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Welcome to green digital supercycle where selectivity is a must

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This analysis is by Bloomberg Intelligence Senior Industry Analyst Grant Sporre. It appeared first on the Bloomberg Terminal.

We're at the early stages of a new green-digital supercycle, but unlike the prior outcome in China, our analysis suggests it will pay to be selective, as there's unlikely to be a broad-based demand-driven uplift across all commodity classes. That's because secular de-carbonization and digital-innovation trends cut both ways: De-carbonization may benefit metals such as copper and nickel to the detriment of fossil fuels, while digital innovation could be a boon to Bitcoin and potentially weaken the investment case for precious metals. The effect of supply-side dynamics shouldn't be ignored either. Technological innovation may hold the key to unlocking significant resources in commodities such as nickel.

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How record commodity prices, durability reveal supercycle scope

To qualify for supercycle status, a commodity must challenge prior records and stay elevated for an extended period vs. its long-term average, with our analysis drawing up copper, Bitcoin, palladium and gold among potential candidates. From an investor's perspective, evidence of year-over-year appreciation may be sought, while a producer would only need lofty prices to generate super-normal profit.

Green-digital supercycle favors copper and Bitcoin

At the top of our list of commodities set to enter a supercycle, copper, Bitcoin and scrap metals all benefit from secular-demand drivers such as decarbonization amid supply constraints. While others may not exactly fit the criteria – including palladium, gold, U.S. hot-rolled coil and agricultural machinery (a commodity-cycle first derivative) – they have characteristics potentially making them supercycle candidates. By contrast, demand for oil, lead and thermal coal seems to be in secular decline, despite a short-term rebound from the pandemic, with no supply shortages.

Our analysis also suggests nickel, aluminum, European steel and iron-ore prices may rally or stay higher than expectations, yet they fall just short of the supercycle list, either on an abundance in the earth's crust or relentless technological advances.

Our Supercycle Commodity Picks		
Supercycle Likely	Unlikely But No Supercycle	Supercycle Unlikely
Copper	Nickel	Oil (Brent and WTI)
Bitcoin*	EU Nat Gas	Zinc
Palladium	Iron Ore	Lead
Gold	EU Hot Rolled Coil	Met Coal
US Hot Rolled Coil Steel	Platinum	Thermal Coal
Palm Oil	Silver	US Nat Gas
Agricultural Machinery**	EU Carbon	
Steel and Copper Scrap	Annual Crops	
	Aluminum	

