Global Markets Research

Foreign Exchange: Aussie Dollar Barometer

28 April 2010

Introducing the Commonwealth Bank *Aussie Dollar Barometer*

- The Commonwealth Bank Aussie Dollar Barometer tracks medium-sized exporters' and importers' exposure to foreign exchange risk. The Barometer also measures expectations for AUD/USD and businesses' hedging plans for managing foreign exchange risk.
- The Aussie Dollar Barometer reveals that most importers and exporters are working on the assumption of ongoing increases in AUD/USD this year.
- Around 78% of importers expect to increase their AUD/USD exposure. However, only a small proportion of importers plan to hedge their exposure. If our forecasts for a lower AUD/USD are right, many importers will be exposed to higher costs.

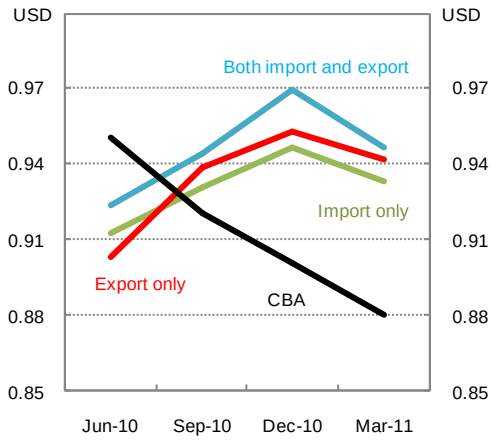
Aussie dollar predictions

The Aussie Dollar Barometer shows an overwhelming majority of importers and exporters expect AUD/USD to trend higher this year.

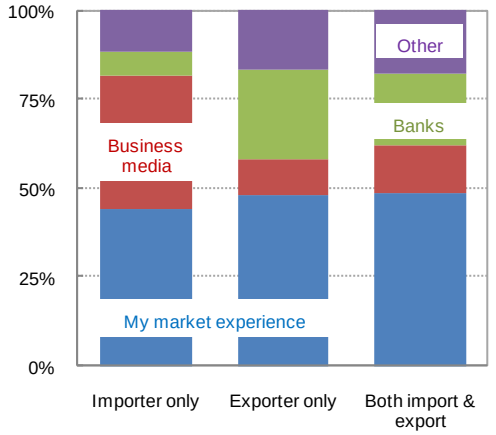
- The average expectation for AUD/USD in December 2010 amongst businesses that only import is 94.6 US cents (green line on chart 1). 74.3% of businesses that only import expect AUD/USD to increase by December 2010. Only 15.0% of importers expect AUD/USD to trend lower by December 2010.
- The average expectation for AUD/USD in December 2010 amongst businesses that only export is 95.2 US cents (red line on chart 1). 73.5% of businesses that only export expect AUD/USD to increase by December 2010. Only 11.4% of exporters expect AUD/USD to trend lower by December 2010.
- The average expectation for AUD/USD in December 2010 amongst businesses that both import and export is 96.9 US cents (blue line on chart 1). 76.3% of businesses that both import and export expect AUD/USD to increase by December 2010. Only 10.4% expect AUD/USD to trend lower.

The weighted average expectation among survey respondents for AUD/USD at the end of December 2010 is 95.6 US cents. By contrast, CBA forecasts AUD/USD trending lower over the next year (black line in chart 1 and table on page 3). We expect AUD/USD to end December 2010 at 90.0 US cents and end March 2011 at 88.0 US cents.

CBA VERSUS BAROMETER
(forecast for AUD/USD)



INFLUENCES ON PREDICTIONS
(% of contributors)



Influences on Aussie dollar predictions

The Aussie Dollar Barometer reveals the influences on businesses' outlook for AUD/USD. The main influence on foreign exchange predictions is "market experiences (associates and clients)" (blue bars in chart 2). Secondary influences differ between types of businesses. For importers, the second most important influence is "business media". For exporters and those businesses that both import and export, the second most important influence is "advice/information from banks".

