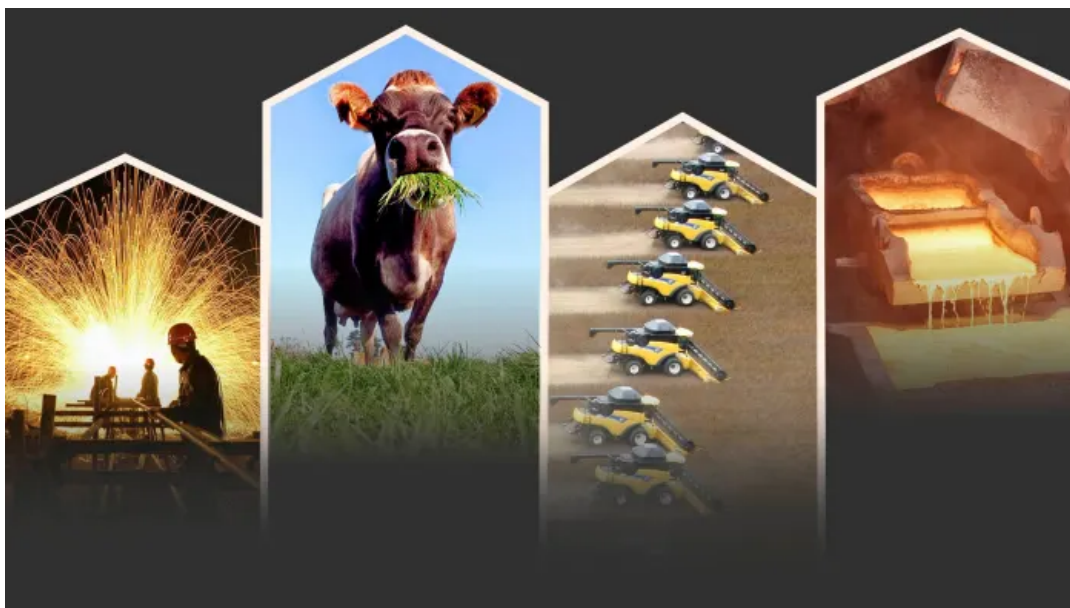


Commodities**Broad commodities price boom amplifies 'supercycle' talk**

Key raw materials from iron ore to grain rally in tandem as global economy picks up



Commodities prices are rising, fanned by strong demand from China, government spending on post-pandemic recovery programmes and bets on the 'greening' of the global economy © FT montage; Bloomberg; Getty Images; Reuters

Neil Hume, David Sheppard, Emiko Terazono and Henry Sanderson MAY 3 2021

A broad and powerful rally in commodities markets has gathered steam in recent weeks, fuelling expectations among some traders and analysts that a “supercycle” has kicked off as big global economies rev up in tandem.

Strong demand from China, a boom in government spending on post-pandemic recovery programmes and bets on the “greening” of the world economy have lifted the price of many important raw materials.

