Oil and commodities

In Q1 2021, the price of Brent stood at $61 a barrel, on average, up 38% compared to Q4 2020.

After an increase in Q4 2020, demand for oil was lower than anticipated in Q1 2021, due to the virulence of the Covid-19 epidemic. However, supply also adjusted, with world production slowing in Q1. In Q2 2021, the demand for oil would appear to still be greater than supply, according to the IEA (International Energy Agency). For this forecasting exercise, the conventional assumption is that the price of a barrel of Brent will stabilise at around $70 until December 2021.

This scenario is beset by several uncertainties. On the supply side, there are uncertainties about whether OPEC countries will respect the new production quotas, and on the scale of production in the exempted countries. The possible worsening of geopolitical tensions in the Middle East could also trigger a rise in prices; however, the return of the United States to the Iranian nuclear agreement could drive prices down. There are also uncertainties on the demand side, especially concerning developments in the epidemic, but also, in the medium term, the effects of the US stimulus plan.

In addition, commodity prices rose by almost 6% in Q1 2021, with a significant rise in the price of mineral commodities, also in cereals.

The price of Brent increased significantly in Q1

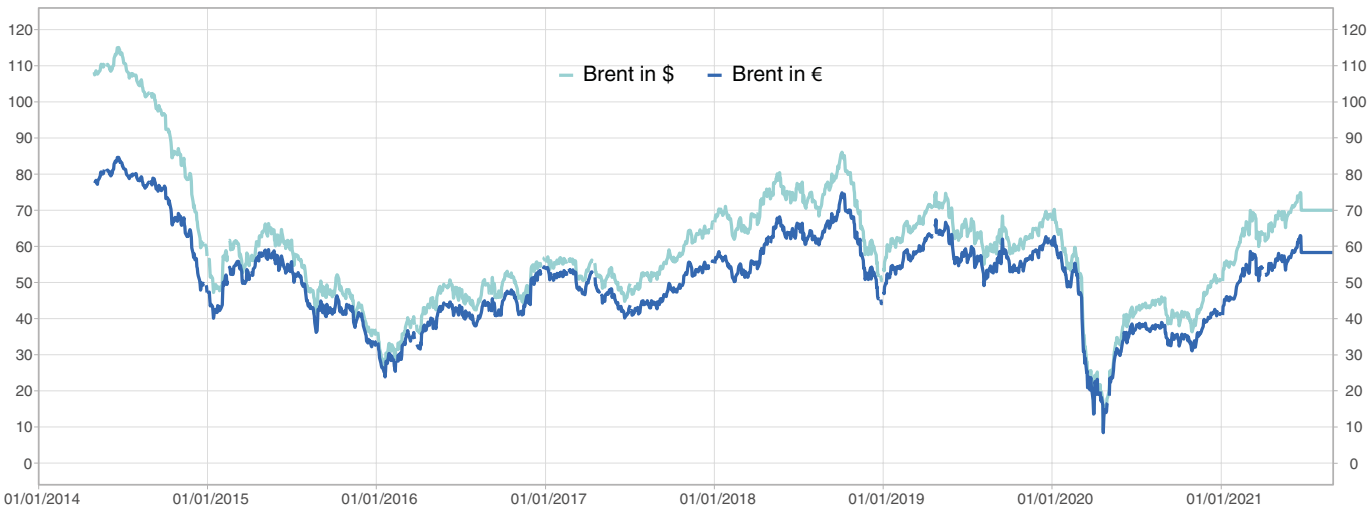
In Q1 2021, oil prices settled at $61 on average (► **Figure 1**), up 38% compared to Q4 2020 ($44). In early March, prices occasionally exceeded $70, following the attacks on Saudi oil facilities. After this they gradually declined, and now they have been above $70 since the start of June. Over the forecasting period, the price of oil is conventionally set at $70.