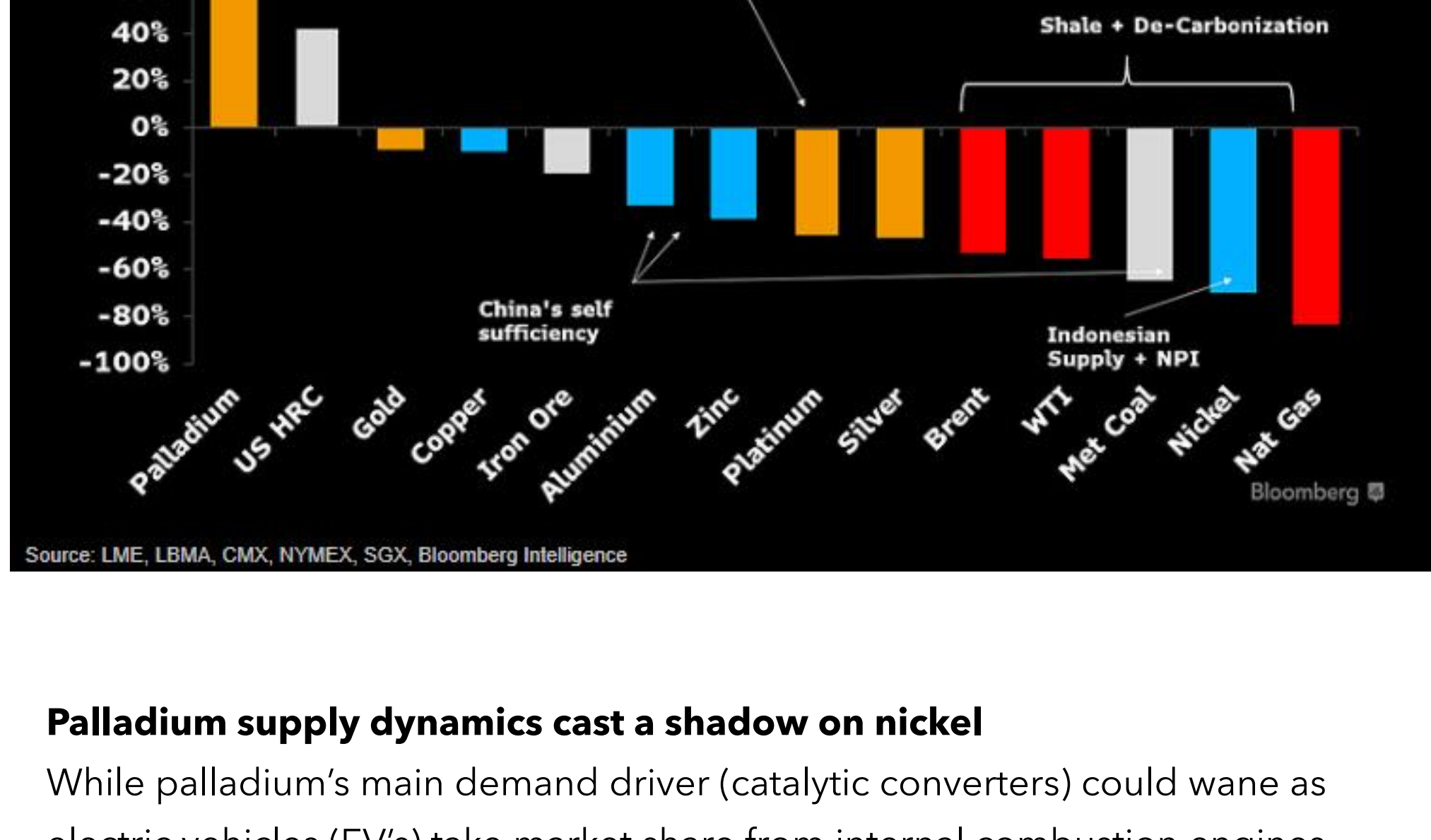
* Crypto-currency
** Derivative of Agricultural Commodities

Source: Bloomberg Intelligence

Copper up next to challenge China-supercycle high

Having been first to set a record high in August 2020, gold has lost ground as a result of rising real rates and may cede its crown to copper, which is now just 10% away from its peak of \$10,000 a ton. China's dependence on imported supplies of those metals – palladium, gold, copper and iron ore – which have either surpassed supercycle levels, or are close, highlights the importance of country's influence on the supply side of many commodities. While nickel has similar favorable demand drivers to copper, it's hamstrung by ample Chinese-controlled supply.

Palladium – arguably in a supercycle since 2017, with its price tripling vs. the prior 2004-11 cycle due to a concentrated supply base that has a high propensity for disruptions – may remain in a supercycle for another two years, our analysis shows.



Palladium supply dynamics cast a shadow on nickel

While palladium's main demand driver (catalytic converters) could wane as electric vehicles (EV's) take market share from internal combustion engines (ICE), we see its fragile supply base (on melting perma frost in the Russian Arctic and processing failures in South Africa) setting it on course for an extended supercycle. In contrast, though nickel (stainless-steel and battery use) could be one of the main beneficiaries of this transition, ample supply and tech innovations point to it being less likely to have a fourth supercycle in the period since 1946 (last was 2004-08).

Methodology: For simplicity, we defined a supercycle as when a particular commodity price remains well above its long-term average in real terms for longer than two years. On that basis, oil has recorded two supercycles since World War II, while copper has had three.



