

Report on **Business**

Canadian dollar, commodities currencies, hit by China bank move

Commodities-linked currencies fall on concerns Chinese demand could fall, slowing global recovery

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Commodities-linked currencies fell Tuesday after China said it would tighten bank reserve requirements, raising concerns that Chinese demand could fall and slow the global [economic recovery](#).

China's central bank surprised [global markets](#) with a statement that it would raise the reserve requirement ratio by a half-percentage point, effective next week, in the clearest sign yet of monetary policy tightening.

Commodity-linked currencies – including the Australian, New Zealand and Canadian dollars – all hit session lows against the U.S. dollar, following a selloff in [gold prices](#). The commodity currencies also tumbled against the Japanese yen.

“The Chinese announcement has the potential to be this week's most important [currency market](#) driver and the market reaction over the next 24-48 hours bears close watching,” Nick Bennenbroek, head of currency strategy at Wells Fargo Bank in New York, said in a note to clients.

The announcement underlined the risk tied to those currencies which, along with commodities, rallied for much of 2009 on the view that the global economy was on a path toward recovery.

China is also a major importer of world commodities and a drop in its demand is seen as negative for commodity-linked currencies.

“The kneejerk reaction will be negative for commodity currencies as traders worry about a central bank imposed slowing of the Chinese economy weighing on the global recovery,”

said Camilla Sutton, a currency strategist at Scotia Capital in Toronto.

In midafternoon in New York, the Australian dollar traded 1.4 per cent lower, having touched a two-month high Monday. The Canadian dollar ([CAD/USD-I](#) 0.96 -0.005 -0.54%) also fell, as did New Zealand's currency, after China's announcement, which earlier triggered broad selling in gold.

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