Global oil demand remains well below pre-crisis levels, however

After rebounding in Q3 2020, worldwide demand slowed in Q4, although remained dynamic. However, in Q1 2021, demand remained almost lifeless, due to declining Chinese demand –the restrictive health measures put in place largely curtailing the traditional Chinese New Year festivities– and despite European and American demand being stimulated by particularly cold winter temperatures. From Q2 2021 and until the end of the year, global demand for oil should accelerate, but still remain below its pre-crisis level. This acceleration is probably due to the upswing in global activity, made possible by the ramping up of vaccination campaigns, and also to the gradual rebound in home-work travel, despite some remaining concerns over Indian and Brazilian demand, which could be very much affected by the virulence of the epidemic.

► 1. Price of a barrel of Brent in dollars and euros

currency of the barrel



Source: Commodity Research Bureau

After a historic decline in the first three quarters of 2020, oil supply rebounded moderately at the end of the year then remained at a low level in Q1 2021

In Q1 2021, global oil supply was still on the rise, but had slowed as a result of OPEC's decision on 5 January to increase production only moderately and gradually. Production by the OPEC countries remained below the thresholds set by OPEC on 5 January, mainly due to Saudi Arabia's producing 8.46Mbpd (million barrels per day) or 0.66Mbpd below the threshold. Nigeria also produced 0.14Mbpd below the threshold. However, Iranian production, which was exempt from any limitation, increased by 0.20Mbpd, stimulated by the prospect of the United States returning to the Vienna agreement on the Iranian nuclear programme, and by an increase in purchases by China. In Libya, production rose by 0.26Mbpd, to 1.15Mbpd, with the cease-fire in force since September. In the United States, production declined in Q1, especially in February, as a result of the cold snap that led to interruptions at some production sites, as well as delivery difficulties.

On 27 April 2021, OPEC decided to continue increasing production gradually from May, in line with the signs of some improvement in the market and global activity. As a result of this decision and the rebound in production in the United States after the decline in Q1, global oil supply would appear to have accelerated in Q2 2021. Saudi Arabia would appear to have kept its production below its quotas until April, then gradually increased production, followed by all the OPEC countries concerned by the agreement. However, attacks on an oil field in Kirkuk in early May could have affected Iraqi production.

In April, a state of force majeure was declared by Libya's NOC due to a disagreement over the budget allocated to the oil industry. Production and exports were halted completely for a week, and so production in Q2 would appear to have been affected. In Iran, uncertainties persist over the possible return of the US to the Iran nuclear deal, which would enable Iran to substantially increase its production and put on the market the 70 or so million barrels currently stored at sea. In the US, production would appear to have rebounded in Q2, boosted by rising prices.

In H2 2021, if prices remain high, global supply is likely to continue to increase, while still remaining under control. It is expected that production by OPEC will still be regulated in order to monitor demand as closely as possible, while in the United States, the number of drilling rigs in activity, which has plummeted since the health crisis, should limit the possibilities of any sudden increase in production.

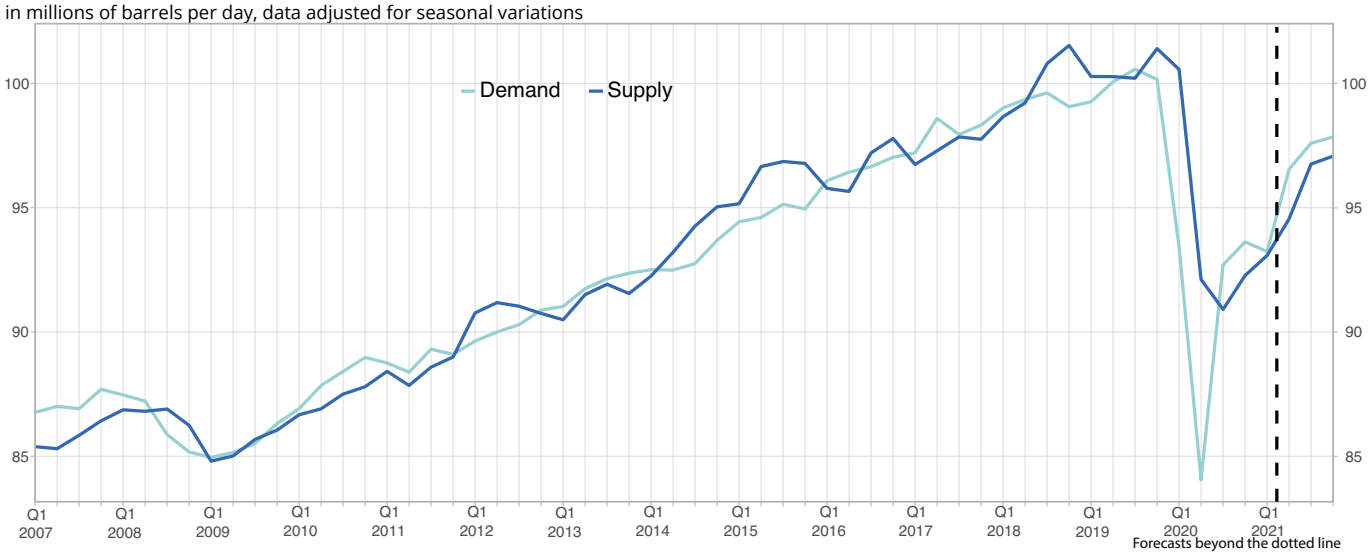
All in all, world output looks set to rise in H2 2021, driven mainly by the upturn in production in the United States and the increase in production forecast by the OPEC countries. Demand should remain well below its pre-crisis level, but is still likely to be on the rise. All in all, the market is expected to remain in deficit in 2021, with supply remaining below demand (► **Figure 2**).

