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Towards a new commodity super-cycle?

Presented to JP Morgan Center for Commodities Annual Symposium

David Fyfe, Chief Economist

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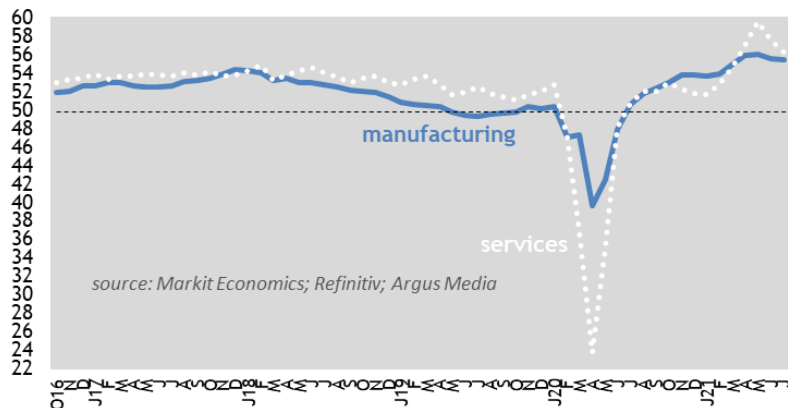
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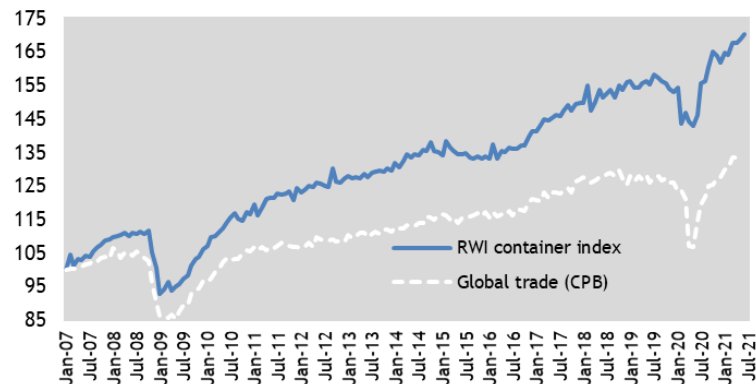


An impressive global manufacturing & merchandise trade rebound

July Global PMIs - "end of the beginning"?

