

THE ROLE OF COMMODITIES IN GLOBAL TRADE AND PRICING

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Introduction

Commodities form the backbone of the global economy. From crude oil and natural gas to wheat, copper, and gold, these raw materials and primary goods are the essential inputs that drive industrial production, feed populations, and fuel financial markets. The significance of commodities extends far beyond their physical properties — they serve as economic indicators, geopolitical tools, and investment vehicles that connect nations across continents and centuries. Understanding how commodities function within global trade and how they shape pricing across industries is fundamental to grasping the mechanics of the modern world economy.

Throughout human history, the trade of raw materials has driven civilizations forward. Ancient trade routes carried spices, silk, and precious metals across vast distances, laying the foundations for what would eventually become the integrated global commodity markets we recognize today. In the contemporary era, commodity markets operate with extraordinary complexity and scale, involving multinational corporations, sovereign governments, hedge funds, and millions of individual producers and consumers. The prices established in commodity markets ripple through

every sector of the economy, influencing the cost of food on supermarket shelves, the price of gasoline at the pump, the wages of miners in developing nations, and the profitability of airlines on the other side of the world.

Keywords

Commodities, Global Trade, Price Discovery, Futures Markets, Supply Chain, Commodity Exchanges, Hard Commodities, Soft Commodities, Energy Markets, Agricultural Trade, Metal Markets, Financialization, OPEC, Inflation, Geopolitics, Raw Materials, Trade Interdependence, Risk Management, Hedging, Commodity Price Volatility, Critical Minerals, Food Security, Carbon Credits, International Commerce, Economic Indicators

What Are Commodities?

Commodities are standardized, interchangeable goods that can be traded on open markets. Unlike manufactured products, which can be differentiated by brand, design, or quality, commodities of the same grade are considered essentially equivalent regardless of their origin. This fungibility is what makes large-scale, organized commodity trading possible and efficient.

Economists and market practitioners typically divide commodities into two broad categories. Hard commodities include natural resources that are mined or extracted from the earth, such as crude oil, natural gas, gold, silver, copper, aluminum, iron ore, and coal. These materials are foundational to industrial civilization — they power factories, construct buildings, conduct electricity, and store value across generations. Soft commodities, by contrast, are agricultural products grown or raised by farmers and ranchers. Wheat, corn, soybeans, rice, coffee, cocoa, cotton, sugar, and livestock all fall into this category. Soft commodities are subject to unique pricing pressures because their supply is inherently tied to weather patterns, seasonal cycles, and biological constraints that hard commodities do not face to the same degree.

A third category that many analysts recognize is financial commodities, which include instruments like currency contracts and interest rate products that share characteristics with physical commodity markets. Additionally, environmental commodities such as carbon credits have emerged in recent decades as societies attempt to price the externalities of industrial production.

Commodities and Global Trade

Commodity trade is one of the oldest and most significant forms of international commerce. The fundamental logic is straightforward: nations are unevenly endowed with natural resources, and this geographic unevenness creates the conditions for trade. A country rich in oil but poor in fertile agricultural land will export petroleum and import food. A nation with vast copper deposits but limited industrial capacity will sell its ore to manufacturing economies that transform it into finished goods. This exchange creates intricate networks of economic interdependence that bind the world together in ways that are simultaneously collaborative and contentious.

Energy commodities represent the single most important category in global trade by value. Crude oil and refined petroleum products account for a substantial share of total international merchandise trade, with the global oil market worth trillions of dollars annually. The major exporting regions — the Middle East, Russia, North America, and West Africa — supply energy to the manufacturing hubs of East Asia, the consumption-driven economies of Europe, and the rapidly growing markets of South and Southeast Asia. The organization of this trade has profound geopolitical implications. The founding of the Organization of the Petroleum Exporting Countries (OPEC) in 1960, and its subsequent evolution into OPEC+, reflects how commodity-exporting nations have sought to exercise collective market power against the interests of consuming nations and international oil companies.

