

Businesses Bearish on Aussie Dollar in 2014

(9 December 2013 – Australia) The Australian dollar is set for a sustained decline against the USD over 2014, according to East & Partners latest Australian Dollar Barometer research from interviews with active importing and exporting businesses.

The sixteenth release of the barometer reflects a broadly negative view for the AUD over the next year, with the overall market consensus forecast from 863 businesses interviewed in November for the AUD to end September 2014 at 0.907.

Small businesses are the most bearish, predicting a fall to 0.881 by the end of the third quarter of 2014. Australia's largest enterprises foresee a more stable exchange rate, remaining above 0.91 and even turning higher towards the end of 2014.

Average AUD/USD Rate Expected – By Customer Segment

Segment	\$5-25m	\$25-150m	\$150-500m	\$500m Plus	TOTAL
December 2013	0.911	0.942	0.947	0.952	0.939
March 2014	0.903	0.936	0.941	0.947	0.934
June 2014	0.892	0.921	0.932	0.941	0.922
September 2014	0.881	0.903	0.911	0.928	0.907

Source: East & Partners Australian Dollar Barometer – November 2013

The Barometer suggests that the larger the business, the more inclined it is to hedge its USD exposure. Better access to credit and a higher level of sophistication allowing the application of risk management tools such as Options and Forwards are suggested to contribute to this result.

Larger businesses also hedge almost all of their FX exposure, compared to smaller businesses who hedge just over half of their exposure on average. A lack of product knowledge and minimal interaction with a dedicated relationship manager are suggested as reasons for this divergence, offering a clear opportunity for banks seeking new cross border payments and business foreign exchange prospects. On average businesses plan to hedge 84 percent of their total exposure, rising from 81.7 percent total hedged exposure last year.

Both importers and exporters expect the AUDUSD to decline towards 0.90 over 2014, to a greater extent than exporters who maintain a downwardly weighted forecast up to four points lower than that of importers in each quarter from Q4 2013 to Q3 2014.

Importer only businesses may be upwardly biased, however they are significantly more inclined to hedge their overall FX exposure and increase their overall FX exposure in the next three months. 86.6 percent of importers plan to actively hedge their foreign exchange exposure in the next three months compared to a mere 61.2 percent of exporting only businesses.

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The Barometer also includes proprietary questions that delve deeper into areas of special interest, such as which country businesses currently interact with the most, future trade expectations or the number of FX providers they use. These powerful demand side analytics provide the ability closely interrogate ongoing trends forming within the three year time series, adding noticeably to the overall strength of the Barometer as a robust AUD/USD forecasting tool.

Senior Markets Analyst Martin Smith believes the latest results are encouraging to both businesses and banks seeking ongoing stability and growth.

“Several large scale macroeconomic influences will continue to drive AUDUSD volatility in 2014 as the currency ranges between parity and 0.80”

“This poses distinct challenges to businesses of all sizes fulfilling and import or export only profile, particularly with the stated aim of the Reserve Bank of Australia not to intervene in currency markets and drive the exchange rate to more competitive levels”

“Uncertainty as to when the US will begin to taper its asset purchasing program is reflected in the number of businesses planning to hedge their FX exposures increasing, in addition to their average percentage of exposure to be hedged. Businesses planning to hedge their FX exposure have increased from 63.1 percent in October 2011 to 76.6 percent in November 2013, while the average percentage of exposures to be hedged jumped from 73.3 to 84.0 percent”

About the East & Partners Australian Dollar Barometer

Up to 900 businesses turning over \$5–500 million per annum are surveyed each quarter on their forecasts for the AUDUSD, their specific hedging plans, total level of exposure and expected changes in FX exposure. The barometer is a powerful predictive tool given the unique market based outcomes derived from businesses actively operating within foreign exchange markets themselves.

Released: Quarterly

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