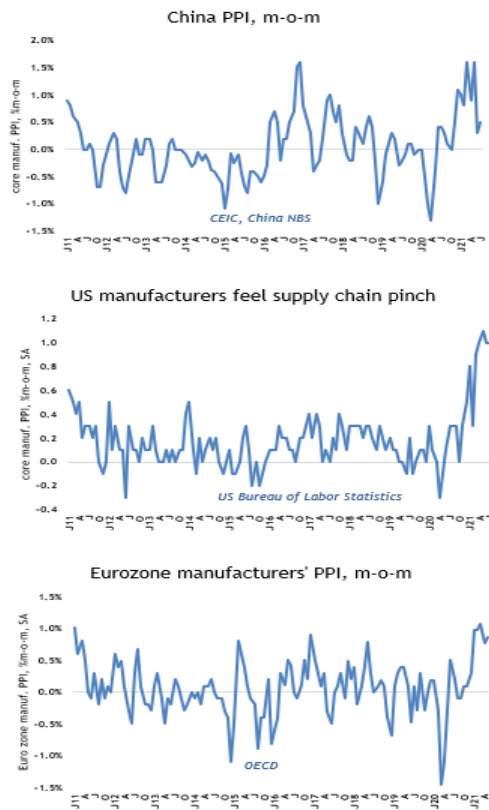


World trade rebounds faster than in 2009/2010

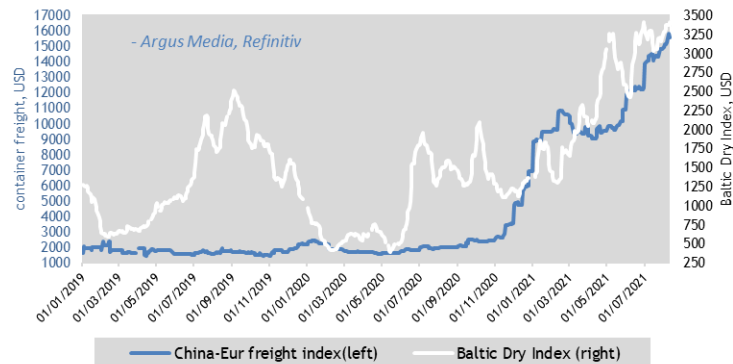


- The recovery in activity has been rapid, but may be losing momentum

Rebound revealed cyclical supply chain bottlenecks, stoked inflation



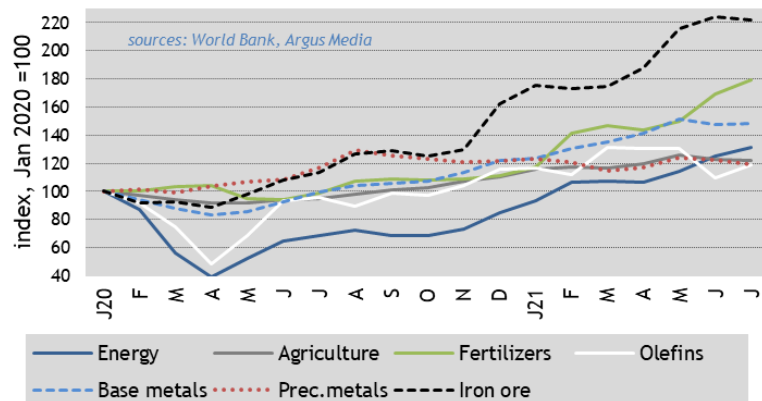
Bulk & container freight surge continues



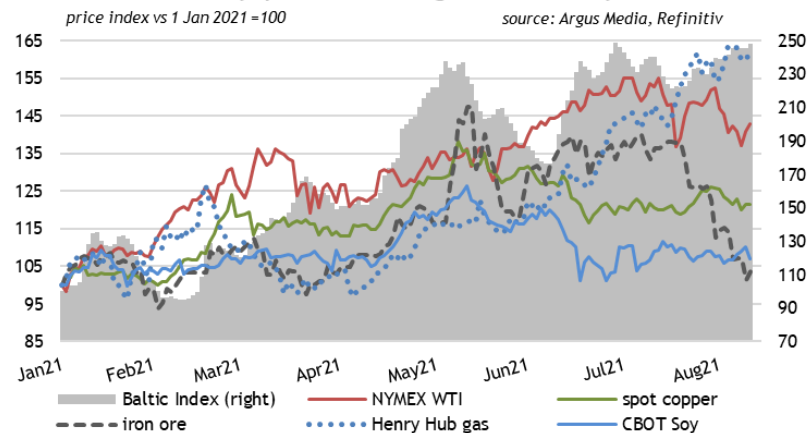
- “Post-pandemic” inflation spike on supply chain & workforce bottlenecks
- Freight surge, and extreme weather amplifier
- Investors see commodities as an inflation hedge
- Supply chain, inflationary factors may ease 2022/2023, but could re-emerge longer term

Recent price trends imply super-cycle narrative is premature

Commodity fortunes diverge in June/July



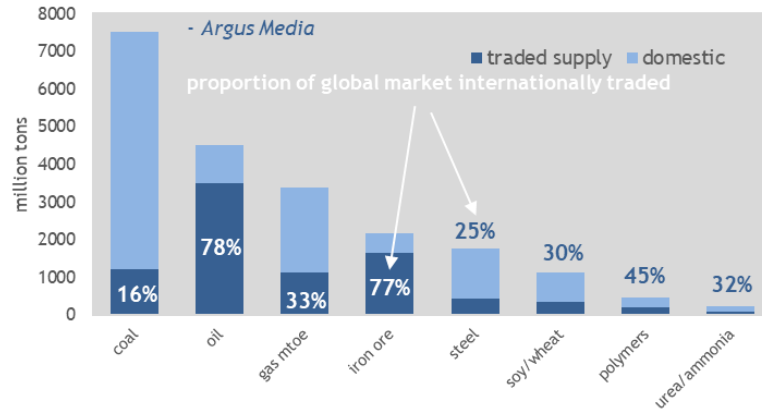
Commodity prices no longer a one-way street



