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# FX MARKET UPDATE

*GIAV Annual Lunch & AGM*

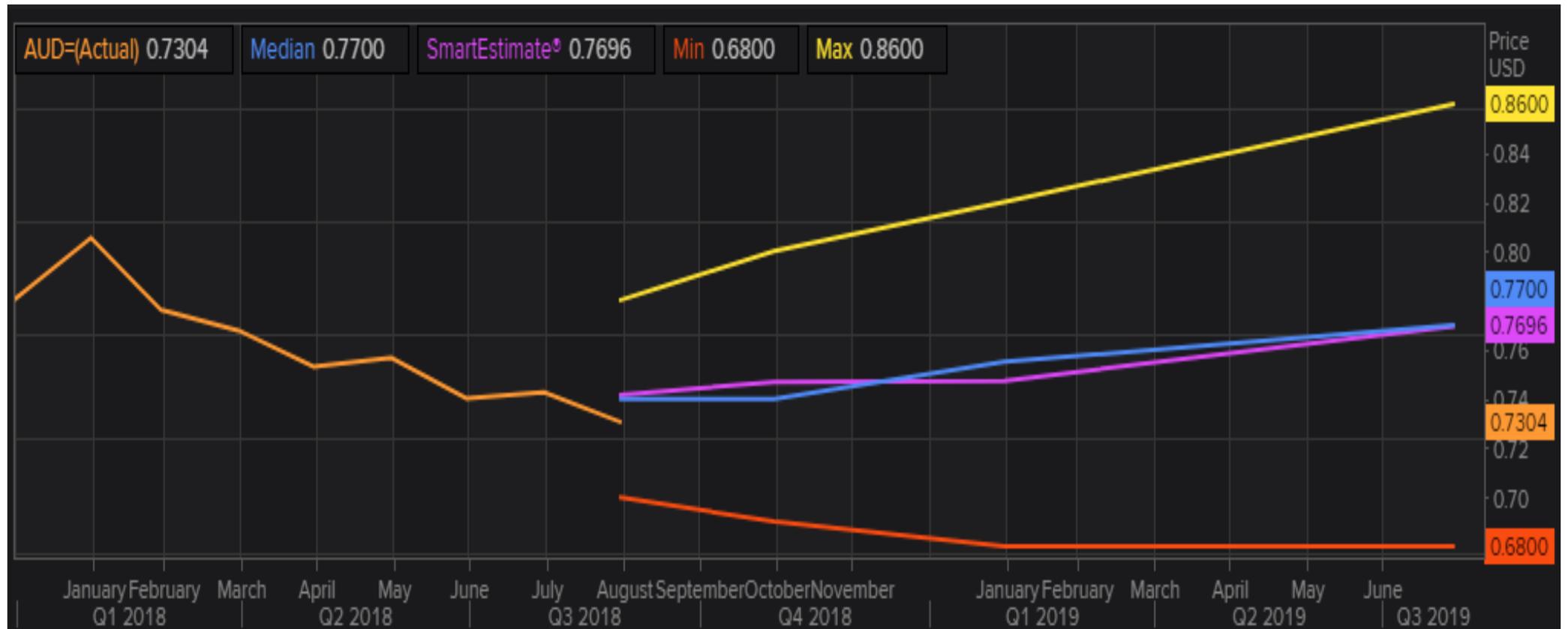
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# REUTERS AUDUSD POLL



# AUD KEY DRIVERS - What typically moves the AUD?

**COMMODITIES** (Key exports/prices drive AUD demand)

Iron Ore  
Coal  
Copper  
Oil

➔ *What to watch:*  
China appetite (growth)  
USD/commodities correlation

**VOLATILITY** (AUD is not a 'safehaven' currency)

Equities Markets  
Currency Volatility  
Emerging Markets

➔ *What to watch:*  
Volatility (VIX)  
Global and EM FX Volatility



**DOMESTIC ECONOMY** (What will the RBA think?)

RBA Rate Intentions  
Growth

➔ *What to watch:*  
Inflation    Employment  
Business and Consumer Confidence  
Retail Sales

**The USD** (Still the biggest show in town)

FOMC Rate Intentions  
US Yield  
Risk Sentiment  
Trump

➔ *What to watch:*  
Inflation    Employment  
FED Rates    Volatility (VIX)  
Tax/Infrastructure Reform

