

2021 in review: another year of record-breaking commodity prices, volatility and disruption

Agriculture

by Timothy Worledge

Weather played its own inimitable part in 2021, as it does every year, but the scale and breadth of the challenges faced formed the backdrop to the COP26 meeting on climate change in the UK and framed major price rises globally.

From the drought conditions that shattered river logistics across Argentina, to the extreme heat that made parts of Canada and the US Pacific Northwest among the hottest places on earth, extreme weather was felt in every facet of production.

On the flip side, consistent rains across Australia meant the country left behind its multi-year drought status to record a huge wheat crop for the second consecutive year – but the constant rain raised fears over that crop's final quality.

In the Black Sea, many of the region's producers also enjoyed the benefit of more conducive weather to drive production, but the fears across the region were more geopolitically focused.

Mounting tensions between the world's biggest wheat producer – Russia – and its neighbor Ukraine added further fuel to an already supportive mixture, while throughout the year China's rapid recovery from Covid lockdowns strained every sinew of world trade logistics.

Also providing support from a downstream perspective was renewed vigor applied to the biofuel space, with the trade anticipating ever more ambitious biofuel mandates coming into play in the years ahead, as major blocs like the EU and the US strive to decarbonize personal transport.

Key in the battleground ahead is aviation, arguably the last bastion of unadulterated oil demand, where support for advanced and developing biofuels is likely to feed ever greater demand for a raft of vegetable oils, tallows, forestry and household waste as feedstocks to a historic attempt to wean the sector away from its mineral oil addiction.

Among that, the expectation remained that – even with the rise of electric vehicles – a bedrock of conventional oil demand will persist among the personal car fleets of the world, and positioning sustainable biofuels as a key answer to that fact are likely to drive efforts to further increase mandates and displace oil in the year ahead.

All of that teed up multi-year price highs across the biofuel, grains and oilseed space and looks set to persist into 2022 as the dynamics unleashed this year play out in the form of further uncertainty, inflation and volatility.

Forest products

by Matt Graves

2021 was certainly a record-breaking year for forest products markets. Nearly every grade, from pulp, to old corrugated containers, to containerboard and to lumber hit record highs this year for a variety of reasons.

As with many commodities, the rally in pulp was driven by China where speculative demand together with supply-side constraints helped propel the price of northern bleached softwood kraft (NBSK) to an all-time high of \$1,000/tonne on a net delivered basis in May.

Other regions followed suit, with the US and Europe also hitting new records by the summer. And while China saw a sharp fall in prices once speculative demand settled lower, global shipping challenges delayed supply-side adjustments and allowed the US and Europe to retain higher price levels through December.

Shipping constraints and disruptions were key factors impacting global pulp and paper markets. The industry has been plagued with container shortages, soaring freight rates and delayed deliveries throughout 2021, which fed into higher commodity prices.

As for wood products, it was a real rollercoaster as massive economic stimulus allowed for pandemic-inspired home improvements, which triggered one of the most impressive rallies the market has ever seen.

The Random Lengths Framing Lumber Composite soared to a record \$1,514/mbf in May, only to crash back down to below \$400/mbf by mid-August. But it has worked steadily higher since, and at the time of writing had rebounded to \$786/mbf with a sanguine consensus outlook for 2022.

What will 2022 hold? That remains to be seen. It will take a lot to beat the excitement of this past year.

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