Stock levels remain high

Crude oil stocks in the United States fell to 492 million barrels in Q1 2021 but levels still remained very high, well above (+45%) the 2011-2014 average. Upward pressure on prices would therefore be dampened by this level of trade reserves remaining high.

► 2. World oil market

in millions of barrels per day, data adjusted for seasonal variations



Source: AIE, INSEE

Commodity prices driven by the economic recovery

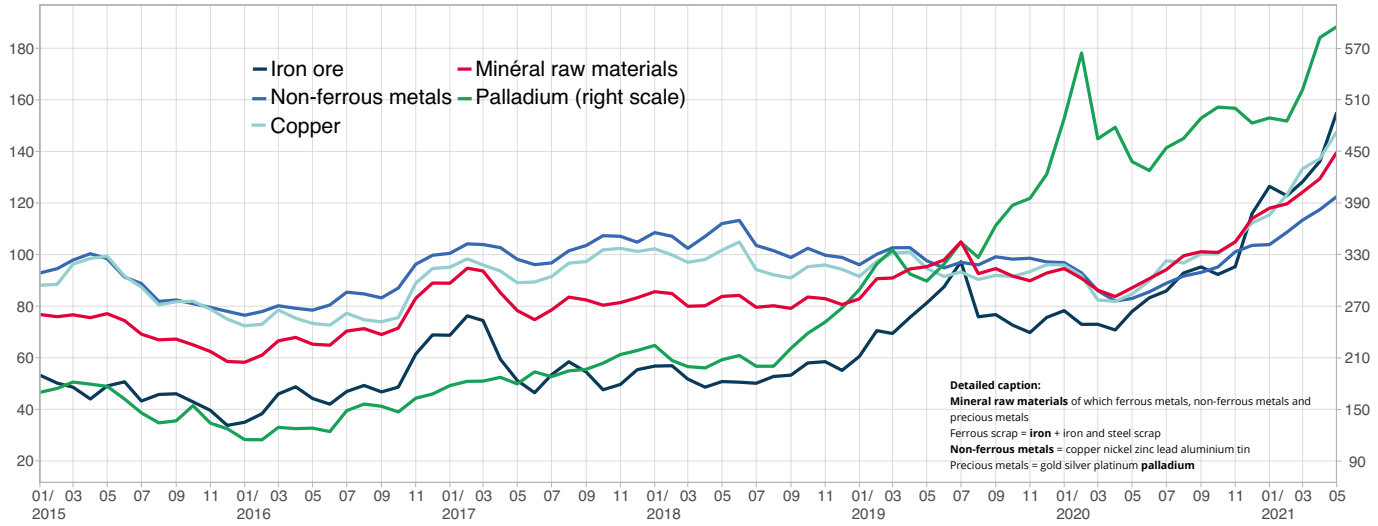
After rebounding in Q4 2020 (+5.4%) and exceeding its pre-crisis level, the price of all commodities continued to accelerate in Q1 2021 (+5.8%). This profile stems from the price of both industrial commodities (+8.3%; ► **Figure 3**) and food commodities (+5.7%; ► **Figure 4**).

