

The Commonwealth Bank *Aussie Dollar Barometer*

- The Barometer reveals that exporters and importers are working on the assumption of ongoing increases in AUD/USD.
- Most businesses expect to increase their AUD/USD exposure but only half of businesses plan to hedge their exposures.
- If our forecast a peak of around 1.02 in the AUD/USD is right, many importers may be exposed to higher costs in 2011.
- Businesses providing 'consumer services' and 'producer services' hedge much less AUD/USD exposures than 'primary producers'.

Aussie dollar predictions

The Aussie Dollar Barometer shows importers and exporters expect the AUD/USD to lift and remain over 1 US dollar over the next year (chart 1).

- Among businesses that only import, the average expectation for AUD/USD in March 2011 is 1.08 US dollars (green line on chart 1).
- Among businesses that only export, the average expectation for AUD/USD in March 2011 is 1.07 US dollars (red line on chart 1).
- Among businesses that both import and export, the average expectation for AUD/USD in March 2011 is 1.09 US dollars (blue line on chart 1).

The average expectation among the survey respondents for AUD/USD at the end of March 2011 is 1.08 US dollars. By contrast, CBA forecasts for the AUD/USD are not as optimistic. We expect AUD/USD to increase to around 1.02 US dollars in March 2011.

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 2). Increases in currency exposure is an indicator of future business expansion.

- Around 80% of importers and businesses that both export and import expect to increase their AUD/USD exposure. The average increase in exposure amongst importers is 38% (red bar in chart 3). The average increase in exposure amongst businesses that both export and import is 19%.
- By contrast, less than half of exporters expect to increase their AUD/USD exposure. The average increase in exposure amongst exporters is 20%.

Chart 1 **AUD BAROMETER PREDICTIONS**

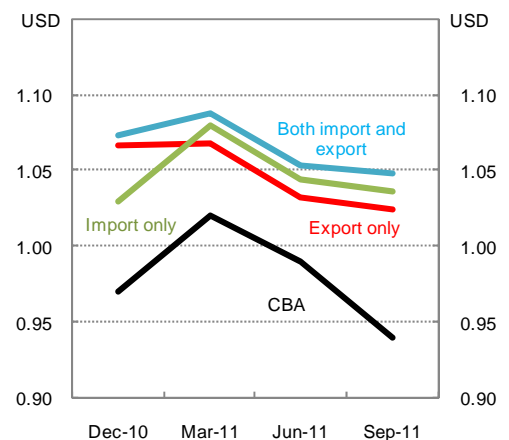
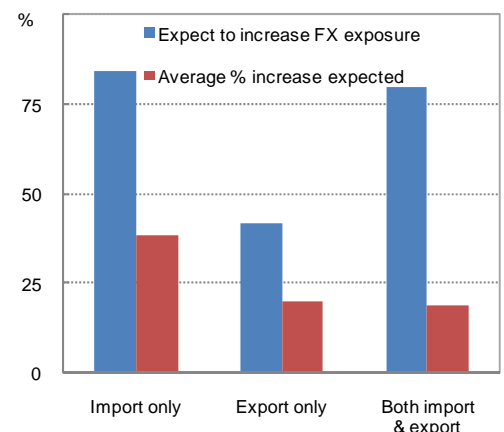


Chart 2 **EXPOSURE TO AUD/USD**





Managing Aussie dollar exposures

The expected increase in AUD/USD exposures revealed in the Barometer coupled with typical volatility in foreign exchange markets makes managing foreign exchange exposure important. The Barometer reveals just over half of businesses plan to hedge their exposure to AUD/USD in the next three months (blue bars in chart 3).

- Only 43% of importers plan to hedge their AUD/USD exposure. Of those importers that plan to hedge, only 47% of their exposure will be hedged.
- 55% of exporters plan to hedge their AUD/USD exposure. Of those exporters that plan to hedge, 83% of their exposure will be hedged.
- Businesses that both import and export appear to be more willing to hedge their AUD/USD exposure. The Barometer reveals that 58% of businesses plan to hedge, and 69% of their exposures will be hedged.

Businesses have responded to the spike in AUD/USD volatility experienced in 2010 by steadily increasing currency hedging. More than half (52%) of businesses are now planning to hedge their AUD/USD exposures compared to 46% of businesses in the April Barometer (chart 4). Also, a greater proportion of exposures will be hedged (65% in October compared to 60% in April).

Different strokes for different folks

The Barometer reveals significant variation in plans to hedge currency exposure between industries. For example, 85% of primary producers (farmers and miners) plan to use currency hedging to manage their currency risk in the next three months (chart 5). At the other end of the spectrum, only 38% of businesses involved in 'producer services' (communications, finance and property) plan to use currency hedging in the next three months.

The disparity in hedging plans may reflect different dependence on international trade. For example, the Barometer reveals that exporters derive over 80% of their sales from foreigners (chart 6). By contrast, importers derive 38% of their costs from overseas. The bottom line is exporters have a greater exposure to foreign currency compared to importers and so have a higher need to hedge currency risk. In Australia, primary producers tend to be export-oriented while other industries are focused domestically.

