Special Feature: Commodity Market Developments and Forecasts

Commodity prices have decreased since the release of the April 2017 World Economic Outlook *(WEO). Despite the extension of the production agreement by the Organization of the Petroleum Exporting Countries (OPEC), oil prices declined amid stronger-than-expected shale production in the United States. After declining earlier this year, metal prices have bounced back since June, in line with the improvement in macroeconomic sentiment. Agricultural prices declined on account of large supplies, but weather contributed to volatility in grain markets.*

The IMF's Primary Commodities Price Index declined 5.0 percent between February 2017 and August 2017, the reference periods for the April 2017 and current WEO forecasts, respectively (Figure 1. SF.1, panel 1). While energy and food prices declined substantially, by 6.5 percent and 4.3 percent, respectively, metal prices increased modestly, by 0.8 percent. Oil prices declined amid strong crude oil production in the United States. Natural gas prices fell because of lower demand. Coal prices increased, and remained high.

Oil Market: Eyes on US Production

On May 25, 2017, OPEC agreed to extend to March 2018 the production agreement in place since January this year. The agreement entails a cut of 1.2 million barrels a day (mbd) from October 2016 production. Russia and other non-OPEC countries agreed to stick to current production, implying additional cuts of about 0.6 mbd from the October 2016 level (bringing the total cuts to 1.8 mbd).

Notwithstanding efforts by the oil exporters participating in the production agreement, oil prices had fallen to less than $44 a barrel by late June, the lowest since November 2016, right before the initial production cuts were announced. The main drivers were stronger-than-expected US shale production and stronger-than-expected production recovery in Libya and Nigeria, which are exempt from production cuts. In addition, exports from OPEC countries appeared to be sustained at relatively high levels, even with lower production.

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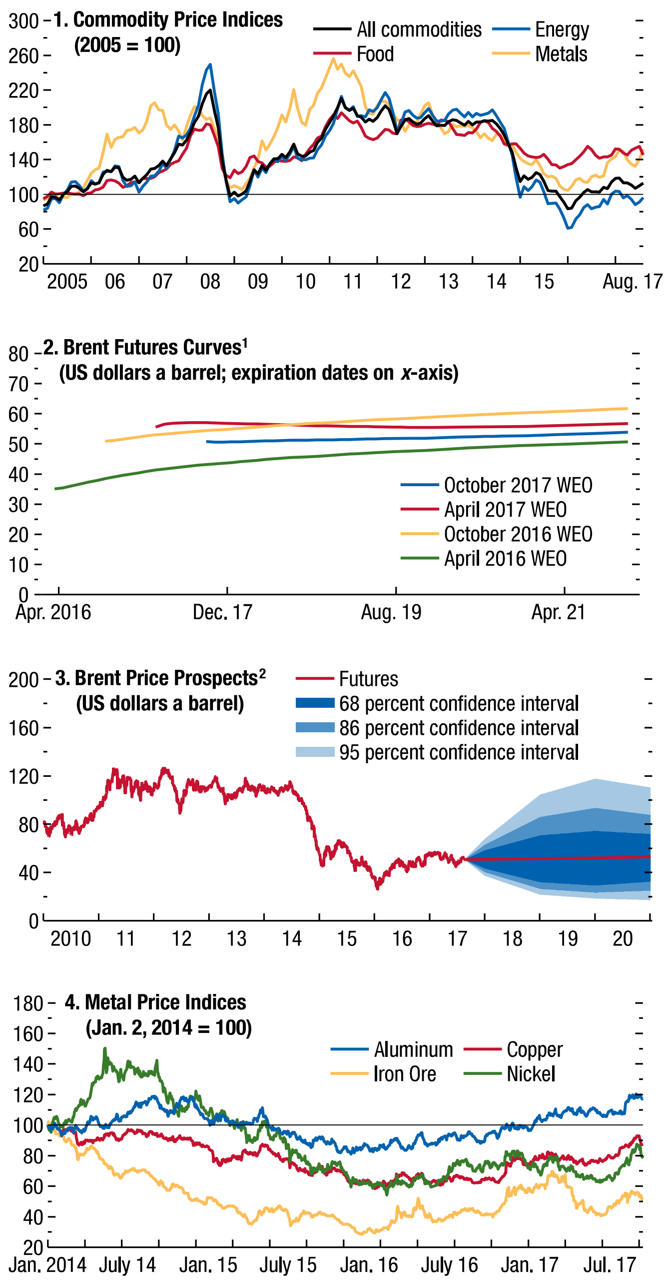
Figure 1.SF.1. Commodity Market Developments



Sources: Bloomberg L.P.; Thomson Reuters Datastream; IMF, Primary Commodity Price System; and IMF staff estimates.
Note: WEO = *World Economic Outlook.*
[1] WEO future prices are baseline assumptions for each WEO and derived from future prices. October 2017 WEO prices are based on August 15, 2017, closing.
[2] Derived from prices of futures options on August 15, 2017.