

AUD/USD Exchange Rate Outlook

Richard Grace
Chief Currency and Rates Strategist & Head of International Economics
+(612) 9117 0080
richard.grace@cba.com.au

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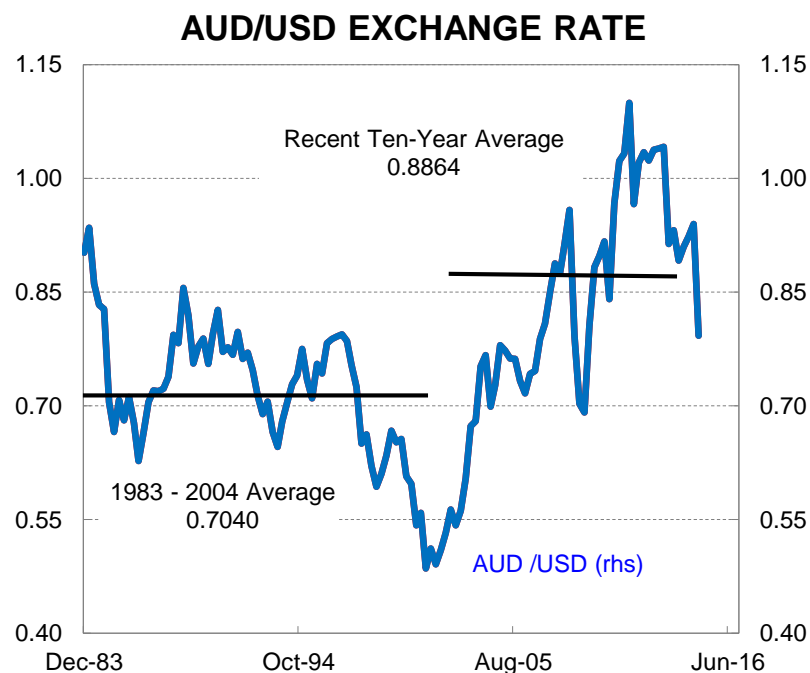


Outlook for AUD/USD Exchange Rate

AUD/USD is likely to further depreciate to 0.7300 by end-June and 0.7000 by end-2015 for 5 reasons –

(1) Lower commodity prices - supply-driven declines in Australia's commodity export prices, are applying downward pressure to Australia's terms of trade.

(2) Narrower Australia-US interest rate differentials – low global and Australian inflation, a weak domestic economy and a terms of trade driven contraction in Australia's real gross domestic income is generating downward pressure on Australian swap rates. At the same time, an improving US economy and guidance from the FOMC is generating mild upward pressure on US short-term swap rates.



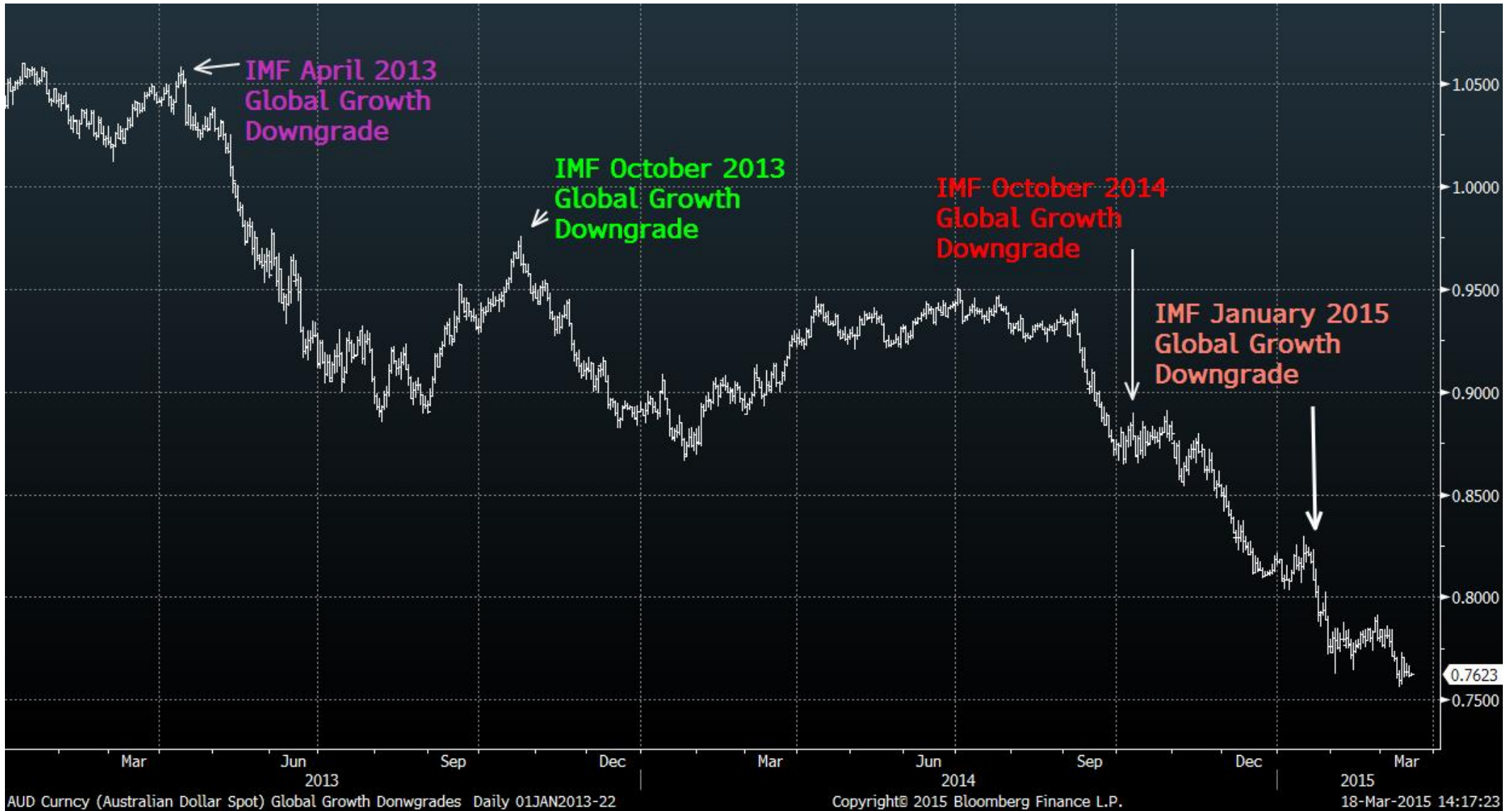
(3) Slower Chinese growth, lower Asian inflation, rates and currencies, which are applying downward pressure.