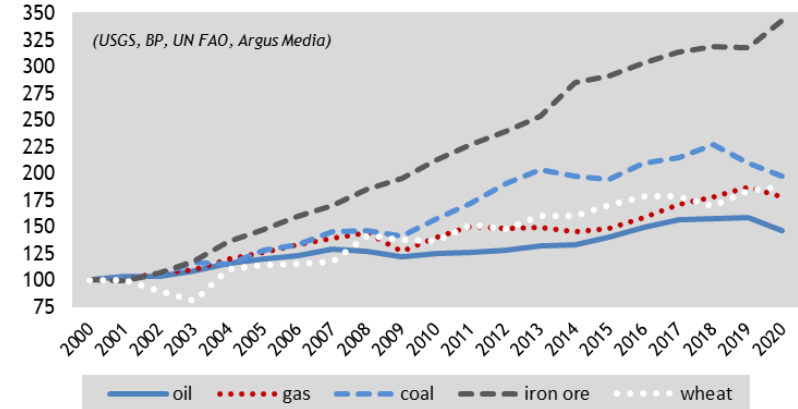
- Since May, commodity price trends have diverged

Trade rebound doesn't affect all commodities the same

Trade in key commodities & bulk materials, 2019



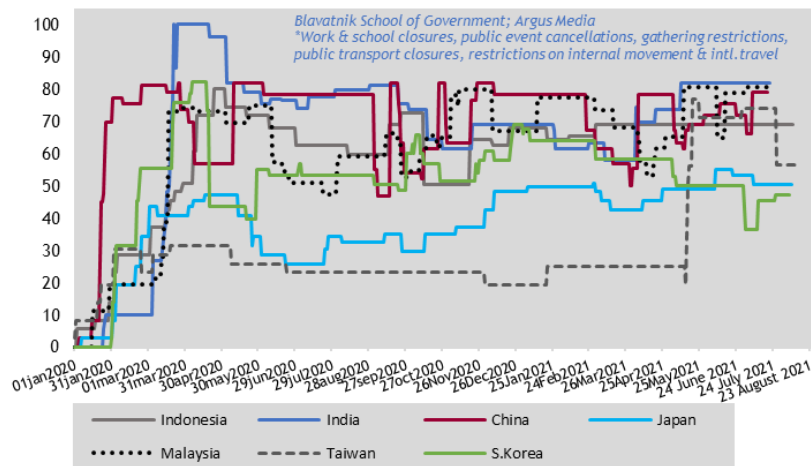
Global commodity trade index (2000 vol.=100)



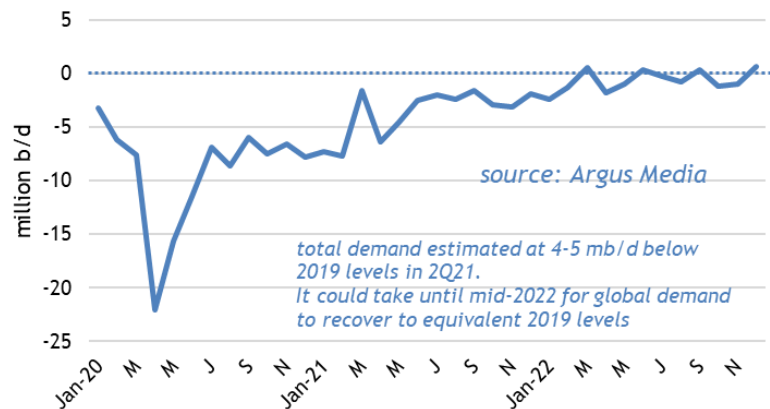
- Prevailing fundamentals & trade dynamics vary widely across the commodity complex

