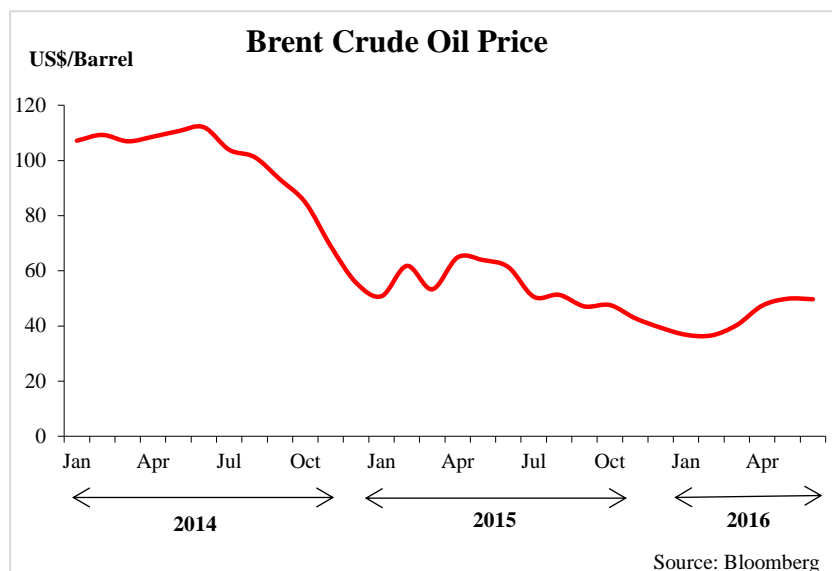




INTERNATIONAL COMMODITY PRICE MOVEMENTS

Similar to prices of crops such as dalo and bananas at our local market, prices of international commodities such as oil, sugar and gold can also fluctuate on a day to day basis, depending on the forces of demand and supply. This article provides an analysis of price movements in international commodities specifically oil, sugar and gold, over the last few years given their relevance to Fiji's trade.

Since 2014, there has been a notable downward movement in international commodity prices. The price of Brent Crude oil (a benchmark in the industry) has fallen by more than half from US\$107.20 per barrel in January 2014 to US\$49.71 in June 2016. Many factors have

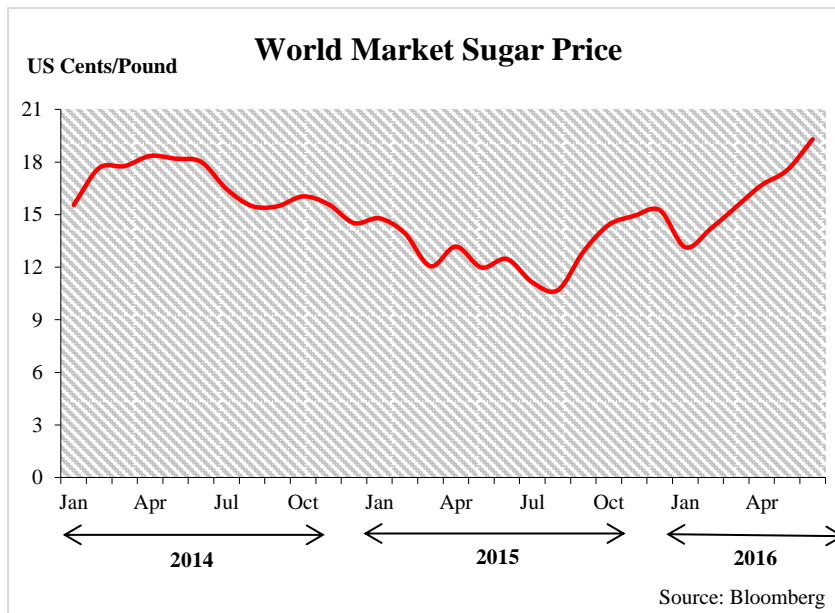


underpinned this outcome. A significant demand side factor is the on-going weakness in the global economic recovery resulting in a corresponding weaker demand for crude oil. In particular, China, one of the largest consumers of crude oil, is experiencing a slowdown in economic activity, which has lowered its demand for

crude oil. On the supply side, many major oil producers have maintained, or in some instances, increased their output. For instance, the discovery and production of shale oil and gas (very close substitutes) and the lifting of the 40 year export ban in the United States (US) has vastly contributed to the supply glut thus pushing prices further down. More recently, the lifting of economic sanctions against Iran (another oil producer and exporter) and the many failed attempts by major oil exporters to curb supply by freezing production, so far suggests that oil prices will remain well below historical highs in the near future. This is also in line with the International Monetary Fund's World Economic Outlook Update for July 2016, which projects the prices of crude oil to be below US\$45 per barrel in 2016 and slightly rise to US\$50 in 2017 based on the June futures markets.¹ Fiji's annual average value of retained mineral fuel imports from 2011-2015 is \$670 million, which equates to approximately 15 percent of total imports. As such, any sizeable movement in crude oil prices would have a significant impact on Fiji's balance of trade position.

¹ A futures market is an auction market in which traders buy and sell commodity and futures contracts for delivery on a specified future date.

For sugar, movements in international prices have been largely overshadowed by supply side conditions, mostly weather related factors in Brazil (the world's largest supplier), India and



other major sugar producing countries. The world market price for sugar fell by 31 percent to US10.69 cents per pound in August 2015 when compared to January 2014. However, prices have since rebounded, rising by a significant 81 percent to US19.30 cents per pound in June 2016 due to supply constraints following

adverse weather conditions in Brazil, India and other Asian countries. Fiji's sugar industry accounts for around 7-8 percent of our exports and 3-5 percent of Fiji's Gross Domestic Product (GDP) while providing employment to around 7.3 percent of the total labour force. Importantly, Britain's recent decision ("Brexit") to leave the European Union (EU) is expected to only have a modest impact on Fiji's sugar exports to the United Kingdom (UK) in the near term given that the preferential quota agreement with the EU expires in 2017.

Gold is a unique international commodity given its role as a safe-haven investment and strong linkages with changes in other economic and financial factors. As such, movements in gold prices are often volatile and difficult to forecast. Gold prices fell by 18 percent to US\$1,062



per ounce in November 2015 from US\$1,251 in January 2014. Nonetheless, prices have recovered since then, rising by 24 percent to US\$1,321 per ounce in June 2016. Given the current low return on interest bearing investments, demand for this precious metal has remained intact thus keeping its price

relatively high. The recent surge in gold prices in June this year largely stemmed from the rising uncertainty due to Brexit which lured investors towards safer assets including gold. In addition, the resilient demand from India, one of the biggest buyers of gold in the world, also contributed to the higher prices. Fiji's gold exports contribute around 5-6 percent of total

exports, while the mining industry's share in GDP is around 0.5-1.0 percent on average. The recent uptick in gold prices augurs well for Fiji's gold exports and the domestic mining industry.

In summary, Fiji's exposure to the world economy, particularly its reliance on trade in goods and services, highlights the importance for us of favourable and predictable international commodity prices to ensure a strong and stable external position. As such and in light of Fiji's vulnerable position, close monitoring of key commodities such as discussed in this article, is vital.