FOREX FOCUS: Crowning The New Commodity King

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By Nicholas Hastings
A DOW JONES NEWSWIRES COLUMN

-- It's time for the Aussie to pass the commodity crown to the Loonie

-- As China slams on the brakes, Australia looks less attractive

-- While higher crude prices and higher rates help Canada

LONDON (Dow Jones)--The Aussie may have to pass its commodity crown to the Loonie.

For years, the Australian currency has been the commodity currency of choice, enhanced particularly by its close trade association with the ever-strengthening Chinese economy.

But, as inflation fears force Beijing to slam on its monetary brakes and the longer-term health of the Australian economy itself is called into question, investors are looking far more favorably at the Aussie's Canadian counterpart.

What they get instead is a currency backed by the second-largest oil reserves in the world linked to the world's largest economy, the U.S., but without the fiscal problems that could hamper the U.S. dollar.

Pointing to Canada's "agreeable fiscal profile," BNP Paribas reports on the steady rise in foreign interest in Canadian debt markets in recent years.

Bank of New York Mellon notes that this interest has intensified since the start of the year, with its flow data showing support coming not just from short-term players but also from longer-term investors.

Tensions in the Middle East that pushed the price of Brent crude oil well over $104 a barrel recently have accelerated the inflows.

See the U.S. dollar's recent fall against the Canadian dollar:
http://www.dowjoneswebservices.com/chart/view/5414

There has been a long-held correlation between the price of crude and the performance of the Canadian dollar against the U.S. dollar. According to Bank of New York, this has averaged about 89% on a weekly basis since 2000.

With fears of political instability in major oil producers, such as Saudi Arabia, on the rise, the bank reminds the market of how well the Canadian dollar performed during the last major oil crisis in 1973 and 1974, when the price of crude quadrupled.

On top of this is the health of the Canadian economy, which is not only growing more strongly than its southern counterpart, but is showing subdued inflation pressures that will probably allow the Bank of Canada to keep rates unchanged for another few months.

Compare this to the outlook for the current commodity crown holder.

A reminder of just how desperate China is to slow its economy and prevent an asset bubble came Friday when the People's Bank of China raised its bank reserve requirement ratio for the second time this year, taking it up by 50 basis points to 19.5%.

This came alongside recent interest rate rises all designed to keep a lid on the country's swiftly rising inflation.

For Australia, this can only be bad news. Not only does it mean a likely fall in Chinese demand for its products, it also means a likely fall in non-oil commodity prices, just the ones with which Australia is normally associated.

So the warnings from Moody's about possible downgrades for Australian and New Zealand banks have provided a timely excuse for more investors to start looking to Canada as the new commodity king.

Bloomberg TNI FRX POV

Reuters USD/DJ

Thomson P/1066 or P/1074

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