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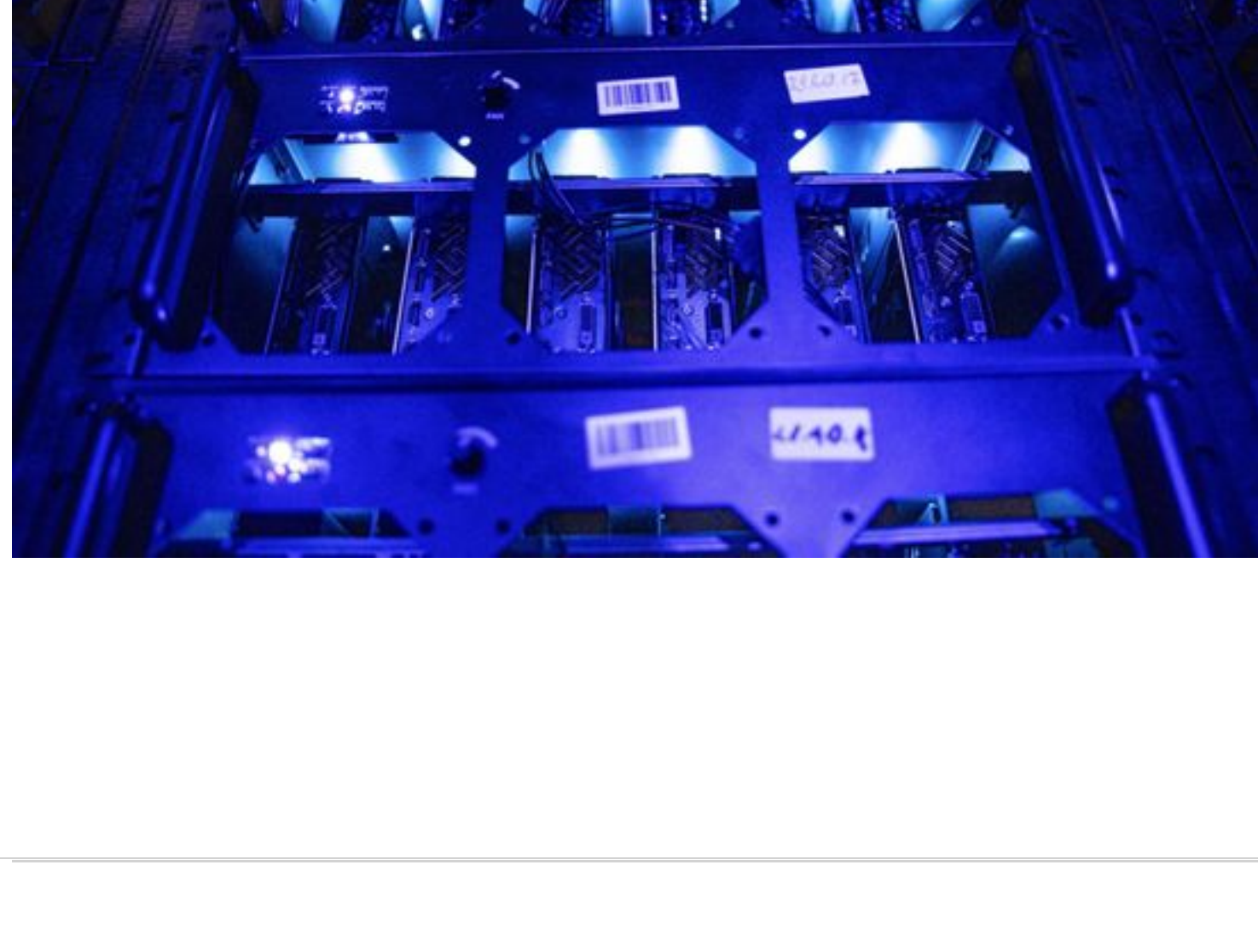