Covid-19 isn't over, and until it is, commodity demand will lag

Covid control policy* stringency index

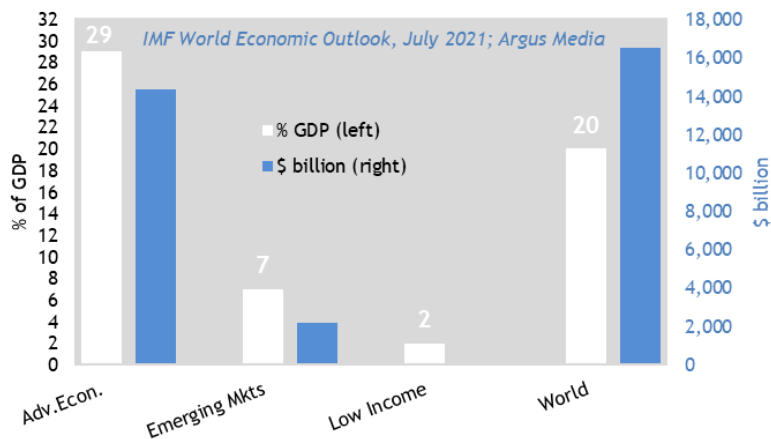


Total oil demand vs. 2019



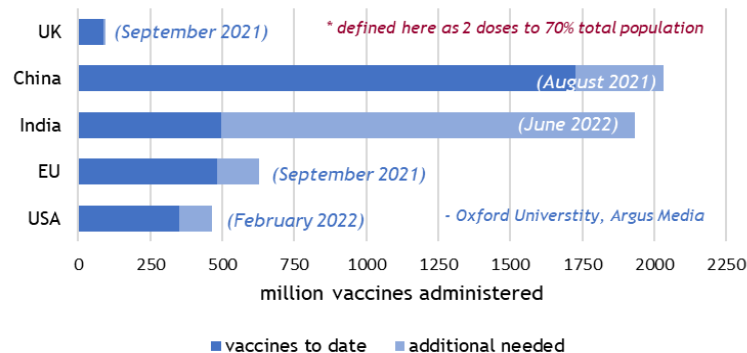
Despite strong macro rebound, EMs face a sustained hit

\$16.5 trillion fiscal response Jan-20 to May-21

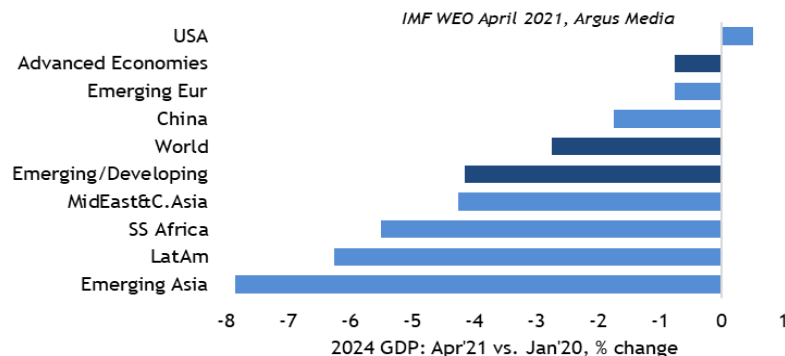


- Uneven nature of recovery cuts two ways for inflation & commodities
- On one hand it worsens ST supply issues...
- ...but crucially weighs on mid-term EM demand

Progress towards vaccine "herd immunity"