Mineral commodity prices were driven by the price of ferrous metals (+24.8% in Q1 2021, after 10.7%). The price of iron ore rose again by 24.2% in Q1 2021, after +20.2% in Q3 and +4.5% in Q4 2020. Overall, the price of iron ore increased by 68% in one year. Prices have been driven up by the recovery of Chinese industrial activity, adverse weather conditions in Australia, the main producer, and market expectations of an economic boost and investment in infrastructure.

The price of copper increased once again, hitting historic levels (+17.1% in Q1 2021, +37.6% since Q1 2020). In fact, the recovery in Chinese demand and the weakness of the dollar have fuelled this rise. The demand for copper, a major ingredient in the energy transition (electric cars, wind turbines, etc.), is rising constantly with the return of the United States to the Paris agreement and the associated objective of reducing greenhouse gas emissions, but it is also due to the various stimulus plans which encourage growth in infrastructure and real estate construction. The three main producers (Chile, Peru and China) are struggling with logistical difficulties associated with the pandemic, and social movements in Chile are pushing the markets to anticipate a deficit in supply. Concerning precious metals, the price of palladium is also benefiting from the economic recovery and the energy transition (+8% in Q1 2021). The rebound

► 3. Mineral commodity prices

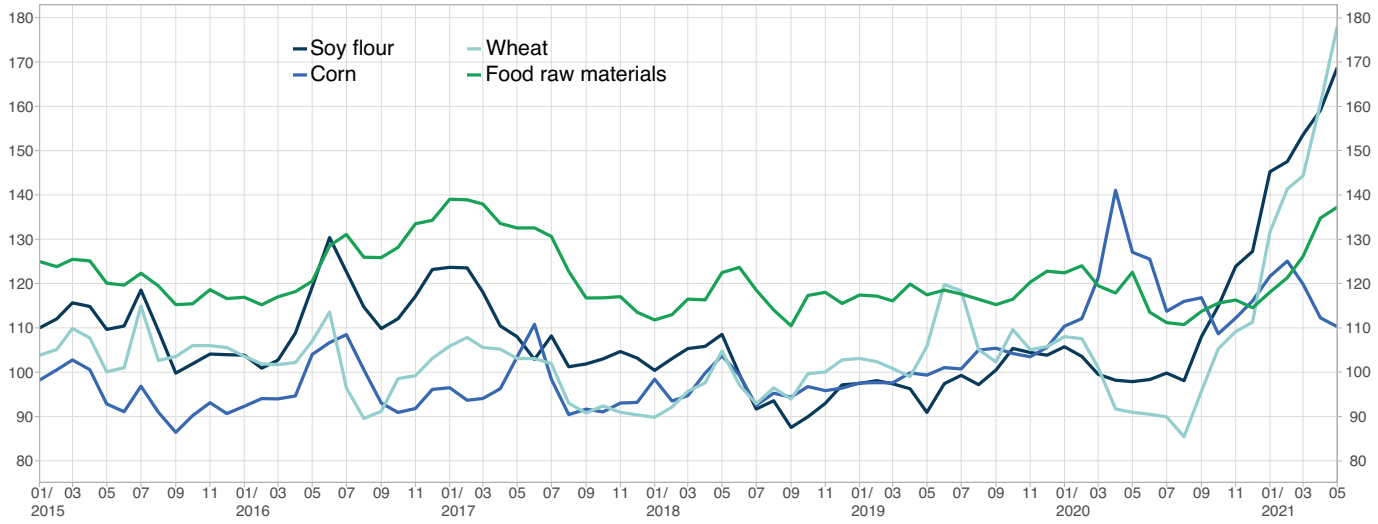
base 100=2010



Source: INSEE

► 4. Food commodity prices

base 100=2010



Source: INSEE

in vehicle sales and the strengthening of antipollution standards have caused demand for palladium to soar as it is needed in the manufacture of catalytic converters and hybrid vehicles. Supply is struggling to keep up with growing demand, and the palladium market has been in deficit for 10 years.

