

GLOBAL ECONOMY AND INTERNATIONAL ECONOMIC RELATIONS

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GLOBAL GROWTH OF RAW MATERIAL PRICES – REASONS AND CONSEQUENCES. NEW SUPER – CYCLE OR BUBBLE?

The global economy has reflected all the consequences of the pandemic. In 2020, many business entities had to revise their concepts of activity, as well as development strategies, in order to ensure «survival» in the market. Most businesses were forced to cut their costs, and with them the staff, due to quarantine restrictions. Sales of products and services have been shifted from offline to online as much as possible. There has been a «big leap» and an accelerated transition to the digital economy. Of course, a number of industries, such as pharmaceutical, communication services, namely, Internet communications, software systems for remote learning and communication, have only benefited from the global situation. However, the majority of industrial, trade and service enterprises suffered irreparable losses. Economic assistance programs have been launched by many states to save their economies.

All this could not but affect the trends in unemployment and inflation on a global scale. And if with unemployment, the states are struggling with a number of measures to stimulate the economy: for example, in Germany, they create special preferential conditions for enterprises that do not lay off their employees due to a reduction in capacity; in the United States, cash benefits are allocated, both for the unemployed and for citizens in general; then with inflation everything is much more complicated. The upward trend in prices is observed

throughout the entire period of the pandemic. Raw material prices have started to skyrocket since 2020. This is largely due to the high degree of liquidity that arises against the backdrop of programs to help the economy. All this leads to the fact that production costs increase. According to analysts from such major investment banks in the world as Goldman Sachs, Citi, JP Morgan, the meteoric rise in commodity prices indicates the possible start of the next commodity super cycle [1]. But is it really so? Supercycle forecasts are based on a combination of economic recovery after the pandemic with soft monetary and fiscal policies of the leading states, as well as an increase in the role of environmentally friendly industries. One of the arguments, of the supporters, that now there is a new raw material supercycle is the further development of green energy and electric vehicles. Given a number of the above factors, namely, the soft monetary and fiscal policy of the leading countries of the world, prices for industrial metals used in these industries will demonstrate further growth. From the point of view of the interpretation of the very understanding of the commodity supercycle, the supporters of this theory predict, first, a prolonged rise in commodity prices, and then a decline. It is worth noting that in economic theory there are very contradictory opinions regarding the very existence of commodity supercycles. However, supporters of this concept highlight some common properties that these supercycles have: long duration (from 20 to 70 years); the growth in demand, as a result of large structural changes in the world's largest economies, is the main factor; long-term trend of growth or decline for key raw materials. But are we really seeing the start of a new supercycle right now? [3]. In April 2021, copper and iron ore prices reached all-time highs. After that, there was a rapid decline in prices during the week, which ended in a failure to the 2019 low. Any rise in prices must be the result of certain economic phenomena. In recent years, metal prices have been closely correlated with the so-called chinese credit impulse: when it increased, raw materials rose in price, when it decreased, there was a decline. However, now there is a violation of the dependence of these quantities. China is the largest importer of metals, and chinese

financial companies are actively involved in speculative games in the commodity market. Despite this, in April 2021, the volume of bank loans in China declined more than expected, and the growth of the money supply slowed down to a minimum in 21 months. This indicates that the rapid rise in prices for raw materials, in particular metals, is unreasonable and shows signs of a bubble. The state regulator in China called for «measures to combat» the too rapid rise in prices. There are a large number of mechanisms for interfering with exchange trading. One of the most effective is to increase the security requirements for futures contracts. Such regulation will lead to the forced closure of speculative positions and, as a result, to lower prices for raw materials. In April 2021, OPEC decided to increase oil production. Despite the fact that India, the main consumer of diesel fuel, is in a state of disaster, the OPEC leaders determined an increase in total oil production in May 2021 – by 350 thousand barrels, in June – by 350 thousand barrels, in July – 441 thousand barrels in a day. All this testifies to the fact that there are no fears about a decrease in the level of oil prices [2]. The same period in 2020 was marked by a record high drop in oil prices. Summing up, it can be noted that the prerequisites for a global rise in prices arise as a result of high monetary liquidity, in connection with the programs of assistance to the economies of the leading countries of the world. Despite the fact that there is a development of the market for clean production, as well as green energy, it cannot be said with certainty that this will become the basis for a new raw materials supercycle. Scientists of various economic schools and trends have been analyzing in detail the nature of occurrence, varieties, and also the consequences of economic cycles for a long time and in detail. The theory of «large cycles of the conjuncture» and «innovation – cyclical theory of economic development» by N.D. Kondratyev and J. Schumpeter, respectively, study in detail precisely long economic cycles [4]. Making a conclusion, it can be noted that the commodity supercycle is a long-term phenomenon, therefore it can be assumed that the upward trend in prices until the end of the year will give a clear picture and understanding of what kind of phenomenon is taking place:

a commodity supercycle or a «bubble». Most likely, state regulation of the economies of leading countries will clearly indicate the future trend of liquidity in the global market and, as a consequence, blow off the speculative bubble.

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