

The Commonwealth Bank *Aussie Dollar Barometer*

- The high A\$ is modestly reducing businesses appetite to borrow, though the impacts differ by business size and type.
- A remarkable 99.6% of businesses that reported they would hedge in fact did so.
- One of the clear findings of the Barometer is increased hedging, particularly among smaller businesses.

A\$ and borrowing appetite

The *Aussie Dollar Barometer* reveals the high A\$ is modestly reducing businesses appetite to borrow (green bar in chart 1). However, the impact on borrowing appetite is markedly different by business type. It appears the high \$A is reducing the international competitiveness of exporters, sapping appetite to borrow. A net 41% of exporters report the high A\$ is decreasing their appetite to borrow (second blue bar in chart 1). By contrast, a net 55% of importers report the high A\$ is increasing their appetite to borrow (third blue bar in chart 1).

The impact on borrowing appetite also markedly differs by business size. For example, a net 25% of businesses with annual turnover of \$5-25 million report the high A\$ is decreasing borrowing appetite (bottom brown bar in chart 1). At the other end of the spectrum, a net 14% of businesses with annual turnover above \$500 million report the high A\$ is boosting borrowing appetite (top brown bar in chart 1). Among large businesses, the consumer discretionary (excluding media) and staples sector reports the weakest appetite to borrow (chart 2).

The negative impact on the consumer sector's borrowing appetite is consistent with previous Barometers. The previous Barometer showed the high A\$ is significantly reducing capital spending plans by the consumer sector. In contrast to the results for the consumer sector, the current Barometer shows the high A\$ appears to encourage borrowing by financials (predominantly asset managers and insurance), industrials and resources sectors.

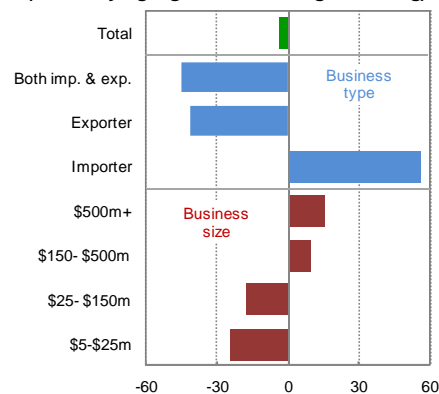
A\$ predictions

The Aussie Dollar Barometer reveals that businesses expect the A\$ to remain north of parity against the US\$ in 2012.

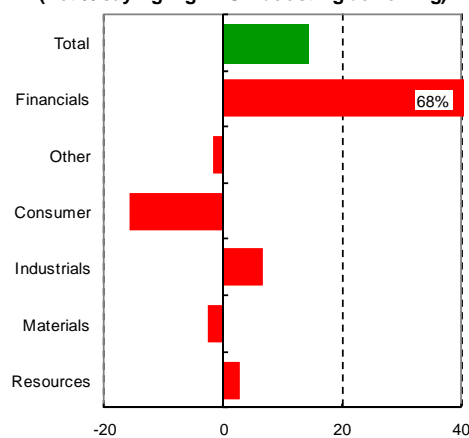
Small businesses with annual turnover of \$5-25 million are the most bullish about the A\$. These businesses expect the A\$ to peak at US\$ 1.12 by the end of September 2012 (blue line in chart 3). Other small and medium businesses have similar views on the strength of the A\$ this year. By contrast, large businesses with annual turnover of at least \$500 million predict the A\$ will start easing in September and end the year at US\$ 1.03 (purple line in chart 3).

The average importer expects the A\$ to peak at US\$ 1.11 by the end of September 2012. By contrast, exporters expect the A\$ to peak at US\$ 1.07 by the end of March 2012.

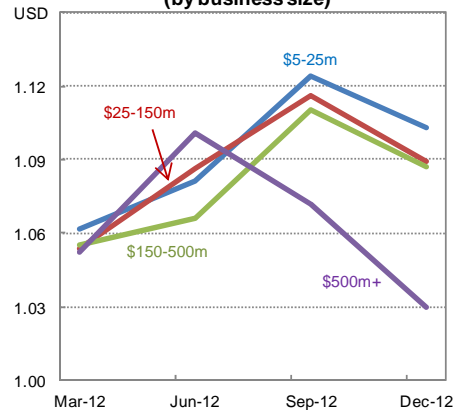
1. IMPACT ON BORROWING APPETITE (net % saying high AUD boosting borrowing)