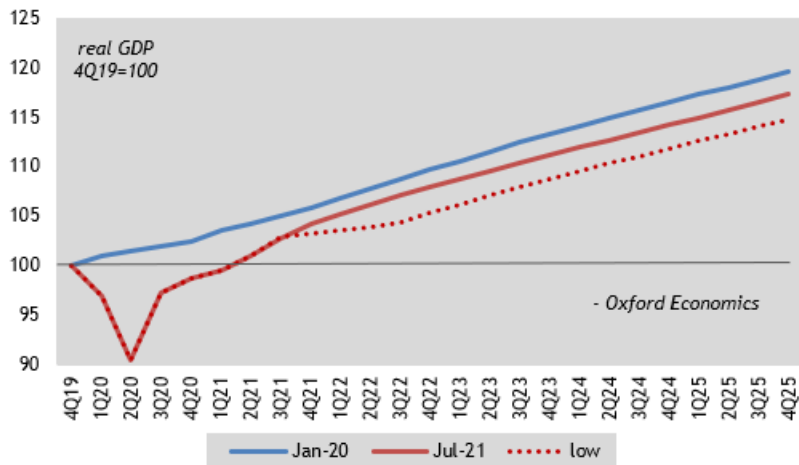


Medium Term GDP Loss, %



Asymmetric recovery likely to weigh through medium term

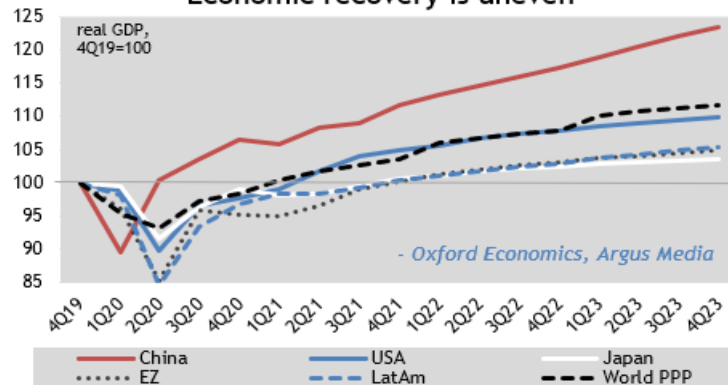
Global GDP takes sustained 2-3% hit



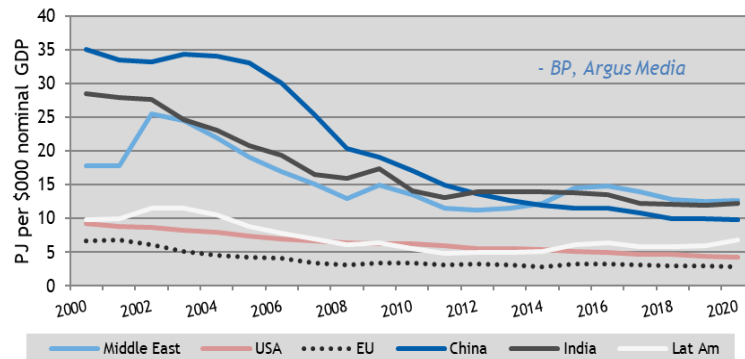
- Sustained hit on energy & commodity demand since EMs have a more commodity-intensive growth model



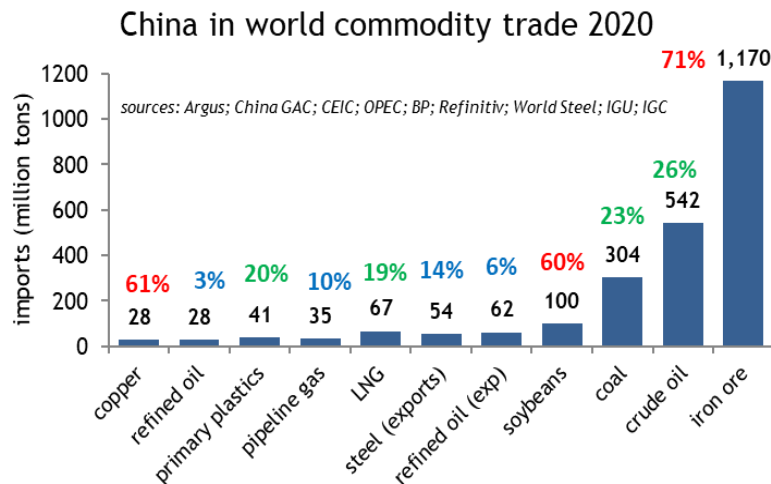
Economic recovery is uneven



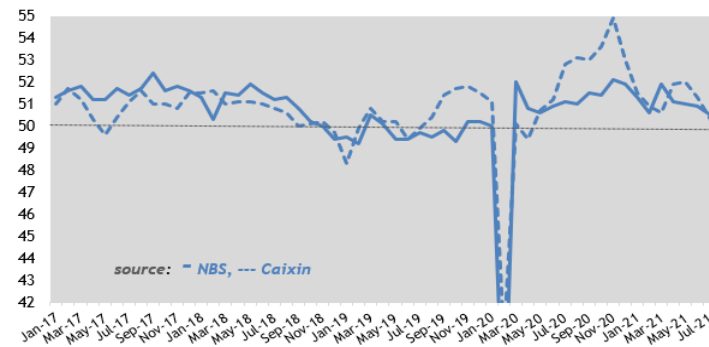
Average energy intensity



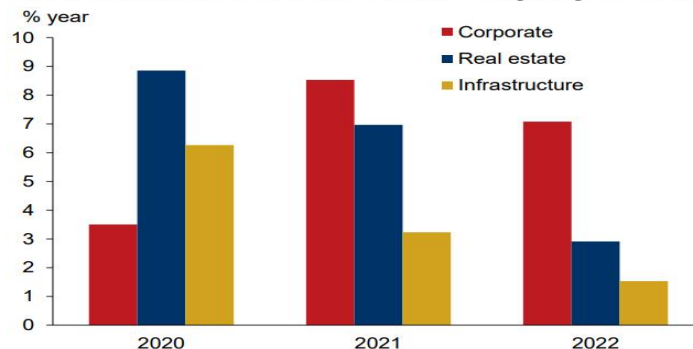
The role of China looks different in 2021 than in 2020