Agricultural commodities represent another pillar of global trade with deep historical roots. The United States, Brazil, Argentina, Australia, and Ukraine are among

the world's leading agricultural exporters, supplying grain, oilseeds, meat, and dairy products to import-dependent regions across Asia, Africa, and the Middle East. The concentration of agricultural production in a relatively small number of countries creates systemic vulnerabilities in global food supply chains, as was dramatically illustrated when Russia's invasion of Ukraine in 2022 disrupted wheat and sunflower oil exports from one of the world's most productive agricultural regions, triggering food price crises in dozens of countries.

Metals and minerals form a third critical pillar of commodity trade. Copper, often described as having a doctorate in economics because of its sensitivity to economic conditions, is essential for electrical wiring, electronics, and construction. Iron ore and coking coal are the raw materials of steel production, which underpins construction and manufacturing worldwide. Lithium, cobalt, and rare earth elements have taken on growing strategic importance as the world transitions toward electric vehicles and renewable energy systems. China's dominance in the processing of many critical minerals has made commodity supply chains a central concern of economic security policy in the United States, European Union, and allied nations.

How Commodities Shape Pricing

The influence of commodity prices on the broader economy is pervasive and multifaceted. Because commodities are inputs into virtually every good and service produced in a modern economy, fluctuations in their prices propagate through supply chains and eventually reach consumers, businesses, and governments.

The most direct mechanism is cost-push inflation. When the price of crude oil rises sharply, transportation costs increase across the entire economy, raising the price of goods that must be shipped from producer to consumer. Energy-intensive industries such as chemicals, cement, aluminum smelting, and fertilizer production face immediate margin compression, which they typically attempt to pass on to their customers. The spike in energy prices following Russia's invasion of Ukraine in 2022

provides a recent and vivid illustration of this dynamic, as European manufacturers faced electricity and natural gas costs that were multiples of their historical averages, forcing some to curtail production entirely.

Agricultural commodity prices feed directly into food inflation, which bears particularly heavily on lower-income households that spend a larger share of their budgets on food. A drought in the American Midwest that reduces the corn harvest does not merely raise the price of corn tortillas. It also raises the price of beef and pork, because corn is a primary feed grain for livestock. It raises the price of high-fructose corn syrup, which appears in hundreds of processed food products. It raises the price of ethanol, which is blended into gasoline in many markets. The ramifications of a single commodity price shock spread through the economy in ways that are difficult to trace and impossible to fully anticipate.

Metal prices shape the cost of manufactured goods with long production cycles. A rise in copper prices eventually appears in the prices of electrical appliances, automobiles, and construction projects. A rise in steel prices affects the cost of bridges, buildings, pipelines, and industrial machinery. Because these investments have long planning horizons, the pass-through of metal price changes tends to be slower and more diffuse than the pass-through of energy or food price changes, but it is no less real.

Commodity Markets and Price Discovery

Modern commodity markets are sophisticated financial ecosystems in which physical producers and consumers interact with financial investors, speculators, and risk managers. The institutional infrastructure of these markets — exchanges, clearinghouses, brokers, and regulatory bodies — plays a crucial role in the price discovery process, translating dispersed information about supply, demand, geopolitics, and macroeconomic conditions into the prices that guide economic decisions worldwide.

The most important commodity exchanges include the Chicago Mercantile Exchange (CME) and its subsidiary the Chicago Board of Trade (CBOT), which dominate agricultural futures trading; the New York Mercantile Exchange (NYMEX), which is the primary venue for oil and natural gas futures; the London Metal Exchange (LME), which sets benchmark prices for copper, aluminum, zinc, nickel, and other base metals; and the Intercontinental Exchange (ICE), which hosts contracts for Brent crude oil, natural gas, and various agricultural commodities.

Futures contracts are the primary instrument through which prices are discovered and risk is managed in commodity markets. A futures contract is a legally binding agreement to buy or sell a specified quantity of a commodity at a predetermined price on a future date. Producers use futures contracts to lock in selling prices and protect themselves against price declines. Consumers such as airlines, food manufacturers, and utilities use futures to lock in input costs and shield their businesses from price spikes. Financial investors use futures to gain exposure to commodity price movements without ever taking physical delivery of the underlying material.

The participation of financial investors in commodity markets has grown substantially since the early 2000s, a phenomenon sometimes described as the financialization of commodities. Index funds that track commodity prices, exchange-traded funds backed by physical metals, and algorithmic trading strategies have all increased the volume of financial activity in commodity markets. This development has been both praised as a source of liquidity and criticized as a potential source of price volatility that is disconnected from fundamental supply and demand conditions.