**AU/US Rate Spreads** (Aust Yield , therefore AUD, relative attractiveness)

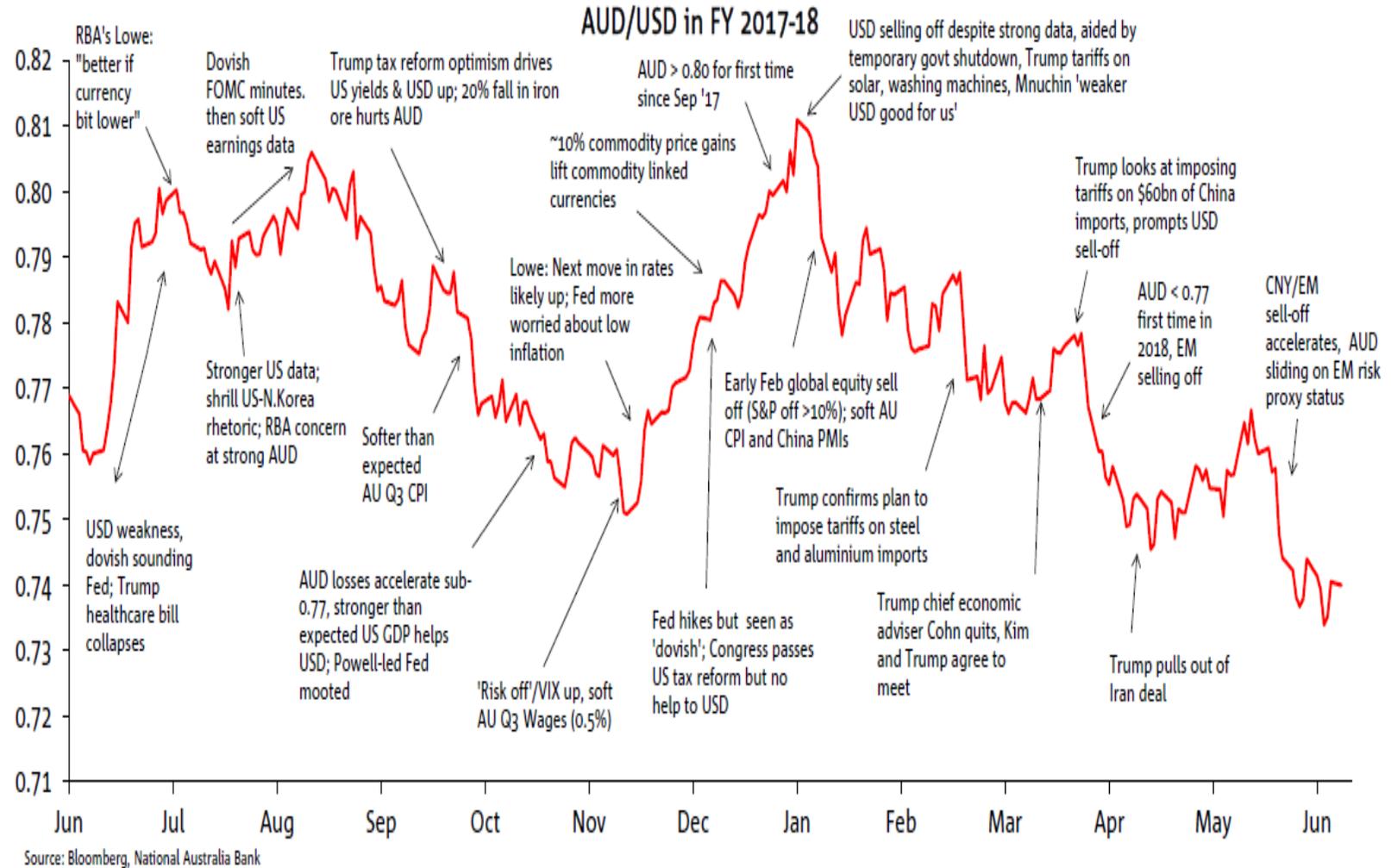
Central Bank Forecasts  
Interest Rate Differentials

➔ *What to watch:*  
RBA and FED  
Treasury Yield Spreads  
(short and long term)

# AUD KEY DRIVERS - for FY17/18

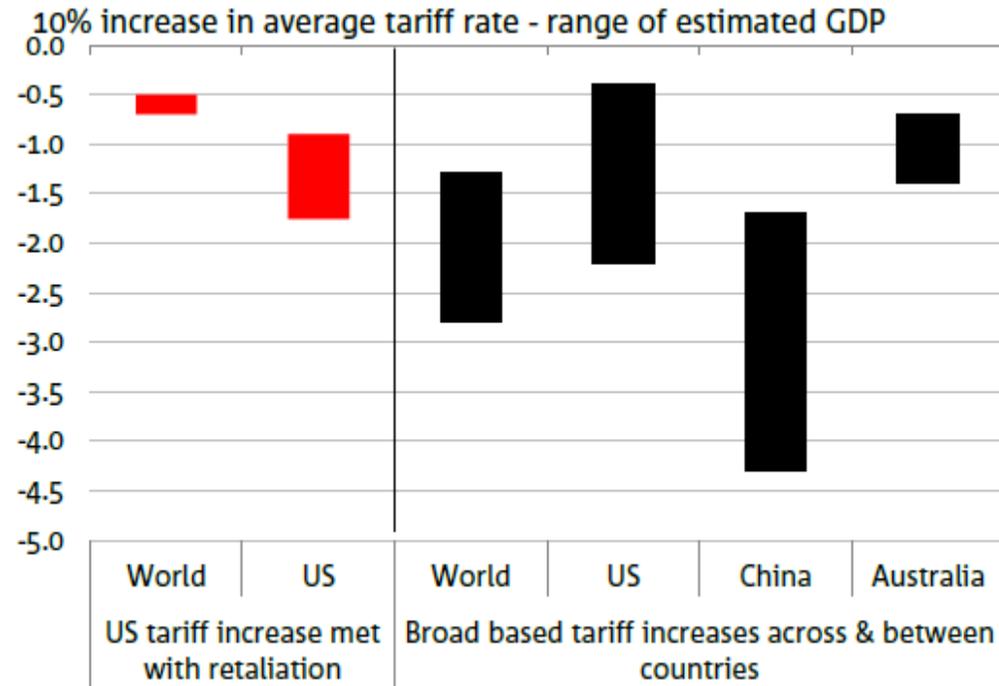
## Key Drivers for FY17/18:

- Trade War and Geopolitical tension a driver of risk aversion
- Continued strength in the US economy
- Higher US rates has put pressure on Emerging Markets
- Base Metals and Iron Ore lower



# TARIFF 'WARS' – How badly could it hurt?

## Impact of large scale tariff increases



- The left hand chart shows the impact if an increase in US tariffs of 10% is matched by affected trading partners
- The right hand chart summarises the impact on all countries raising tariffs against all other countries (e.g. Europe raises tariffs not just on US imports but also on imports from Asia)

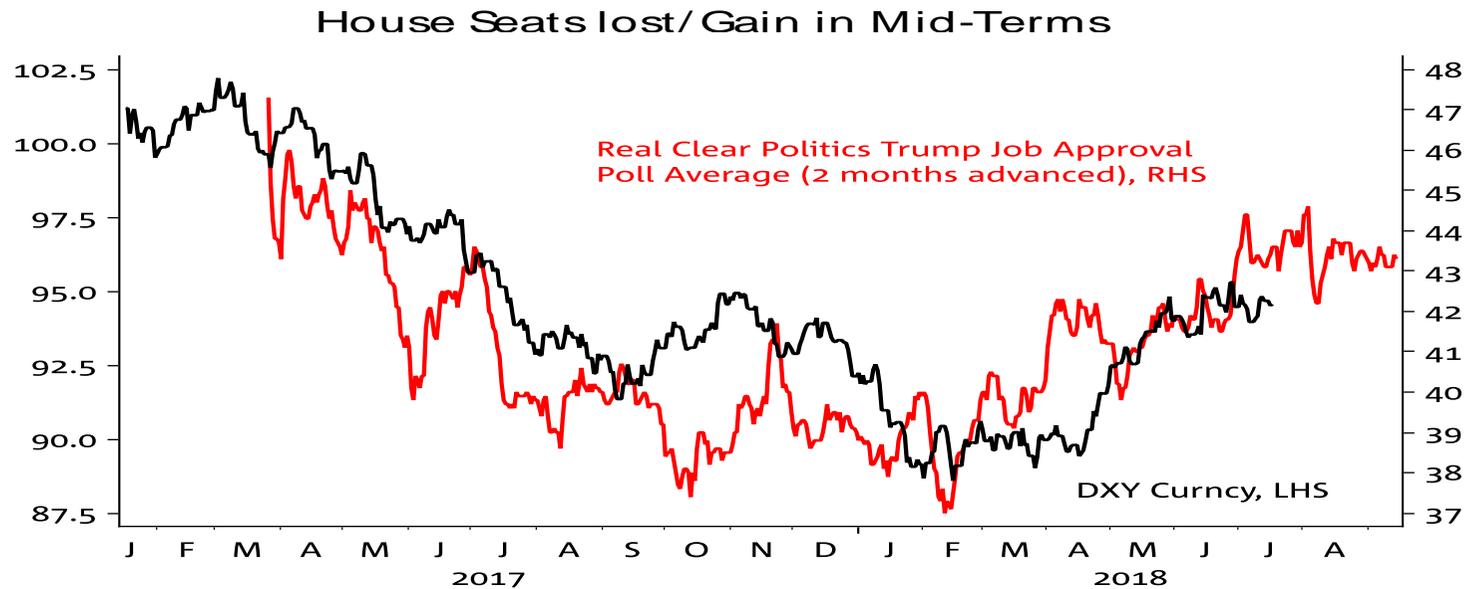
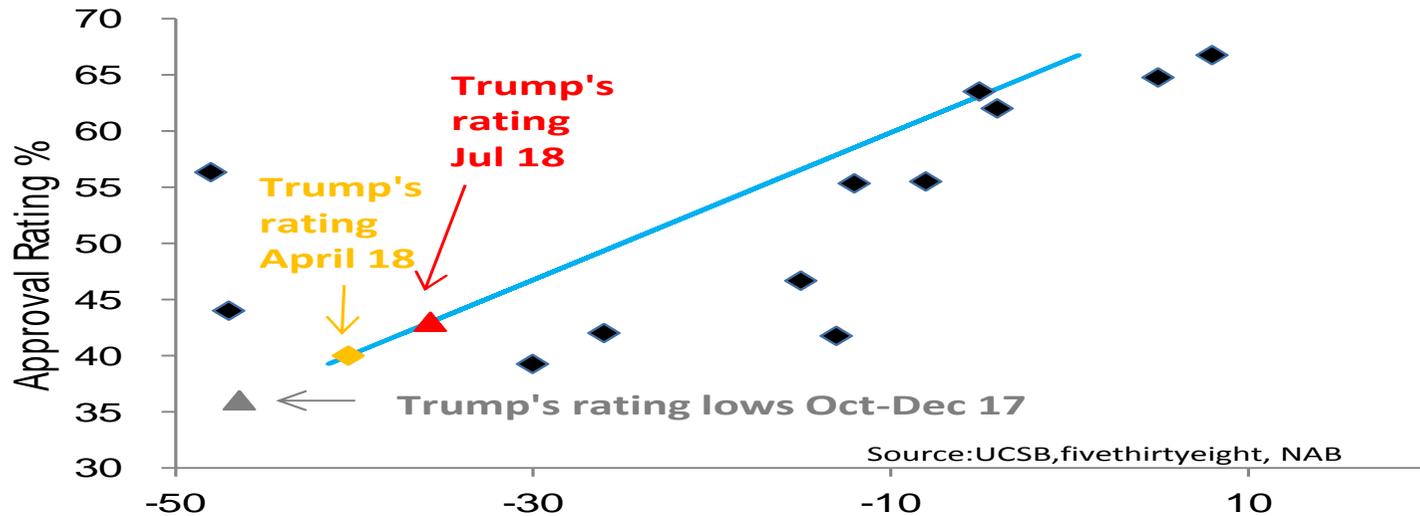
## Announced & threatened US trade measures