2. BIG BUSINESS BORROWING APPETITE (net % saying high AUD boosting borrowing)



3. AUD BAROMETER PREDICTIONS (by business size)





Hedging

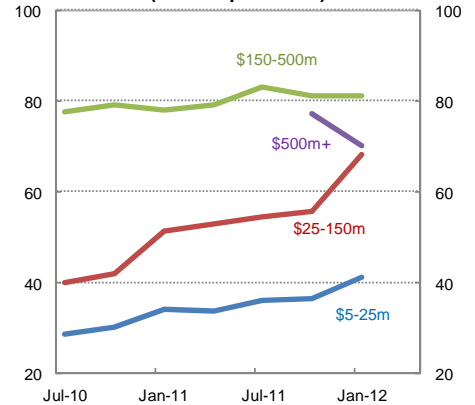
Over the past year, the Barometer has revealed the different ways Australian businesses are responding to the high A\$: adjusting investment spending, changing workforce size and establishing offshore operations. Another way businesses manage currency risk is through hedging. One clear finding of the Barometer is the trend towards increased plans to hedge, particularly among smaller businesses. For example, 68% of businesses with annual turnover of \$25-150 million planned to hedge in February 2012 compared to 40% in July 2010 (red line in chart 4).

We have used the Barometer to track whether plans to hedge US\$ exposures are translated into hedging action. Of the 553 businesses surveyed in the previous Barometer that planned to hedge, the current Barometer reveals only two businesses did not execute their plans to hedge. That is a remarkable 99.6% of businesses that reported they would hedge in fact did so.

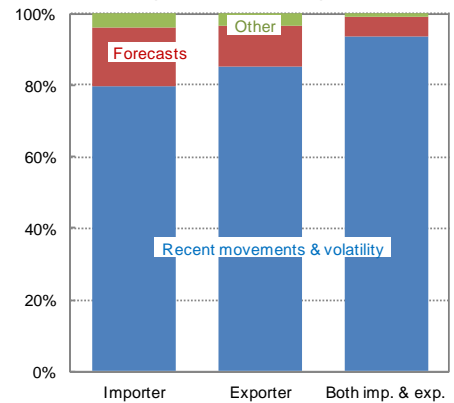
Influences on hedging

The Aussie Dollar Barometer reveals recent movements and volatility in the AUD/USD are the dominant influence on the amount currency exposure to hedge (blue bars in chart 5). Another, much smaller, influence is forecasts of AUD/USD. The upshot is businesses are reactive, rather than proactive, in managing foreign exchange exposure. Compared to April 2010, recent movements in the A\$ and volatility are an even more important influence on the amount currency exposure to hedge.

4. PLANS TO HEDGE BY TURNOVER (% of respondents)



5. INFLUENCES ON SHARE TO HEDGE (% of contributors)

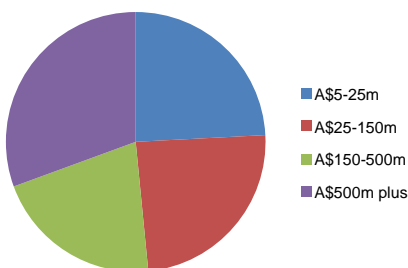


About the Aussie Dollar Barometer

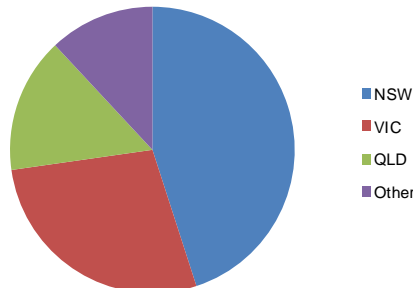
The Commonwealth Bank Aussie Dollar Barometer is prepared every three months based on a survey conducted by East & Partners. East & Partners is a market research and advisory firm.

For the February 2012 edition of the Commonwealth Bank Aussie Dollar Barometer, East & Partners interviewed almost 900 businesses turning over at least A\$ 5 million per year. The interviews took place between 13-17 February. Businesses were asked a range of questions about their exposure to and views about the US\$. The charts provide details on the survey sample.

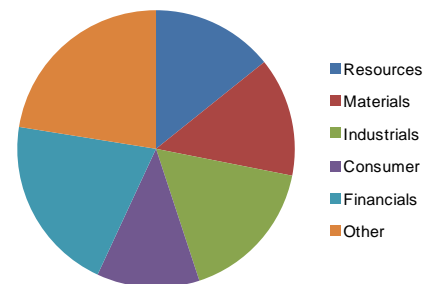
SAMPLE BY TURNOVER (% of contributors)



SAMPLE BY STATE (% of contributors)



SAMPLE BY SECTOR (% of contributors with \$500+ million turnover)





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