

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.

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 1 **IMPACT ON WORKFORCE PLANS**
(% of respondents)

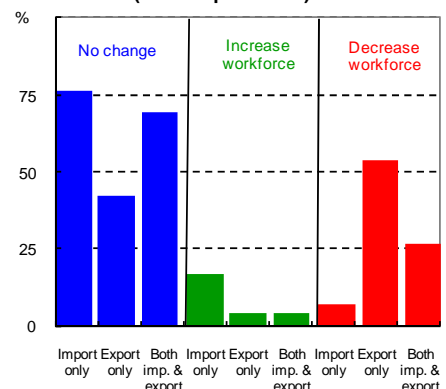


Chart 2 **IMPACT ON WORKFORCE PLANS**
(% of respondents)

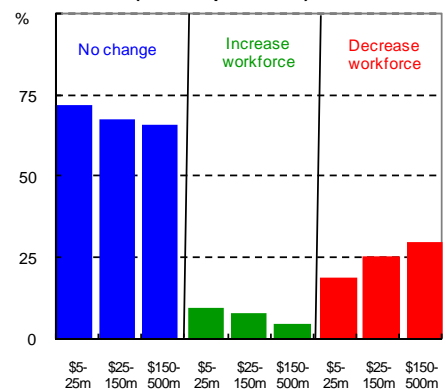
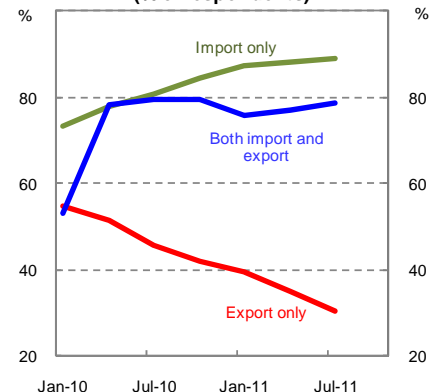


Chart 3 **EXPECT TO INCREASE EXPOSURE**
(% of respondents)





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

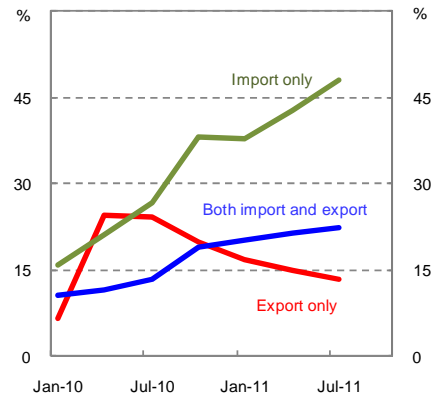


Chart 5 PLANS TO HEDGE (% of respondents)

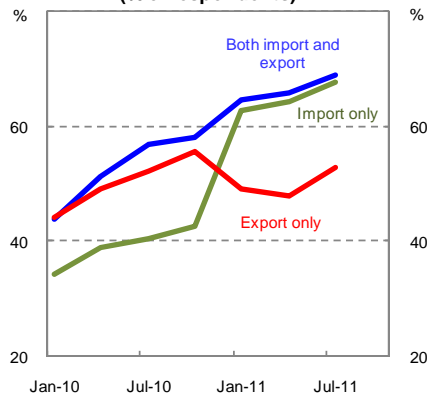


Chart 6 HEDGE PROPORTIONS

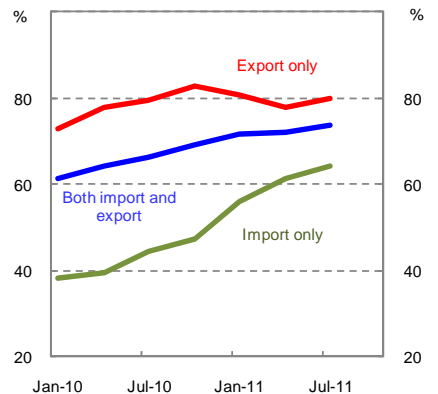
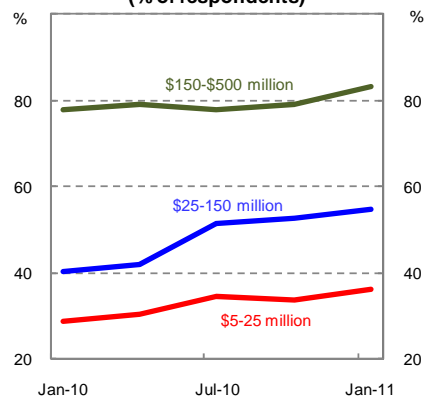


Chart 7 PLANS TO HEDGE BY SIZE (% of respondents)

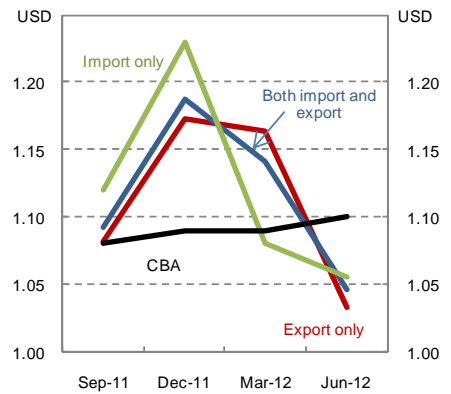




average importer expects the Australian dollar to peak at US\$ 1.23 by the end of 2011 (green line in chart 8). The last time the Australian dollar reached US\$ 1.23 US cents was in 1976 – well before the Australian dollar was floated in 1983.

- 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



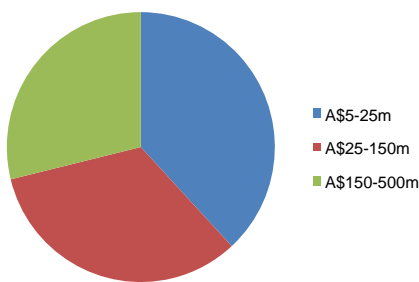
About the Aussie Dollar Barometer

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.

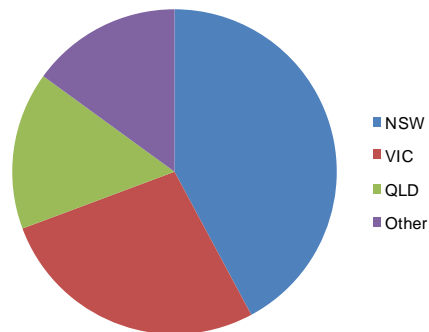
For the August 2011 edition of the Commonwealth Bank Aussie Dollar Barometer, East & Partners interviewed over 600 businesses turning over A\$ 5–500 million per year. Businesses were asked a range of questions about their exposure to and views about the USD. The charts at below provide information on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





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