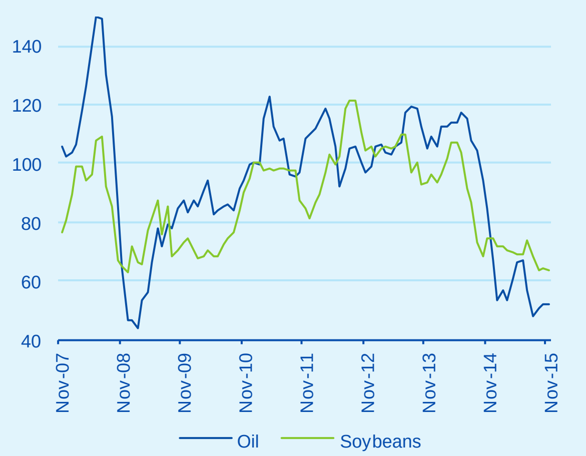
Box 1. Commodity prices: soybeans and oil

The world economy is still growing but at a slower pace, especially among the emerging markets. In this context, there is still long-term uncertainty over China, the key source of demand for commodities worldwide. On the other hand, exchange rates continue to weaken in most countries on the deterioration of fundamentals (both domestic and external) and the lift-off for rate hikes by the Fed. All of this gives downside bias to commodity prices (uncertainty over China and the strengthening of the USD move inversely to commodity prices). Thus, in the YtD there have been sharp contractions in the market prices of commodities that are important to Paraguay, such as soybeans and oil (Figure B.1.1).

Figure B.1.1
World oil and soybean prices (January 2011=100)



Source: Bloomberg and BBVA Research

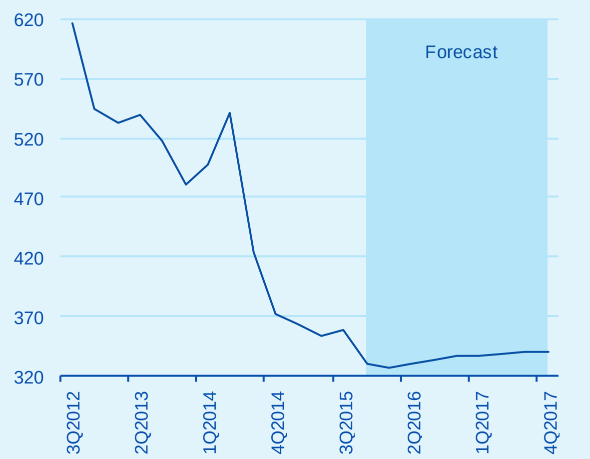
It should be noted that, according to the IMF, even though the drop in the crude oil price has positive effects on GDP, since it helps to dampen the cost of imports, this is not enough to make up for the negative impact of the steady fall in the price of the soybean, which is the country's foremost export product.

Soybeans

The soybean price currently stands at around USD325/tonne and shrank by a cumulative 14% between the end of 2014 and November 2015. This downward trend in the price is mainly due to lower demand from China (over 60% of the world demand for soybeans) and the bumper harvest in the United States (33% of global supply). Towards the end of the year, we expect prices to hold at current levels.

Looking forward, we expect the price of soybeans to remain relatively stable (or keep to a slight rising trend), in a context where drops in supply (lower profit margins with price weakness have an adverse impact on the cultivated area) are marginally neutralised by the effects of weaker demand, especially from China. We therefore expect the price to hold at around USD330/tonne over a large part of 2016 and to approach USD340/tonne towards the end of 2017 (Figure B.1.2).

Figure B.1.2
World soybean price (USD/tonne)



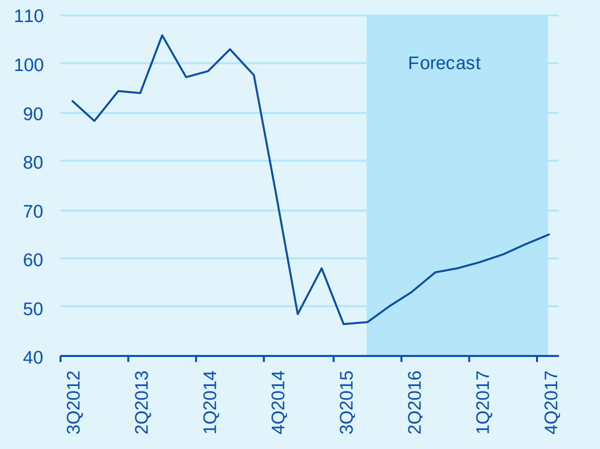
Source: Bloomberg and BBVA Research

Oil

The oil price currently stands at around USD45/bbl, and saw a cumulative drop of 25% between December 2014 and November 2015. This lower level is associated with a glut that has arisen from inventory persistence, the resilience exhibited by shale oil producers in the United States, the maintenance of OPEC's production quotas and expectations of increased exports by Iran and Iraq. Meanwhile lower world demand, especially from China, in an environment of concern over financial volatility and doubts surrounding its growth, accentuated the fall in the price. Towards the end of the year we expect the current oil price level to hold, producing an average of USD50/bbl.

Going forward, we think that the oil price will recover gradually and converge on a long-term level of around USD65/bbl in 2017 (see Figure B.1.3). The recovery will arise from an improvement in global demand and lower supply in a context of low prices, which will lead to a keener balance between demand and supply. On top of this, the geo-political tensions in the Middle East will also have a bearing on the crude price.

Figure B.1.3
World oil price (USD/bbl)



Source: Bloomberg and BBVA Research

DISCLAIMER

This report has been produced by the Peru Unit

Chief Economist for Peru
Hugo Perea
hperea@bbva.com
+51 1 2112042

Francisco Grippa
fgrippa@bbva.com

Yalina Crispin
Yalina.crispin@bbva.com

Vanessa Belapatiño
Vanessa.belapatino@bbva.com

Ismael Mendoza
Ismael.mendoza@bbva.com

Marlon Broncano
Marlon.broncano@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Developed Economies Area
Rafael Doménech
r.domenech@bbva.com

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

Cross-Country Emerging Markets Analysis
Alvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Turkey
Alvaro Ortiz
alvaro.ortiz@bbva.com

LATAM Coordination
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
juliocesar.pineda@bbva.com

Financial Systems and Regulation Area
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Digital Regulation
Álvaro Martín
alvaro.martin@bbva.com

Global Areas

Economic Scenarios
Julián Cubero
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

Innovation & Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

Contact details:

BBVA Research Perú
Av. República de Panamá 3055
San Isidro
Lima 27 - Perú
Tel: + 51 1 2112042
E-mail: bbvaresearch_peru@bbva.com
www.bbvaresearch.com