Global Markets Research

Foreign Exchange: Aussie Dollar Barometer

25 August 2011

The Commonwealth Bank *Aussie Dollar Barometer*

- The Barometer reveals a planned net reduction in jobs among small and medium businesses involved in exporting and importing because the Australian dollar is high. The high AUD may force some exporters to cut jobs, but there is a partial offset because importers plan to increase jobs.
- Businesses expect the Australian dollar to strengthen. Importers expect the Australian dollar to reach US$ 1.23.
- The ongoing trend of lifting currency hedges continues, particularly among importers.

Future impact on jobs from high Australian dollar

The Barometer reveals the high Australian dollar is forcing some exporters to consider cutting jobs. About 54% of exporters surveyed said the high Australian dollar might force them to cut jobs (second red bar in chart 1). About 42% of exporters said the dollar has had no effect on their workforce plans (second blue bar in chart 1). Today's result is consistent with the previous edition of the Barometer that showed most exporters believed they were uncompetitive when the Australian dollar moved into a range of US$ 0.90-1.00.

Not surprisingly, the contrast between exporters and importers is stark. About 17% of importers said the high Australian dollar had encouraged them to plan to increase jobs (first green bar in chart 1). About 75% of importers say the Australian dollar has had no effect on workforce plans (first blue bar in chart 1). Very few importers said the high dollar would force job cuts.

The Barometer also reveals 30% of businesses that trade with annual turnover of A$ 150-500 million plan to cut jobs because of the high Australian dollar (third red bar in chart 2). By contrast, 19% of businesses that trade with annual turnover of A$ 5-25 million plan to cut jobs (first red bar in chart 2).

Overall, the net effect on workforce plans appears to be negative for small and medium businesses (SMEs) that are involved in foreign trade. However, most Australian businesses neither export nor import. The overall Australian economy is still increasing jobs at a rate of 1.7%pa (or 16,000 per month), though this is below the 2.6% (or 30,000 per month) in 2010.

Chart 1 IMPACT ON WORKFORCE PLANS
(% of respondents)

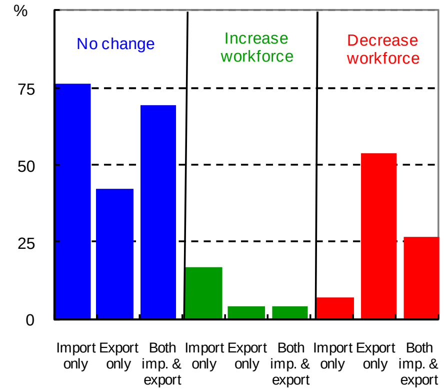
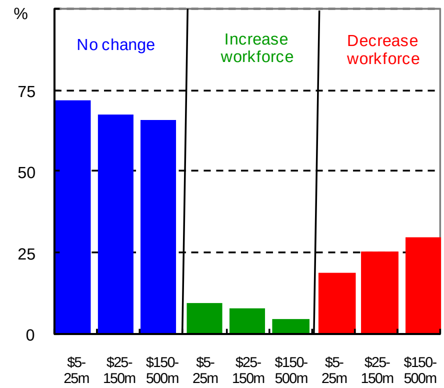


Chart 2 IMPACT ON WORKFORCE PLANS
(% of respondents)

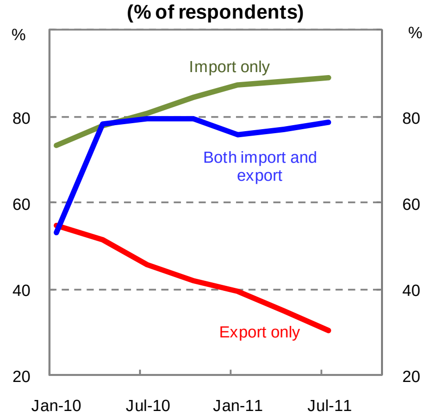


US$ exposures

Increases in currency exposure are an indicator of future business expansion. The August Aussie Dollar Barometer indicates most businesses expect to increase their US$ exposure in the next three months.

- Almost 89% of importers expect to increase their US$ exposure (green line in chart 3). The average expected increase in USD exposure among importers is strong at 48% (green line in chart 4).
- The situation for exporters is very different. Only 30% of exporters expect to increase their US$ exposure (red line in chart 3). This result is consistent with the result for job cuts among exporters in chart 1. The average increase in expected exposures among

Chart 3 EXPECT TO INCREASE EXPOSURE
(% of respondents)



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

exporters has eased to 13% from over 50% at the beginning of 2010 (red line in chart 4).

