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PHILEQUITY CORNER

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Softer commodity prices in 1H2023

As the global economy faces the possibility of a recession and with slowing global demand, broad commodity prices have witnessed a substantial 11.4% decline in the first half of 2023. High interest rates, lackluster manufacturing activity across the globe, subdued consumer spending, and China's sluggish post-Covid recovery have collectively dampened the demand for energy, metal and agricultural commodities this year.

A basket of energy commodities like oil and gas experienced a significant decline of 20.8% over the six months ending June 30. Industrial metals recorded a decrease of 10.8% during the same period. In the agricultural sector, grains and oilseeds dropped 15.5%. Amidst the broader commodity downturn, sugar emerged as the exception. This sweetener gained 15.8% in the first half of 2023.

Interest rates climb to 16-year high

The yields on the 2-year and 5-year US Treasuries recently climbed to their highest since 2007 after retesting the highs recorded in March. Fed officials have maintained the need to continue raising to stamp out inflation following the pause in June. The yield on US 2-year and US 5-year treasuries ended June 30 at 4.9% and 4.159%, respectively.

Crude oil fell to 18-month lows

Despite the OPEC+ cutbacks and Saudi Arabia reducing its supplies by 10%, crude oil prices fell to an 18- month low. The global slowdown and favorable weather helped to reduce energy demand in the first half of 2023. The resilience of Russian oil supplies and an unexpected surge in US production have negated the impact of OPEC+ supply cut.

EU and UK expand LNG import capacities

The rapid expansion of liquified natural gas (LNG) capacities has alleviated pressures in natural gas markets. This resulted in natural gas prices collapsing 37.5% in the first half of 2023. As reported by the US Energy Information Administration (EIA), the EU and UK are expected to expand LNG import capacities by 34% in 2024 from 2021 levels. This would further reduce the region's vulnerability to future gas supply and price shocks.

Energy	6mos%
Crude WTI Oil	-12.0%
Crude Brent Oil	-12.8%
Natural Gas	-37.5%

China’s weak rebound hits base metals

Base metal prices declined in the first half of 2023 due to weaker global demand, increased supply and China’s slow rebound. China’s construction and real estate sector experienced significant downturns. Goldman Sachs predicts a prolonged L-shaped recovery in China’s property sector, dampening demand for base metals like nickel, zinc and aluminum.

Industrial Metals	6mos%
Tin	8.0%
Copper	-1.3%
Aluminum	-9.5%
Zinc	-19.7%
Nickel	-31.4%

Increased metal supply, including contributions from major players like Rio Tinto, Vale, and Glencore, helped moderate prices. Expanded nickel production from Indonesia further eroded prices.

Ample supply eases food commodity prices

Ample supply backed by the extension of the Black Sea grain initiative and strong harvests worldwide eased prices of agriculture commodities in the first half of 2023. The prices of corn, rough rice, wheat, and soybean led the way. Robust harvests from key agricultural nations like Brazil, the US, Canada, and Australia contributed significantly to this downward trend in prices.

Agriculture	6mos%
Sugar	15.80%
Soybean Oil	-8.0%
Palm Oil	-9.7%
Soybean	-11.9%
Wheat	-17.8%
Rough Rice	-18.5%
Corn	-27.1%

Bitcoin beats most asset classes in 1H 2023

Bitcoin, the leading cryptocurrency, outperformed other asset classes in the first half of 2023. Despite regulatory uncertainties and market challenges such as the FTX scandal, Binance’s regulatory challenges, and crypto bankruptcies, bitcoin saw an 83% increase and recently hit a 12-month high.

High inflation pressures despite commodity decline

Despite softer commodity prices, inflation remains elevated. The recent Federal Open Market Committee (FOMC) minutes showed that Fed officials are favoring additional rate hikes after pausing in June. “The labor market remains very tight, momentum in economic activity is stronger than anticipated, and there were few clear signals that inflation was on a path to return to the Committee’s 2-percent objective over time,” the minutes said.

BSP to adjust policy stance as needed

The Bangko Sentral ng Pilipinas (BSP) acknowledges the prevailing balance of risks to the inflation outlook. Factors such as the impact of transport fare increases, minimum wage hikes, persistent food supply constraints, the El Nino phenomenon, and potential knock-on effects of higher toll rates on key agricultural prices contribute to this upward pressure. Conversely, the BSP recognizes that the primary downside risk to the outlook stems from the weaker-than-expected global economic recovery. In light of these divergent conditions, the BSP says it remains prepared to adjust its policy stance as necessary.

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