

# Forex Focus: Wheat Rally To Help Emerging Markets Next

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A DOW JONES NEWSWIRES COLUMN

LONDON (Dow Jones)--All eyes are on the Canadian dollar as wheat prices soar.

But, it is in emerging markets, especially in Asia, where the main gains might come.

News that Russia is banning wheat exports has already sent the Canadian currency soaring up to barely a cent away from parity against the U.S. dollar.

See the U.S. dollar's fall against its Canadian counterpart:

<http://www.dowjoneswebservices.com/chart/view/4388>

Not only will Canada benefit as a major wheat exporter from the nearly 94% rise in wheat prices, but the country will also gain if the reduced use of wheat in alternative energy projects pushes the price of crude oil higher too.

Elsewhere in the developed world, other major wheat exporters such as Australia and the U.S. should also find some benefit in their terms of trade.

But Japan and the U.K. will also suffer given their dependence on imports.

But, it is the relative impact on global inflation pressures that will probably decide which currency gets the most help from the wheat rally.

Of course, the higher wheat prices, and the fall out they will have on other food prices including meat and wheat substitutes, will soon filter through to higher consumer prices around the world.

This could well hasten a global rise in interest rates despite continued doubts about the strength of the global recovery.

The impact on rates in each country will not only depend on where inflation pressure are at the moment but also on how important food prices are in their economy.

This is where, as far as winners are concerned, emerging market currencies could step up to the plate.

Unlike their counterparts in the developed world, who are still saddled with the credit and banking crisis that plunged the world into recession two years ago, their economies have pulled well ahead.

If anything, growth has accelerated to levels where demand has started to outstrip supply and consumer prices have started to rise.

However, it is the relative importance of food, and thus wheat, in their economies that will increase upward pressure on rates.

Philip Poole, global head of macro and investment strategy at HSBC Global Asset Management, said that while food only accounts for 10-15% of the consumer price index baskets in the developed world, in China it is about one-third and in India, Vietnam, Pakistan, Philippines and Russia, it is anywhere up to 40%.

Given the economic recoveries that have taken place in many emerging markets, corporate pricing power has also risen, ensuring that companies are less likely to absorb the higher prices in their margins and more likely to pass them on to the consumer.

Higher interest rates and higher emerging market currencies could also be more readily tolerated, especially in that they help to reduce the cost of food imports and lower political pressure on many emerging market governments.

So while the Canadian dollar may be coming on top right now and while global yields in general might rise, it is the currencies of emerging markets that could well find themselves back in the spotlight if this rally in the world wide cost of wheat continues.

Early Monday, the Canadian dollar was experiencing a little correction against its U.S. counterpart after Canadian unemployment data disappointed. This helped the U.S. dollar to stage a bounce even though U.S. non-farm payroll data came in lower than expected and encouraged more speculation of further easing by the U.S. Federal Reserve on Tuesday.

The U.S. dollar rose to CAD 1.0283 by 0645 GMT from CAD1.0268 late Friday in New York, according to EBS.

The dollar also bounced a little to Y85.55 from Y85.40 as investors squared positions ahead of the Fed. The Yen was probably helped lower by comments from Japanese Finance Minister Yoshihiko Noda that he is closely watching the Japanese currency's movements.

The euro was down a little at \$1.3288 from \$1.3294 even though German exports figures came in at the highest level since October 2008. The single currency was also up at Y113.70 from Y113.48.

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