- Almost 80% of businesses that both import and export expect to increase their currency exposure (blue line in chart 3). The average expected increase in currency exposure is 22% (blue line in chart 4).

Currency trading activity

The Barometer reveals the size and intensity of currency trading activity by Australian businesses.

- Exporters expect to trade currency about 6 times over the next quarter. The average trade size last quarter was A$ 171,200.
- By contrast, importers expect to trade currency more frequently, about 18 times per quarter. The average trade size last quarter was small at A$ 28,800.
- Businesses that both import and export expect to trade currency about 8 times per quarter. The average trade size last quarter was at A$ 144,000.

Managing currency risk

Hedging currency exposure is a way of managing possible future adverse changes in the currency. Compared to past Barometer surveys, the August Barometer shows that more businesses plan to hedge their currency exposure.

- The Barometer reveals 68% of importers plan to hedge their USD exposure over the next three months (green line in chart 5). This predicted increase in hedging is a significant jump on the results one year ago when only 40% of importers planned to hedge their exposure. The Barometer also reveals, of those importers that plan to hedge, 64% of their exposure will be hedged (green line in chart 6). It appears that a growing number of importers are hedging their exposure in an attempt to lock in the benefits of the strong currency before a possible fall in the Australian dollar.
- By comparison, 53% of exporters plan to hedge their US$ exposure, a small increase compared to the April Barometer (red line in chart 5). However, of those exporters that plan to hedge, a large 74% of their exposure will be hedged (red line in chart 6).
- Businesses that both import and export remain the most willing to hedge their US$ exposure. The August Barometer reveals that 69% of these businesses plan to hedge (blue line in chart 5), and 74% of their exposures will be hedged (blue line in chart 6).

Hedging plans differ starkly between businesses of different sizes. For example, businesses with annual turnover of A$ 150-500 million plan to hedge 80% of their US$ exposure (green line in chart 7). By contrast, businesses with annual turnover of A$ 5-25 million plan to hedge only 32% of their US$ exposure (red line in chart 7).

Aussie dollar predictions

The Aussie Dollar Barometer reveals that SMEs expect the Australian dollar to remain well north of parity against the US$ this year and into 2012. SMEs also expect the Australian dollar to reach new post-float highs.

- Importers are the most optimistic about the Australian dollar. The

Chart 4 **AVERAGE INCREASE IN EXPOSURE**

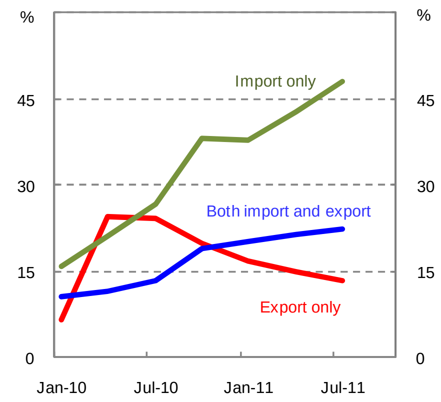


Chart 5 **PLANS TO HEDGE**
(% of respondents)

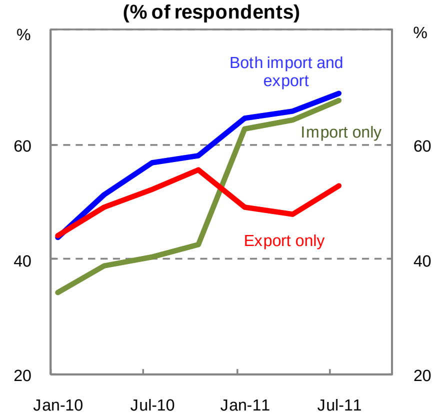


Chart 6 **HEDGE PROPORTIONS**

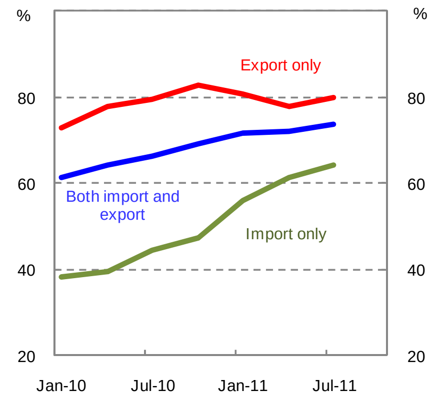
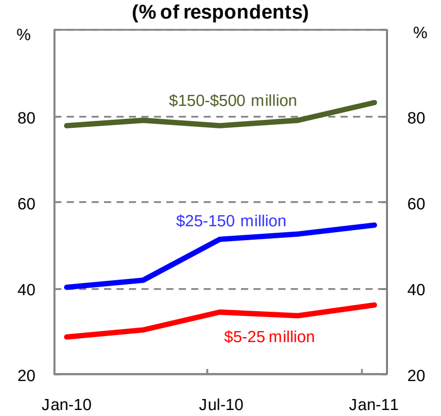