United States Measure	Status	Overseas Retaliation?
20-50% on washing machines/solar panels	In-place	
Steel (25%) & aluminium (10%)	In-place	Yes
25% on \$50b China imports	\$34b in-place (6 July) \$16b starts 23 August	Yes (equivalent value)
25% on \$200b China imports	Public consultation process has begun – open until 6 September	China to put tariffs on \$60b of US imports if US goes ahead
\$200b China (rate unclear)	Threatened if China retaliates to \$200b tariff	?
20-25% on autos - Europe or all (possibly includes parts)	US Section 232 investigation started 23 May – ongoing. However, any tariffs on EU autos on-hold while EU/US work towards agreement for zero tariffs on non-auto industrial goods	Threatened

# TARIFF WARS – not going away while Trump's popularity rising

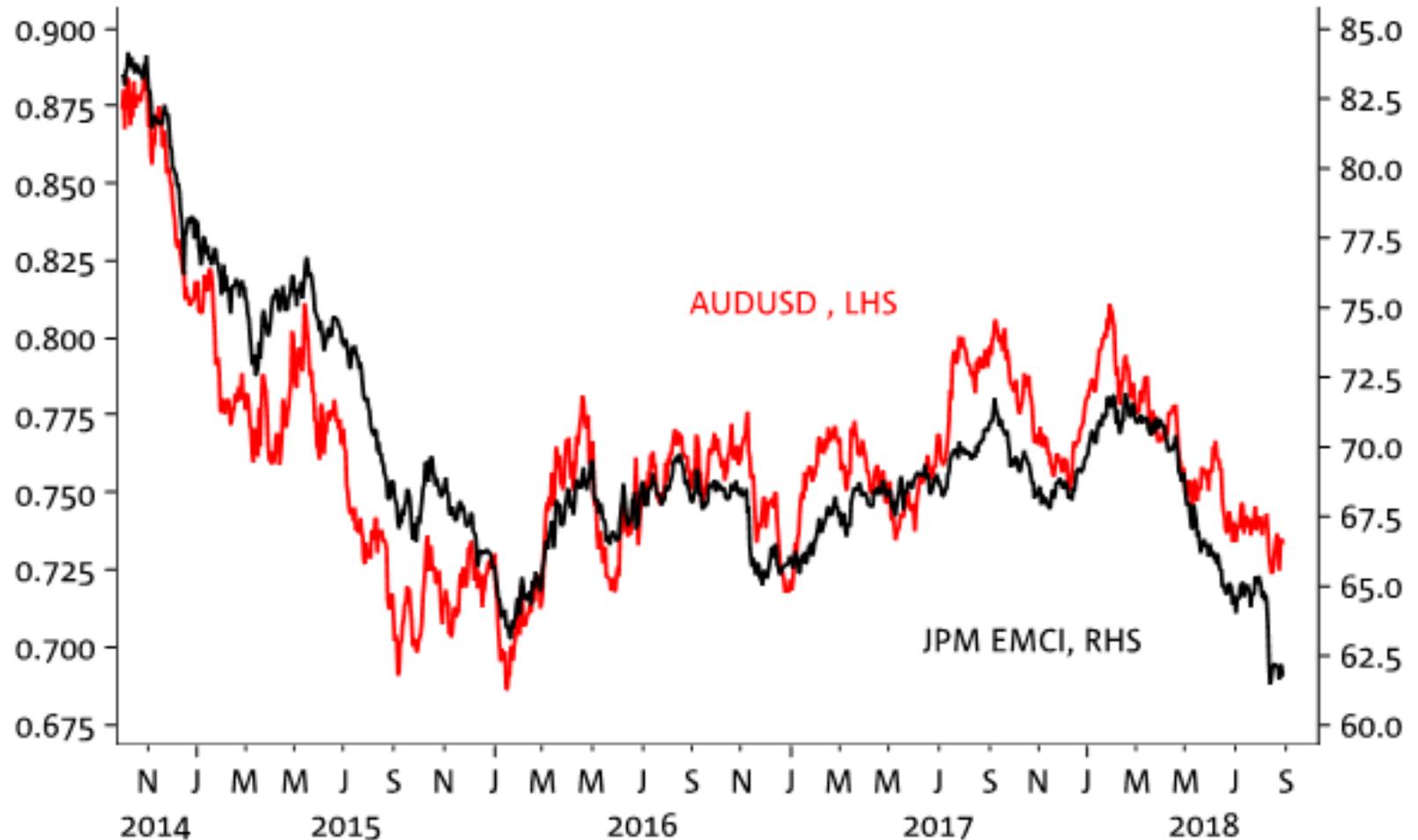
- Trump's popularity has risen back to the level seen when he was elected
- Economy has been strong, N. Korea engagement and approach to China on trade has been popular with his constituency
- Trump has no reason to back off trade tariffs unless popularity wanes and/or stock market takes fright

