance, the Black Sea Grains Initiative (the Ukraine grain deal) facilitated seaborn supply of a significant amount of grains from Ukrainian ports; favorable weather conditions enabled better harvests globally; and mild winter weather encouraged high energy storage levels. In addition, mining activities were enhanced by easing operational disruptions, resulting in improved availability of metals, particularly base metals.

Consequently, commodity prices remained relatively weak, sustaining the deceleration that started in the second half of 2022, after a strong recovery from the Covid-19 pandemic. This is reflected in Figure 1, showing the AACI composite index and price growth dynamics by subindices over time. As of June 2023, the AACI composite index declined by more than 25 percent year-on-year, driven mainly by the energy subindex, which shed ground significantly.

Figure 1: AACI Composite Index (2016=100)

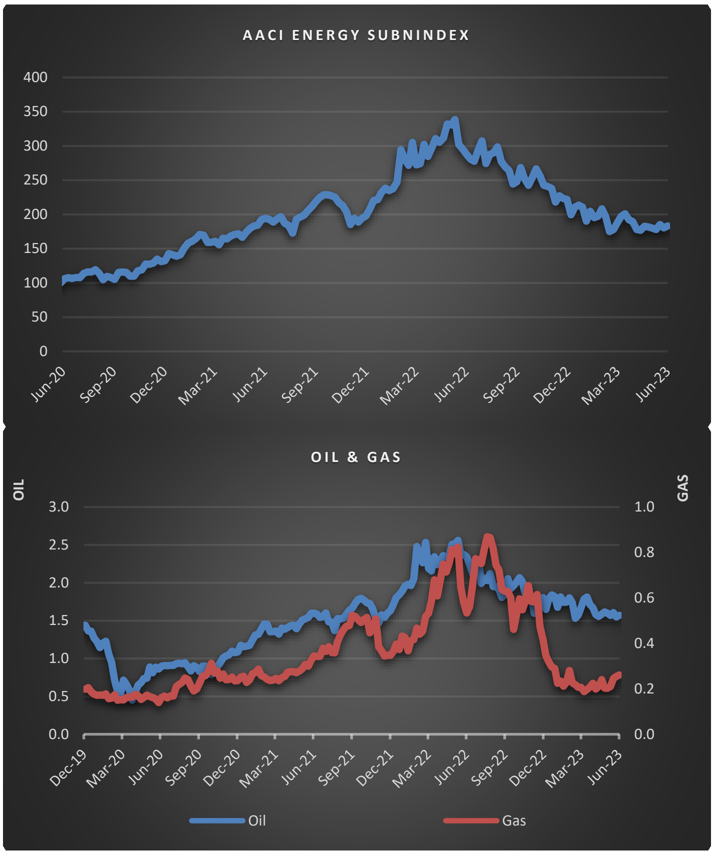


Source: Afreximbank Research, Bloomberg.

a. Energy

The AACI energy subindex declined by 27 percent during the review period, driven by a 15-percent fall in oil prices and a more than 60 percent drop in gas prices. Brent crude futures returned to pre-Ukraine crisis levels, with spot prices averaging US$75 per barrel during the first half of 2023, owing to the perceived weakening of global economic conditions, persistent inflation, and downside risk in the global banking sector. Increased exports from some of the leading global producers also added to the downward pressure on oil prices.

Figure 2: AACI Price Growth and Volatility (2016=100)



Source: Afreximbank Research, Bloomberg.

According to the International Energy Agency (IEA), oil (including oil product) exports from Russia surged significantly and exceeded April 2020 levels. Oil shipments from Russia rose by 0.6 million barrels per day (mb/d) to 8.1 mb/d with oil products reaching 3.1 mb/d as the world's second -largest oil exporter delivered crude oil and oil products through its alternative routes to China and India, among other new buyers. Meanwhile, the American Petroleum Institute data showed a large increase in US crude stockpiles, reaching 5.2 mb/d during the review period, against prior expectations of a 1.2 mb/d deficit.