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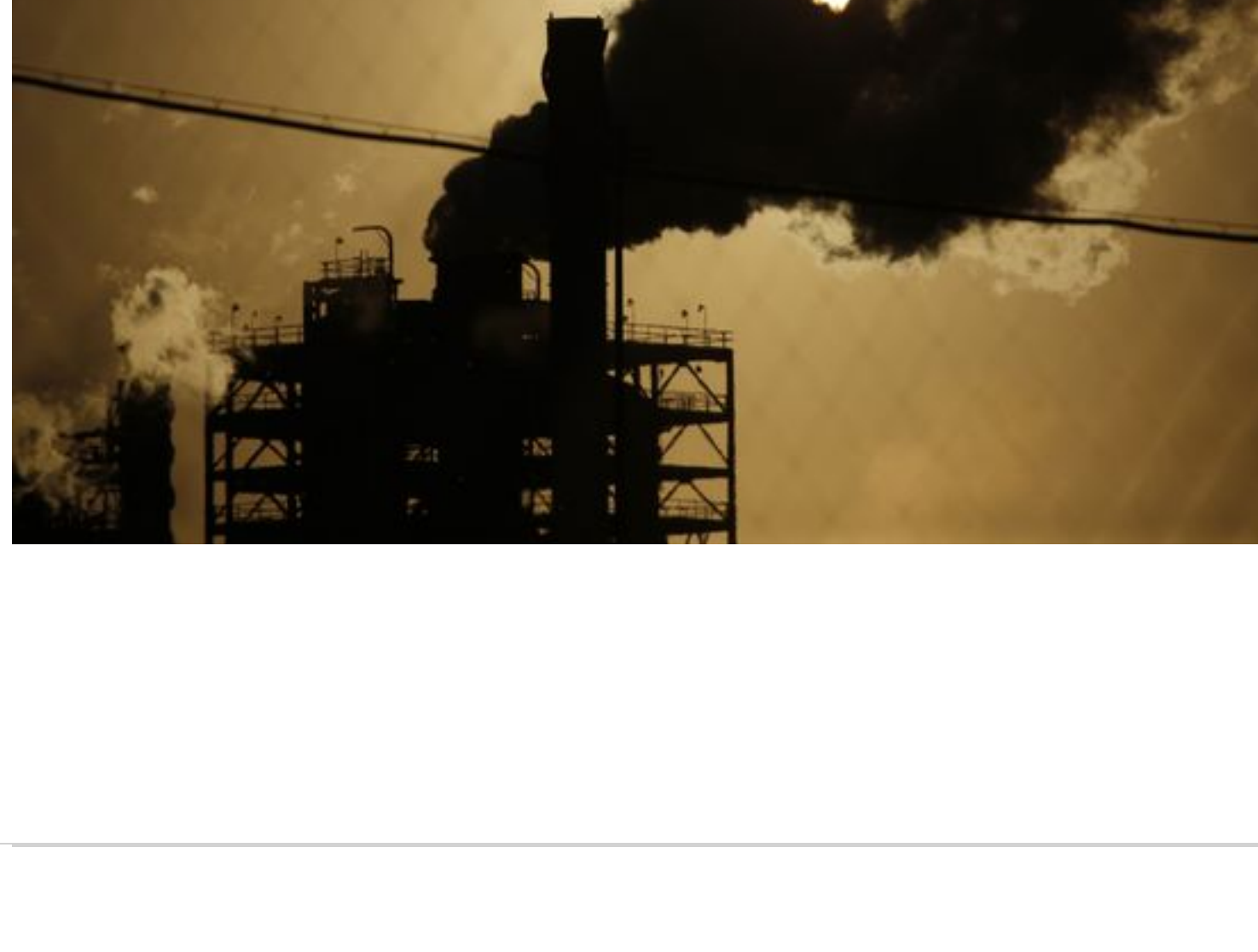