(4) A stronger USD – in response to a higher US terms of trade, and the prospect of higher US interest rates.

(5) Cross-rate pressure - from a large USD bid in the global foreign exchange market.

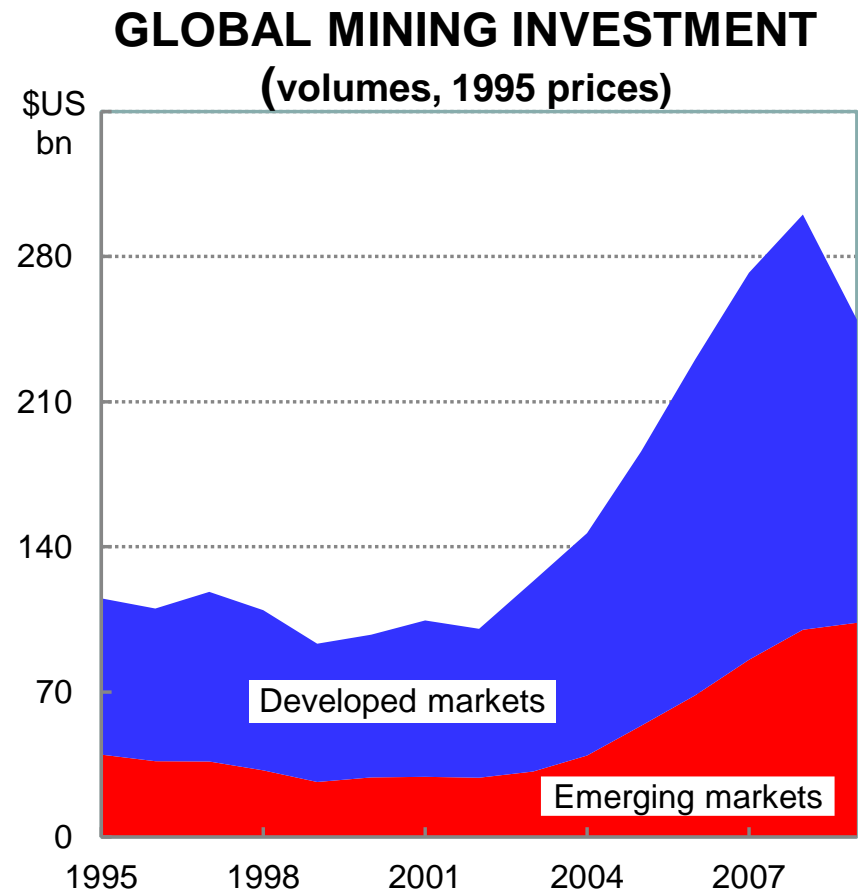
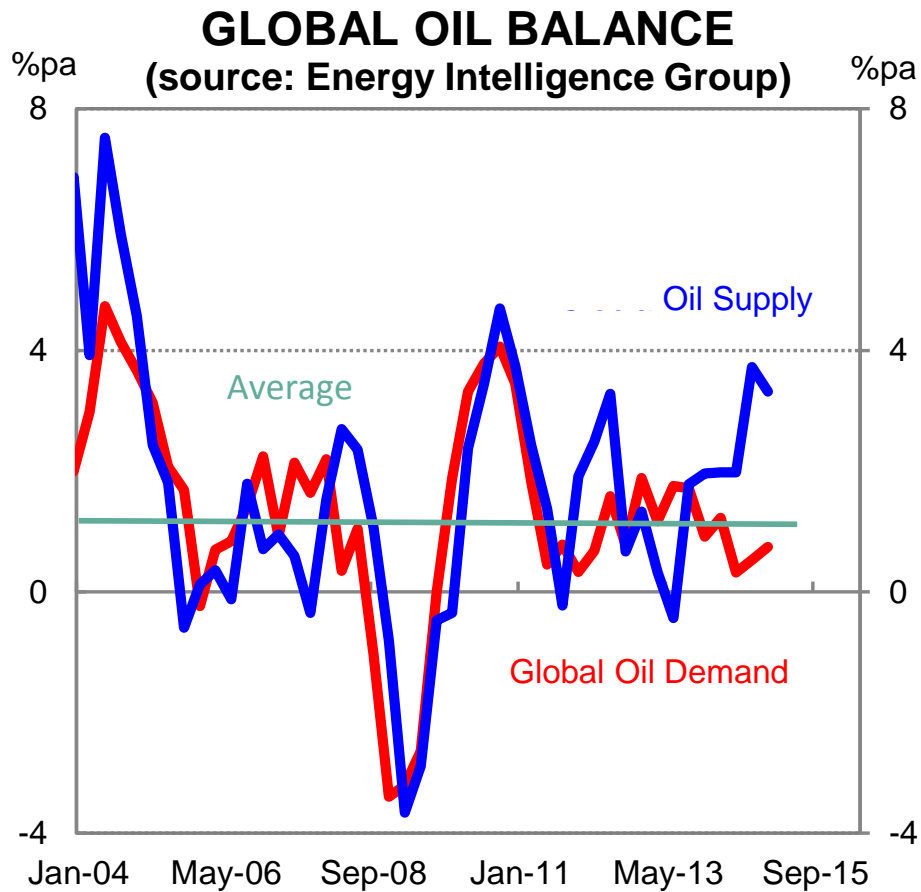
Importance of Global Growth Revisions Should Not be Underestimated