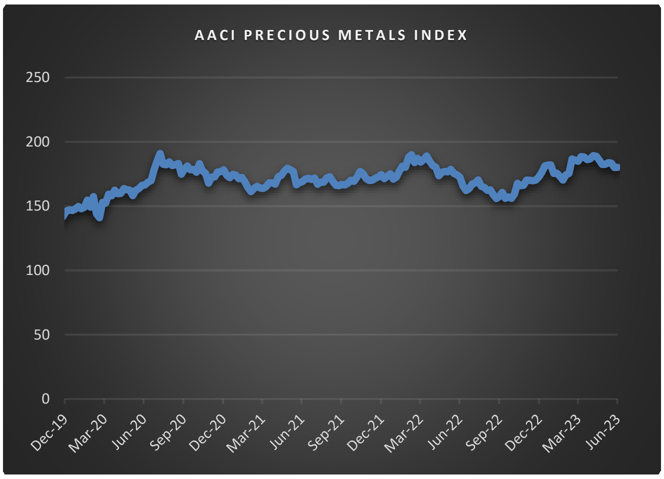
During the first half of 2023, natural gas prices plummeted by more than 60 percent and traded below US$2.2 per metric million British thermal units (MMBtu), down from a multi-year peak of US$9.7/MMBtu reached in August 2022 as production in the United States, the world's largest gas producer, reached record highs of 102.5 billion cubic feet per day in May 2023, complemented by increased gas exports from Canada. Further, IEA data showed that US utilities added 110 billion cubic feet to storage, surpassing expected inventory volumes, while gas consumption decreased by 2.4 percent over the same period due to reduced consumption in commercial and residential sectors driven by mild winter weather.

b.1 Precious Metals

The precious metals subindex rose by 10.64 percent over the review period on the back of increases in gold prices (11.59 percent). The precious metals trade weighted subindex is heavily tilted toward gold. Gold prices were buoyed by expectations of less aggressive interest rate hikes by the systemically important central banks; the weakening of the US dollar; and global volatility following increasing risk to the financial system on both sides of the Atlantic.

Gold prices rose steadily and mostly traded above US$1,900 an ounce during the first half of 2023 primarily due to heightened global uncertainty. The collapse of three banks in the United Sates, Silicon Valley Bank (SVB), First Republic Bank (FRB) and Signature Bank, and the ensuing problems with larger Swiss bank Credit Suisse, shifted sentiment toward safe-haven assets as investors became wary of potential contagion risk within the global financial system.

Figure 3: AACI— Precious Metals Subindex (2016=100)



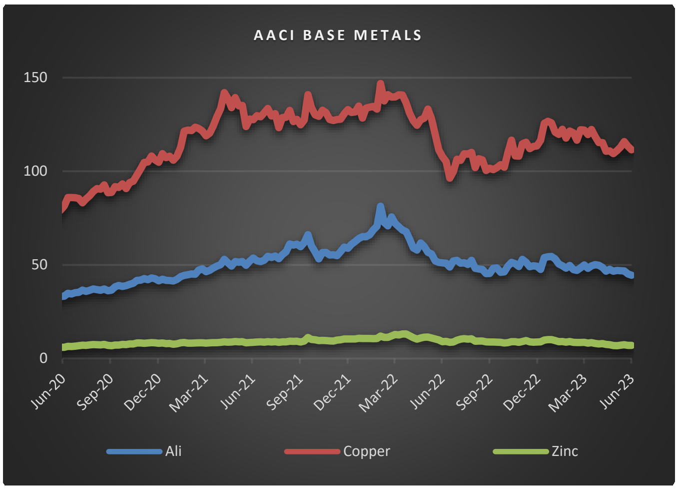
Source: Afreximbank Research, Bloomberg.

b.2 Base Metals

The base metals subindex gained by 6 percent during the first half of 2023, caused by a 10-percent uptick in copper prices. However, price decreases were observed for aluminum (1 percent), and zinc (9 percent), on the back of weakening demand from China, the world's largest importer of base metals. China's Caixin Manufacturing PMI, which measures the performance of the country's industrial activity contracted during the first quarter, declined below the expansion level of 50 in April 2023 before a slight increase in May and June, showing some hope of recovery in the near term. Base metals prices remained under pressure during the review period amid lingering challenges within the Chinese property and construction sector.

Declines in zinc prices was supported by improvements in smelter production resulting in increased zinc stocks at the London Metal Exchange (LME) totaling 53,500 tonnes in April, up from 15,600 tonnes in February. Production increased, particularly in China and India as new mines opened and some existing mines restarted after a long shutdown period caused by the Covid-19 pandemic.

