

Commodity Super Cycle Maintains Strength: Driven by Heightened Geopolitical Tensions amid Breakaway Inflation and Tightening Monetary Policy

Executive Summary

Predication we made about the emergence of an upswing in commodity prices in our research report published in March 2021 and titled “A New Commodity Price Upcycle is Emerging Post-COVID” **came to fruition.**

Our optimistic stance at that time was based on the following factors:

- 1) Expectations of a **rebound in global demand** after the COVID-19 pandemic is brought under control;
- 2) **Lingering of production disruptions** together with **not totally resolved logistics hurdles**;
- 3) **Outsized fiscal stimulus packages** from many major economies such as the U.S., China, and the EU; and
- 4) **Robust infrastructure investment** such as 5G wireless communications along with the buildouts of smart and/or extensive transportation networks, and transition to green energy, including the increasing popularity of electric vehicles.

Loosening monetary policy adopted by central banks worldwide in an attempt to soften the hit on the global economy caused by the unprecedented public health crisis also helped our prediction become a reality. Interest rates were cut to historically low levels of near zero in many countries, or even in negative territory such as Switzerland, Sweden, Denmark and Japan, along with the euro area.

As expected, **prices of commodities in general and industrial metals in particular had been on a steep upward trajectory from around March 2020 to March 2022** attributable to reasons mentioned above. Using the broad Bloomberg Commodity Index¹ (“BCOM”) as a proxy, commodity prices surge about 75% during that approximately two-year period, with nickel being the outperformer, registering a gain of 163%.

The surprising military confrontations between Russia and Ukraine that started on 24 February 2022 **added to supply-constraint concerns** over a great variety of commodities and **exerted extra upward price pressure** especially on energy and food. It is because Russia is the largest exporter of all crude oil products and the second-largest supplier of crude oil, both on a global basis². In addition, Russia was the world’s top natural gas exporter in 2020, according to the BP Statistical Review³. Furthermore, it is a key supplier of other commodities like fertilizers, minerals, and wheat. On the other hand, Ukraine is a key supplier of soft commodities such as barley, corn, and sunflower oil. Together, Russia and Ukraine account for about one-third of global wheat supply. As a result, the BCOM extended its uptrend and peaked at 136.61 in June 2022, increasing 130% against its trough of 59.48 set in March 2020.

¹ The index references exchange-traded contracts linked to 23 physical commodities, including energy, grains, industrial metals, precious metals, soft commodities, and livestock

² <https://www.weforum.org/agenda/2022/04/which-petroleum-products-does-russia-supply-to-world/>

³ Natural Gas Intelligence.com How much Oil & Gas does Russia Export?

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