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Sustainable Finance

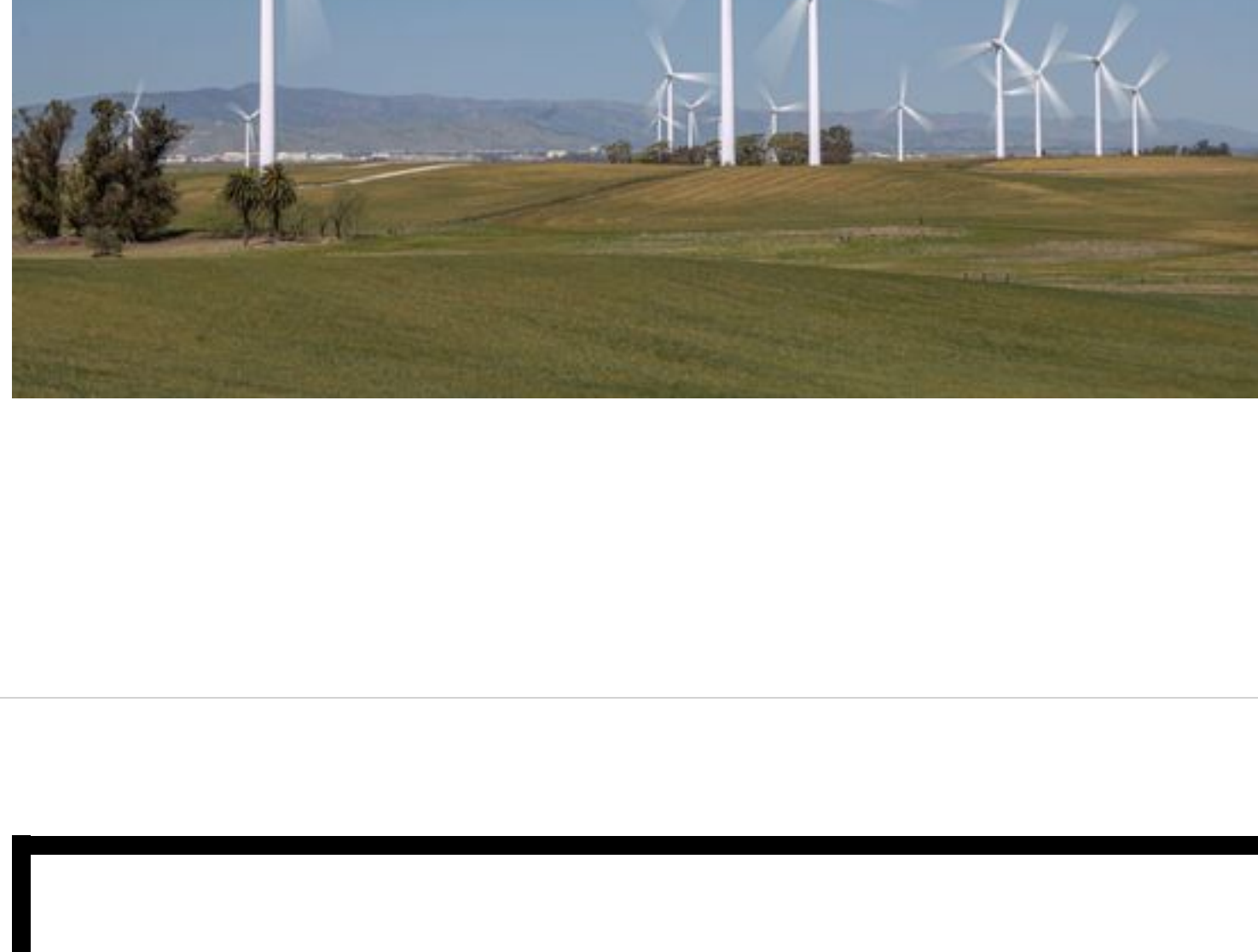


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