

## Where to for the AUD? IMF gives a strong hint

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Point forecasts of any currency are perilous to make and invariably wrong. The AUD is, as we all know, one of the toughest to get right because its price embodies so many variables, both Global and Domestic.

The IMF released overnight a report titled “World Economic Outlook” that is outright bearish on Commodities. With all of the other headlines that are growth negative (EU Employment and Growth trajectory under fiscal austerity) it’s easy to feel uncomfortable about the AUD at this point.

There have been plenty of frustrated AUD bears over the last few years, with QE by major Central Banks and Chinese expenditure propping up equities and growth.

The other key factor at work relates to Sovereign Credit ratings.

The Credit Crisis, for example, highlighted a new consideration for Currency managers; Sovereign Credit ratings. We think Australia’s AAA rating has kept the AUD elevated to a greater degree and for a longer duration as Reserve managers have consciously increased their allocation to the AUD based on a credit score.

This phenomenon seems to have run its course, as a revival in the USD signals its economic restructuring is paying dividends, and tilting a small amount of faith towards the USD.

There can be no doubt that Australia will want to maintain its relative credit position hence the drive to achieve a surplus Budget in this context. That leaves the RBA with more to do on the monetary front, with obvious consequences for the AUD.

So whilst this process plays out, and domestic household deleveraging amplifies the current downward forces on interest rates, don’t be surprised to see the AUD continue to remain under pressure near term, i.e. for the next few months.

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