

## **Can Exchange Rates Forecast Commodity Prices?**

**Yu-chin Chen, Kenneth Rogoff, and Barbara Rossi**

We show that "commodity currency" exchange rates have remarkably robust power in predicting global commodity prices, both in-sample and out-of-sample, and against a variety of alternative benchmarks. This result is of particular interest to policymakers, given the lack of deep forward markets in many individual commodities, and broad aggregate commodity indices in particular. We also explore the reverse relationship (commodity prices forecasting exchange rates) but find it to be notably less robust. We offer a theoretical resolution, based on the fact that exchange rates are strongly forward looking, whereas commodity price fluctuations are typically more sensitive to short-term demand imbalances.

J.E.L. Codes: C52, C53, F31, F47