

# Daiwa's View

## Commodity currencies as spot for parking funds amid USD weakness?

- Selling pressure on commodity currencies if recession emerges
- Long-term commodity currency trends impacted by commodity super-cycles

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### AUD strengthening as China's economy reopens

### Commodity currencies as spot for parking funds amid USD weakness?

Since the end of last year, the Australian dollar (AUD) has risen due in part to the end of China's zero-coronavirus policy (Chart 1). Specifically, rising commodity prices due to the reopening of China's economy likely boosted the AUD.

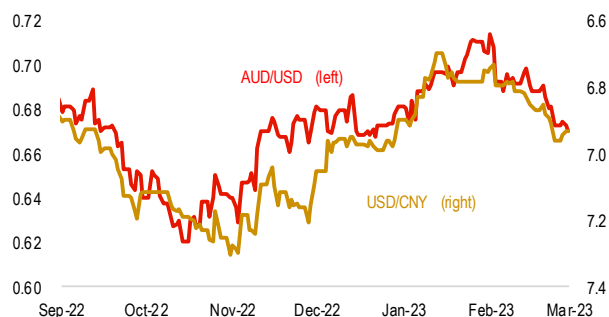
### Selling pressure on commodity currencies if recession emerges

However, if the effects of sharp monetary tightening from 2022 become more apparent and a global recession emerges, commodity prices other than gold and other precious metals will likely fall along with a capital flight to the US dollar (USD). In that case, the AUD and other currencies of resource-rich countries would likely come under increased selling pressure. In fact, such commodity currencies tend to have very strong correlations with economic trends over the medium term (Chart 2). However, until a recession becomes more apparent, commodity currencies should be supported as the correction of sharp USD appreciation that occurred in 2022 continues (refer to our 12 Jan 2023 report [Forex outlook for 2023](#)).

If, after the start of a clear global recession, central banks begin to cut interest rates and economies enter gradual recovery phases, a correction for excessive USD strength would likely resume and risk-on currencies, such as resource-rich and emerging market commodity currencies, would likely strengthen.

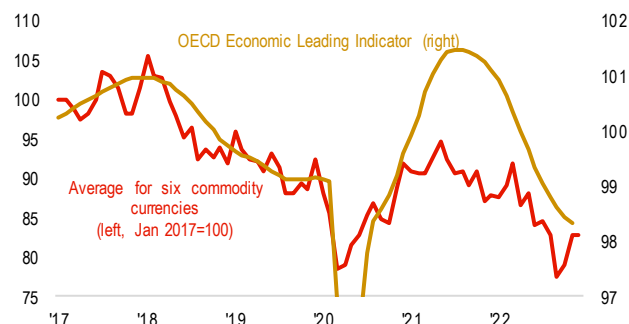
That said, any long-term appreciation of commodity currencies would likely be determined by the subsequent long-term trends for commodity prices. The long-term USD appreciation trend that began around 2011 may be nearing its end (refer to our 27 Apr 2022 report [Is US dollar appreciation trend already ending?](#)). However, without a long-term rise in commodity prices, commodity currencies are unlikely to be favored as a spot for parking funds amid future periods of USD weakness.

Chart 1: AUD, CNY



Source: Bloomberg; compiled by Daiwa Securities.

Chart 2: Commodity Currencies, OECD Economic Leading Indicator



Source: OECD, Bloomberg; compiled by Daiwa Securities.

Note: The six commodity currencies are the AUD, NZD, CAD, NOK, BRL, and ZAR

**Commodity super-cycles impact long-term commodity currency trends**

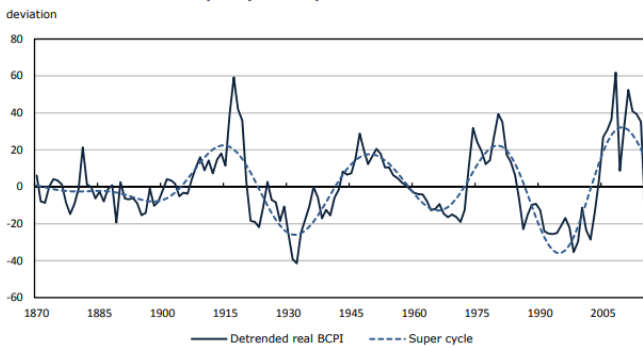
In this regard, the concept of a super-cycle, in which commodity prices alternate between upward and downward trends over a long period of time (about 10 to 20 years), could serve as a useful reference (Chart 3). There is now the opinion that a new commodity super-cycle started from around 2021. If such a super-cycle has indeed started, we could probably expect a long-term rally for commodity currencies (Chart 4).

The last upward cycle began in the late-1990s. As globalization moved forward, including China's entry into the WTO in 2001, demand increased due to upbeat economies and commodity prices rose over an extended period of time. In addition to rising commodity prices, economic growth rates in resource-rich and emerging economies were much higher than in major developed economies, which also led to a weaker USD and stronger commodity currencies. That upward cycle lasted until the global financial crisis erupted in 2007.

An analysis conducted by the Bank of Canada<sup>1</sup> found that a super-cycle of rising commodity prices can occur when there is the factor of large unanticipated demand shocks followed by delayed supply-side adjustments. This applies to the situation from 2021 to the present, when demand recovered rapidly during the reopening of economies that were shuttered due to the coronavirus outbreak, while the resolution of supply constraints was delayed. This is one of the grounds for assuming a long-term upward cycle has started.

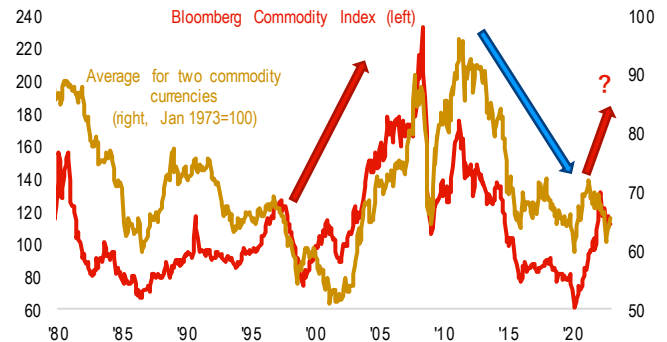
That said, even if a super-cycle of rising commodity prices is now underway, we expect it to differ from the previous super-cycle that began in the 1990s. The globalization trend that was a key factor behind the increase in demand for commodities during the last super-cycle has currently reversed with the emergence of a de-globalization trend. This is because the world is now becoming increasingly polarized. A simple increase in demand is unlikely due to declining economic growth rates among emerging economies. At the same time, fragmentation of supply chains due to this polarization and the green transformation have resulted in inadequate energy supply and the continued mismatch between supply and demand is likely to become a factor behind higher prices. If this leads to a long-term rise in commodity prices, commodity currencies are likely to be favored as a spot for parking funds amid periods of USD weakness.

**Chart 3: Commodity Super-cycle**  
Long-run real Bank of Canada commodity price index deviations from the trend and the super-cycle component



Source: Reprinted from Statistics Canada materials.

**Chart 4: Commodity Prices, Commodity Currencies**



Source: Bloomberg; compiled by Daiwa Securities.  
Note: The two commodity currencies are the AUD and CAD.

<sup>1</sup> <https://www.bankofcanada.ca/wp-content/uploads/2016/11/boc-review-autumn16-buyuksahin.pdf>

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