Figure 4: AACI—Base Metals Subindex (2016=100)

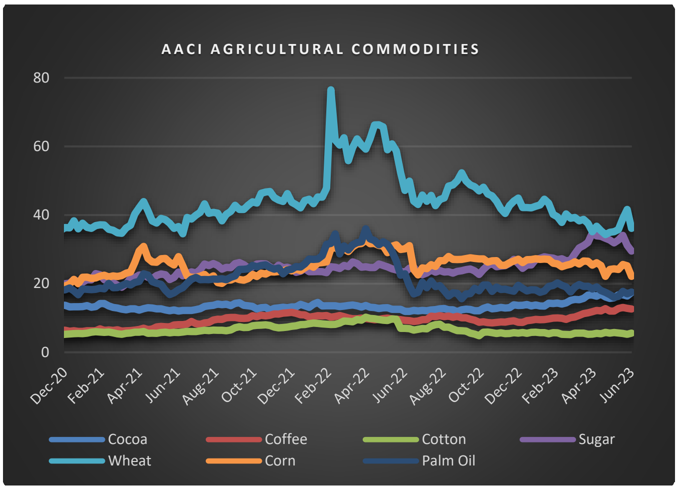


Source: Afreximbank Research, Bloomberg.

c. Agricultural Commodities

The agricultural subindex increased marginally by 0.4 percent due to mixed price movements in soft commodities. Sugar, cocoa, and coffee prices rose by 22 percent, 21 percent, and 14 percent, respectively, while wheat, cotton, corn, and palm oil prices declined by 15 percent, 12 percent, 3 percent, and 1 percent, respectively.

Figure 5: AACI—Agricultural Commodities Performance (2016=100)



Source: Afreximbank Research, Bloomberg

Cocoa futures were generally bullish during the first half of 2023, reaching 6-year highs of over US$3,000/tonne. The International Cocoa Organization (ICCO) highlighted that the current season is headed toward a global deficit due to a potential decline in production. As concerns about the quality of crops in the top grower Côte d'Ivoire persisted, it is estimated that cumulated cocoa bean arrivals at the ports in Côte d'Ivoire from October 2022 to May 2023 reached 1.945 million tonnes, a 7-percent decline from the volumes recorded during the corresponding period in the previous season. Subsequently, the country's exports declined by 0.5 percent over the same period. Ghana and Brazil recorded cumulative increases in production of graded and sealed cocoa beans in the same period, though their combined increases were offset by declines in Côte d'Ivoire, resulting in a global shortfall of 77,7 thousand tonnes of cocoa beans.

Coffee prices remained on an upward trajectory, which started in 2021 because of unfavourable weather conditions. Lower production reflects the effects of excessively wet La Niña weather phenomenon endured across the top coffee growing regions of South America. Brazil is the leading producer of Arabica coffee, accounting for about 40 percent of the world's total coffee supply. Vietnam mostly produces Robusta coffee and accounts for roughly 15 percent of global coffee supply.

Socio-political unrest in South American coffee growing regions such as Cajamarca, Junín and San Martín also contributed to declines in production, especially during the first half of 2023. According to the International Coffee Organization (ICO), combined exports from Brazil, Colombia and Peru decreased by roughly 17.9 percent in March 2023 to 4.13 million bags compared to the corresponding period in the previous year. Likewise, coffee exports from Africa decreased, mainly driven by declines in exports from Côte d'Ivoire and Kenya. However, export growth in Burundi, Rwanda and Uganda lessened the severity of overall declines in Africa during the review period.

During the first half of 2023, wheat prices plummeted to pre-Ukraine crisis levels, declining to US$6 per bushel from US$12 per bushel over the same period in the previous year. Prices fell sharply due to improved global supplies, supported by strong export flows from Canada, Australia and the Black Sea region, which was buoyed by a two-month extension of the Black Sea grain deal in May 2023. Under the Black Sea Grain Initiative, which commenced in August 2022, Ukraine ports exported about 30 million metric tonnes, with more than half destined for developing countries such as Ethiopia, Somalia, Yemen and Afghanistan, where wheat accounts for a large proportion of staple food. Prior to the crisis, Russia and Ukraine together accounted for roughly 30 percent of global wheat exports, followed by the European Union, Australia, the United States, Canada and Argentina.

Over a 3-year period ending June 2023, cotton has been one of the most volatile commodities. Cotton prices plummeted by more than 50 percent to trade below 80 cents per pound during the first half of 2023, compared to the corresponding period in the previous year. This reflected heightened selling pressure from Indian farmers, coupled with weakening global demand triggered by inflationary pressures.

