

The Commonwealth Bank *Aussie Dollar Barometer*

- The Barometer reveals most exporters believe they are uncompetitive with the \$A above \$US 0.91.
- Behind the Reserve Bank of Australia's low inflation forecasts, and its decision to lower the official cash rate, is an assumption of higher productivity. The Barometer reveals the high \$A is a catalyst to raise productivity for 89% of exporters.

High \$A 'bites'...

The Aussie Dollar Barometer reveals the level of the \$A that businesses believe causes them to become uncompetitive. The point of pain for exporters is when the \$A pushes a \$US 0.91-1.00 range (blue bars on chart 1). The \$A has been above \$US 0.91 since September 2010. The bottom line: exporters have been hurting for almost two years.

Not surprisingly, the contrast between exporters and importers is stark. No importers surveyed in the Barometer reported they had become uncompetitive with the \$A trading at or above \$US 0.91. But if the \$A were to trade near its post-float average level of \$US 0.74, 23% of importers say they will become uncompetitive (first two red bars on chart 1).

...encouraging businesses to lift productivity

[We assume] "that productivity growth picks up as firms, particularly in the non-mining sectors, respond to heightened competitive pressures in an environment of relatively subdued demand and the high exchange rate."

Reserve Bank of Australia, *Statement on Monetary Policy*, p. 69.

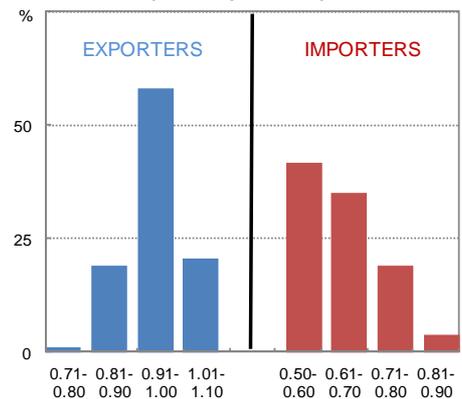
The Reserve Bank of Australia's low inflation forecasts, and its decision to lower the official cash rate, is based in part on the assumption that Australian businesses will lift productivity. The Barometer reveals the high \$A is a catalyst that will encourage 83% of businesses to lift productivity. Not surprisingly, even more exporters, 89%, say they are working to increase productivity because the high \$A has significantly reduced their competitiveness on global markets.

Managing currency risk

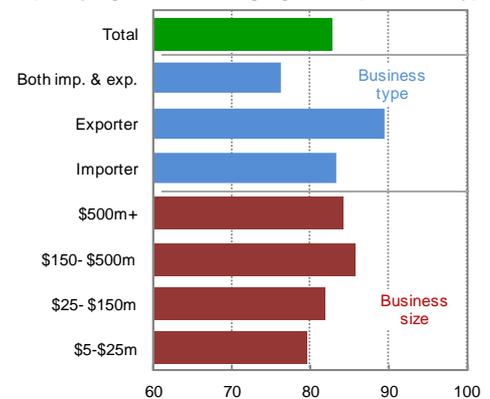
Hedging currency exposure is one way to manage possible adverse changes in the \$US. The Barometer shows that over time more businesses plan to hedge their currency risk.

- The Barometer reveals 70% of importers plan to hedge their \$US exposure over the next three months (blue line in chart 3). By comparison, only 39% of importers planned to hedge their \$US exposure two years ago.
- Over half (56%) of exporters plan to hedge their \$US exposure (red line in chart 3).

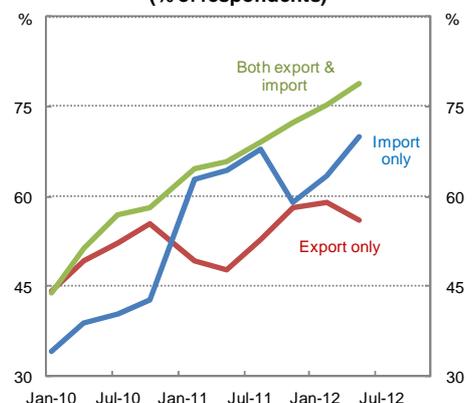
1. **AT WHAT LEVEL DOES AUD BITE?**
(% of respondents)



2. **AUD & PRODUCTIVITY**
(% saying AUD encouraging a lift in productivity)



3. **PLANS TO HEDGE**
(% of respondents)





■ Businesses that both import and export remain the most willing to hedge their \$US exposure. The Barometer reveals that 79% of these businesses plan to hedge their \$US exposure (green line in chart 3).

Our cross-Tasman analysis shows that 75% of New Zealand businesses plan to hedge compared to 69% of Australian businesses (chart 4).