(NB: Republicans can afford to lose no more than 30 seats in November mid-terms)



# AUD AND EM EXPOSURE – EM weakness has become a key AUD driver

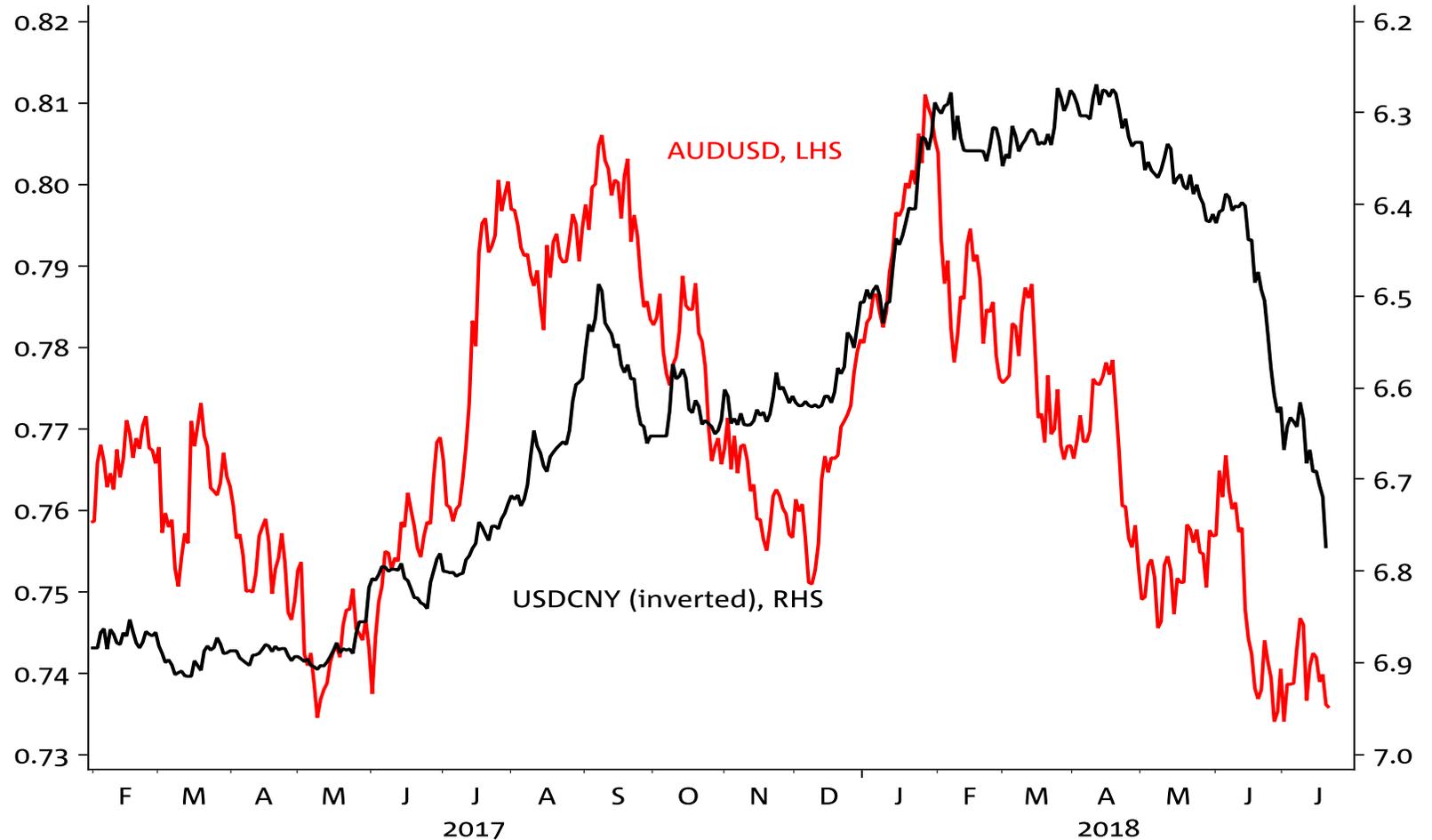
- Emerging Markets have been the big story for the AUD during 2018
- AUD fall from >0.80 coincided with start of global EM sell-off (EMCI) and later ADXY
- Higher US rates and concerns over Chinese growth are likely to place further pressure on EM
- Judged purely versus EM pressures, AUD should be closer to 0.70



