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covid-19 Brief

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Changes in global commodity markets and effects on country trade performance: Kenya.

Ismael Fofana, Director, Capacity and Deployment and Leysa Maty Sall, Associate Scientist.

The COVID-19 pandemic is affecting the economies of many countries through several channels, including changes in global commodity markets. This Brief assesses Kenya's Trade Performance in response to disruption in primary commodity markets.

The effect of COVID-19 on the prices of 46 primary commodities is based on forecasts released by the World Bank in October 2019 and April 2020.¹ In addition to changes in prices, countries are also affected by changes in global demand and market access. These changes are the result of measures enacted in response to the pandemic leading to reduced availability of air cargo and shipping services, changes in port and airport operations—from closures to changes in protocols, quarantine, additional documentation requirements, and reduced manpower.²

This analysis focuses exclusively on the impact of the disruption in global commodity trade, that is, of changes in global prices and market access. No other changes are considered to isolate the latter effects. The ultimate impact of global price changes on Kenyan economy will depend on the magnitude of individual price changes and composition of the basket of primary commodities internationally traded by the country. As shown in

Figures 1 and 2, primary commodities accounted for 46 and 43 percent of Kenya's total exports and imports in 2018, respectively. Changes in the international prices of commodity exports have largely declined in the wake of the COVID pandemic (Figure 3). The hardest hit sector is petroleum oils with a price fall of close to -40 percentage points (pp), followed by titanium ores as well as niobium, tantalum, vanadium, or zinc with about -14 pp decrease for each commodity. Sugar confectionery, on the other hand, experiences the highest price increase (11 pp). Changes in the prices of commodity imports are more balanced. Petroleum oils and gases see the largest rates of decline, again with close to 40 pp, followed by mineral or chemical fertilizers (-13 pp). The highest increases in commodity imports are observed for palm oil (12 pp), cane or beet sugar (11 pp), and rice (7 pp). The average change in export and import prices and related changes in export and import values are presented in Figure 5.

¹ World Bank. Commodity Markets. Retrieved on July 2020. www.worldbank.org/en/research/commodity-markets#2

² COVID-19 and international trade: Issues and actions (OECD). Retrieved in July 2020 from www.oecd.org/coronavirus/policy-responses/covid-19-and-international-trade-issues-and-actions-494da2fa. Lower export demand elasticity values are selected to implement the COVID scenario compared to the baseline scenario.

Figure 1: Share of Top Ten Primary Commodities in Kenya's Total Exports, 2018

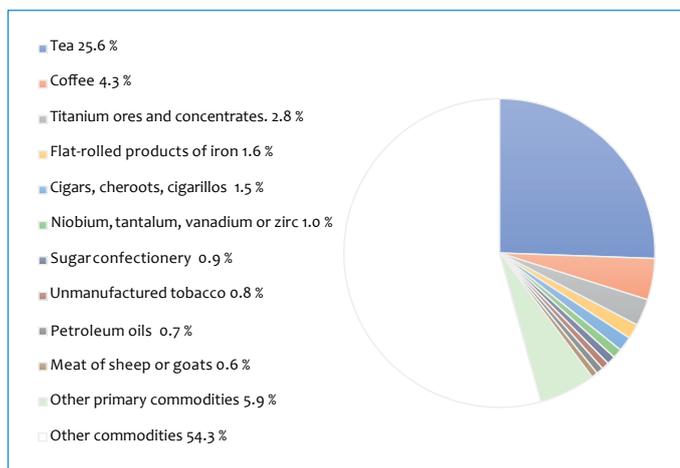
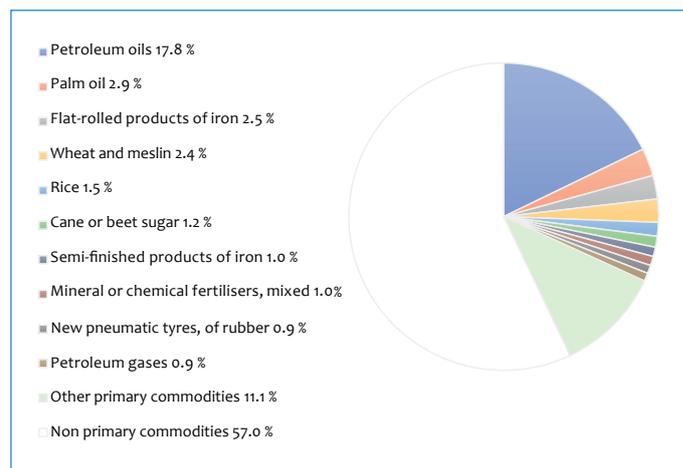


Figure 2: Share of Top Ten Primary Commodities in Kenya's Total Imports, 2018



Source: Computation from United Nations Commodities trade Database, United Nations DESA. Data retrieved in July 2020 from <https://comtrade.un.org/data>

Figure 3: Changes in predicted Prices for Top Ten Primary Commodities Exported by Kenya

