

Media Release

Crippling FX Losses Compound Coronavirus Pain

(16 April 2020 – Australia) Australian businesses suffered currency losses of up to A\$3.4 billion in the last six months despite subdued AUD volatility, new research from East & Partners shows.

A staggering eight out of ten Australian enterprises suffered currency losses through Q4 2019 and Q1 2020 (77.1 percent) according to East & Partners global Business FX analysis. Importers and exporters reported FX losses of A\$28,200 on average in a broad range from A\$1,000 to A\$111,600. Factoring up the average currency loss figure against the number of internationally trading enterprises nationally generates an alarming market wide hedging loss figure of A\$3.46 billion. This figure is only set to expand as Aussie dollar volatility accelerates and timing of coronavirus induced shutdown wind backs remains unpredictable.

In the wake of the devastating coronavirus pandemic, underlying FX volatility has accelerated alongside tightening credit markets, dovish central bank monetary policy and quantitative easing (QE). As a result, currency forecasts captured as part of East & Partners global Business FX program have been adversely impacted.

Australian importers and exporters aggressively scaled down AUD/USD forecasts by over 10 cents on average from 0.668 for the end of June 2020 to 0.563 by December 2020. This represents a record low Aussie Dollar prediction, reflecting the growing level of risk aversion present among importers in particular finding their international competitiveness eroded by a strengthening US Dollar.

The AUD depreciated heavily in Q1 2020 as the economic fallout from coronavirus induced business shutdowns adversely impacted global economic output. A deep global recession is now effectively factored into our economic growth forecasts by the International Monetary Fund (IMF) as the crippling demand side shock reverberates along globalised supply chains.

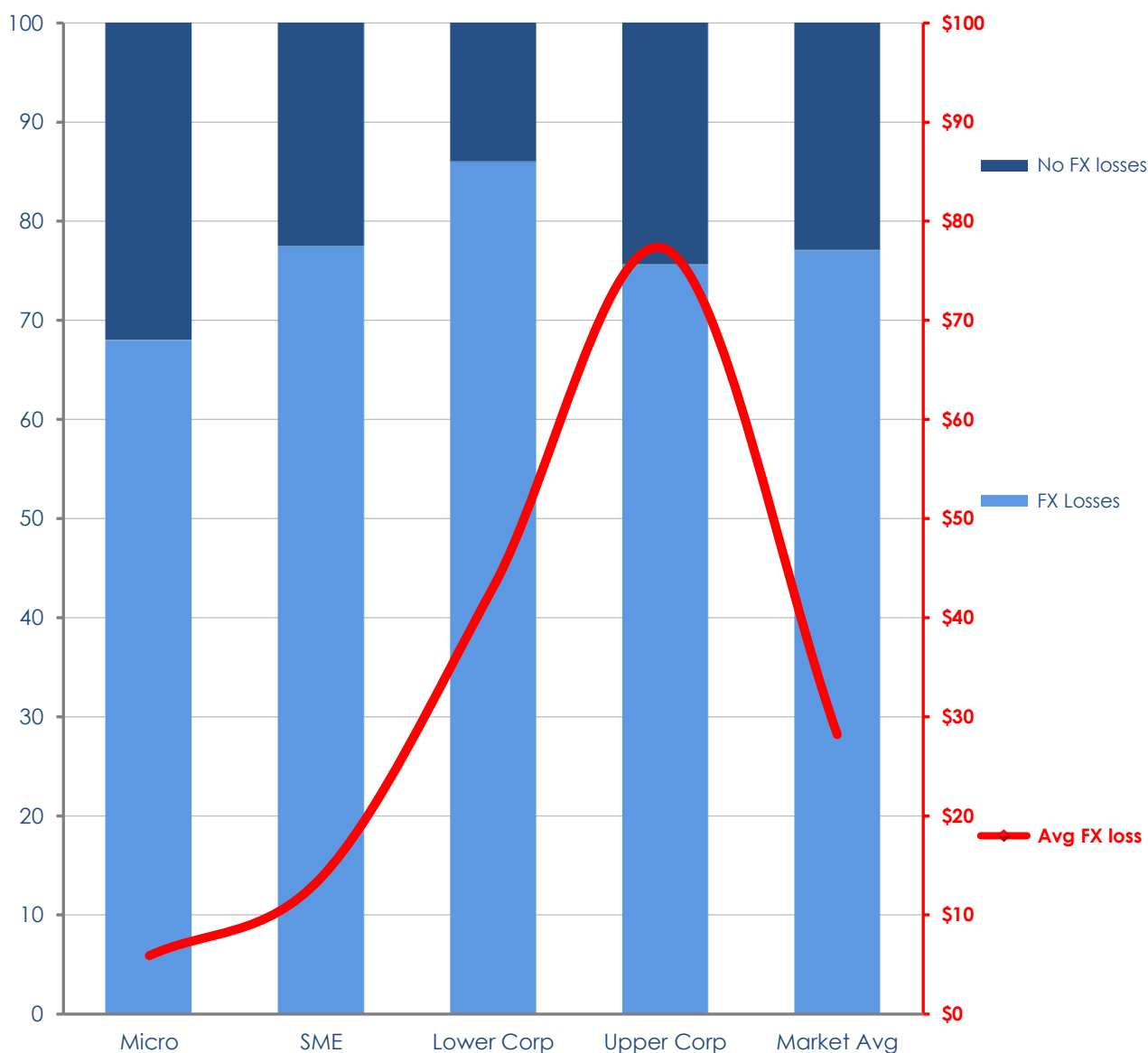
The AUD/USD approached 2008 global financial crisis lows as it collapsed below 0.600, underperforming major currencies in response to the Reserve Bank of Australia (RBA) slashing the overnight cash rate to a record low of 0.25 percent and 'firing up the printing presses' with the introduction of quantitative easing (QE). The central bank is seeking to decrease three-year bond yields to 0.25 percent as monetary policy efficacy becomes muted by the wide scale slump in industrial production and consumer demand across tourism, retail and transport sectors especially.