Source: National Australia Bank, Macrobond

# AUD AND CHINA

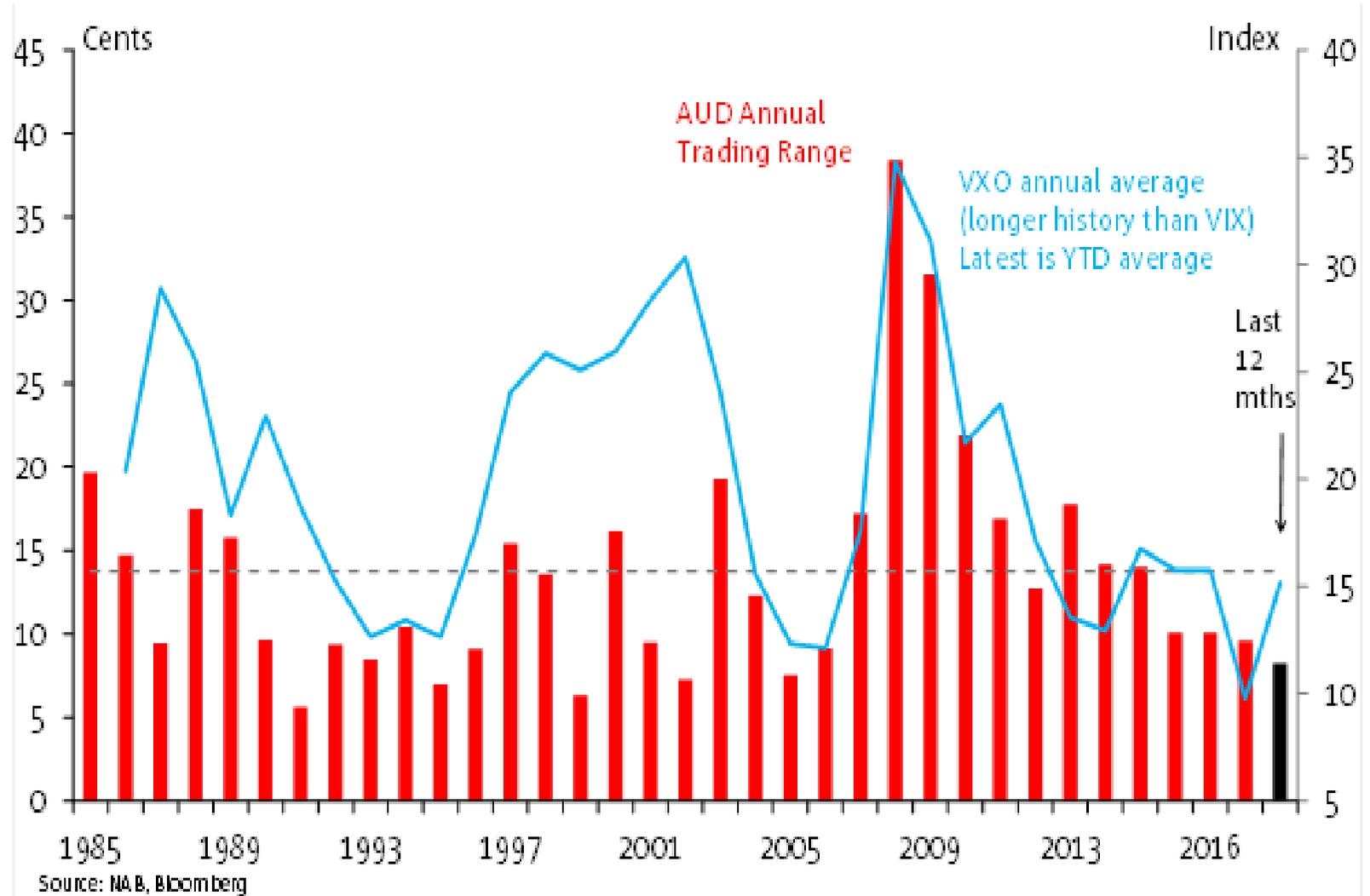
- AUD is still the market's preferred China/Asia economic & financial risk proxy
- This is due to China with a huge amount of Agri product being sold to this market
- Concerns over Chinese growth are likely to place further pressure on EM
- No sign as yet of a firm 'line in the sand' for PBoC tolerance of stronger USD/CNY