Joseph Capurso Currency Strategist T. +612 9118 1106 E. joseph.capurso@cba.com.au

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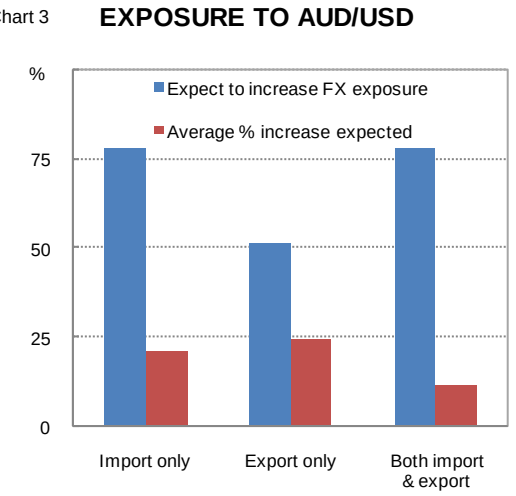
Aussie dollar exposures

The Aussie Dollar Barometer indicates most businesses expect to increase their AUD/USD exposure in the next three months (blue bars in chart 3). Increases in exposure are an indicator of future business expansion.

- Around 78% of importers and businesses that both export and import expect to increase their AUD/USD exposure. The average increase in exposure amongst importers is 21.1% (red bar in chart 3). The average increase in exposure amongst businesses that both export and import is 11.6%.
- By contrast, a little more than half of exporters expect to increase their AUD/USD exposure. The average increase in exposure is 24.4%.

Chart 3

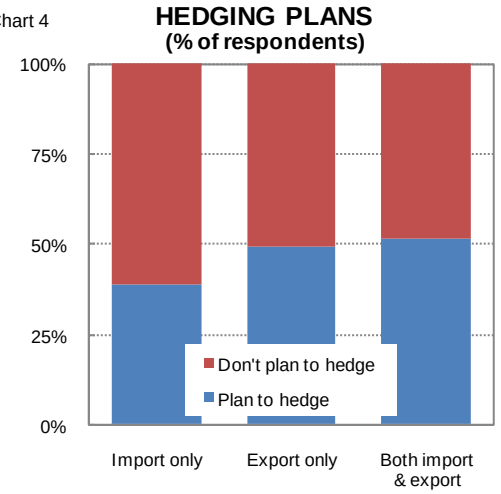


Managing Aussie dollar exposures

The increasing trade and financial links between Australia and the rest of the world and higher volatility in foreign exchange markets has made managing foreign exchange exposure important. The Aussie Dollar Barometer shows a majority of businesses do not plan to hedge their exposure to AUD/USD (red bars in chart 4).

- Only 38.8% of importers plan to hedge their AUD/USD exposure (blue bars in chart 4). Of those importers that plan to hedge, only 39.3% of their exposure will be hedged.
- Only 49.2% of exporters plan to hedge their AUD/USD exposure. However, of those exporters that plan to hedge, 77.8% of their exposure will be hedged.
- Only 51.2% of businesses that both import and export plan to hedge their AUD/USD exposure. However, 64.4% of their exposure will be hedged.

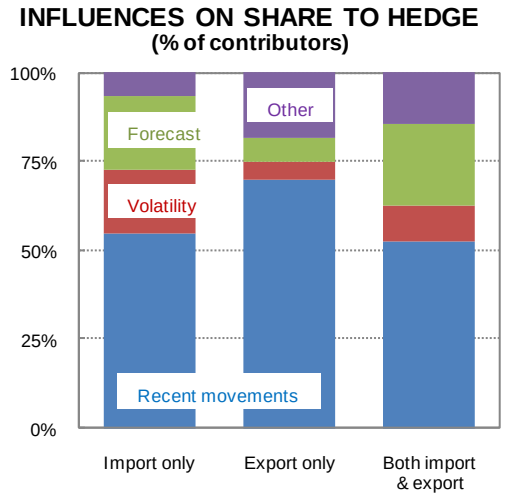
Chart 4



Influences on hedging AUD/USD exposure

The Aussie Dollar Barometer reveals recent movements and volatility in AUD/USD are the dominant influence on the decision to hedge exposures (blue bars in chart 5). Another influence in the decision to hedge foreign exchange exposures is forecasts of AUD/USD. The upshot is medium-sized businesses are reactive, rather than proactive, in managing foreign exchange exposure.

Chart 5



Key "take-away" from the Aussie Dollar Barometer

Based on the Aussie Dollar Barometer and our own forecasts of AUD, we believe importers are leaving themselves exposed to higher costs. Importers are working on the assumption of ongoing increases in AUD/USD over the year, have rising AUD/USD exposure but plan to hedge only a small proportion of their exposure.