IMF revisions to global growth should be taken note of.



Commodity Prices Lower – Led by Increases in Supply

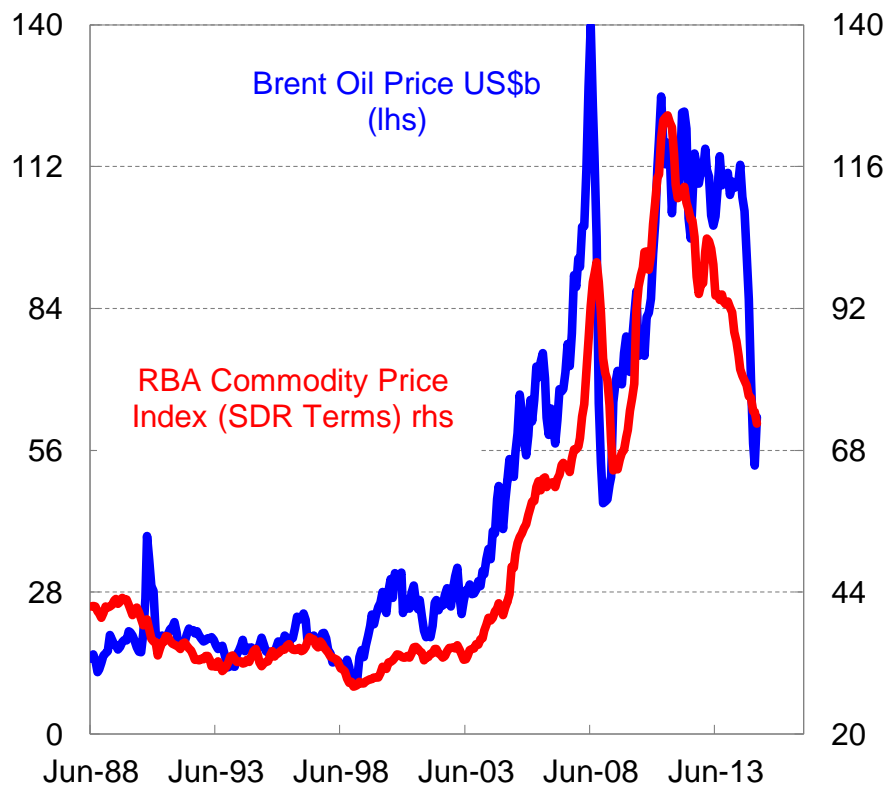
Excess commodity supply is driving commodity prices lower, rather than soft demand.



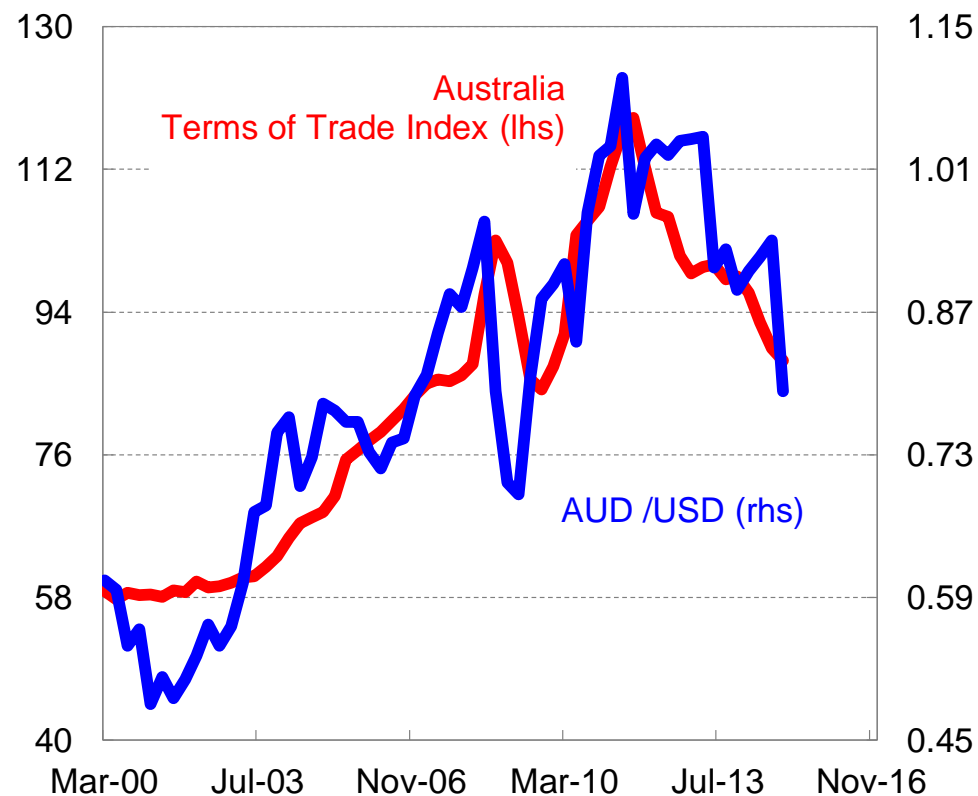
Commodity Prices Lower – Led by Increases in Supply

AUD being used as a proxy for lower commodity prices and because export prices falling.