During the review period, cotton production fell by about 20 percent in Africa, driven mainly by declines in the leading Cotton 4 (Benin, Burkina Faso, Chad, and Mali) and other West African cotton growing countries, owing to parasitic invasion by a new species of leafhopper. The Cotton 4 account for about 50 percent of Africa's production. According to the United States Department of Agriculture (USDA), Côte d'Ivoire was affected most by the parasitic invasion, with production declining by 47 percent to 269,000 tonnes. Mali and Senegal recorded a 30-percent drop in production and Chad's harvest was down 18 percent.

d. Outlook for Commodity Prices

Commodity prices are expected to edge higher in the near term, concomitant with an increase in global consumption led by an expected recovery in China and strong demand growth in Asia. Price increases for grains in the interim are further supported by the recently ended Black Sea Grain Initiative, when Russia pulled out of the deal in July 2023, posing a significant challenge to global food supplies. Table 1 provides the forecasts for prices of key commodities of interest in the near term, and Table 2 shows the expected price growth over time relative to the current spot price.

Table 1: Selected Commodity Forecasts

Commodity Price/Unit	Quarterly				Annual			
	Spot	Q3 23	Q4 23	Q1 24	Q2 24	2023	2024	2025
Corn cents/bu.	525.75	544.32	544.10	554.77	561.11	582.98	548.39	526.99
Wheat cents/bu.	702.50	706.54	738.52	755.40	760.02	688.10	760.82	751.88
Coffee (DF) $/MT	161.45	159.77	161.86	163.08	164.36	170.33	165.32	169.91
Sugar#11 c/lb	24.27	24.43	24.64	24.19	22.77	24.28	22.65	19.87
Cocoa $/mt	3,529.00	3,496.41	3,519.92	3,495.59	3,456.24	3,250.81	3,424.04	3,453.14
Cotton cents/lb	87.85	86.28	84.61	84.56	84.33	83.59	82.26	79.08
Palm Oil RM/metric ton	3,860.00	3,913.60	4,000.13	4,027.00	3,970.05	3,918.59	3,943.26	3,886.00
ICE Brent $/BBL	80.15	78.55	78.30	77.09	75.82	76.29	75.24	70.91
Natural Gas $/MMBtu	2.62	2.62	3.50	3.41	3.22	2.72	3.54	4.00
Gold $/t oz	1,950.26	1,949.43	1,980.66	2,013.87	2,039.82	1,945.64	2,053.83	2,145.88
Cobalt $/lb	16.90	14.25	15.00	16.38	17.72	16.50	19.75	23.34
Aluminum $/mt	2,205.00	2,188.30	2,222.00	2,260.55	2,297.03	2,258.67	2,313.75	2,438.51
Copper $/mt	8,569.00	8,545.37	8,577.43	8,592.39	8,602.29	8,642.10	8,606.17	8,629.81
Zinc $/mt	2,454.00	2,446.67	2,457.73	2,461.38	2,467.11	2,615.47	2,469.74	2,479.74

Sources: Afreximbank Research, Bloomberg.

*MMBtu (Metric Million British Thermal Unit)

Oil: Prices are expected to marginally firm up in the short to medium term following oil production cuts of 1.66 mb/d by the Organization of the Petroleum Exporting Countries Plus (OPEC+) cartel, with Saudi Arabia, UAE and Kuwait bearing the largest portion of the cuts. The cuts started in May and are set to run through to the end of the year, imposing a global supply squeeze of 0.4 mb/d. This follows a 2 mb/d oil production cut in October 2022. Further, as of June 2023, Saudi Arabia unilaterally announced it would slash oil output by 1 mb/d in an effort to bolster the market. The cut took effect in July 2023. Increased oil production cuts would result in an escalation of oil prices, which cascades down to all areas of production, propelling volatility and sustained global inflationary pressures.

Gas: Abundant supply of gas from the US, Russia and other exporters is foreseen in the near term. From a record of 98.11 billion cubc feet per day (bcf/d) in 2022, IEA forecasts the average gas production to reach 100.87 bcf/d and 101.58 bcf/d in 2023 and 2024, respectively. A combination of improved supplies, lower industrial demand, mild winter weather and weaker demand from Asia will further suppress gas prices in the short to medium term.

Base metals: Most base metals play a very critical role in the construction industry, and they also form the most pivotal elements in the ongoing transition toward green energy. A bullish base metals market is expected in the near term, driven by strong demand from China as industrial activity continues to recover from the government's stringent Covid-19 policy.

