Box 7.1

Recent movements of food and commodity prices in the international markets

International commodity prices are often subject to huge volatility, easily affected by a number of changing factors such as economic outlook, global monetary conditions, policy changes in the suppliers, weather conditions, and other factors influencing the demand-supply balance of the commodities. Among various commodity prices, those of food and, to a lesser extent, oil, can have a direct bearing on Hong Kong’s inflation. This note describes the recent movements of global food and commodity prices, and discusses their possible implications for Hong Kong’s imported inflation.

Recent trend of global food prices

According to the Food and Agriculture Organization of the United Nations (FAO) and the International Monetary Fund (IMF), global food prices were generally on a downward trend in 2013 but registered a jump on entering 2014, plausibly due to the extreme weather conditions in the US in the first quarter. Global food prices headed south again shortly afterwards, and continued to fall towards the end of 2014, as global food production was found to be abundant relative to demand given the rather disappointing global economic recovery (*Chart 1*). For 2014 as a whole, the FAO Food Price Index went down by an average of 3.8%.

*Chart 1: Global food prices generally continued the easing trend in 2013 and 2014*  

According to the FAO’s latest report on food outlook\(^{(1)}\), despite the decline in overall food price index, the latest supply/demand conditions in different food markets still exhibit considerable variations. Specifically, global cereal supply/demand balance is forecast to further loosen alongside the visible increases in wheat and maize production, with inventories expected to reach a new record high. On the other hand, there could be some price pressure for rice, which is the main staple food in Hong Kong, due to slightly deteriorated crop prospects amid erratic weather conditions. The global meat supply is also projected to grow only modestly because of supply side constraints and trade restrictions, thereby providing some support to the meat price. As to sugar and fish, the global supply conditions are still favourable relative to demand.

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\(^{(1)}\) Food Outlook, Biannual Report on Global Food Markets (October 2014 issue), FAO.
Recent trend of international commodity prices

International commodity prices remained largely stable in first half of 2014 but exhibited significant gyrations on entering the second half of 2014. According to the IMF commodity price index, average commodity prices in December 2014 dropped significantly by a cumulative 28% from July 2014, which owed much to the recent plunge in international oil price (Chart 2).

The sluggish global economic recovery together with the divergence in monetary policies by the major central banks in 2014 have conceivably contributed to the increasing volatility observed in commodity prices, in addition to other factors such as demand-supply dynamics. Looking ahead, with the world economy still operating in low gear, the sluggishness of demand for commodities might continue for an extended period. Also, a possible stronger US dollar might not be conducive to a rebound in global commodity prices.

As a small and open economy, Hong Kong depends highly on imports from overseas to meet its internal demand for foodstuffs and fuels, and hence our city’s imported inflation will inevitably be impacted by the vicissitudes of global food and commodity prices. While the recent noticeable retreat in both food and commodity prices should help keep Hong Kong’s imported inflation at bay, this may also trigger bouts of volatility in the global financial markets in the midst of uncertain macroeconomic and monetary conditions. The Government will stay alert and continue to monitor the developments closely.