OIL PRICE & RBA COMMODITY PRICE INDEX



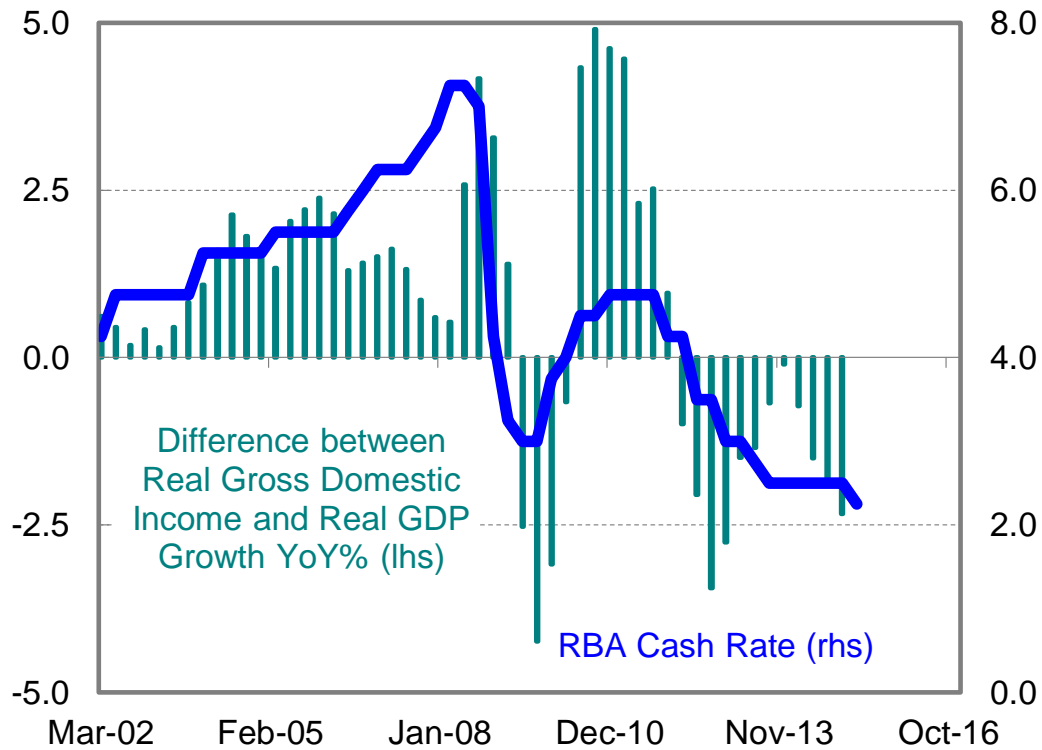
AUD/USD & AUSTRALIA'S TERMS OF TRADE



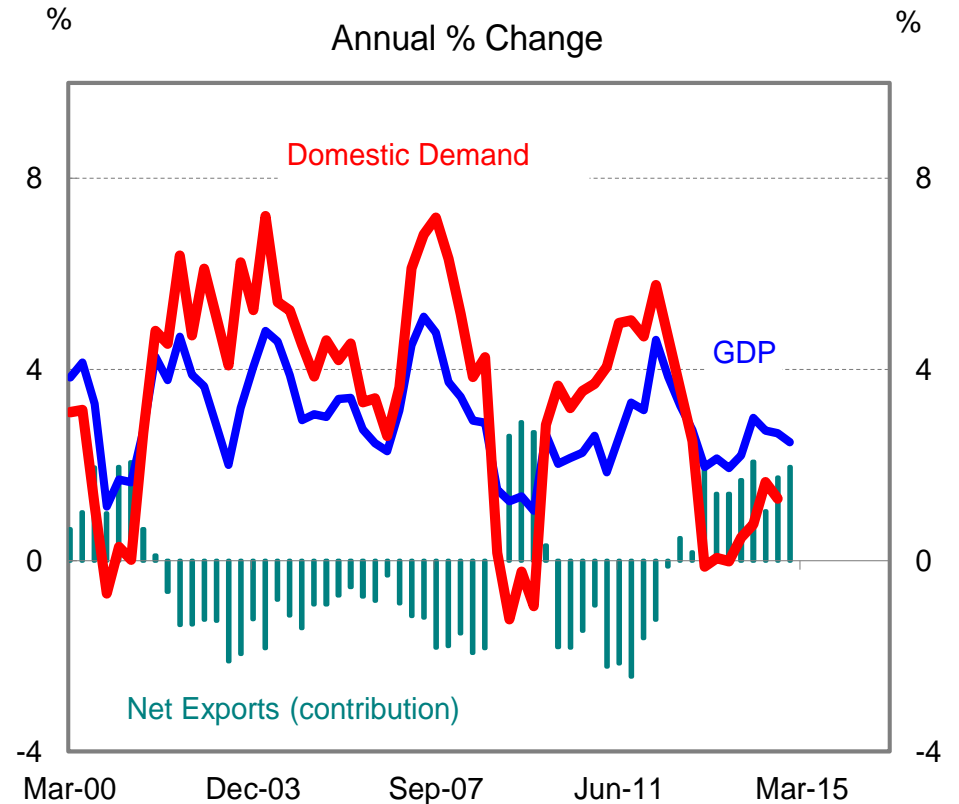
Lower Global Commodity Prices Impact Australia's Terms of Trade