Source: National Australia Bank, Macrobond

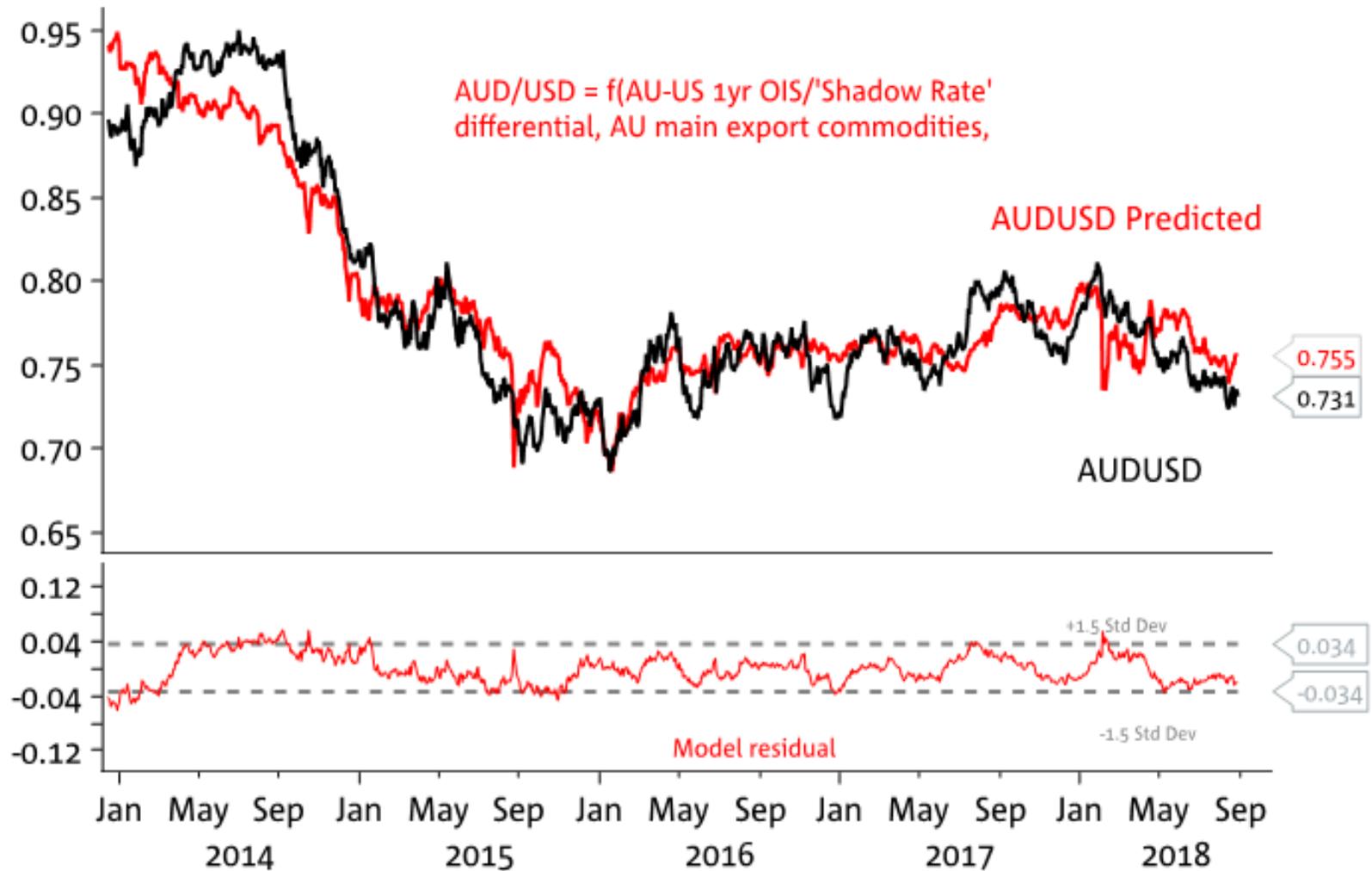
# AUD/USD – Higher volatility historically equates to wider AUD ranges