China's 2020 manuf. PMI rebound is fading

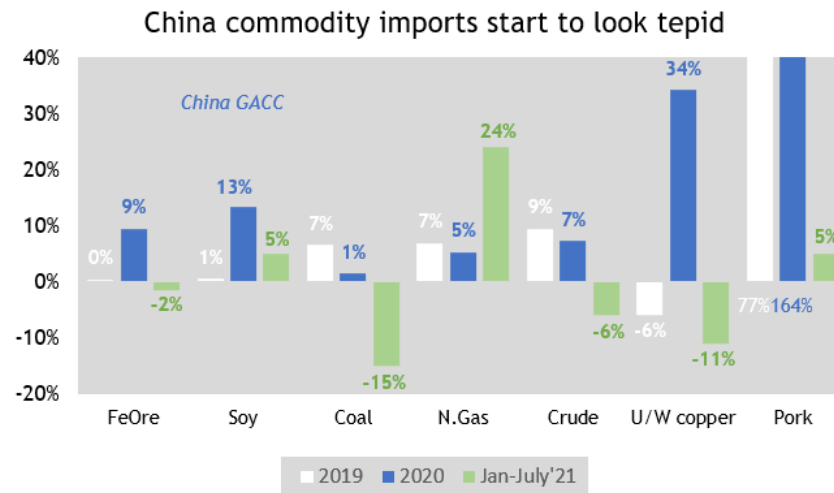
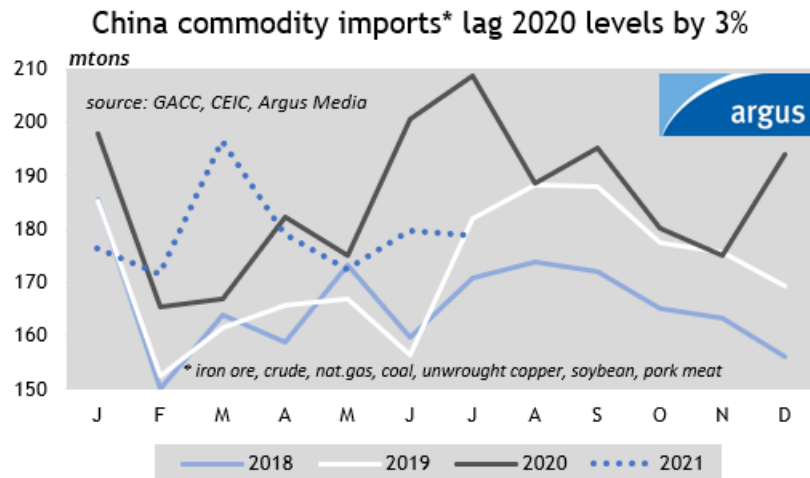


China: Real investment forecasts by key sectors

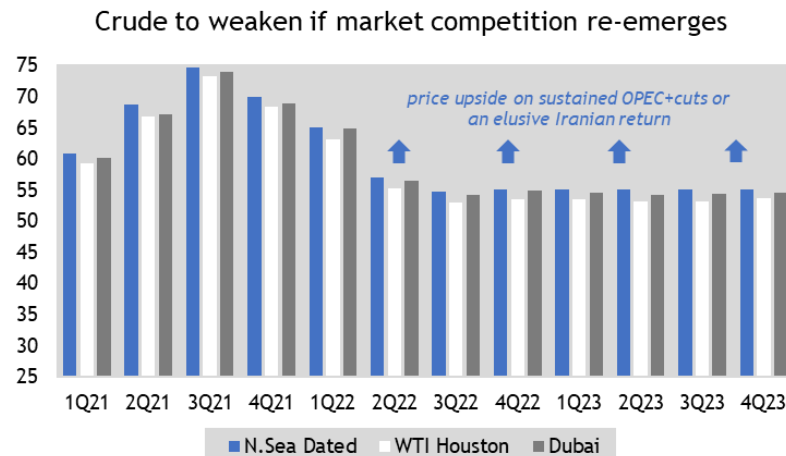
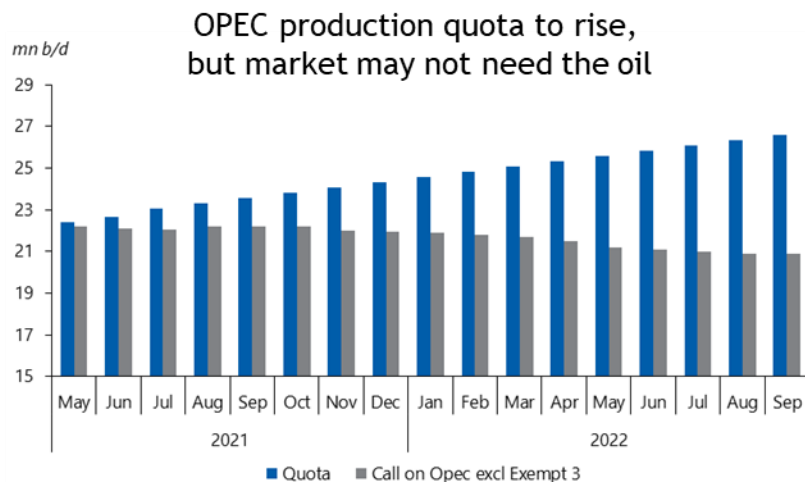


