

Australian Dollar Short Conviction

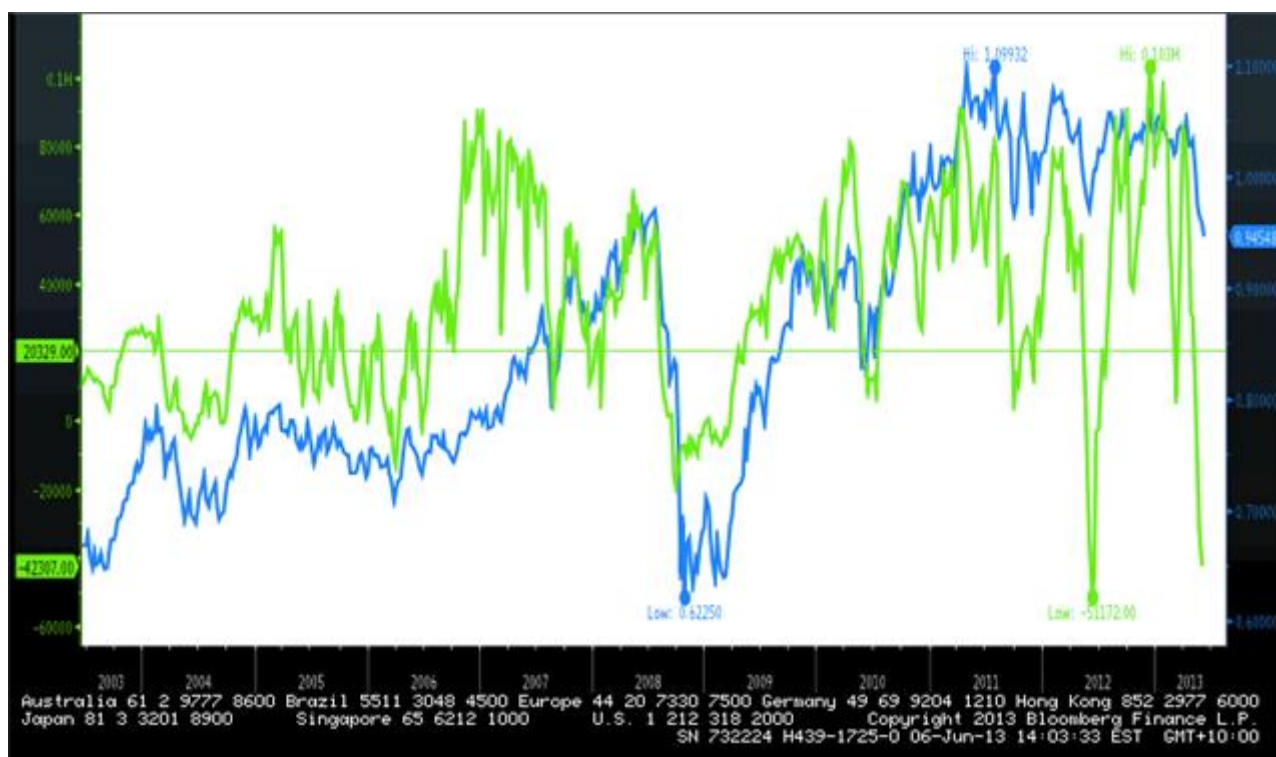
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The Australian dollar is one of the most actively traded currencies worldwide and ranks around 5th in global volumes. The reasons for this are many and some suggested key factors are;

1. Fully free-floating currency with only rare stability related Central Bank interventions aimed at reducing extreme volatility.
2. Highest developed market Interest rate differential relative to other G10 currencies
3. It's link to general economic performance, especially in Asia (proxy hedge)
4. The correlation to commodities, notwithstanding the recent (temporary) decoupling
5. AAA Sovereign credit rating with stable legal and political system
6. An IMF "official reserve currency"
7. Significant domestic saving pool that has a high outbound allocation to foreign asset markets requiring transactional and hedging flow.

If you notice the above list doubles as a wish list for currency speculators who want a clean, deep, liquid 2-way market in which to place their bets.

But how big are these bets?



Source: Bloomberg

The green line is the net amount of non-commercial AUD v USD futures positions held at the IMM clearing house. The blue line is the AUD/USD spot price since 2003. As you can see, the currency market has assumed the brace position, with the second biggest "short" over the last decade. There are over 42,000 contracts short x 100,000 USD per contract = US 4.2 Bn a decent bet in any market!

The last time the currency speculators really hit the sell button in 2012 they got burnt. To be fair, the use of currency futures has grown since 2008 which would explain the rise in relative positions, but the point is clear- the punters are very confident and doubling up. It will be interesting to see how they fare for the rest of the month.

For more, see

<http://www.cftc.gov/marketreports/commitmentsoftraders/index.htm>

<http://www.rba.gov.au/mkt-operations/intl-mkt-oper.html>

<http://www.bis.org/index.htm>

<http://commitmentsoftraders.org/cot-charts/>

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