The Australian terms of trade effect is a major driver of interest rates and especially AUD

AUSTRALIA GDP AND INCOME GROWTH



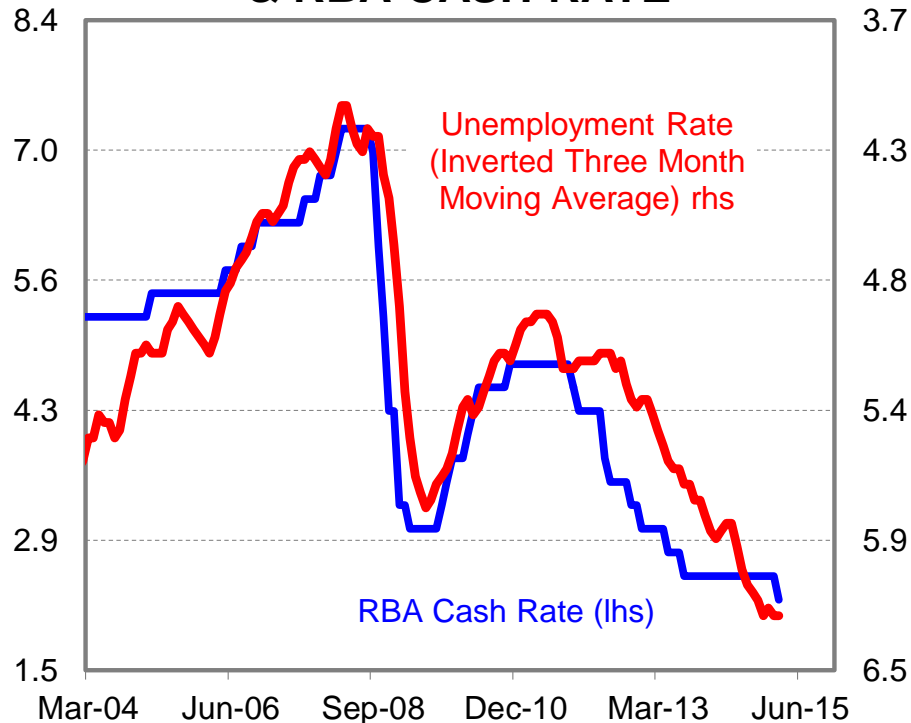
AUSTRALIA GDP GROWTH



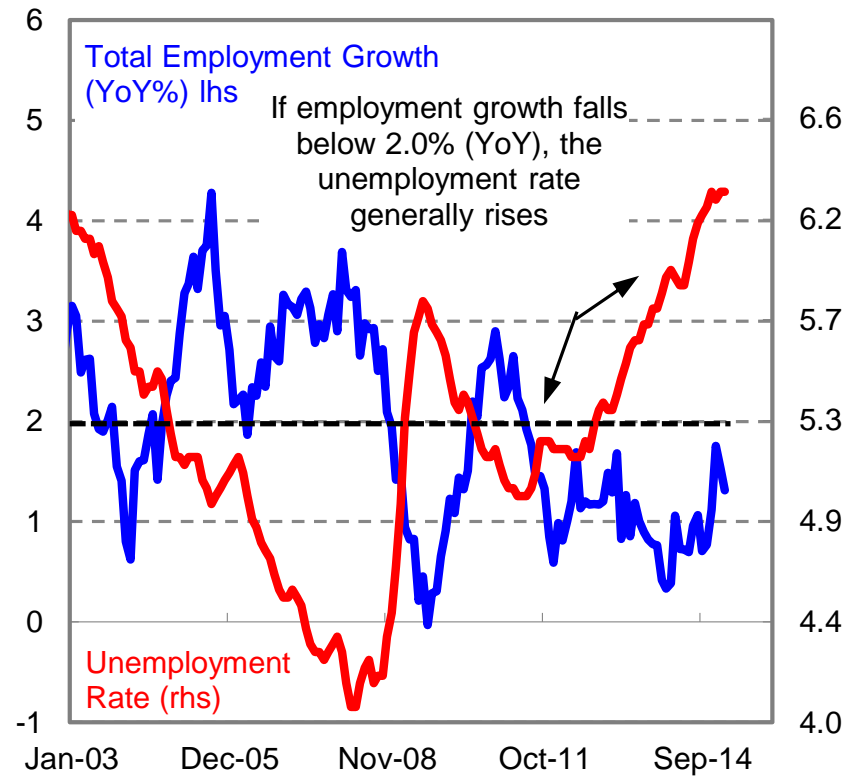
Australian Unemployment Rate & RBA Cash Rate

Australia unemployment rate generally rises when employment growth is less than 2.0%

