

FX

TRADER MAGAZINE

RETAIL FOREX
MARKET WATCH

SWISS
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MID YEAR
FUNDAMENTAL
ANALYSIS

EURO/USD
OUTLOOK

SOLUTION
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COMMODITIES

a real diversifier?
and beware of regulators

“There’s just one real issue, the biggest single challenge in the history of Mankind is how we turn on the lights of China and India without destroying our planet.”
(Anonymous Stanford’s professor)



The increasing financialization of commodities and the growing attention of regulators to this phenomenon.



Commodities for Dummies: a synthetic guide for FX traders open to cross-markets considerations.



Commodities and FX have always been markets (or asset classes) quite contiguous. A clear link among them usually follows two channels: US Dollar phases of strengths and weaknesses (since all commodities are priced in US Dollars in their reference market) and the cause-effect between currencies of exporters and importers of a certain commodity and the commodity price itself. Consequently there have always been good reasons for players in an arena (either FX or Commodities) to follow closely what was happening next door.

The two worlds have had their ties

reinforced from a similar general behavior in terms of volatility and liquidity (even if we can say that most commodity markets are more volatile and less liquid at least than G10 currency pairs) and from the fact that quite often in global banks FX and Commodities departments were kept under the same hat.

Overall it seems quite reasonable to assert that many FX players should better keep their eyes wide open whenever something is boiling in the commodities price action. Which, these days, happens more often than not.

In this article I will try to draw FX Trader Magazine readers' attention to a couple of trends that have been emerging quite clearly in the last few months/years and that all commodity bulls should better keep in the back of their mind: the increasing financialization of commodities and the growing attention of regulators to this phenomenon. A recent monthly newsletter from Absolute Return Partners LLP, of which I am a constant and happy reader, has been a good source of inspiration on this side.

For the occasion I also added, as a kind of appendix, a synthetic guide to the commodity world (a bit like

a "commodities for dummies"), which I think could be useful to the FX traders open to cross-markets considerations.

A 'Black May' for commodities

- Silver plunged more than 10 percent on Thursday, its biggest one-day drop in dollar terms since the Hunt Brothers price squeeze, dragging gold over 3 percent lower as panic selling snowballed across the commodities sector.

- Silver has now lost 30 percent this week, well above the conventional criteria of 20 percent for a bear market, since it surged to a record high near \$50 an ounce last Thursday.

- Silver's plunge for a fifth day led the decline in commodities.

- The Reuters/Jefferies CRB index was set for its biggest weekly fall since late 2008 and U.S. crude oil fell below \$100 a barrel.

- Speculators in the silver futures market were forced to liquidate positions after the CME Group raised margins five times in under