The U.S. Dollar Has A Significant Influence On Commodity Prices

View from the Observation Deck

1. For the 12-month period ended 6/12/15, the U.S. Dollar Index (DXY) posted a 17.86% gain, compared to a 27.57% decline for the TR/CC CRB Commodity Index (see chart), according to Bloomberg.

2. 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.

3. 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.

4. The strong U.S. dollar, however, isn’t the only influence on commodity prices. Global growth rates, inflation/interest rates and geopolitical events can also impact demand, in our opinion.

5. Global growth has slowed since 2010. Global real GDP growth advanced at a rate of 5.4% in 2010, but slowed to 3.4% in 2014, according to the International Monetary Fund (IMF).

6. China, which has been one of the world’s largest consumers of commodities over the past decade, has seen its real GDP growth rate fall from 10.4% in 2010 to 7.4% in 2014 (IMF).

7. While some investors might be concerned that the U.S. dollar could strengthen if the Federal Reserve decides to raise interest rates at some point in the near future, the data suggests that it is not a given.

8. The past three times that the Fed raised the federal funds target rate for an extended period (2/94-2/95, 6/99-5/00, 6/04-6/06), the U.S. dollar declined from the date of the first rate hike through the date of the last hike in two of the three instances, according to data from Bloomberg.

9. For the 12-month period ended April 2015, investors funneled a net $1.78 billion into Commodities (Broad Basket) mutual funds and exchange traded funds, according to Morningstar.

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.