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WEALTH

WEEKLY MARKET WRAP

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Is this a commodity supercycle?

As global economies gradually come back online, commodity prices continue to rally. Many speculate that we are entering a commodity supercycle, as governments continue to pour trillions into infrastructure development as a means of stimulating economic growth and employment. But what exactly is a supercycle and are we really on the verge of one?

In essence, a supercycle is defined by an overdemand for commodities that triggers a rapid increase in commodity prices, far exceeding their long-term price trend. Supercycles can endure for years, and in some instances, decades. Typically, supercycles are driven by a period of massive industrialisation and/or urbanisation. The most recent supercycle was in 2001, when China joined the World Trade Organisation.

While most countries have moved past their periods of industrialisation, we are now in a period of economic rebuild following the pandemic that brought economies to a screeching halt. Some of the key indicators that may suggest we are on our way to a supercycle include:

- A weakening US dollar
- Massive amounts of government spending to boost economic growth
- Repressed demand as a result of subdued activity

Increased demand for commodities is usually driven by infrastructure development, such as the building of bridges, roads and skyscrapers. However, as climate change is becoming a hot topic of conversation, we are seeing a trend towards renewable energy, both in the private and public sectors. This “new” area of interest has created demand for commodities such as cobalt, lithium and palladium.

While many producers and some analysts make a case for a supercycle, there are also those who do not believe we are on the brink of one just yet. Geordie Wilkes, Head of Research at Sucden Financial, has expressed his scepticism, stating “The current bullish conditions for metals does not mean the red-hot commodities market is on the verge of a new supercycle”.

Despite these disparate views, the year-to-date performance of some commodities at the time of writing remains impressive:

Brent oil: +37.55%
Lumber: +52.39%
Copper: +28.26%
Lithium: + 91.4%
Cobalt: +35.6%

One noteworthy move in the commodity market this week was the rally in oil prices. Markets are speculating that demand for oil might surpass supply in coming months, as economies ramp up following the pandemic. Gold moved to trade at a five-month high on Thursday morning, following statements by the US Federal Reserve (Fed) Policymakers on Wednesday evening.

On Friday morning, gold traded at $1,872.25, platinum at $1,154.20 and palladium at $2,832.25 an ounce.

Turning Hawkish...Not Yet

The spotlight remained on the US this week, as Fed policymakers sent waves through the market on Wednesday evening with comments from several Fed officials concerning the tapering of asset purchases. Any reduction in the quantitative easing programme is, however, likely to be slow and steady as the Fed remains aware of the need to avoid market disruption. There is still no signal from the Fed as to whether interest rates will be reconsidered anytime soon. US policymakers continue to rely on economic signals and the labour market to guide their hand in terms of monetary policy decisions.

Privately-owned businesses in the US hired 978,000 workers in May 2021, well above a downward revised 654,000 in April. This is the highest reading since June 2020, as the labour market continues to recover. Companies of all sizes experienced a rise in job growth, evidencing the improving nature of the pandemic and economy. In addition, US-based companies announced 24,586 job cuts in May 2021, slightly more than a 21-year low of 22,913 hit in April, with a large part of the redundancies reported in health care/products (2,775) and education (2,617) including early childhood education.

Across the Atlantic, the UK economy seems to finally be finding firmer footing following the double whammy of Brexit and COVID-19. The IHS Markit/CIPS UK Composite PMI was revised higher to 62.9 in May, from a preliminary estimate of 62.0, signalling the steepest rate of expansion since this series began in January 1998. Rapid rates of output growth were seen in both the manufacturing and service sectors, supported by business and consumer spending, while the pace of job creation was the highest since June 2014.

In Europe, a PMI survey showed eurozone business activity surged in May following the easing of COVID-19 restrictions, with input-cost inflation hitting a decade high and output prices rising the most on record. Meanwhile, hopes of a strong economic recovery in Europe continued to support sentiment after European Commission President, Ursula von der Leyen, said on Wednesday that the European Union (EU) is on track to reach its target of vaccinating 70% of its adult population by the end of July.

Stocks Backtrack on Inflation Worries

US futures edged lower on Thursday after closing the previous session at near record highs. Inflation pressure and prospects of strong growth, as US businesses reopen, remain in the spotlight. Traders are looking to new data for clues as to the Fed's next moves. On Wednesday, the Fed announced its plans to begin winding down the portfolio of the Secondary Market Corporate Credit Facility, a temporary emergency lending facility which supports credit for large employers through the COVID-19 pandemic. On Wednesday, the Dow Jones rose 0.1%, while the S&P 500 added 0.1%. Elsewhere the Nasdaq Composite gained 0.1%.

European shares fell from record-high levels on Thursday, as signs of higher inflation added to concerns about an early tightening of monetary policy. Elsewhere, traders around the globe awaited US job data, which could influence how long the Fed maintains its dovish monetary policy stance. On the corporate front, spirits group, Remy Cointreau, reported higher-than-expected profit growth for its 2020/21 fiscal year, while retailer B&M said that pre-tax profits doubled last year after it stayed open during the lockdown.