- Since the AUD float (1983) AUD/USD has averaged an annual trading range of 14c
- The decline in equity vol in recent years has coincided with a narrower AUD trading range
- If we enter a period of higher volatility, AUD is likely to trade in a wider range



# NAB'S FAIR VALUE MODEL FOR THE \$A/US\$ 0.755

- NAB's Fair Value Model calculates a value for the AUD based on:
  - Interest Rates
  - Commodities
  - Risk appetite
- NAB's Fair Value Model suggest the AUD should be trading closer to 0.7550
- However this model does not take into account full extent of Emerging Markets Risk which has been a huge driver in the value of the AUD over the last year



Source: National Australia Bank, Macrobond

# AUD - Technically

- AUDUSD has been trading in a downward channel since the highs printed in January.
- The bearish outlook will remain unless we see a break up through downtrend resistance and ultimately 0.7473 (June/July highs and the 100 day moving average which has defined the recent move well).
- Support comes in at 0.7150/0.7200. A break through these levels puts the Feb 2016 lows of 0.6825 at risk.

## AUDUSD - 2018



## AUDUSD – 2016 to today



# NAB FX FORECASTS

G10		20-Aug-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
<b>Majors</b>												
Australian Dollar	AUD/USD	0.7307	0.73	0.75	0.75	0.75	0.75	0.75	0.75	0.74	0.74	0.73
New Zealand Dollar	NZD/USD	0.6621	0.67	0.68	0.68	0.69	0.69	0.69	0.70	0.69	0.68	0.67
Japanese yen	USD/JPY	110.49	109	110	108	106	104	102	100	99	98	98
Euro	EUR/USD	1.1433	1.15	1.18	1.22	1.22	1.25	1.30	1.32	1.34	1.36	1.38
British Pound	GBP/USD	1.2743	1.25	1.26	1.28	1.30	1.34	1.40	1.43	1.46	1.49	1.52
Swiss Franc	USD/CHF	0.9944	1.02	1.00	0.98	0.98	0.97	0.94	0.93	0.91	0.90	0.89
Canadian Dollar	USD/CAD	1.3061	1.32	1.28	1.26	1.25	1.25	1.24	1.25	1.26	1.27	1.29
Chinese New Yuan	USD/CNY	6.8586	6.80	6.75	6.70	6.65	6.50	6.45	6.40	6.40	6.40	6.40
<b>Australian Cross Rates</b>												
	AUD/NZD	1.1036	1.09	1.10	1.10	1.09	1.09	1.09	1.07	1.07	1.09	1.09
	AUD/JPY	80.74	80	83	81	80	78	77	75	73	73	72
	AUD/EUR	0.6391	0.63	0.64	0.61	0.62	0.60	0.58	0.57	0.55	0.54	0.53
	AUD/GBP	0.5734	0.58	0.60	0.59	0.58	0.56	0.54	0.52	0.51	0.50	0.48
	AUD/CHF	0.7266	0.73	0.74	0.74	0.73	0.71	0.71	0.68	0.67	0.67	0.65
	AUD/CAD	0.9544	0.96	0.96	0.95	0.94	0.94	0.93	0.94	0.93	0.94	0.94
	AUD/SGD	1.0018	0.99	1.01	0.98	0.98	0.98	0.98	0.98	0.97	0.98	0.96
	AUD/KRW	819.17	818	825	810	799	814	818	818	814	814	818
	AUD/CNY	5.0116	4.96	5.06	5.03	5.01	4.90	4.84	4.80	4.74	4.74	4.67
Trade-Weighted Index	AUD TWI	62.80	62.3	63.6	62.7	62.4	61.7	60.7	60.2	59.3	59.1	58.3
	NZD/JPY	73.16	73	75	73	73	72	70	70	68	67	66
	NZD/EUR	0.5791	0.58	0.58	0.56	0.57	0.55	0.53	0.53	0.51	0.50	0.49
	NZD/GBP	0.5196	0.54	0.54	0.53	0.53	0.51	0.49	0.49	0.47	0.46	0.44
	NZD/CHF	0.6584	0.67	0.67	0.67	0.67	0.65	0.65	0.64	0.63	0.61	0.60
	NZD/CAD	0.8648	0.88	0.87	0.86	0.86	0.86	0.86	0.88	0.87	0.86	0.86
	EUR/GBP	0.8972	0.92	0.94	0.95	0.94	0.93	0.93	0.92	0.92	0.91	0.91
	EUR/CHF	1.1369	1.17	1.18	1.20	1.20	1.21	1.22	1.22	1.22	1.22	1.23
	USD (DXY)	96.17	96.0	94.2	91.7	91.2	89.2	86.3	85.0	83.9	82.9	82.0
	BBDXY	1188.58	1194	1177	1148	1140	1123	1099	1083	1075	1067	1063

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