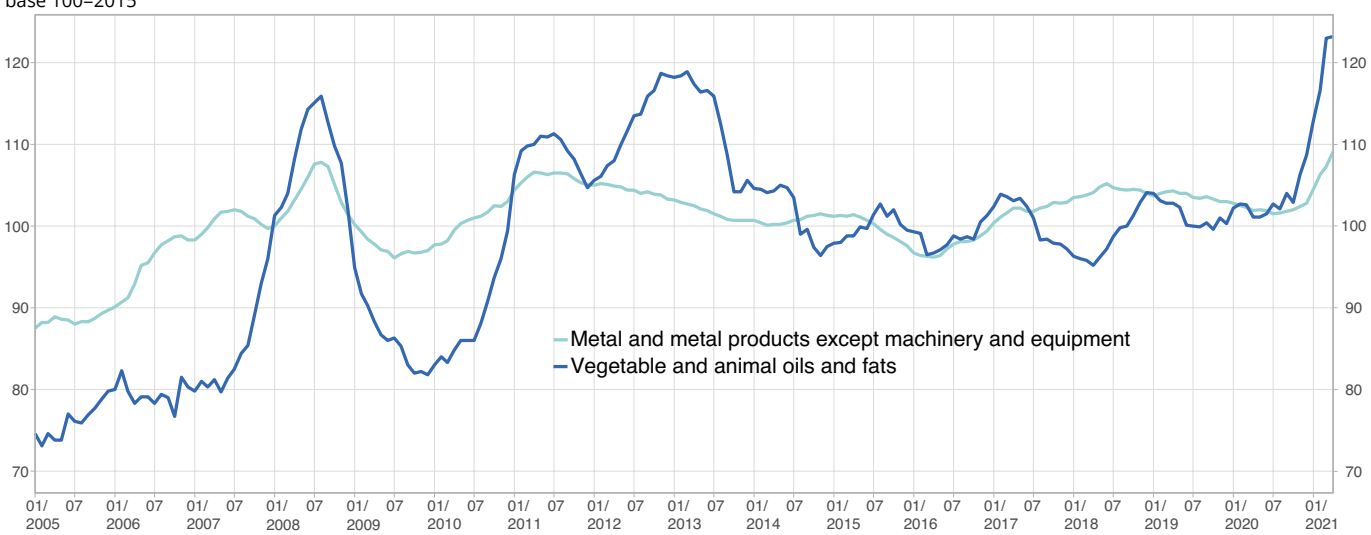
All food commodity prices also rose in Q1 and recovered their pre-crisis level (► **Figure 3**). In cereals, especially corn, soybean and wheat, prices again rose sharply in Q1 (+16.4%). This is related to the end of swine flu in China which led to strong demand in order to feed the reconstituted herds. The gradual recovery of road traffic in the United States is also stimulating demand for bioethanol, produced from cereals. The election of Joe Biden, who is mobilised to fight climate change, has encouraged speculation on the rise in agricultural commodity prices. At the same time, supply has been weakened by climate disturbances: drought in the United States and Canada, lack of rain and cold snap in Europe, heavy rains in Argentina, etc. As a result, the price of wheat increased by 28% in Q1 2021, soybean by 22% and corn by 8.8%.

Regarding agro-industrial commodities, the price of rubber increased further (+6.6% after +18.4% in Q4). The leading producer country, Thailand, is facing unfavourable climatic conditions (droughts, floods, disease, etc.). It takes about 7 years for a rubber tree to start producing, which means that no rapid adjustment in production can be made to match demand; demand has exploded, however, especially for the manufacture of gloves required in the pandemic, and massive Chinese purchases for tyre manufacture.

Soaring commodity prices result in higher production costs in user sectors (► **Figure 5**). For example, in metallurgy, the production price has risen sharply since the end of the year, and currently stands at a higher level than in previous years. This is even more the case in the agri-food industries, especially the production of vegetable oils and fats, where production prices have shown a marked increase since Q2 2020. ●

► 5. French producer price indices in industry for all markets

base 100=2015



Source: INSEE