

Indonesia Investments

‘Commodities Supercycle?’

- Commodity Prices Have Been Rising Since the Second half of 2020; Positive for Indonesian Exports and Foreign Exchange Earnings

- Goldman Sachs Is Among Those Who Predict a New Commodities Supercycle in the 2020s.

Do We Agree?

- Global Economic Growth Still Overestimated by International Institutions such as the IMF?

- Taking a Look at Several Key Commodities for Indonesia

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Van Der Schaar Investments B.V.
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Update – 14 April 2021

‘2020s Commodities Supercycle?’



Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. Topics in these updates will often be discussed in more detail (and in an updated form) in forthcoming monthly reports.

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Commodity Prices Have Been Soaring Since 2H-2020, Will We Witness a New ‘Commodities Supercycle’ in the 2020s?

Over the past couple of months Indonesia’s export performance improved markedly on the back of stronger commodity prices. Considering Indonesia is blessed with the presence of a wide variety of commodities (involving all three types of commodities, namely: agriculture, energy, and metals), the country’s exports obviously get a major boost in times of strengthening commodity prices.

When we take a look into recent Indonesian history, the 2000s commodities boom serves as a good example to illustrate to what extent structurally high commodity prices translate to the inflow of lucrative foreign exchange earnings, an increase in government revenue (obtained from royalties and taxation), and growth in private investment as well as growing employment opportunities (although the increase in investment can contribute to declining commodity prices at some point in the future as investment triggers growth on the supply side).



And, for Indonesia, the 2000s commodities boom came at a welcome time. After the country's financial, political, and social foundations were rocked by the devastating Asian Financial Crisis in the late 1990s, it was this 2000s commodities boom (circa 2000-2012) that facilitated Indonesia's swift recovery from the crisis.

Interestingly enough, Indonesia (well, together with the whole world) is again facing an unprecedented crisis in the form of the COVID-19 crisis. Will history repeat itself in the sense that a new commodities supercycle will facilitate a swift recovery from the COVID-19 crisis for Indonesia?

Before we delve deeper into that topic, we first would like to point out, though, that – as we, and many others, have emphasized over the years – being overly dependent on raw commodities in terms of the export performance, does also carry some risks or disadvantages. Most notably, the export performance of those countries that are too dependent on commodity exports tends to be rather volatile: in times of falling commodity prices, the export performance weakens whereas in times of increasing commodity prices, the export performance strengthens. An additional problem is that raw commodity prices in particular tend to be volatile on the global market. This is in stark contrast to the categories of finished goods or semi-finished goods. Prices of these categories tend to be stable. And if changing, it is usually in an upward direction.

Overdependence on exports of raw commodities also means that Indonesia is poorly integrated into the global value and supply chains. Or, at least, its role is confined at the bottom of the chain as it primarily supplies the raw materials only. This is also a sign that in terms of (high tech) industrialization and human capital, Indonesia fails to compete at the global stage. Indeed, one may argue that the industry sector is a significant part of the Indonesian economy (with the manufacturing industry now accounting for about one-fifth of Indonesian GDP). However, industries in Indonesia mainly produce for the huge domestic market, while relatively little is exported to overseas markets.

[...]

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