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After the Tide: Commodity Currencies and Global Trade¹

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12 **Abstract**

The decade prior to the Great Recession saw a boom in global trade and rising transportation costs. High-yielding commodity exporters' currencies appreciated, boosting carry trade profits. The Global Recession sharply reversed these trends. We interpret these facts with a two-country general equilibrium model that features specialization in production and endogenous fluctuations in trade costs. Slow adjustment in the shipping sector generates boom-bust cycles in freight rates and, as a consequence, in currency risk premia. We validate these predictions using global shipping data. Our calibrated model explains about 57 percent of the narrowing of interest rate differentials post-crisis.

13 *Keywords:* shipping, trade costs, carry trade, currency risk premia, exchange rates,
14 international risk sharing, commodity trade JEL codes: G15, G12, F31

15 **1. Introduction**

16 The decade prior to the Great Recession saw a boom in global trade, including a rapid
17 rise in commodity prices, trade volumes, and, consequently, in the cost of transporting goods
18 around the world. At the same time currencies of commodity-exporting currencies appre-

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