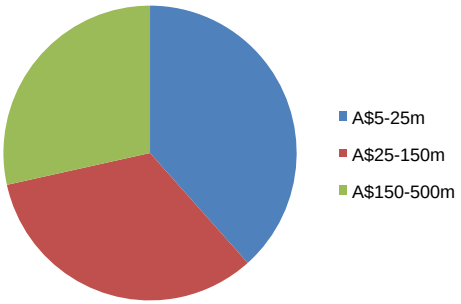
About the Commonwealth Bank Aussie Dollar Barometer

The Commonwealth Bank Aussie Dollar Barometer is prepared every three months based on a survey conducted by East & Partners. East & Partners is a market research and advisory firm.

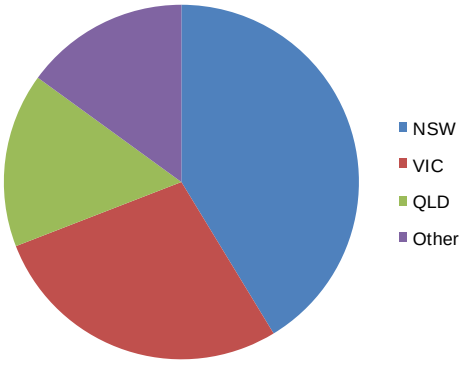
For the April 2010 edition of the Commonwealth Bank Aussie Dollar Barometer, East & Partners interviewed over 600 businesses turning over AUD 5–500 million per year. Businesses were asked a range of questions about their exposure to and views about AUD/USD. The charts below provide information on survey sample.

East & Partners surveyed businesses from 6th to 16th April 2010. The average value for AUD/USD during the survey period was 93 US cents.

SAMPLE BY TURNOVER COHORT
(% of enterprises)



SAMPLE BY STATE
(% of enterprises)



Our forecasts

We expect the Australian dollar to ease against a range of currencies over the year. Despite likely higher interest rates in Australia, we predict that yields will begin to catch up with Australia this year. We expect the US Federal Reserve to begin lifting its policy interest rate from August this year.

	End period			
	Jun-10	**Sep-10**	**Dec-10**	**Mar-11**
AUD-USD	0.95	0.92	0.90	0.88
AUD-EUR	0.70	0.69	0.69	0.69
AUD-NZD	1.28	1.28	1.25	1.24
AUD-GBP	0.59	0.59	0.58	0.56
AUD-JPY	88	87	88	88

Research

Commodities		Telephone	Email Address
David Moore	Base & Precious Metals, Oil	+612 9118 1099	MoorDa@cba.com.au
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Iron Ore, Coal, Steel, LNG	+613 9675 8618	lachlan.shaw@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
James McIntyre	Economist	+612 9118 1100	james.mcintyre@cba.com.au
George Johns	International Economist	+44 207 710 3918	george.johns@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Michael Bors	Credit Research Analyst	+612 9118 1108	borsma@cba.com.au
Steve Shoobert	Credit Research Analyst	+612 9118 1096	steve.shoobert@cba.com.au
Winnie Chee	Securitised Product	+612 9118 1104	winnie.chee@cba.com.au
Tally Dewan	Quantitative Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange		Telephone	Email Address
Richard Grace	Chief Currency Strategist	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Sara Hoenig	Economist	+612 9118 1107	sara.hoenig@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
Ai-Quynh Mac	Information Services	+612 9118 1102	maca@cba.com.au

New Zealand		Telephone	Email Address
Chris Tennent-Brown	CBA NZ Economist	+64 9374 8819	chris.tennent-brown@asbbank.co.nz
Nick Tuffley	ASB Chief Economist	+64 9374 8604	nick.tuffley@asb.co.nz
Jane Turner	Economist	+64 9374 8185	jane.turner@asb.co.nz
Christina Leung	Economist	+64 9369 4421	christina.leung@asb.co.nz

Sales

Institutional		Telephone
Syd	FX	+612 9117 0190
		+612 9117 0341
	Credit	+612 9117 0020
	Japan Desk	+612 9117 0025
Melb		+613 9675 6815
		+613 9675 7495
		+613 9675 6618
		+613 9675 7757
Lon	FX	+44 20 7329 6266
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HK		+852 2844 7538
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Equities	Telephone
Syd	+612 9118 1446
Asia	+613 9675 6967
Lon/Eu	+44 20 7710 3573
NY	+1212 336 7749

Corporate	Telephone
NSW	+612 9117 0377
VIC	+612 9675 7737
SA	+618 8206 4155
WA	+618 9482 6044
QLD	+617 3015 4525
NZ	+64 9375 5738
Metals Desk	+612 9117 0069
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