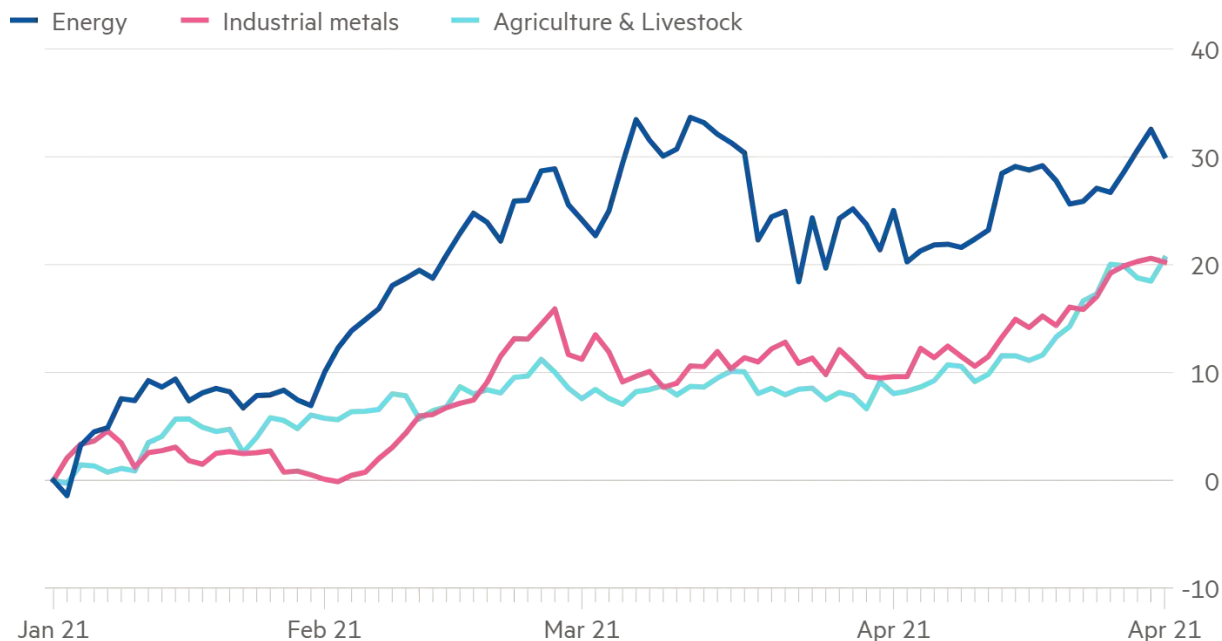
Iron ore, the key ingredient needed to make steel, palladium, used by carmakers to limit harmful emissions, and timber all hit record highs in the past week. Key agricultural commodities including grains, oilseeds, sugar and dairy have also jumped, with corn prices above \$7 a bushel for the first time in eight years.

“I don’t know if we have seen anything like this before,” said Ulf Larsson, chief executive of Swedish pulp and timber company SCA, which announced a 66 per cent increase in first-quarter net profit on Friday. “We are in some kind of perfect storm.”

At the same time copper, the world's most important industrial metal, traded above \$10,000 for the first time since 2011, while soyabeans hit an eight-year high. The S&P GSCI spot index, which tracks price movements for 24 raw materials, is up 24 per cent this year.

Raw materials prices have soared in 2021

% change of GSCI spot indices



Source: Bloomberg

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Rapid economic recoveries in Europe and China — the latter being the world's biggest consumer of raw materials — alongside signs of a marked rebound in the US, where the housing market is booming, have fuelled demand expectations. Covid-19-related supply chain disruptions and low inventories in some raw materials have added further fuel to the fire, analysts say.

Predictions among some traders, analysts and executives for a new supercycle — a prolonged period of high prices as demand outstrips supply — have lured investors.