AUSTRALIA LABOUR MARKET & RBA CASH RATE



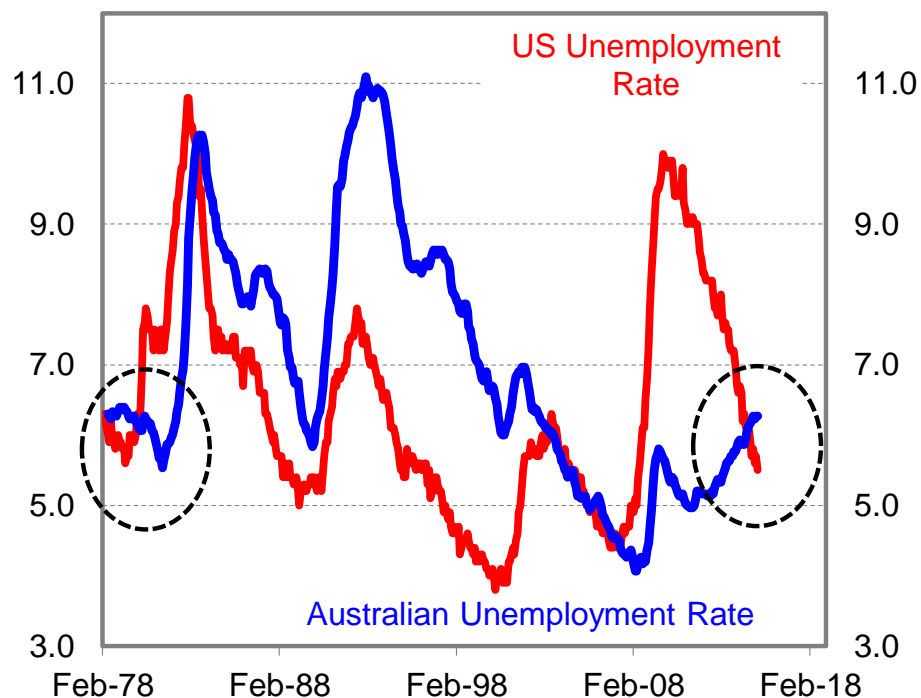
AUSTRALIAN EMPLOYMENT



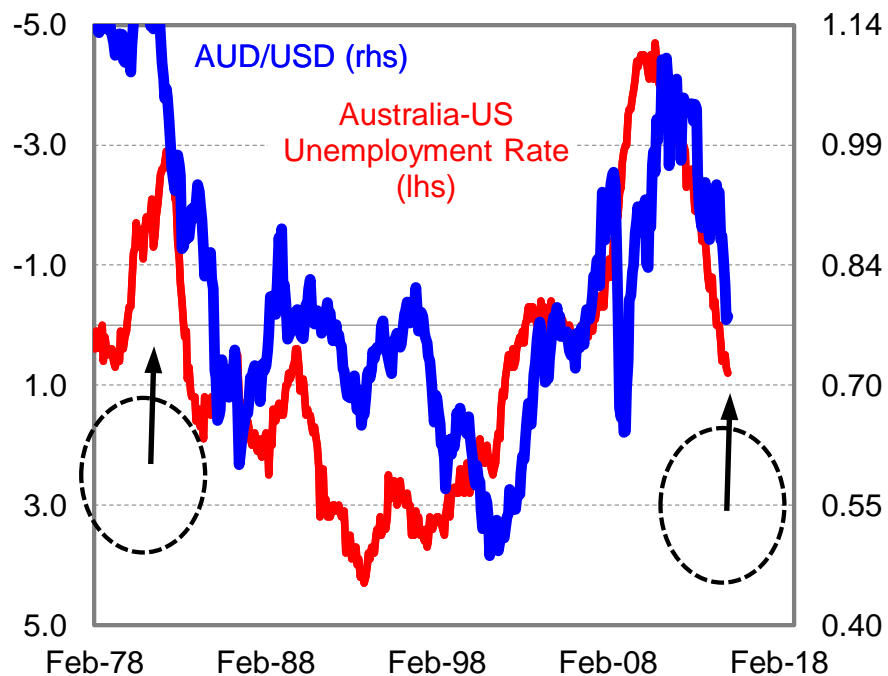
Australian vs. US Unemployment Rate

Australia-US unemployment rate divergence and differential is a powerful guide for AUD.

