

Recent Trends in the Correlation between the Commodity Dollars, Oil and Gold

The Commodity Dollars

The Commodity Dollars (or sometimes ComDolls) are an important grouping in the forex trading world. The Australian, New Zealand and Canadian dollars are freely traded currencies that represent advanced, open economies that happen to have large natural resource sectors.

Australia is a huge, mostly empty country with massive commodity resources. Amongst many other things it is the: world's largest coal exporter; second largest gold producer; second largest iron ore producer; third largest zinc producer; and fifth largest copper producer. Australia is also a big agricultural producer and exporter. The Australian dollar is expected to correlate with the price of gold.

New Zealand is a small advanced economy with a large agricultural sector. The economy is a significant exporter of agricultural products and the currency stands to benefit from increases in these prices. The New Zealand dollar is expected to correlate with the Australian dollar and, to a lesser extent, the commodities.

Canada is another large country with big natural resources. In recent times the economy has become strongly associated with oil production. Canada is currently the world's sixth largest crude oil producer and has the third largest proven reserves. Canada is also the seventh largest gold producer and the eighth largest wheat producer. The Canadian dollar is expected to correlate with the price of oil.

The Commodities

Gold is one of the world's most highly traded commodities and the price is widely followed around the world. Gold is also unusual in that it still plays a significant role in many countries monetary reserves.

Crude oil is the most important trading commodity in the world and its price is an important factor in the world's economy. [WTI](#) crude futures are traded in New York and provide a key benchmark for the price of oil traded around the world. Brent crude futures are traded in London and it is also an important benchmark for the price of oil.

Correlations

I have compared the correlations over a period of three years, one year and three months. The results are shown in the following tables.

	NZD/USD	CAD/USD	GOLD	WTI CRUDE	BRENT CRUDE
AUD/USD	0.93	-0.81	0.80	0.76	0.91
NZD/USD		-0.72	0.87	0.59	0.84
USD/CAD			-0.46	-0.72	-0.78
Gold				0.51	0.82
WTI Crude					0.87

Past Three Years Correlation

	NZD/USD	CAD/USD	GOLD	WTI CRUDE	BRENT CRUDE
AUD/USD	0.89	-0.64	0.57	0.50	0.57
NZD/USD		-0.75	0.69	0.36	0.50
USD/CAD			-0.69	-0.44	-0.63
Gold				0.25	0.44
WTI Crude					0.92

Past Year Correlation

	NZD/USD	CAD/USD	GOLD	WTI CRUDE	BRENT CRUDE
AUD/USD	0.86	-0.77	-0.28	0.49	0.27
NZD/USD		-0.69	-0.53	0.54	0.25
USD/CAD			0.35	-0.24	-0.07
Gold				-0.62	-0.35
WTI Crude					0.82

Past Three Months Correlation

Conclusions

Reviewing the results of the analysis it is clear that, over the past three years, there has been a very strong correlation between the price of all of the commodity dollars with the price of gold and oil.

The Australian dollar

The Australian dollar has correlated at 0.80 with gold over the past three years. This is a very high correlation and suggests that a good link still exists between these two markets. However, the recent data suggests this link could be weakening. During the past three months the dollar has had an inverse relationship with the price of gold.

The New Zealand dollar

The New Zealand dollar is highly correlated with the Australian dollar in all of the analysis periods. This is unsurprising given the similarity and also the connections between the two economies. It is slightly surprising to see that over the past three years the New Zealand dollar is even more closely correlated with gold than the Australian dollar is.

The Canadian dollar

As expected, over the past three years the Canadian dollar has correlated strongly with both WTI and Brent Crude. It appears that the dollar correlates slightly better with Brent than with WTI crude over the longer timeframes. However the most recent three months data suggests that the Canadian dollar could be moving closer to WTI crude.

Gold

Over the past three years gold has correlated well with both the Australian dollar and the New Zealand dollar. However, it is interesting to note that this relationship has broken down over the past three months and the correlation has moved from positive to negative.

WTI Crude

Unsurprisingly WTI crude correlates very highly with Brent crude. It is also interesting to note that, in the past three months, WTI has been more closely correlated with the commodity dollars than Brent.

Brent Crude

Brent crude oil has typically correlated better than WTI crude oil with the commodity dollars over the past three years. However, the past three months this relationship has changed and WTI is showing the strongest correlations.