Source : Oxford Economics/CEIC

China's 2021 commodity imports won't match +10% growth of 2020

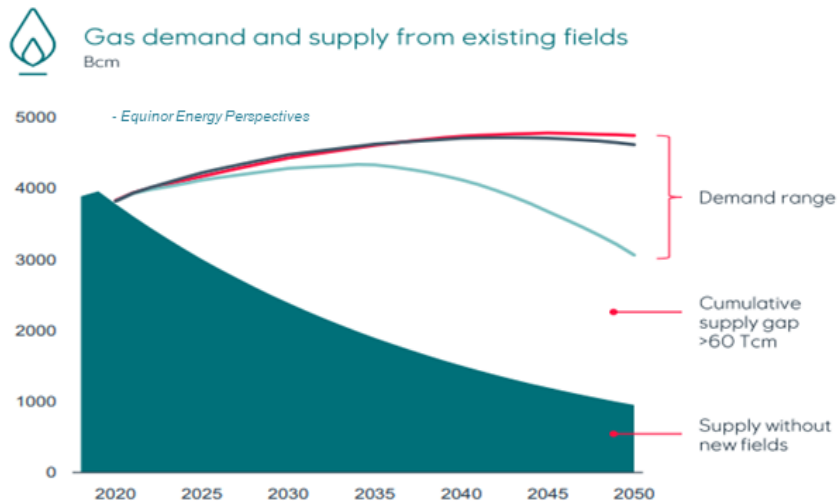


Oil fundamentals tighten 2H20 & 2021, surplus-prone 2022 & 2023

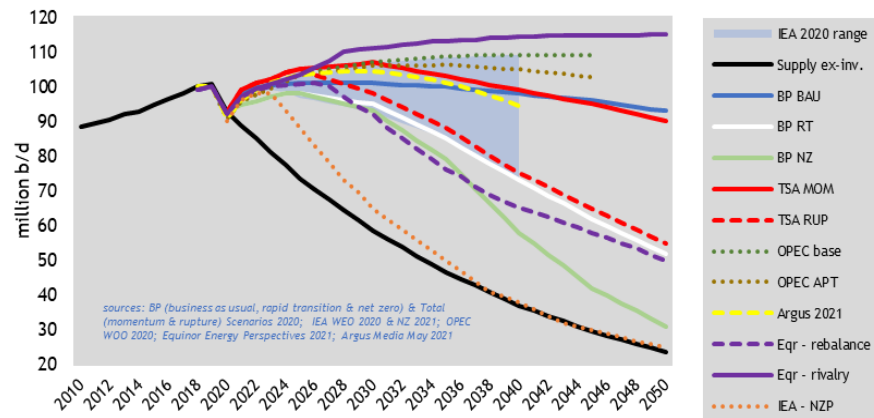


- Of the key commodities, short-term crude fundamentals look the most challenged

Longer term, real questions over adequacy of upstream investment

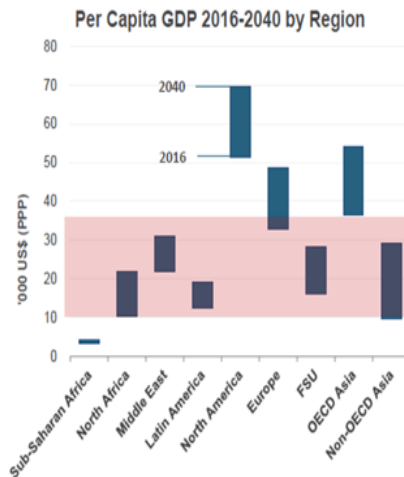
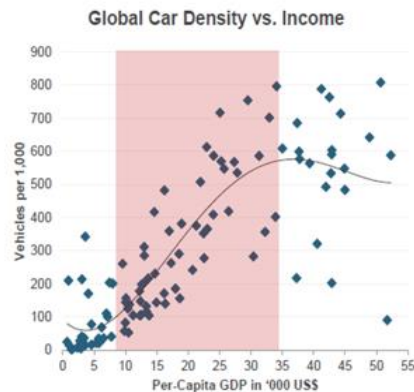