Gold: The direction of gold prices will depend on several factors, including regulators' ability to prevent contagion risk within the financial sector, the extent of monetary policy tightening cycles, and the performance of the US dollar. Major monetary authorities could be forced to further tighten monetary policy, albeit at a slower pace than the previous year, if inflation falls too slowly. The ongoing process of de-dollarization, which has set a growing number of emerging-market economies on the path of a new rush to gold, will also be another important driver.

Wheat: The direction of wheat prices is largely depended on events around the Black Sea region. Trade under the Black Sea Grain Initiative beyond the first half of 2023 will likely be challenging following the recent termination of the deal. The revival of the deal remains uncertain due to several factors, including implied trade limitations relating to sanctions imposed on Russia, bans on access to the SWIFT global payment system, and deteriorating humanitarian conditions in Ukraine. Price movements for the winter crop will also be influenced by weather patterns in the Northern Hemisphere and the transition from La Niña to El Niño weather events in Australia, which is likely to result in below-normal rainfall in major wheat growing areas.

Cocoa: Prices are set to edge up further in 2023 due to firmer demand in major cocoa-consuming markets and the projected deficit in production in Cote d'Ivoire, the world's largest cocoa producer. The expected volatile production in Cote d'Ivoire could be due to disruptions in fertilizer supply chains, lingering concerns about the

Coffee: With El Niño approaching in the coming months, output growth is likely to remain weak in the 2023/2024 cropping year. ICO expects the world coffee market to undergo a shortfall of 7.3 million bags in the next season. In addition, anticipated pent up demand, driven by a recent growth in awareness of benefits associated with coffee consumption and an increase in innovative production strategies, will further sustain coffee prices in the short to medium term.

Cotton: Prices are forecast to rise steadily in the near term on expectations of a decrease in production in top-producing countries, particularly China, which is facing drought challenges. The Cotton Association of India (CAI) expects cotton production to decline in 2023 in cotton growing regions such as Maharashtra, Telangana and Haryana. Further, the USDA predicts a significant decline in cotton production in the United States, the world's largest cotton exporter, accounting for 40 percent of total exports. The USDA indicated that cotton farmers in the US are expected to reduce acreage by 18 percent in 2023, one of the most significant drops in decades. Declines in production are also expected in Turkey.

Table 2: Forecasts vs. Spot Prices (% change)

Forecasts versus Spot	Quarterly				Annual		
	Q3 23	Q4 23	Q1 24	Q2 24	2023	2024	2025
Corn cents/bu.	3.5%	3.5%	5.5%	6.7%	10.9%	4.3%	0.2%
Wheat cents/bu.	0.6%	5.1%	7.5%	8.2%	-2.0%	8.3%	7.0%
Coffee (DF) $/MT	-1.0%	0.3%	1.0%	1.8%	5.5%	2.4%	5.2%
Sugar#11 c/lb	0.7%	1.5%	-0.3%	-6.2%	0.0%	-6.7%	-18.1%
Cocoa $/mt	-0.9%	-0.3%	-0.9%	-2.1%	-7.9%	-3.0%	-2.1%
Cotton cents/lb	-1.8%	-3.7%	-3.7%	-4.0%	-4.8%	-6.4%	-10.0%
Palm Oil RM/metric ton	1.4%	3.6%	4.3%	2.9%	1.5%	2.2%	0.7%
ICE Brent $/BBL	-2.0%	-2.3%	-3.8%	-5.4%	-4.8%	-6.1%	-11.5%
Natural Gas $/MMBtu	0.3%	33.7%	30.2%	23.1%	4.1%	35.4%	53.1%
Gold $/t oz	0.0%	1.6%	3.3%	4.6%	-0.2%	5.3%	10.0%
Cobalt $/lb	-15.7%	-11.2%	-3.1%	4.9%	-2.4%	16.9%	38.1%
Aluminum $/mt	-0.8%	0.8%	2.5%	4.2%	2.4%	4.9%	10.6%
Copper $/mt	-0.3%	0.1%	0.3%	0.4%	0.9%	0.4%	0.7%
Zinc $/mt	-0.3%	0.2%	0.3%	0.5%	6.6%	0.6%	1.0%

Sources: Afreximbank Research, Bloomberg.

*MMBtu (Metric Million British Thermal Unit)