Special Feature: Commodity Market Developments and Forecasts

Commodity prices have increased since the release of the October 2017 World Economic Outlook *(WEO). Supply outages, the extension of the production agreement by the Organization of the Petroleum Exporting Countries (OPEC), and stronger-than-expected global economic growth all pushed oil prices higher. Metal prices also increased following better-than-expected growth in all major economies and production cuts in China. Agricultural prices rose markedly less than those of other commodities, but they have been catching up following unfavorable weather, especially in the Western Hemisphere.*

The IMF's Primary Commodities Price Index rose 16.9 percent between August 2017 and February 2018, the reference periods for the October 2017 and current WEO (Figure 1.SF.1, panel 1). Energy prices and metal prices increased substantially, 26.9 percent and 8.3 percent, respectively, while agricultural prices increased markedly less, by 4.1 percent. Oil prices increased to above $65 a barrel (as of January), attaining their highest level since 2015, in response to unplanned outages and stronger global economic growth. Since then, prices have receded following stronger-than-expected US production. Natural gas prices increased sharply as a result of winter heating use and strong demand from China. Coal prices increased, but by less than other energy prices, because a shift from coal to gas is under way in many countries.

Oil Prices Highest since 2015

Among key influences on oil prices, on November 30, 2017, OPEC agreed to extend to the end of 2018 the production target in place since January 2017. This extension was the second (following the April 2017 agreement that had extended the November 2016 agreement). The agreement entails a cut of 1.2 million barrels a day (mbd) relative to October 2016 production. Russia and other non-OPEC countries agreed to stick to current production levels, implying additional cuts of about 0.6 mbd relative to the October 2016 level.

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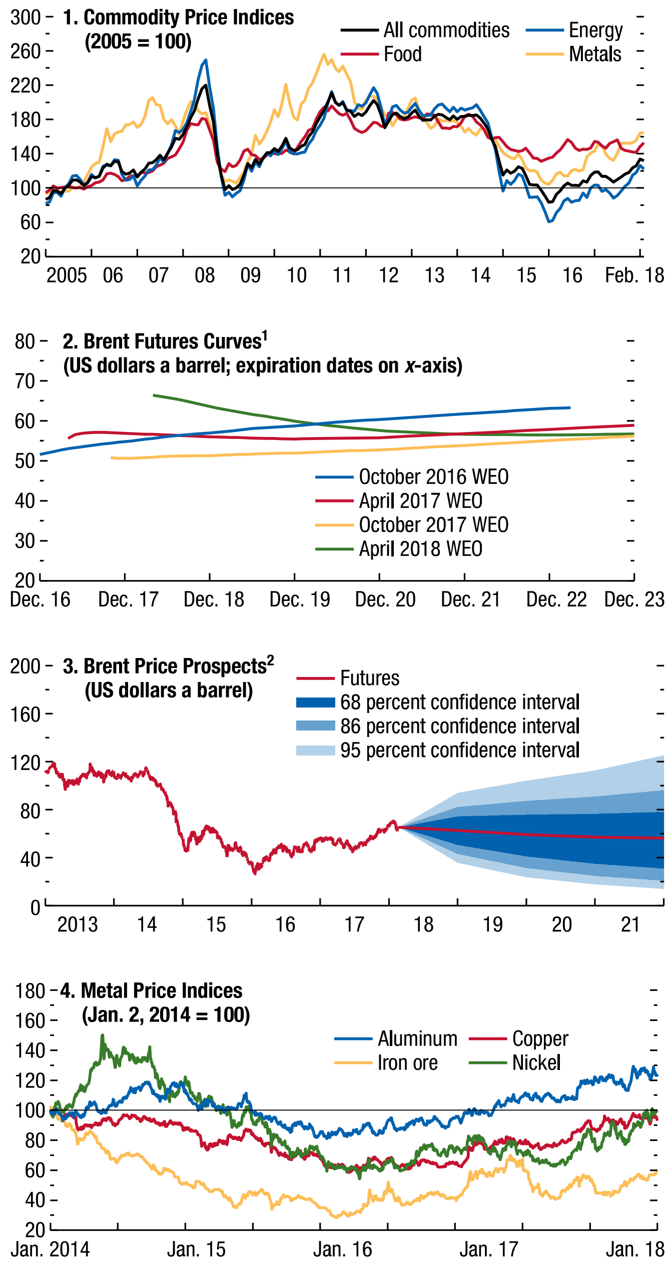
Figure 1.SF.1. Commodity Market Developments



Sources: Bloomberg Finance L.P.; IMF, Primary Commodity Price System; Thomson Reuters Datastream; and IMF staff estimates.
Note: WEO = *World Economic Outlook*.
[1]WEO futures prices are baseline assumptions for each WEO and are derived from futures prices. April 2018 WEO prices are based on February 22, 2018, closing.
[2]Derived from prices of futures options on February 22, 2018.