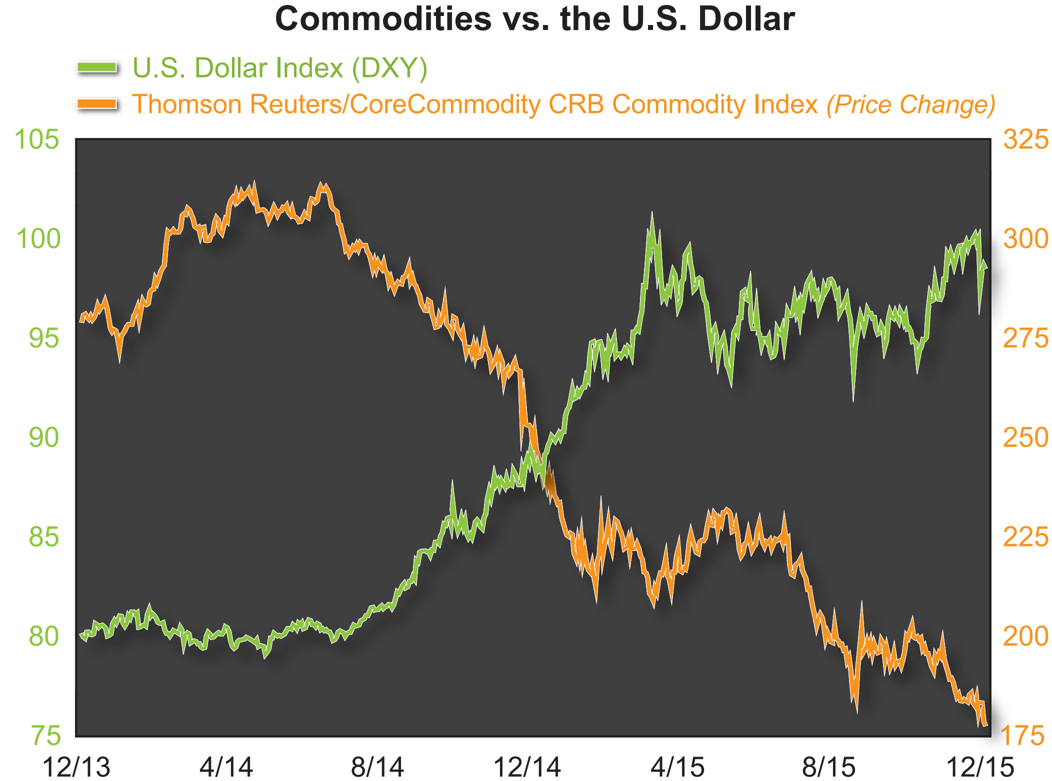
U.S. Dollar Strength & China Slowdown Help Push Commodity Prices Lower



Source: Bloomberg. Data from 12/9/13-12/8/15.

View from the Observation Deck

1. While today's blog post focuses on the negative influences that a strengthening U.S. dollar and the tempering of economic growth in China have had on commodity prices since mid-2014, we acknowledge that other influences, such as production levels, can also influence prices.
2. From 6/30/14 (rally in the U.S. dollar commenced) through 12/8/15, the U.S. Dollar Index (DXY) posted a gain of 23.43%, compared to a decline of 42.45% for the Thomson Reuters/CoreCommodity CRB Commodity Index (see chart), according to Bloomberg.
3. Jodie Gunzberg, global head of commodities at S&P Dow Jones Indices, has noted that a strong U.S. dollar can depress commodity prices because goods priced in dollars become more expensive for other currencies, according to Business Insider.
4. Gunzberg points out that the dollar's influence on commodity prices does vary by type. Over time, the dollar has tended to have much more of an impact on the direction of crude oil prices than the price of sugar, for example.
5. With respect to basic metals, such as copper, 60% of the variance in metal prices can be explained by fluctuations in China's industrial production, according to research released in October 2015 by the International Monetary Fund.
6. China accounts for 49% of global demand for base metals, according to Bloomberg.
7. China, which is the world's second largest economy, reported a real GDP growth rate of 6.9% (year-over-year) in Q3'15, according to Bloomberg. The last time that GDP growth was below the 7.0% mark for a quarter was Q1'09.
8. China's government is seeking to transition from a manufacturing-based to a services-based economy, according to *The Diplomat*. China's slower growth climate has resulted in China purchasing fewer commodities than in past years

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The Thomson Reuters/CoreCommodity CRB Commodity Index is an average of commodity futures prices with monthly rebalancing, while the U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar relative to a basket of major world currencies.