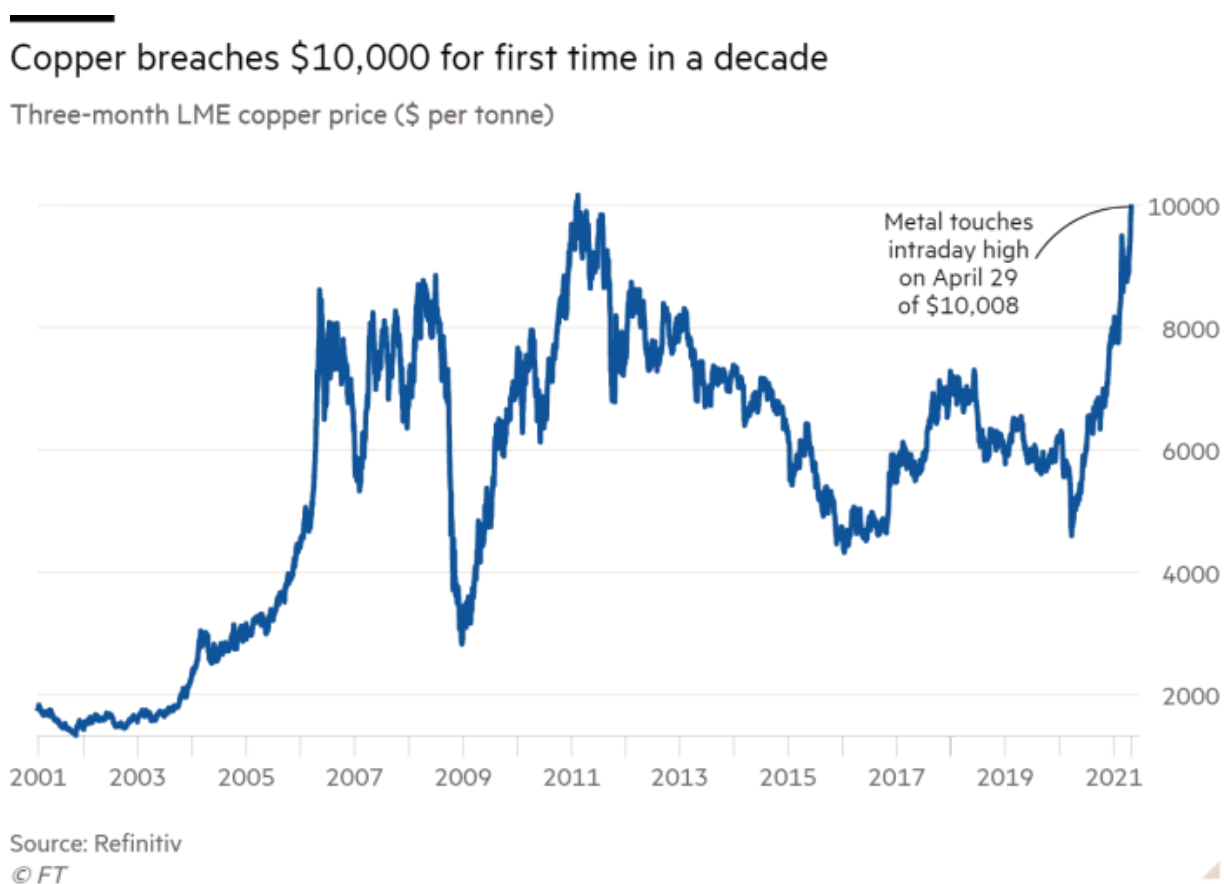
Saad Rahim, chief economist at Trafigura, one of the world's biggest independent commodity traders, said the vast stimulus spending programme launched by the US has helped build expectations that demand for commodities in the world's largest economy will rise.

“President [Joe] Biden has now proposed two additional stimulus plans on top of the one he has already passed. If any of that comes to pass you are just supercharging this whole thing,” he said. “This is just getting started.”

The sector has also drawn support from fund managers seeking assets that will benefit as the global economy picks up speed after the pandemic, and that can also act as a hedge against rising inflation.

“If we can hopefully see a relatively quick resolution to the [pandemic] situation in India, then in our lifetime we have not seen a macroeconomic set-up like this,” added Rahim.

“We have gone from China being the only story in commodities for the last 10 years to now the rest of the world picking up the baton and being real contributors to the demand side of the equation.”



A suite of raw materials needed for electric vehicle batteries and motors, spanning lithium to rare earths, has also been swept up in the euphoria.

