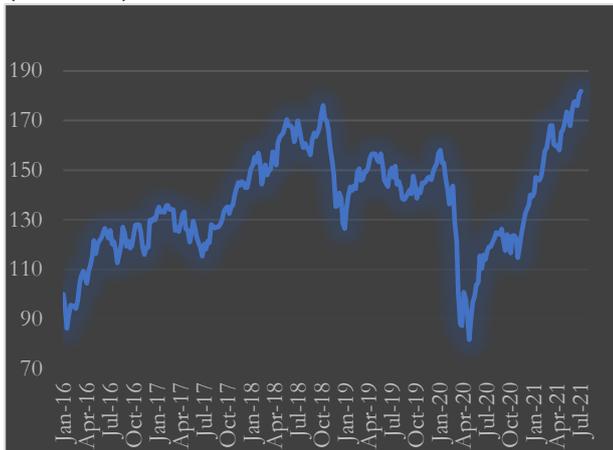


The recurrence of adverse commodity terms of trade shocks has been the bane of African economies, making it crucial for businesses and policymakers to consistently monitor trends in the region's key commodity markets. The Afreximbank African Commodity Index (AACI) accurately reflects the composition of African commodities and tracks the movements of commodity prices on a quarterly basis.

**Figure 1: Afreximbank African Commodity Index (2016=100)**



Source: Afreximbank Research.

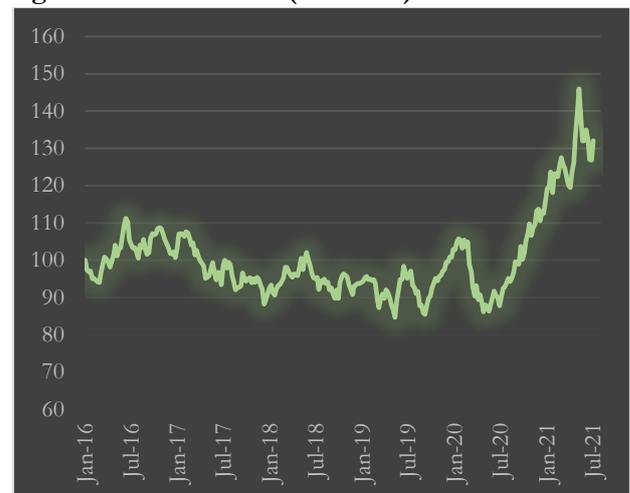
Commodity prices, which had plunged from the initial demand and supply shock caused by the COVID-19 pandemic, began to recover in the second half of 2020 and strengthened further in 2021. The recovery was reflected in the value of the *composite* AAC index, which rallied by 14 percent quarter-on-quarter—its third consecutive quarterly gain. The index rose 55 percent year-on-year in Q2-2021.

The *energy* sub-index was the best performer of that quarter, followed by the *agricultural commodities* and *base metals* sub-indices. In contrast to their stellar performance in 2020, *precious metals* prices have remained subdued for much of 2021, as gold prices capped their impressive performance recorded last year.

During Q2-2021, the *energy* sub-index rose by 18 percent quarter-on-quarter, 78 percent year-on-year, on strong global demand. Data from the International Energy Agency showed that crude oil surpluses compiled during the pandemic had been drawn down. Inventories of crude oil in the U.S. fell by the most rapid rates on record, depleting markedly at the nation's most important storage hub in Cushing, Oklahoma.

Across OECD countries, oil stockpiles fell below the 2015 to 2019 average that OPEC+ uses as a gauge of market stability. This was due to remarkably good compliance with oil cuts in the latter part of 2020. Oil prices also benefited from a surge in demand from China, the second-largest oil consumer in the world, as the economy of the Asian giant continued to recover from the pandemic. In addition, a colder-than-normal winter caused by a La Niña weather pattern boosted oil consumption in China.

**Figure 2: Afreximbank African Commodity Index, Agriculture Sub-Index (2016=100)**



Source: Afreximbank Research.

The *agricultural commodities* index rose 10 percent quarter-on-quarter and 47 percent year-on-year in Q2-2021, up from 1 percent and 29 percent respectively in the previous quarter, leading to concerns about the impact of the rise on food price inflation. Food prices, as measured by the AACI Agriculture sub-index, rose to their highest

## Afreximbank African Commodity Index (AACI)

recorded levels. The rise was mainly due to price increases on key commodities: corn (26 percent), coffee (23 percent), and sugar (19 percent) occasioned in part by dry weather conditions in Brazil, the world's top exporter of sugar and coffee.

