

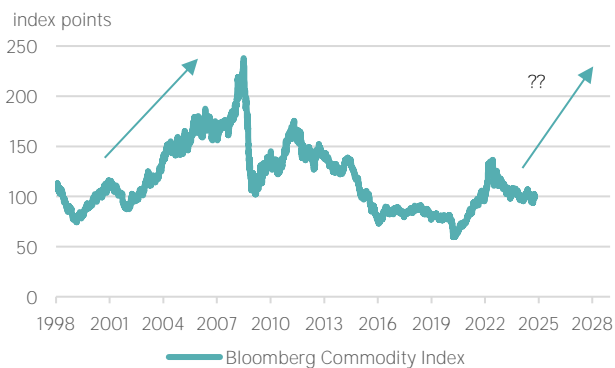
A Commodity Supercycle?

The preconditions for a significant rise in prices are analyzed in the sixth issue of this series.

Are we on the verge of a commodity supercycle? At least a look at the recent price movements of several commodities and the role that a wide range of commodities will play in the global energy transition suggests that it could be possible.

Historically, the market has used the term "commodity supercycle" to describe extended periods of price rises that go beyond what is considered normal. The usual trend for commodities is cyclical, rising when economic growth is stronger and declining when growth eases. However, from time-to-time other factors, such as lasting structural changes in demand, technological change, or persistent disruption to supply either prolong the typical cycle or make it far more pronounced.

There is a good chance that a new commodity super-cycle will emerge



Sources: Bloomberg Financial L.P., DWS Investment GmbH as of 10/15/24

In our view, the most recent unusual price trends in commodities were observed between 1999 and 2008 and between 2009 and 2020¹ - with only the upswing triggered by China's industrialization being described as a supercycle. When demand experiences a sustained positive shock that exceeds what supply growth can deliver, there is a clear positive impact on commodity prices. But there is a flip side: in the aftermath of the 2008 financial crisis, for instance, the sharp increase in supply from mining and oil production, which coincided with the continued weakness of the United

States (U.S.) economy, was a major factor in the prolonged downward cycle of commodities.

The energy transition has the potential to trigger a supercycle in commodities. Replacing fossil fuels with alternative energy sources requires additional infrastructure, and different methods of transportation and power generation, among other things. Demand for copper, for example, is likely to grow persistently. And supply is already struggling to keep up.

As in the previous supercycle, China is likely to play a pivotal role. China has huge potential for decarbonization, as it consumes more electricity than any other country in the world and currently still relies on coal-fired power generation for more than 50 percent of its electricity. And in terms of energy transition in the automotive space, China is at the forefront, with a penetration rate of more than 50% of new car purchases being electric vehicles. We believe there is a good chance that China will be able to switch 100 percent of its domestic new car purchases to electric vehicles by 2030, with significant implications for the raw materials involved.

Access to the commodities necessary for the decarbonization and the technological transition is also important to global policymakers. In the US, part of the infrastructure spending bill is specifically focused on access to key commodities. The European Union has followed suit with similar legislation. China has invested directly in infrastructure development in Central Asia, Africa and South America to gain access to supplies from these markets.

"For investors looking to participate in the growth of the energy, technology and decarbonization sectors, we believe commodities are an important part of their portfolio, depending on their strategy," says Darwei Kung, Head of Investment Strategy Liquid Real Assets at DWS.

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Footnotes

¹ All market data – unless otherwise stated – from Bloomberg Financial L.P. as of 10/15/24.

Glossary

Decarbonization is the reduction or elimination of carbon dioxide emissions from a process such as manufacturing or the production of energy.

The **European Union (EU)** is a political and economic union of 27 member states located primarily in Europe.

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