

# [Commodity prices have crashed](https://assignbuster.com/commodity-prices-have-crashed/)

report: Commodity Prices Have Crashed ? report () There are a number of sure-fire ways to know the economy isn™t doing well. These are time tested, proven indicators. Among them, the price of commodities stands out as possibly the most reliable indicator, closely followed by dry goods shipping costs. When commodities are cheap, it™s because nobody wants to buy them, which means there™s little economic activity occurring. Is it possible they will recover with no crash? Not without a driver, like China for instance. Up until about a year ago, China was buying immense amounts of commodities, not only keeping the supply in check, but causing producers to ramp up production.

Only problem was that China didn™t actually need those commodities, they used them to build dozens of empty cities, airports they don™t use, and other various expensive infrastructure they currently have no use for. The world hardly cared though, as long as the orders were coming, nobody asked any questions. But now that China has come to the end of its rope and can no longer build bridges to nowhere, airports with no airplanes, and cities with no people, questions are being asked. Moreover, commodities aren™t in demand now that the only buyer just left the market. To make matters worse, commodity producers who previously didn™t bother to ask questions and decided to build new production facilities are now facing a serious over capacity scenario. Maybe someone should™ve asked a few questions.

Right now we are seeing the exact same scene being played out in commodity producers around the world. None of them bothered to ask questions of China, all decided to increase production, and now just as the demand for commodities has fallen off a cliff, they™re all coming on board with huge new production facilities. Iron ore for example, companies like BHP Biliiton are an excellent example. Building multi-billion dollar production facilities to meet the fantastic demand from China, which they believed would never end.

Well, it just ended, about 30-40 years too soon from BHP Billiton™s point of view. They™re not the only ones, large corporations around the world have fallen into the same hole, and have no recourse but to complete their projects and produce at a miniscule profit or more likely, a loss. In oil, we see the shale producers doubling the US™s output since 2006, an amazing feat, but sadly it has come at a time when the US is using 15% less oil than it did in 2008. So we have a supply glut, which has lead to a crash in the price of oil. It would be easy and tempting to blame the price crash on oversupply, but demand is weak too, very weak. Saudi Arabia™s energy minister said so directly in an interview with Bloomberg, and who would know better the demand for oil than the energy minister from Saudi Arabia. Some say it™s due to efficiencies, and this does explain a portion, but the smaller portion by far than the simple lack of demand.

Historically, there™s about a 3-9 month window between the demand for commodities falling and the economy turning down. We™re somewhere between 2 and 6 months right now, depending on how you count it. But don™t look to the stock markets to tell you how the economy is doing, they™re pumped so full of free and easy money that they bear no resemblance to the real economy anymore. These days you have to get the facts if you want to know what™s going on in the real economy, facts like demand for commodities. () report? report -X ()