

Commodity Economics Comment

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Have commodity prices past the trough? It seems likely

- ◆ Global commodity prices have picked up in recent weeks and could be past the trough. On the demand side, 'green shoots' in the global industrial cycle are becoming more apparent. On the supply side, geopolitical factors are playing an increasingly disruptive role in the ongoing 'super-squeeze'. At a deeper level, real commodity prices have already fallen back to their long-run average – that is, the relative prices of commodities to other goods and services is now not unusually high. So, even if commodity prices rise only in line with other prices from here, they would be past their trough. Finally, statistically, HSBC's new machine-learning commodity cycle tool suggests that a 'Weak Bull' run is just beginning. If the trough has passed, the recent disinflationary force from falling commodity prices may be done. Central bank observers should take note.

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Oil prices recently rose to over USD90 a barrel, their highest since October 2023. Copper prices have picked up recently, above USD9200/Mt, their highest in 15 months. Tin, nickel and zinc prices have all risen in recent weeks. Although iron ore prices had dropped below USD100/Mt in recent weeks, in recent days they have bounced back above that threshold. Prices for some finer foods and beverages have surged, with cocoa and robusta coffee prices reaching new record highs. Gold prices touched a new all-time nominal high at USD2,365/oz. Overall, the Bloomberg commodity spot index is up more than 9% from its trough in mid-February, to a five-month high (Chart 1).

Are we past the trough? Collectively, HSBC's resources analyst's see this as likely. Of course, forecasting fickle commodity prices is notoriously difficult, but there are a number of factors that support the view that commodity prices may have passed a trough.

First, is demand. Timely indicators increasingly suggest that an upswing in the industrial cycle may be getting under way. The global manufacturing PMI improved further in March, rising to 50.6 – its second consecutive expansion and the fastest pace of growth since July 2022. This has included an improvement in conditions in China, with the PMIs lifted above their break-even levels and new orders measures also improving. Global trade has also shown some signs of ticking up.

Second, as has been our view for some time, a key part of the story is supply-side developments. We have been describing commodity markets as in a 'super-squeeze', with geopolitics, climate change and the energy transition all constraining commodity supply and keeping these markets tight.

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Most recently, geopolitical developments have been playing a key role in squeezing the supply side. The role of geopolitical factors is particularly apparent for oil and gold prices recently. Price increases for these commodities have coincided with developments in the Russia-Ukraine and Israel-Hamas conflicts, and in the Red Sea. Inclement weather has constrained the supply of some agricultural commodities, lifting prices, while a supply squeeze has also been evident in the copper market.

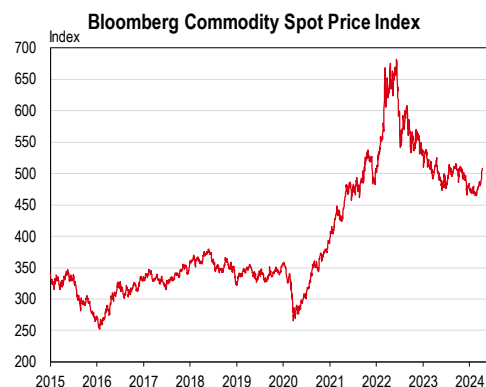
Third, a deeper factor to note is that despite commodity prices remaining elevated in nominal terms, they have already fallen back to around their long-run average levels in real terms (Chart 2). That is, the prices of other goods and services have risen enough and commodity prices have fallen enough that the ratio of commodity prices to what consumers purchase day-to-day is now about normal. In short, if a driving force to getting commodity prices to fall was a reversion to normal relative prices (that is, commodity prices compared with the prices of other things), then this has already happened.

Finally, our data science team has also shown that it seems likely, based purely on statistical patterns, that an upswing in commodity prices is under way. HSBC's new commodity cycle machine-learning model, COCCLES, was teetering between the 'Weak Bull' and 'Bear' phases but has now shifted into 'Weak Bull', with high probability. While the model is mostly to tell us which stage of the commodity cycle we are in right now, it also suggests a high likelihood that the Weak Bull phase will persist, with a typical duration of at least six months.

If commodity prices are indeed past the trough, they will no longer contribute to disinflation. In addition, year-ended growth in the global commodity price index already stopped falling in March, so the base effect of earlier declines is now no longer pushing the y-o-y rates lower. This was the first non-negative reading in six months. This means that, not only could sequential (that is, m-o-m) inflation prints no longer see the disinflationary effects of falling commodity prices, but the lagged effect of previous falls in commodity prices during the past year on the y-o-y rates is now also done.

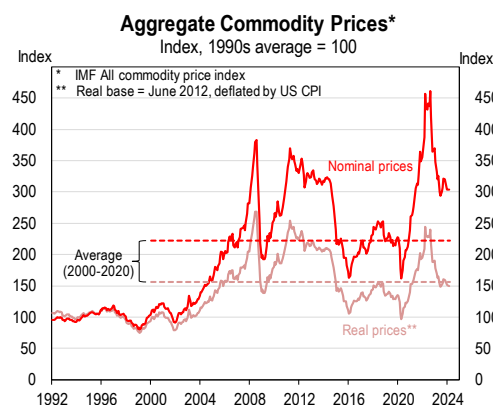
In short, the commodities 'super-squeeze' may be another contributor to the 'sticky' inflation challenge.

1. Commodity prices have risen to a five-month high



Source: Bloomberg; HSBC

2. Real commodity prices are at average levels despite elevated nominal prices



Source: IMF; HSBC estimates

Disclosure appendix

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