Geopolitics and Commodity Markets

Perhaps no other sector of the global economy is as deeply intertwined with geopolitics as commodity markets. Natural resources have been a source of international tension, diplomatic maneuvering, and outright military conflict throughout modern history. The control of oil fields shaped the strategic calculations

of the great powers during both World War I and World War II. The Arab oil embargo of 1973 demonstrated that commodity-exporting nations could use their resource endowments as a weapon of economic coercion. The energy crises of the 1970s prompted consuming nations to build strategic petroleum reserves, diversify their energy sources, and invest in domestic production — policy responses that continue to shape energy markets today.

In the twenty-first century, geopolitical tensions around commodities have taken new forms. The competition between the United States and China for access to critical minerals needed for clean energy technology has introduced a new dimension of strategic rivalry into commodity markets. China's investments in mining projects across Africa, Latin America, and Central Asia through its Belt and Road Initiative have been interpreted by Western policymakers as an attempt to secure preferential access to the raw materials that will determine technological and economic leadership in the coming decades. Western nations have responded with their own initiatives to develop domestic critical mineral supply chains and to build partnerships with resource-rich allies.

Sanctions have become an increasingly important tool through which commodity markets are weaponized for geopolitical ends. The sweeping sanctions imposed on Russia following its invasion of Ukraine created significant disruptions in global markets for oil, natural gas, wheat, fertilizers, and metals including nickel and palladium, commodities in which Russia holds a dominant or significant global market position. The experience demonstrated both the power and the limits of using commodity market access as a coercive instrument — while sanctions imposed real costs on the Russian economy, they also generated inflationary pressures in sanctioning countries and created incentives for Russia to deepen its commercial ties with non-sanctioning nations including China, India, and Turkey.

The Future of Commodity Markets

The global energy transition presents the most significant structural shift in commodity markets in generations. The decarbonization of the world economy, driven by climate policy, technological change, and shifting investor preferences, is simultaneously reducing long-term demand for fossil fuels and dramatically increasing demand for the metals and minerals needed to build solar panels, wind turbines, electric vehicle batteries, and power grid infrastructure.

The International Energy Agency projects that achieving the goals of the Paris Agreement will require a massive and sustained increase in the production of copper, lithium, cobalt, nickel, and rare earth elements. This creates a paradox at the heart of the energy transition: replacing a fossil fuel economy with a clean energy economy requires an extraordinary expansion of mining, a sector with its own significant environmental and social impacts. Resolving this paradox — producing the materials needed for decarbonization in ways that are themselves environmentally and socially sustainable — is one of the central challenges facing commodity markets in the decades ahead.

Climate change itself is already reshaping commodity markets through its effects on agricultural production. Changing precipitation patterns, rising temperatures, and more frequent extreme weather events are altering the geography of agricultural productivity, creating new risks and opportunities for commodity producers and traders. Regions that were once reliably productive may become less so, while others may become viable for crops they could not previously support. These shifts will have profound implications for the patterns of global agricultural trade and for the food security of nations that depend heavily on imports.

Conclusion

Commodities occupy a position of unique and irreplaceable importance in the global economy. They are the raw materials from which all wealth is ultimately derived, the goods whose prices signal the health of economies and the direction of

geopolitical winds, and the assets through which nations express their resource endowments and assert their economic interests. The markets through which commodities are traded and priced are among the most complex, consequential, and fascinating institutions in the world economy.

Understanding commodity markets requires integrating knowledge from economics, finance, geography, political science, and environmental science. It requires attention to the physical realities of resource extraction and agricultural production, the financial mechanics of futures markets and derivatives, the geopolitical dynamics of resource nationalism and international sanctions, and the long-term structural forces of technological change and climate disruption.

As the world navigates the transition to a lower-carbon economy, the role of commodities will evolve but will not diminish. The specific commodities that matter most will shift, the geographies of production and consumption will change, and the financial instruments through which risks are managed will innovate. But the fundamental reality — that human civilization rests on a foundation of raw materials traded across borders in markets that connect every corner of the globe — will remain as true in the twenty-second century as it was in the twentieth.

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