Events in Brazil contrasted with conditions in Uganda, Africa's biggest coffee exporter. Maturing plantations in Uganda and strong yields combined to boost coffee exports to their highest levels in 30 years, even though the windfall was not sufficient to quench the rally in coffee prices.

In China, poor weather led to a depletion of government reserves, while large imports of corn and beans to compensate for shortfalls in domestic production lifted demand and prices. Nigeria, like China, is releasing corn from its reserves to address rising food prices. In Kenya, intra-African trade, reflected in the resumption of corn imports from Uganda and Tanzania, helped slow food price inflation.

The *base metals* price index rose 7 percent for the quarter, 57 percent year-on-year, and has shown its most consistent gains since Q2-2020. Aluminum prices led gains in Q2-2021, rising 12 percent and outstripping increases in copper and zinc of 5 percent and 4 percent respectively. Prices for aluminum, which is energy intensive to produce, have increased due to supply constraints following the rationing of electricity in China, the country which today accounts for over 50 percent of global aluminum output. China is clamping down on smelting to reduce pollution and meet green targets, restricting supply.

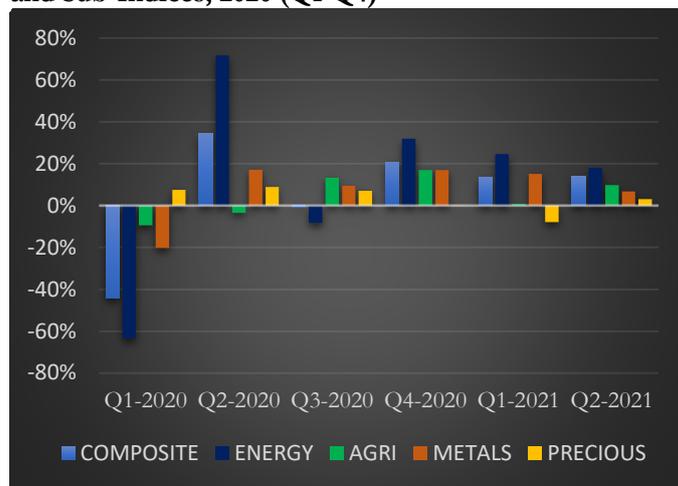
More generally, the base metals complex has been lifted by dwindling stockpiles, increasing demand in China and the United States, rising freight costs, and limited scrap supplies. Market estimates suggest that China's new infrastructure plan may have required 990,000 tonnes of aluminum last year, accounting for up to 3 percent of the year's

domestic demand, with ultra-high-voltage power cables the key driver.

The *precious metals* sub-index has remained muted since end Q4-2020, falling by 8 percent quarter-on-quarter in Q1-2021, before recouping some of those losses to end Q2-2021 3 percent higher. Gold prices also survived a precariously bearish patch in November 2020, as physical demand from exchange-traded funds and the jewelry sector weakened. However, the market recovered in December 2020, with gold price posting its biggest annual advance in a decade.

The precious metals market has ebbed since, as the rollout of vaccines has injected a degree of optimism into financial markets. Expectations of higher U.S. interest rates, bolstered by data showing a recovery in the U.S. economy, have continued to undermine Gold. Further, the Federal Reserve's imminent tapering of its bond-buying programme is providing headwinds for gold prices and could remove one of the key drivers that helped propel the metal to a record in 2020.

**Figure 3: Quarterly Performance of AACI Composite and Sub-Indices, 2020 (Q1-Q4)**



Source: Afreximbank Research.

