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Price of some key commodities have recorded sharp rise in recent weeks

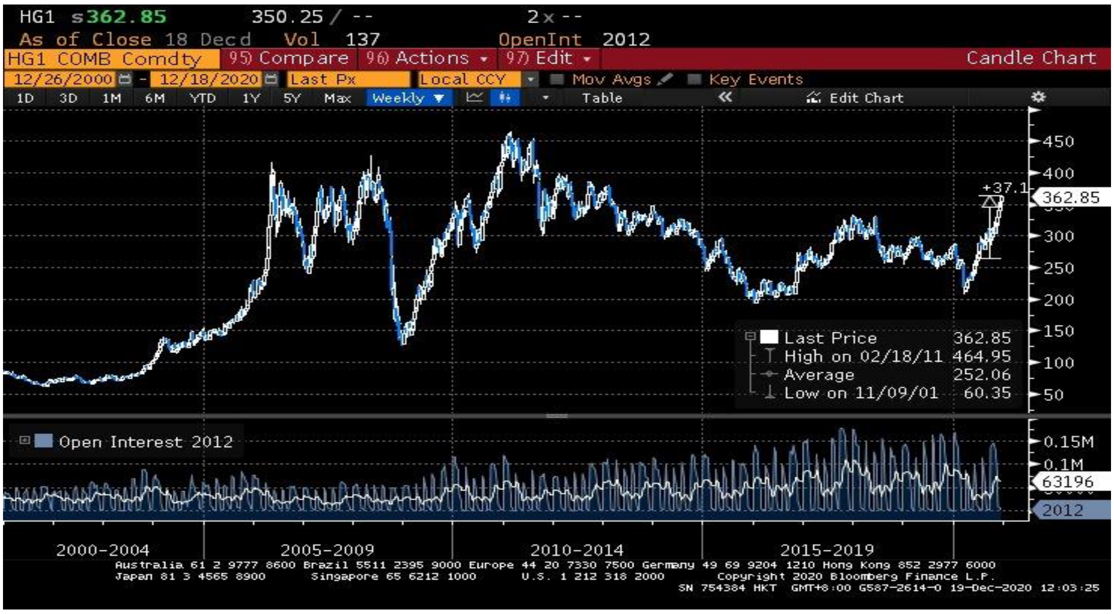
Industrial metals were on soar such as copper and iron have seen a significant increase in the previous weeks.

Copper and Iron Ore

Commodities have recorded a sharp rise recently, such as copper and iron ore. The prices were driven up by the vaccine applications stimulated the hopes on economic recovery from pandemic, adding needs to manufacturing industries, and expanding demand for government’s infrastructure investment.

- Copper prices have jumped to a seven-year high of $8,000 a ton on the London Metal Exchange, an 80% rise since at the height of the pandemic in March 2020.
- Iron ore future has vaulted to $150 a ton on China’s Dalian Commodity Exchange. The price has advanced over 60% since the middle of the year.

Copper price has recorded 80% rise since March 2020



Source: Bloomberg

Iron ore price has climbed over 60% since the middle of the year

Source: Bloomberg

Reasons behind the scene

1. China

China is one of the major reasons for the rebounding in copper and iron ore. China has accounted for more than half of the world's industrial metals, in which 62% iron ore are imported from Australia, can be seen it is highly dependent on imported materials. Demand is driven by the vaccine applications, which stimulates the hope on economic recovery and global demand picked up has pushed the price in commodities.

In addition, China's post-virus stimulus has led to more infrastructure investment and increasing demand for metals. According to the customs data, the imported volumes of unwrought copper was particularly robust, rose over 42% than October and the highest since December 2016. And the construction index increased from 59.8 in October to 60.5 in November, which above 50 indicates expansion, showing that manufacturing and construction was expanding at a pace which increased the demand for copper and iron ore.

2. **Weaken in USD**

Another factor behind this inflow into metals markets is constant decline in USD has pushed the prices of commodities. Fed continued on a sustained easing policy in response to pandemic, the depreciation in dollars is beyond doubt. The dollar has declined 3.5% in the recent month. The other possible rationales behind the scene maybe the surge in new cases and disappointing economic data, which weakened the dollar index to two and a half years low at 89.73, while commodity prices traded higher due to continued buying spree supported by weaker dollar. The continued depreciation of the U.S. dollar had pushed up the speculative demand for betting up the commodity prices. However, as the recent increase in some of the commodity price had been much more than the amount of US dollars depreciation. Despite constantly edging lower of dollars, these commodities price may not have much room to further increase.

US Dollars index has fallen to two and a half year low at 89.730.

Source: Bloomberg

3. **Renewable energy push**

The growing demand for materials such as copper, silver and aluminium due to a shift to renewable energy and electric vehicles, may be another reason for supporting the recent hike in the commodity prices. For example, a car that runs on gasoline includes 15-25kg of copper. But an electric vehicle contains around 80kg of copper. However, as the production volume of EV is still low at this moment, around 2-2.5 million in 2020, the extra demand for copper is just 150k ton, which only accounted for an iceberg compare to the overall world copper demand over 20 million ton per year. Thus, we should not overblow, at least at this moment, too much on this positive factor.

But for investors who have bought or are about to should pay attention

Although the global economy gradually deviates from the severe period, most of the raw materials will be benefitted from the economic improvement and have a moderately rise, we believe that the recent increase in the prices of some commodities is just a short-term phenomenon and may not be last long. It is because the rise in the prices of these commodities may be mainly due to the market over optimistic that the government will vigorously support on infrastructures in order to boost economic recovery.

We believe that the Chinese government and other countries will increase infrastructure investments to stimulate the economic recovery

But the question is whether the commodity price is able to record a further increase beyond the current historical highs?

The Chinese government will increase infrastructure investment, but we believe it will not increase significantly. This is because after learning the lessons from the huge sequelae brought by the four trillion policy launched in 2009, the government is not going to repeat a disastrous policy. Let alone of other countries, the epidemic has greatly damaged their economy and their government budget, we believe that they may not be able to boost or greatly invest in infrastructures.

There is no structural shortage of most commodities

Most of these products have no shortage of supply. Even if there are some supply problems in recent days, it is only due to the impact of the epidemic, which has caused short-term suspension of production. For example, the Australian mining giant, BHP Billiton (BHP) Group, announced that its iron ore output was 74 million tons in the third quarter, an increase of 7% over the same period in the last year. Subject to the prices of these commodities have already been at the highest levels in the past few years, there is absence of strong reasons for them to have further long-term substantial growth beyond current levels.

Source: Financial Times, BBC, Bloomberg, Reuters, SeekingAlpha, MarketWatch

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