How businesses are hedging currency risk

There are many financial instruments businesses use to hedge their currency risk. Two popular instruments are forwards and option structures. Forwards are simpler hedging products with little flexibility. By contrast, option structures are more complex, have greater flexibility and can be priced “zero cost”. The Barometer reveals forwards are used by all business types and business sizes. But size matters. Small businesses with turnover of \$A5-25 million are more likely to use forwards rather than options. Businesses with turnover of \$A150-500 million are more frequent users of options (red bars in chart 5).

\$A predictions

The Barometer reveals that businesses expect the \$A to slowly depreciate over the next year. Businesses with annual turnover of \$A500 million or more are the most bullish about the \$A. These businesses expect the \$A to be at \$US 1.04 by the end of September 2012 (purple line in chart 6). Other businesses expect the \$A to soften under parity in 2012.

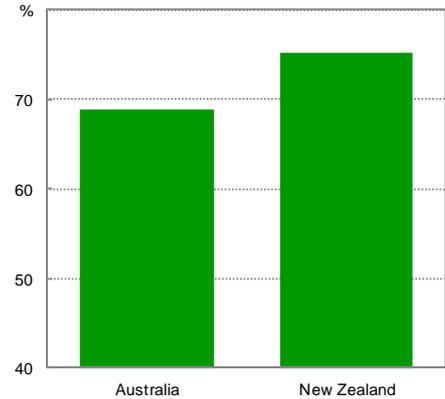
Importers are more optimistic about the \$A than exporters. The average importer expects the \$A to be at \$US 1.02 by the end of June 2012. By contrast, exporters expect the \$A to be at \$US 0.99 by the end of June 2012.

About the Aussie Dollar Barometer

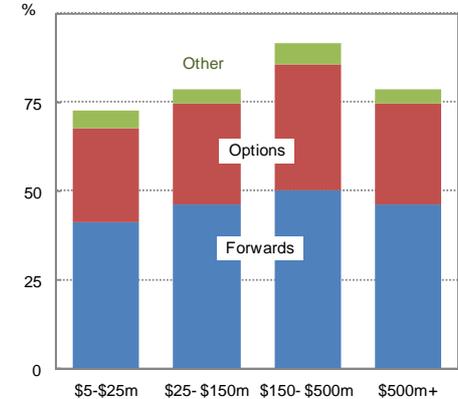
The Commonwealth Bank Aussie Dollar Barometer is prepared every three months based on a survey conducted by East & Partners. East & Partners is a market research and advisory firm.

For the May 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 15-18 May. The average value of the \$A during the survey period was \$US0.99. Businesses were asked a range of questions about their exposure to and views about the \$US. The charts provide details on the survey sample.

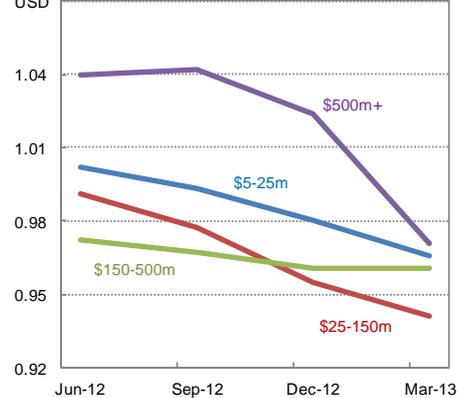
4. **HEDGING PLANS**
(% of respondents)



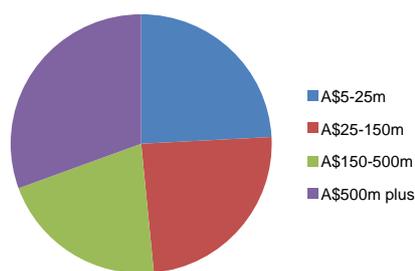
5. **INSTRUMENTS USED TO HEDGE**
(% of respondents)



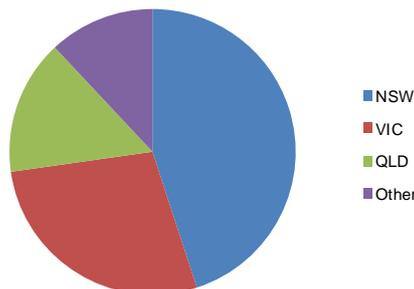
6. **AUD BAROMETER PREDICTIONS**
(by business size)



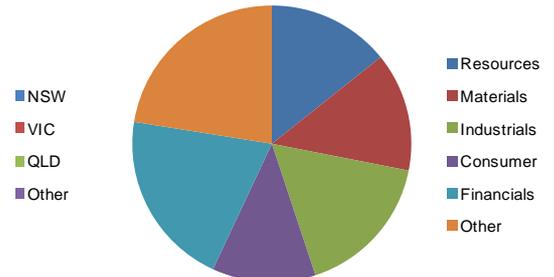
SAMPLE BY TURNOVER
(% of contributors)



SAMPLE BY STATE
(% of contributors)



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





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