The policy uncertainty envelope for oil demand is wide

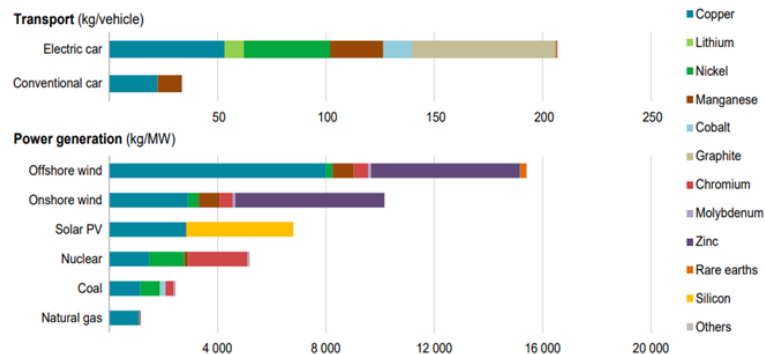


- The pivot of governments, regulators, financiers & the IOCs away from hydrocarbon investment risks stoking price spikes longer term

Nor will energy transition pathways be uniform



Mineral use for selected clean energy technologies
(IEA, 2021)

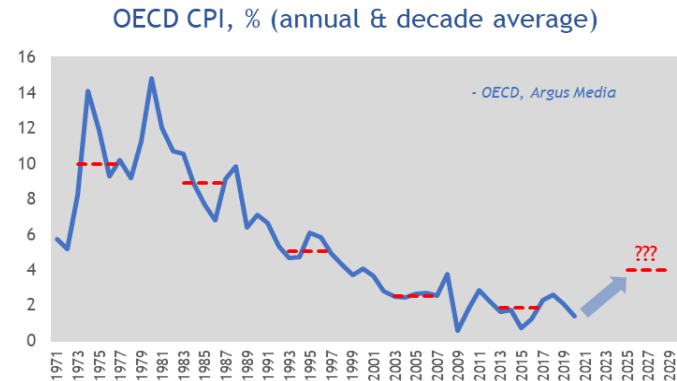
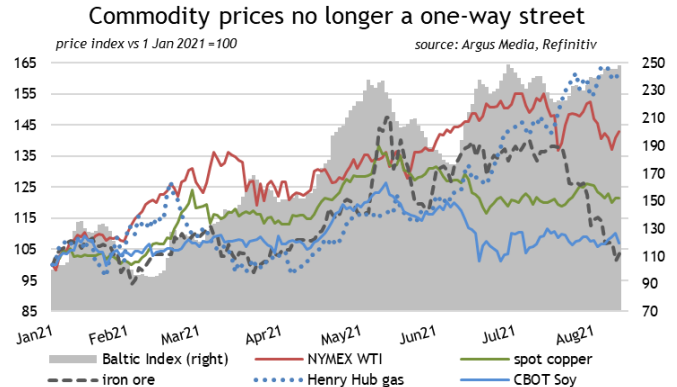


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- Population & income growth, plus urbanisation, still have further to run
- Between 2020-2040, 85% of the world's population will be in the take-off zone of the income/commodity demand S-curve
- Energy transition/electrification will also prove commodity intensive

Commodity super-cycle narrative looks premature...for now

1. Cyclical post-2020 inflationary surge underway, with commodities as a potential inflation hedge.
2. Post-pandemic supply chain bottlenecks should start to ease in 2022, suggesting short term inflationary spike could then moderate.
3. No synchronous commodity demand surge underway like 2000-2008, amid heterogeneous fundamentals, slowing China & challenged EMs.
4. China's restructured & slowing growth, ageing global demographic, industrial automation & Central Bank levers could moderate inflation...
5. ...but offsets via supply chain resilience + trade barriers, managing cyber risk, energy transition, extreme weather impacts & worker shortages.
6. De-carbonisation/electrification agenda longer term – curbs upstream hydrocarbon investment *and* prompts a key metals/minerals demand surge.



David B. Fyfe
Chief Economist

david.fyfe@argusmedia.com
+44-(0)780-933-9777
London
www.argusmedia.com

Thank you for your attention



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