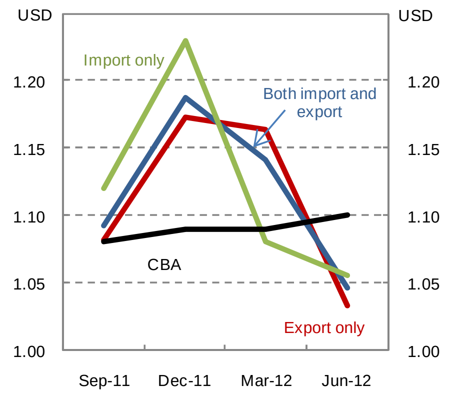
Chart 7 **PLANS TO HEDGE BY SIZE**
(% of respondents)



average importer expects the Australian dollar to peak at US$ 1.23 by the end of 2011 (green line in chart 8). The last time the Australian dollar reached US$ 1.23 US cents was in 1976 – well before the Australian dollar was floated in 1983.

- Exporters are the least optimistic about the Australian dollar. But exporters still expect the Australian dollar to peak at a new post-float record of US$ 1.17 by the end of 2011 (red line in chart 8).
- Businesses that both export and import expect the Australian dollar to peak at US$ 1.19 by the end of 2011 (blue line in chart 8).

Chart 8 **AUD BAROMETER PREDICTIONS**



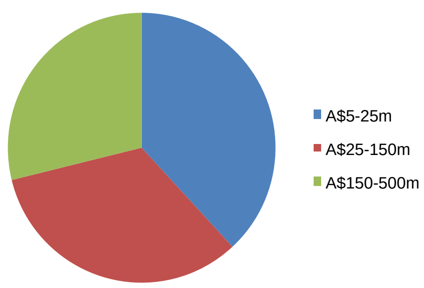
About the Aussie Dollar Barometer

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.

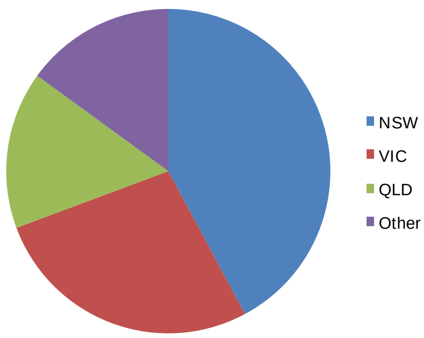
For the August 2011 edition of the Commonwealth Bank Aussie Dollar Barometer, East & Partners interviewed over 600 businesses turning over A$ 5–500 million per year. Businesses were asked a range of questions about their exposure to and views about the USD. The charts at below provide information on the survey sample.

East & Partners surveyed businesses from 1 to 11 August 2011. The average value for AUD/USD during the survey period was US$ 1.05. By comparison, the AUD/USD averaged US$ 1.08 in the April survey.

SAMPLE BY TURNOVER
(% of contributors)



SAMPLE BY STATE
(% of contributors)



Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material (www.abs.gov.au).

Research

Commodities		**Telephone**	**Email Address**
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Mining & Energy Commodities	+613 9675 8618	lachlan.shaw@cba.com.au
Paul Hodsman, CFA	Mining & Energy Commodities	+613 9675 8532	paul.hodsman@cba.com.au
Elise Aaternir	Mining & Energy Commodities	+613 9675 6202	elise.aaternir@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

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
Alex Stanley	Associate Analyst, Fixed Income	+612 9118 1125	alex.stanley@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 and International Economics		**Telephone**	**Email Address**
Richard Grace	Chief Currency Strategist & Head of International Economics	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Peter Dragicevich	FX Economist	+612 9118 1107	peter.dragicevich@cba.com.au
Andy Ji	Asian Currency Strategist	+65 6349 7056	andy.ji@cba.com.au
Chris Tennent-Brown	FX Economist	+612 9117 1378	chris.tennent.brown@cba.com.au
Martin McMahon	Economist Europe	+44 20 7710 3918	martin.mcmahon@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**
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
	Debt & Derivatives	+44 20 7329 6444
	Corporate	+44 20 7710 3905
HK		+852 2844 7538
Sing		+65 6349 7077
NY		+1212 336 7739

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
Agri Desk (Corp)	+612 9117 0157
Agri Desk	+612 9117 0145