The Japanese Nikkei 225 gained 0.39% on Thursday, extending gains of 0.46% in the previous session as investors demonstrated optimism in the midst of recent economic data while monitoring persistent inflation concerns. Looking at individual stocks, automakers also saw gains, with Toyota Motor gaining 1.68%, while Honda Motor rose 2.08% and Nissan Motor picked up 1.5%.

Not so Stealthy Greenback

The euro traded just below the $1.22/€ mark, with a near four-month high of $1.2265/€ reached last week, as investors digested new PMI data and worried about an earlier than expected tightening of monetary policy in the US on signs of higher inflation.

The dollar index, which measures the performance of the USD against a basket of other currencies, edged up to 90 on Thursday but remained close to multi-month lows as investors noted strong and sustainable economic recovery, fears of runaway inflation and risks for a quicker normalisation of Fed monetary policy.

Not so Stealthy Greenback, cont'd

The British pound traded at $1.418/£, after touching a three-year high of $1.425/£ earlier this week, amid worries that the wider reopening of the British economy, due on 21 June, could be delayed due to a spike in cases of the COVID-19 variant now known as Delta.

Sterling started the day trading at 1.4120/$ and 0.8575/€.

Written by Bianca Botes, director of Citadel Global, a fellow subsidiary of Peregrine Wealth and part of the Citadel Group of companies.

The euro held steady at $1.20 during the first week of May, down from the previous week's two-month high of $1.215, as investors awaited a flurry of economic data this week. The Eurozone Purchasing Managers Index (PMI) survey showed the bloc's private sector activity grew at a faster pace in April, as the service activity returned to growth; while data released on Monday showed Germany's retail sales rose in March by the most since May 2020. Last week, GDP figures showed the Eurozone entered a double-dip recession in the first quarter, while consumer prices rose in April by the largest margin in two years. The euro booked a 2.5% monthly gain against the greenback in April, supported by optimism about a strong economic recovery and signs of an acceleration in the pace of vaccinations in Europe.

The British pound clawed its way back above the $1.39 mark on Thursday afternoon, recovering from a short-lived drop that sent the currency to a session-low of $1.386, after the BoE kept interest rates and the scale of its stimulus programme unchanged.

Herewith follows an overview of the week's key data:

	Actual	Previous	Forecast or Δ%
US			
Markit Manufacturing PMI Final APR	60.5	59.1	60.6
Balance of Trade MAR	$-74.4B	-$70.5B®	-$73.4B
Total Vehicle Sales APR	18.5M	17.7M	
ADP Employment Change APR	742K	565K®	785K
Markit Composite PMI Final APR	63.5	597	62.2
Initial Jobless Claims 01/MAY	498K	590K®	545K
EU			
Markit Composite PMI Final APR	53.8	53.2	53.7
Retail Sales YoY MAR	12%	-1.5%®	8.3%
PPI YoY MAR	4.3%	1,5%	4.1%
GB (UK)			
Markit/CIPS Manufacturing PMI Final APR	60.9	58.9	60.7
New Car Sales YoY APR	3176.6%	11.5%	100%
Markit/CIPS Composite PMI Final APR	60.7	56.4	60
BoE Interest Rate Decision	0.1%	0.1%	0.1%

Equities

US stock index futures pointed to a mixed start on Thursday, with the Dow Jones expected to hit a new all-time high, yet again, while the S&P 500 headed for a flat session. The NASDAQ opened in the red. Shares of vaccine manufacturers were under pressure after President Joe Biden said he had backed a World Trade Organisation waiver for COVID-19 vaccine intellectual property. On the corporate front, IBM introduced what they called the world's first 2-nanonmeter chipmaking technology for faster computing. E-hailing service, Uber, signalled it would pay drivers more to get cars back on the road and disclosed a $600 million charge to provide UK drivers with benefits.

The UK based FTSE 100 traded marginally higher on Thursday, following a 1.7% rally in the previous session and remaining close to its highest level since February 2020, amid the ongoing optimism surrounding a solid economic recovery in the UK and positive earnings updates from Next and Melrose Industries.

European equity markets eroded early gains to trade in the red for much of Thursday, with healthcare firms among the worst performers after the EU backed a plan to discuss waving intellectual property rights for COVID-19 vaccines. Earlier investors had reacted positively to buoyant quarterly earnings from AB InBev and several Eurozone banks including UniCredit and Société Générale.

The Japanese Nikkei 225 gained 1.8% to 29331.37 on Thursday as markets returned to trade for the first time this week, with investors seeming optimistic following the Nikkei's fourth consecutive week of losses. Meantime, Japan's economy remains under strain, with the nation considering extending a state of emergency in Tokyo and other major urban areas as the COVID outbreak persists in the country.

Commodities

Copper rose to as high as $4.69 per pound as inventories stand at levels last seen 15 years ago while speedy vaccination rollouts and trillions in dollars of economic stimulus lift demand for metals. Recent economic readings from the US and China reinforced this view, while President Biden's multitrillion-dollar infrastructure plan lent further optimism to the copper bulls. Adding to the chipper mood, banks like Goldman Sachs and Citi raised their forecasts on copper consumption this year, focusing on its longer-term role in a carbon-free world.

On Friday morning, gold traded at $1820.75, platinum at $1258.00 and palladium at $2961.00 an ounce.

Looking ahead

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