Key "take-away" from the Aussie Dollar Barometer

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

Chart 3

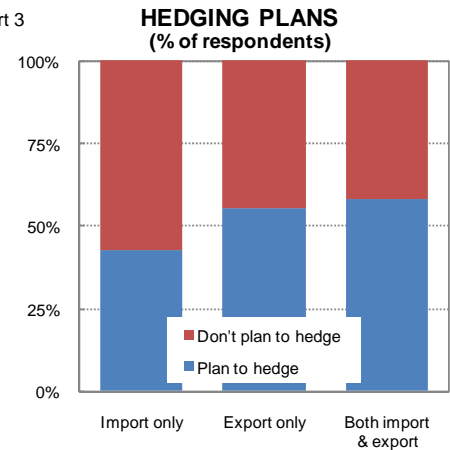


Chart 4

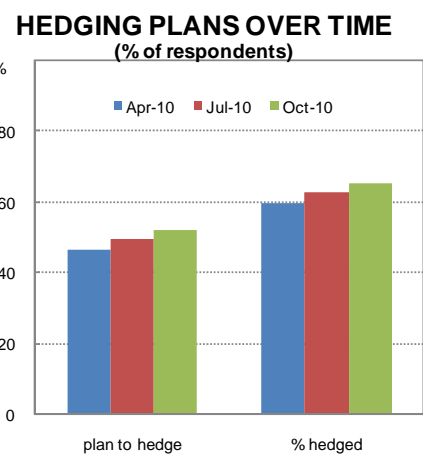


Chart 5

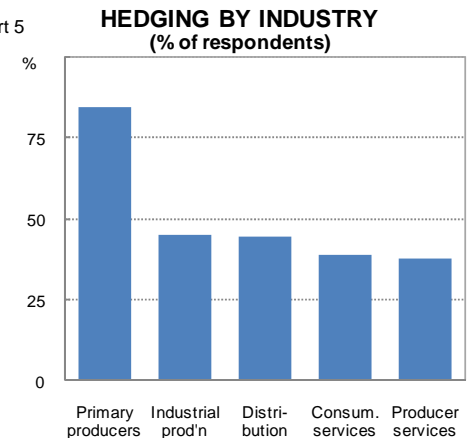
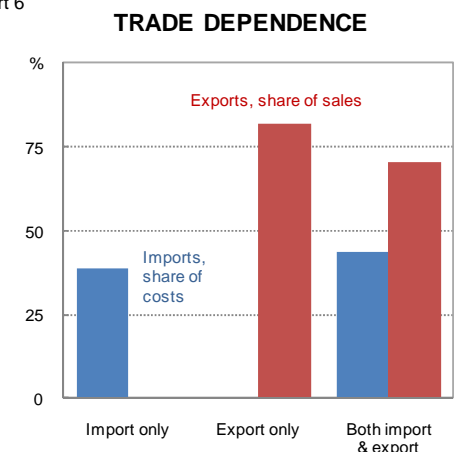


Chart 6



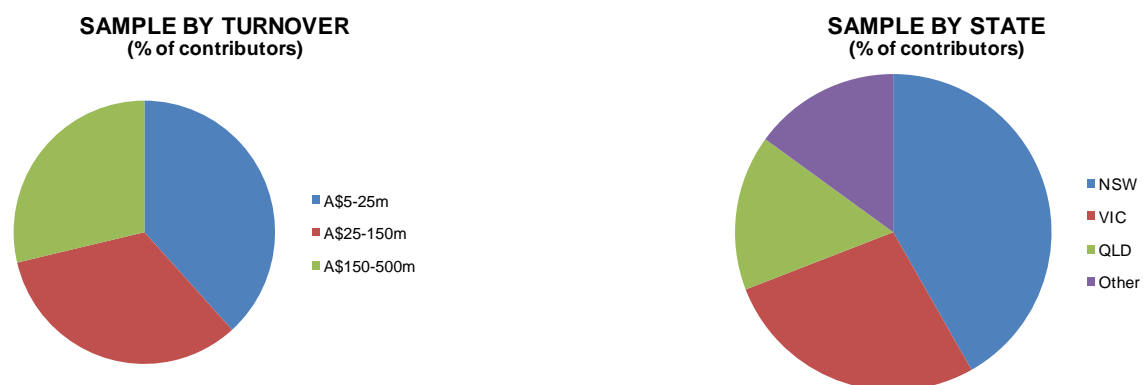


About the Commonwealth Bank Aussie Dollar Barometer

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 October 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 11th to 15th October 2010. The average value for AUD/USD during the survey period was 99 US cents.



Sample by industry (% of contributors)

Primary production	12.9	Consumer services	21.4
Agriculture, Forestry, Fishing	4.2	Accommodation, cafes & restaurants	4.6
Mining	4.5	Education	4.2
Food, Fibre & Beverage	4.2	Health & Community Services	4.4
Industrial production	22.1	Cultural & Recreational Services	4.1
Manufacturing	9.6	Personal & Other Services	4.1
Electricity, Gas & Water	4.1	Producer services	21.7
Construction	8.4	Communications Services	4.1
Distribution	21.8	Finance & Insurance	10.8
Wholesale	9.8	Property & Business Services	6.8
Retail	7.6		
Transport & Storage	4.4		



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