Table 1: Consensus Forecasts of Selected Commodity Prices\*

	Quarterly					Annual	
	Spot	Q3-2021	Q4-2021	Q1-2022	Q2-2022	2021	2022
ICE Brent, US\$/bbl	71.5	72.9	70.1	68.9	67.9	69.0	67.5
Aluminum, US\$/tonne	2,586	2,549	2,583	2,577	2,569	2,431	2,562
Cobalt, US\$/lb	23.9	20.4	20.6	23.8	24.1	25.3	28.4
Cocoa, US\$/tonne	2,516	2,495	2,582	2,594	2,591	2,494	2,590
Coffee Robusta, US\$/tonne	1,849	1,875	1,862	1,854	1,844	1,684	1,848
Copper, US\$/tonne	9,512	9,436	9,514	9,527	9,534	9,391	9,527
Corn, US¢/bu	580	575	561	568	572	600	549
Cotton, US¢/lb	93.0	91.2	91.1	90.5	89.2	88.6	86.3
CPO, MYR/tonne	4,584	4,528	4,358	4,109	3,854	4,284	3,793
Gold, US\$/oz	1,752	1,765	1,753	1,756	1,759	1,778	1,760
Sugar (raw), US¢/lb	19.5	19.5	19.9	19.6	18.3	18.6	18.1
Wheat, US¢/bu	761	718	741	750	739	699	737
Zinc, US\$/tonne	3,044	3,025	3,044	3,043	3,043	2,961	3,037

Sources: Bloomberg, Afreximbank Research \*August 2021.

### Outlook for commodity prices

The unprecedented levels of government support (fiscal and monetary measures) have been major drivers of commodity prices in 2021. Furthermore, sluggish demand and the production rationing imposed at the start of the pandemic led to lower levels of output for commodities like base metals, causing inventories to decline at a time when pipeline demand was buoyant.

**Oil** markets entered 2021 as a bullish “vaccine trade,” but expectations for much higher oil prices have been appreciably downgraded as measures to stem the spread of the Delta variant have slowed the pace of economic recovery. According to industry reports, pre-pandemic oil demand is expected to return in the second half of 2022, providing a boost to prices, especially if the OPEC+ cartel curtails plans to unwind production cuts.

In **Agriculture**, the surge in food prices occasioned by poor weather-induced harvests in 2021 could

ease, fueled by a strong supply response from major exporters. Additionally, agricultural productivity looks likely to improve as countries exit lockdowns and labour shortages are alleviated. In Africa, the spate of investments targeted at farm productivity should bear fruits in the short-to-medium term.

In base and precious **Metals**, the accelerated transition towards climate-resilient growth models post-COVID-19 could significantly lift the price of aluminum, which has a light carbon footprint. This will keep prices elevated. Gold-backed exchange-traded funds were critical in pushing the metal higher in 2020, but vaccine rollouts and an improvement in the global economy are prompting investors to decrease their gold holdings. Still, physical demand for gold from India could offer respite to a market pummeled by the emergence of the Delta variant earlier this year.

Table 2: Heatmap of Consensus Forecasts vs Spot Prices, Percent Change  
(Darker Green=Most Bullish, Darker Red=Most Bearish)

	Q3-2021	Q4-2021	Q1-2022	Q2-2022	2021	2022
ICE Brent US\$/bbl	2.0%	-1.9%	-3.6%	-5.0%	-3.5%	-5.6%
Aluminum US\$/tonne	-1.4%	-0.1%	-0.3%	-0.7%	-6.0%	-0.9%
Cobalt US\$/lb	-14.8%	-13.6%	-0.6%	0.8%	5.7%	18.7%
Cocoa US\$/tonne	-0.8%	2.6%	3.1%	3.0%	-0.9%	2.9%
Coffee, Robusta US\$/tonne	1.4%	0.7%	0.3%	-0.3%	-8.9%	-0.1%
Copper US\$/tonne	-0.8%	0.0%	0.2%	0.2%	-1.3%	0.2%
Corn US\$/bu	-0.8%	-3.2%	-2.0%	-1.3%	3.5%	-5.3%
Cotton, US\$/lb	-1.9%	-2.0%	-2.7%	-4.1%	-4.7%	-7.2%
CPO, MYR/tonne	-1.2%	-4.9%	-10.4%	-15.9%	-6.5%	-17.3%
Gold US\$/oz	0.7%	0.1%	0.2%	0.4%	1.5%	0.5%
Sugar, raw US\$/lb	-0.4%	1.8%	0.3%	-6.3%	-4.8%	-7.4%
Wheat US\$/bu	-5.6%	-2.6%	-1.4%	-2.9%	-8.0%	-3.1%
Zinc US\$/tonne	-0.6%	0.0%	0.0%	0.0%	-2.7%	-0.2%

Sources: Bloomberg, Afreximbank Research.