AUSTRALIA & US UNEMPLOYMENT RATES

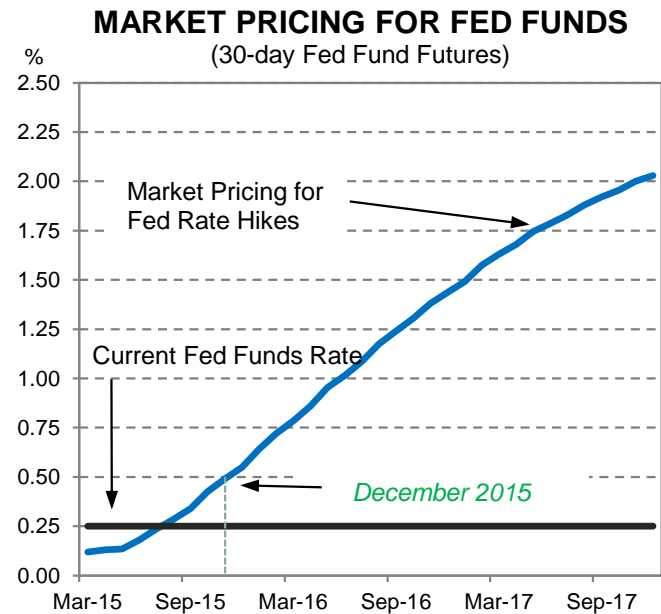
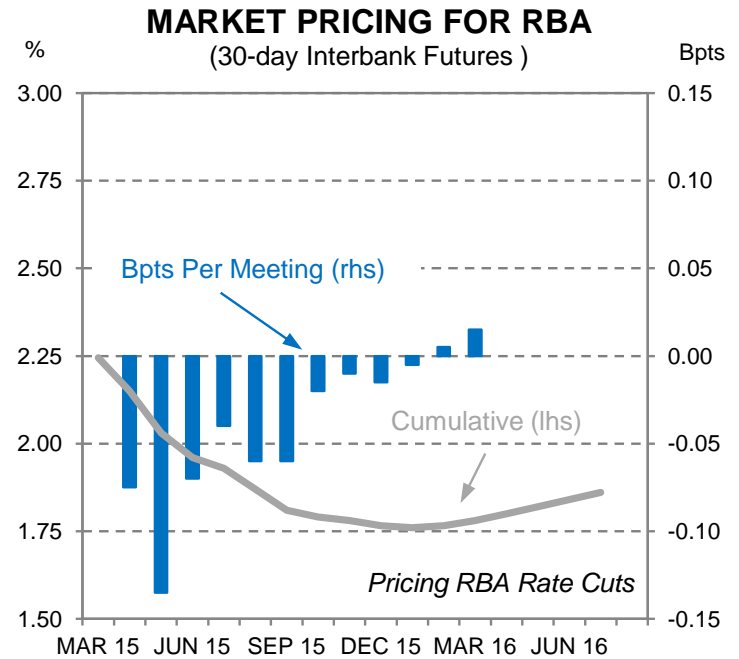
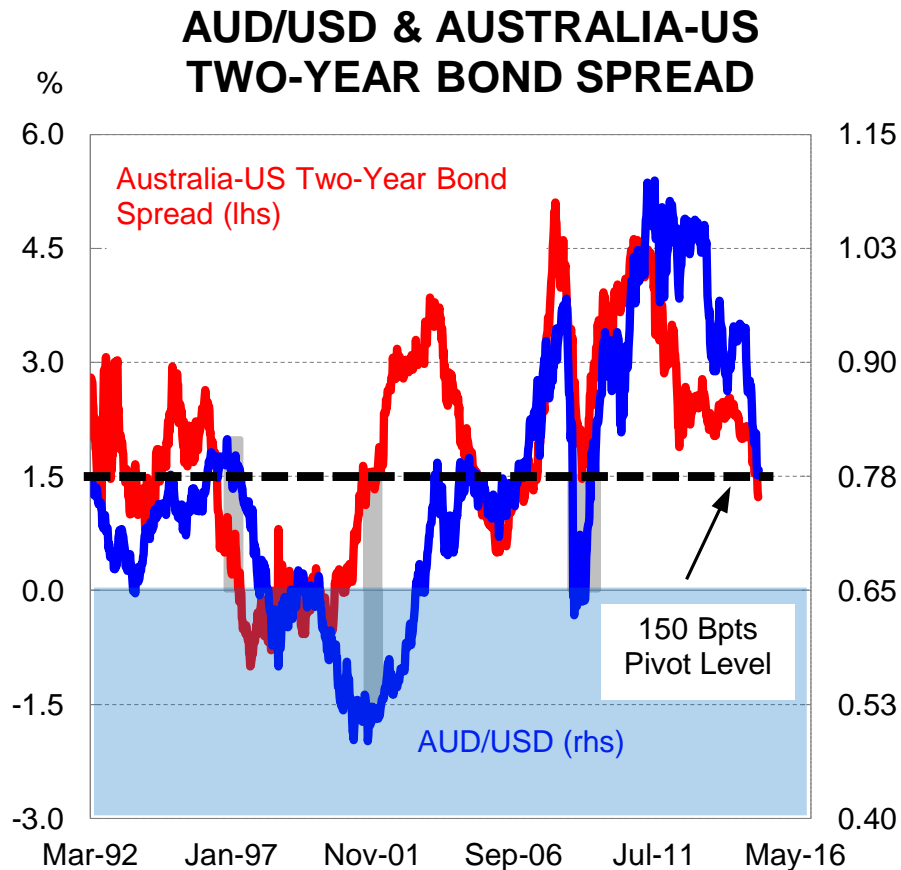


AUD/USD & AUSTRALIA-US UNEMPLOYMENT RATE DIFFERENTIAL



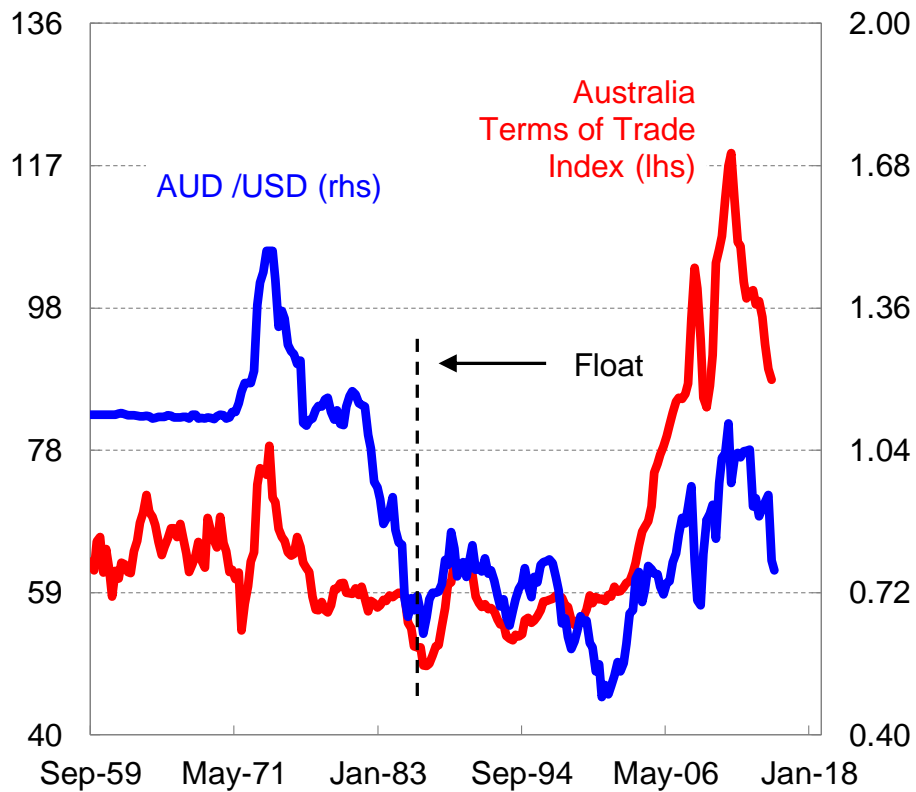
Australia's Domestic Economy Weak and Australia-US Rates Narrowing

