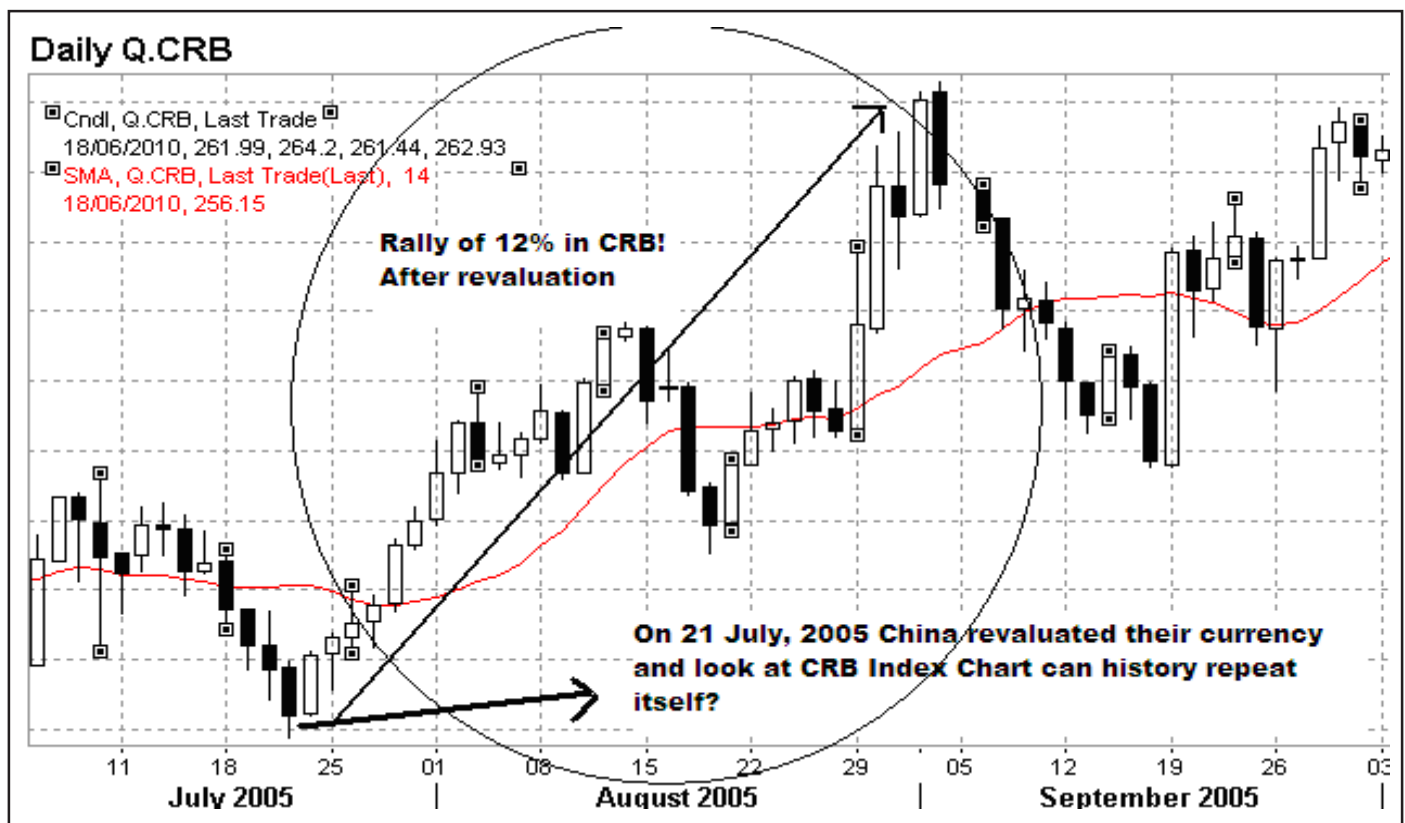


On June 19th 2010, China's central bank said it would resume making the yuan more flexible, signaling it would de-peg the country's currency from the U.S. dollar, in effect resuming the floating exchange rate arrangement before the financial crisis. A stronger yuan is expected to curb inflation in the world's third-largest economy and shift investment toward service industries from export-manufacturing, according to the People's Bank of China.

A similar move was seen from the Chinese officials in July 2005. The currency appreciated 21 percent in the three years after a peg to the dollar was scrapped in July 2005 and replaced by a managed float against a basket of currencies including the euro.

After the scrapping of the dollar peg with the yuan, we witnessed a sharp upside in the prices of metals. The Thomson Reuters/Jefferies CRB Index went up by 12 percent after this move. CRB index is a Commodity Price Index and is calculated using the prices commodities across the complexes.



Source: Reuters, NB Research

After 21st July 2005, The CRB Index surged higher 12 percent as evident from the above graph. China's move with respect to the yuan built in demand optimism for the commodities across the board.

The recent move by the Chinese government to make yuan more flexible and to break the two year old regime of the yuan peg against the dollar has resulted into a minimal upside across the commodities. So, the question to be asked here is: "Can history repeat itself". Whether we would be able to see a trendy bull run in the commodity space for a while now or it is just a momentary surge in the prices that shall be seen. Overall outlook is bullish on commodities and it's "buy at dips" market for commodities.

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