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Media Release

Australian Dollar Barometer on the Money

(4 August 2014 – Australia) Australian importers and exporters continue to accurately forecast the AUD/USD rate in East & Partners quarterly Aussie Dollar Barometer research.

Despite growing geopolitical unrest, inflationary pressure, unpredictable US Federal Reserve policy and heightened risk of yet another Argentinian sovereign debt default, Australian trading businesses continue to be "on the money" with their FX forecasts.

Based upon direct interviews with 869 internationally trading enterprises, their upcoming AUD/USD rate expectations, hedging plans and total FX exposure are presented in the nineteenth round of the Australian Dollar Barometer.

The analysis offers both a unique and accurate forecast of how far the Aussie Dollar will drift lower or climb stubbornly higher in the next 12 months based upon the decision making of CFO's and treasurers actively engaged in managing their FX risk and exposure.

Round 16 of the Barometer from November 2013 found exporters and importers predicting an AUD/USD rate of 0.922 by June 2014. Over six months later the forecast fell close to one basis point of the actual June 2014 monthly average of 0.936.

Although the Round 17 forecast of 0.891 resulted in a four basis point undershoot, Round 18 boasted an even closer prediction of 0.926, a mere ten points less than the average monthly rate of 0.936. The latest Round 19 of the Barometer forecasts a steady AUD/USD of 0.943 in Q3 2014 before falling to 0.935 in Q4 2014.

The RBA continues to state a clear preference for a lower Australian Dollar to the benefit of exporters who find themselves increasingly uncompetitive against international peers. The consistently dovish tone by Federal Reserve Chair Janet Yellen remains an impediment to renewed USD strength however, limiting the perceived downside risk of an outright correction in the AUD/USD that would see the currency pair decline towards the 2014 low of 0.866. Any shift away from the current rhetoric could see a swift change in this underlying sentiment however.

Exporting only enterprises predict the Australian Dollar will remain relatively well supported against the US Dollar through to the end of September 2014, expecting the AUD to remain range bound near its current rate of 0.936 before falling to 0.897 in Q2 2015.

Importing only enterprises are content to trust in steadying commodity prices and a preferential interest rate differential that has effectively propped up the AUD via considerable capital in-flows in recent months. Importers forecast the AUD/USD to trade over one basis point higher at 0.949 by the end of September 2014.

Importing only enterprises and businesses engaged in both importing and exporting operations see the AUD/USD fading to 0.910 and 0.901 respectively by Q2 2015, above the market average forecast of 0.904.

As the year unfolds a greater number of businesses are planning to manage their FX risk with more alacrity in addition to increasing their FX exposure. 91.1 percent of importing only firms are planning to hedge their AUD/USD exposure this quarter. Over 81.5 percent intend to increase their FX exposure, expanding FX volumes on average by 51.6 percent.

Export only firms and smaller businesses are relatively confident that the AUD/USD will remain well supported. 51.8 percent of exporting only enterprises exhibit a willingness to hedge their FX exposure, while 54.0 percent of SME's do not plan to hedge FX exposures whatsoever.

"The Barometer has become increasingly accurate in predicting movements in the AUD/USD, yet one of the major insights from the latest round is what channel businesses choose to conduct business FX transactions and manage their exposure" Senior Markets Analyst Martin Smith states.

"A rising 48.1 percent of businesses execute FX payments online, while smaller businesses are readily incorporating mobile business banking technology at an increasing rate"

"20.4 percent of SME's transact FX payments on their smart phone or tablet, compared to a mere 2.8 percent of institutional businesses. This clearly presents as both an opportunity and threat for the banks given larger businesses still prefer to deal online or over the phone, however it must be said that this can't remain the case for much longer"

AUD/USD Exchange Rate Levels Forecast

Average AUD/USD Rate Forecast

	Round 17 Feb 2014 (N: 862)	Round 18 May 2014 (N: 864)	Round 19 Aug 2014 (N: 869)
End September 2014 Forecast	0.879	0.938	0.943
End December 2014 Forecast	0.867	0.917	0.935
Plan to Hedge FX Exposure (% of enterprises)	76.7	78.4	80.8

Source: East & Partners Australian Dollar Barometer

About the East & Partners Australian Dollar Barometer

Up to 900 businesses turning over $5–500 million per annum are directly interviewed quarterly on their forecasts for the AUD/USD, 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 directly from financial decision markers, all of which are actively engaged in foreign exchange markets and managing their own FX exposure.

Released: Quarterly

Customer Segments:

- SME – A$5 – 25 million
- Lower Corporate – A$25 - 150 million
- Upper Corporate – A$150 - 500 million
- Institutional – A$500 million plus

For more information or for further interview based insights on the Australian Dollar Barometer, please contact:

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