US economy firming. Australia-US two-year bond spread currently at 123bpts



Forecasts – Exchange Rates

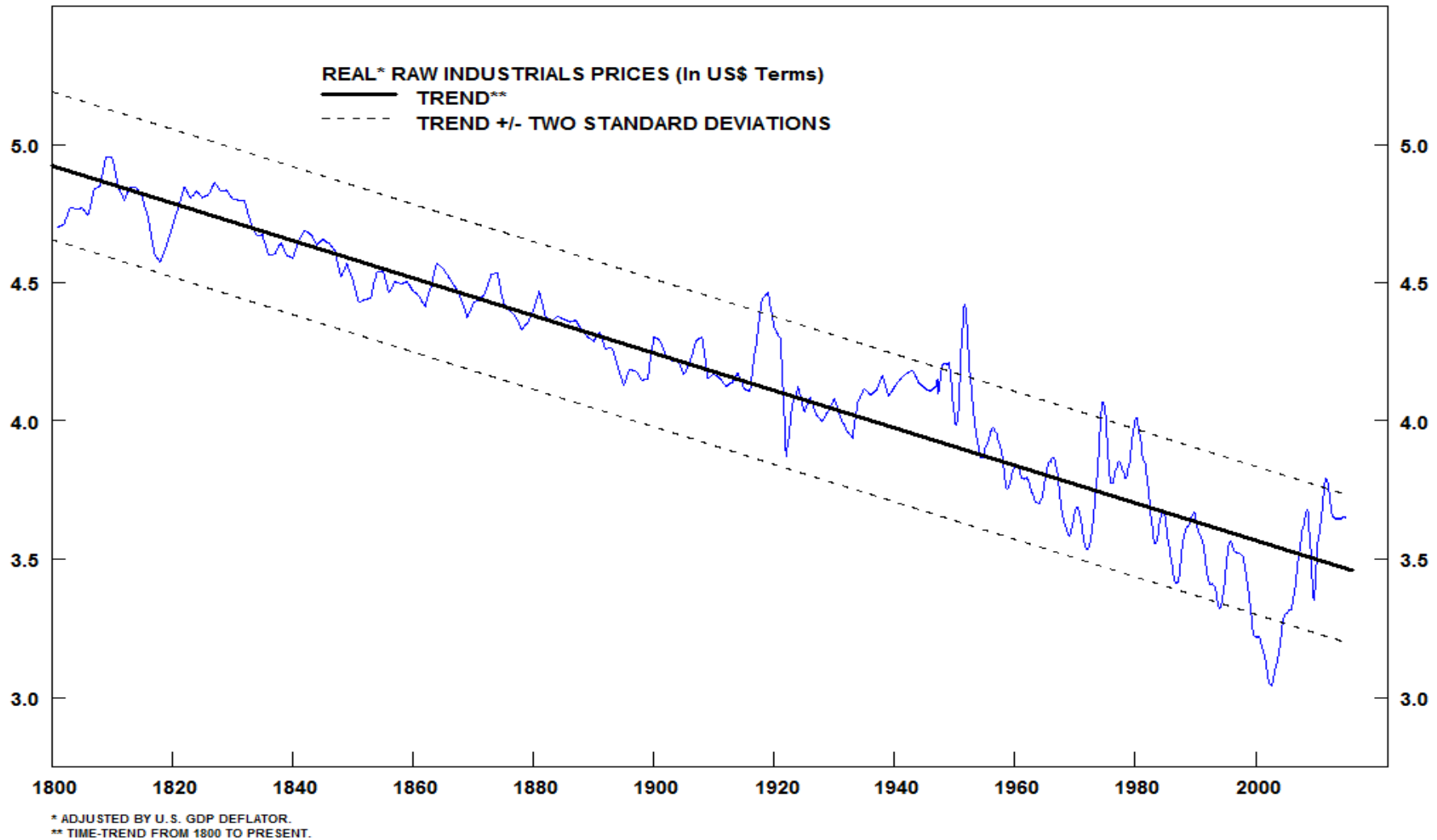
AUD/USD & TERMS OF TRADE



Date Period	AUD (input)
Current	0.7728
Mar-15	0.7600
Jun-15	0.7300
Sep-15	0.7200
Dec-15	0.7000
Mar-16	0.7100
Jun-16	0.7200
Sep-16	0.7300
Dec-16	0.7400
Mar-17	0.7500
Jun-17	0.7600
Sep-17	0.7800
Dec-17	0.8000
Mar-18	0.8200
Jun-18	0.8500
Sep-18	0.8800
Dec-18	0.8800
Mar-19	0.8800
Jun-19	0.8800
Sep-19	0.8800
Dec-19	0.8800
Mar-20	0.8800
Jun-20	0.8800
Sep-20	0.8800
Dec-20	0.8800

Some Long-Run Considerations on Commodity Prices

REAL COMMODITY PRICES OVER THE LAST 214 YEARS



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