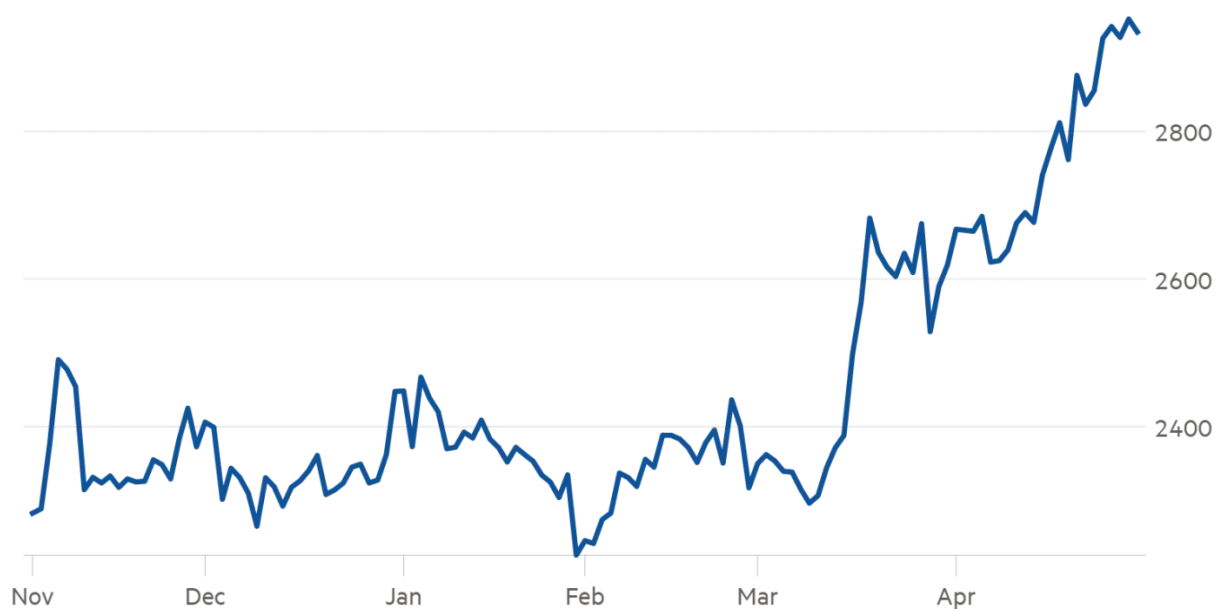
Lithium carbonate prices in China have soared more than 100 per cent this year on strong domestic demand, according to Benchmark Mineral Intelligence, following almost three years of decline. The rare earth neodymium-praseodymium (NdPr) oxide, used in electric motors, is up almost 40 per cent, as is cobalt, a battery metal.

“You have an EV supercycle and you add a real commodity supercycle on top of that — it’s game on for the miners,” said Simon Moores, managing director at Benchmark Mineral Intelligence.

Commodities tied to petrol cars are also rallying. The price for palladium, a metal used in catalytic converters to filter exhaust gases, rose to a record above \$3,000 an ounce on Friday, as Europe and China phase in stricter emissions standards. That is likely to outweigh a slowdown in global internal combustion engine car sales, according to analysts at Jefferies.

Palladium surges to record levels

Dollar per ounce



Source: Refinitiv

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Oil prices have also been strong, recovering to pre-pandemic levels above \$65 a barrel since the start of the year. Though demand is still depressed by limited international travel, it has picked up as economies have reopened. Opec and its allies such as Russia are continuing to restrict supplies — only slowly adding barrels back to the market to bolster the price.

Goldman Sachs said last week that it expected to see oil prices hit \$80 a barrel in the second half of this year, warning that there could be a large supply deficit this summer as vaccine rollouts accelerate and people drive to their holidays, boosting demand by more than 5 per cent globally.

Though the Opec+ group could restore production if prices go too high, some analysts are concerned by the longer-term supply outlook as energy majors pivot away from fossil fuels.

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Christyan Malek, analyst at JPMorgan, has argued that a serious supply gap could emerge in the next few years, with about a \$600bn shortfall predicted in capital expenditure between now and 2030. There is a "risk of oil prices overshooting as non-Opec supply falls short", Malek said.

How long the commodity frenzy will last, however, is up for debate. "This is a mini supercycle," Alex Sanfeliu, the head of Cargill's world trading group, said of the increase in agricultural commodities. "I don't think it is going to last as long as the last one. Supply and demand react faster now."

A Shekhar at Olam International, a leading agricultural trader based in Singapore, said he did not see a continuous rise in food commodities. However, he predicted that underlying demand would remain strong in the next six to 12 months as consumers eat out following a year of lockdowns. "That may drive pricing further," he said.

Some cast doubt on the notion that the world is entering a supercycle at all. "We think the price rally is likely to continue for a bit, but this is more of a business cycle upswing rather than a supercycle," said Jumana Saleheen, chief economist at CRU.

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