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Media Release

Business sentiment turns bearish on AUD

(27 August 2013 – Australia) Australian trading businesses are expecting the Australian dollar to end 2013 at below US90 cents and to continue to move lower through to June 2014, according to the latest round of East & Partners' Aussie Dollar Barometer, driving immediate change in their FX transacting outlooks.

East's current quarterly round of the Barometer interviewed 861 importing and exporting businesses spanning A$5 million to A$500 million plus annual turnover for their forecast AUD/USD rate over the next 12 months.

The consensus forecast is 0.889 by the end of December 2013, and a gradual decline through to 0.871 by the end of June 2014. The Barometer has proved extremely accurate predictor of actual AUD/USD rates over its past three years.

Businesses with an export-only profile were more bearish than importers, forecasting 0.866 by the end of 2013 and 0.855 by the end of June next year. The importer-only forecast for the two dates was 0.901 and 0.882.

The results from this round of the Barometer are significantly lower than the last round, conducted in May just before the AUD fell through parity with the USD for the first time in three years.

Other findings from the East & Partners' Barometer include:

- 32.8 percent of businesses nominate the USD as the most difficult currency to hedge against, with 25.0 percent nominating the Japanese Yen and 19.9 the NZD.

- The USD is expected to be the most volatile currently over the next six months, according to 34.0 percent of all trading businesses, with 20.3 percent selecting the Yen.

- 49.5 percent of businesses say the USD is the currency with the greatest strategic impact on their businesses, followed by the NZD (20.0 percent), the Yen (12.5 percent) and the Chinese CNY (11.4 percent).

In response to the changing AUD environment, businesses are forecasting an increase in the FX exposures over the next three months, with the total market anticipating a 65.6 percent lift in exposure, although the dynamic between importers and exporters has changed.

Exporters expect to increase their exposures by 65.6 percent – an increase on the 60.8 percent expected in May – while Importer exposure is forecast to decrease to 81.0 percent, against a forecast 89.1 percent increase in May.

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In terms of hedging plans, the changing FX environment will drive an incremental increase in the number of businesses using hedging instruments (76.8 percent against 75.4 percent in May), and they will hedge a slightly higher 82.9 percent of their exposures.

Lachlan Colquhoun, Head of Market's Analysis at East & Partners, said the shifts in the Barometer results showed the impact that the falling AUD was having on Australian trading businesses.

"Businesses are adjusting rapidly to the changed FX environment both in terms of their forecasts and their hedging strategies and exposures," said Colquhoun.

"There are some definite shifts in both importer and exporter behaviours as a result of the falling AUD, and it is clear that businesses are very much focussed on USD volatility going forward.

"The changes in Japanese monetary policy are clearly also being watched by Australian businesses, who are also highly engaged with the NZD and increasingly so with the Chinese CNY."

<u>East & Partners' Aussie Dollar Barometer Forecast:</u>

End September 2013 .... 0.915

End December 2013.................................... 0.889

End March 2014.. 0.878

End June 2014... 0.871

Source: East & Partners Aussie Dollar Barometer – August 2013

About the Aussie Dollar Barometer

The Aussie Dollar Barometer is prepared every three months based on unique research from almost 900 businesses turning over at least A$5 million per year. Businesses are asked a range of questions about their exposure to, views on and forecasts of the AUD vs. USD.

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