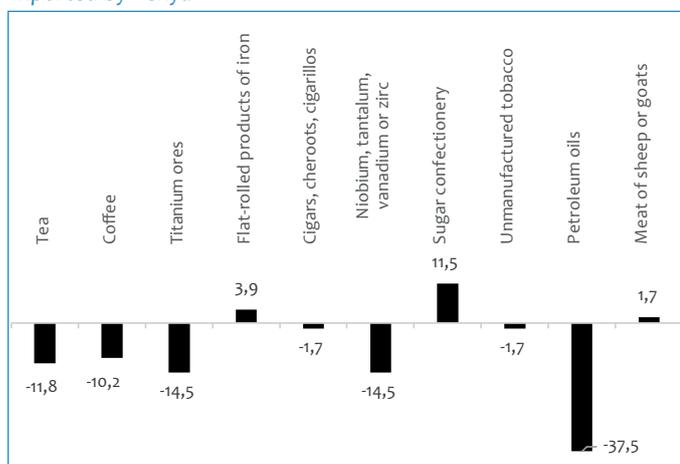
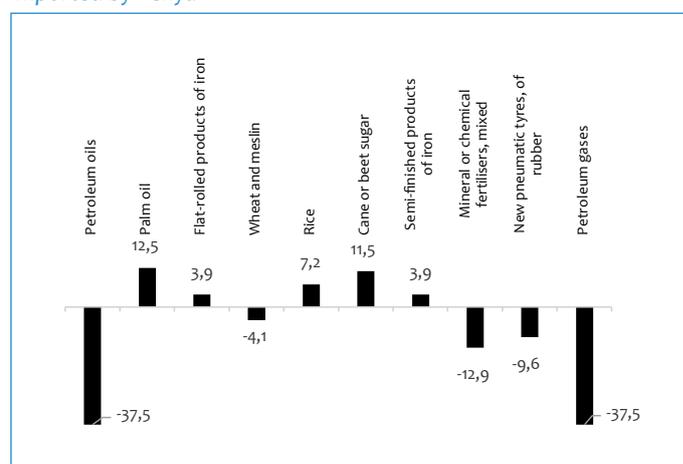
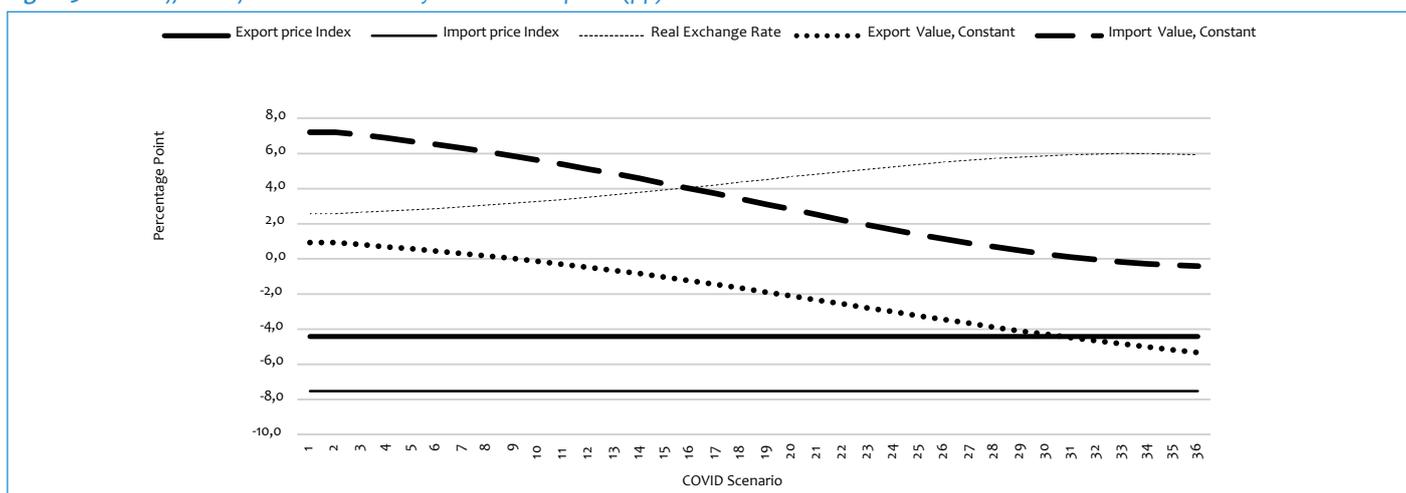


Figure 4: Changes in predicted Prices for Top Ten Primary Commodities Imported by Kenya



Note: Differences between prices forecast in April 2020 and in October 2019 in pp. Source: See Figure 1.

Figures: Trade Effects of Global Commodity Market Disruption (pp)



Note: The COVID scenarios (1 to 36) combine different values of trade (import and export) elasticities across commodities to mimic the responsiveness of Kenya's economy to changing global market conditions. Scenario 1 uses the highest and scenario 36 the lowest elasticity values. The remaining scenarios combine difference values of elasticities between the two extremes. Export price refers to the average weighted F.O.B. price indexes. Import price refers to the average weighted C.I.F. price indexes. Export and import values are in constant 2019 prices.



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