The AUD is likely to be pressured further as government borrowing is boosted at a record pace in Q2 2020 to fund an unprecedented A\$320 billion in broad ranging business, welfare and wage stimulus to counter the impact of the coronavirus outbreak on the economy. The RBA has purchased A\$27 billion in face value of federal government bonds and A\$5 billion of notes issued by state governments since it commenced repurchasing last month to suppress borrowing costs.

Recent US Dollar strength has met headwinds in the face of growing unemployment and COVID-19 health crisis, marking a sharp jump in the AUD/USD above 0.630. With seasonally adjusted initial jobless claims hurtling towards 20 million, the 6.6 million increase on top of 3.3 million from the previous week's revised level marked the highest level of seasonally adjusted initial claims in the history of the series.

"East's research indicates usage of FX risk management tools is slowly increasing but clearly not fast enough. Even large enterprises with a defined treasury policy and extensive risk management resources are losing vast sums during a period of muted Aussie Dollar volatility, so it is confronting to consider what the damage will be in the next six months as volatility really takes off" stated East & Partners Head of Markets Analysis, Martin Smith, commenting on the results.

Currency Losses Experienced – Last Six Months
 % of Total (LHS) / **Average Currency Loss A\$000 (RHS)**



About the research

Direct interviews are conducted with 13,000 enterprises in the Micro business, SME and Corporate segments across Australia, Asia, Europe and North America every six months. CFOs and corporate treasurers are asked where they expect domestic currencies to trade. The analysis provides a unique and deeply insightful outlook of where importers and exporters expect major FX pairs to trade, revealing a new and complementary perspective from businesses at the daily 'coal face' of FX risk management and execution.

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About East & Partners

East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America