



Super Cycle of Commodities

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Why in News

Recently, there has been an across-the-board **rise in global commodity prices** that is being billed as a new **commodity super cycle**.

A commodity is a **basic good used in commerce** that is **interchangeable** with other goods of the same type. Commodities are most often **used as inputs in the production of other goods or services**.

ON THE RISE

Commodity (Unit)	May 1, 2020	May 7, 2021	% Rise
NSE Nifty Metal Index	1700	5500	223
Hot-rolled coil/HRC Steel*	\$478	\$1519	217
Copper (per pound)	\$2.42	\$4.83	99
Brent Crude. (Per barrel)	\$24.2	\$68.27	182

Key Points

- **About:**

A commodity super cycle is a **sustained period of abnormally strong demand** growth that producers struggle to match, sparking an **increase in prices** that can **last years or in some cases a decade or more**.

- **Current Situation:**
 - **Metals:**

Steel, the most commonly used input in the construction sector and industries, **is at all-time highs, as most metals** including base and precious metals prices have increased a lot in the last one year.
 - **Agricultural Products:**

Sugar, corn, coffee, soybean oil, palm oil — **have risen sharply** in the US commodities market, the **effect of which is being seen in the domestic market, too.**
- **Reason:** The new commodity super cycle is resulting from:
 - **Recovery in global demand** (led by recovery in China and the US).
 - **Supply-side constraints.**
 - **Loose monetary policy of global central banks.**
 - **Investment in Asset Creation:** It is also a result of money starting to hide in assets that are stores of value as there is an expectation that inflation may rise. Therefore it is fear of **inflation** that is leading to jump in prices and it is not demand driven.
- **Concerns:**
 - It is **leading to input cost pressures** and is a growing concern, as it is not only expected to have a bearing on cost of infrastructure development in India but also **have an impact on the overall inflation, economic recovery and policy making.**
 - Higher metal prices will lead to higher **Wholesale Price Index (WPI)** inflation and so the core inflation may not come down.

Loose and Tight Monetary Policies

- A monetary policy that **lowers interest rates and stimulates borrowing** is an **expansionary monetary policy or loose monetary policy.**
- Conversely, a monetary policy that **raises interest rates and reduces borrowing** in the economy is a **contractionary monetary policy or tight monetary policy.**

Inflation

- Inflation refers to the **rise in the prices of most goods and services** of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc.
- Inflation **measures the average price change** in a basket of commodities and services over time.
- Inflation is **indicative of the decrease in the purchasing power** of a unit of a country's currency. This could ultimately lead to a deceleration in economic growth.
- However, a **moderate level of inflation is required in the economy to ensure that production is promoted.**

- In India, inflation is primarily measured by two main indices — **WPI (Wholesale Price Index) and CPI (Consumer Price Index)** which measure wholesale and retail-level price changes, respectively.

Core Inflation

- It is the change in the costs of goods and services but **does not include those from the food and energy sectors**. This measure of inflation excludes these items **because their prices are much more volatile**.
- It is important because **it's used to determine the impact of rising prices on consumer income**.

Way Forward

The decision makers **need to look at the mismatch** in supply and demand and they need to find out where to invest, where to **incentivise through the Production-Linked Incentive (PLI) Scheme** to prepare themselves to deal with the situation.

Source: IE