The AUD - Status Report

• Can the currency enjoy an extended run into the 70s?

• Unemployment data are pivotal to what happens next

• RBA continues to extol the virtues of a weaker AUD

Solid US retail sales have brought the AUD to heel. Can the currency still enjoy an extended run into the 70s?

Although CFTC data reveal a reduction in speculative shorts in the AUD this past fortnight, (from 66,320 in June to 54,007 at present), real money has also been active too.

Flow data suggests that cross-border investors were reluctant to support the AUD when it popped its head above 70 cents at the start of the month; but with the AUD back at this level in the wake of the Powell testimonies, on Monday and Tuesday, BNY Mellon’s iFlow registered fairly strong buying of the currency.

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Newswatch

1. Fed's Evans states that "There is an argument that if I think it takes 50 bp before the end of the year to get inflation up, then something right away would make that happen sooner" >

2. Singapore sees further
Moreover, the AUD remains well supported by the ongoing rally in iron ore prices (up around 67% this year). And in as far as Monday’s upbeat industrial production and retail sales are evidence of the Chinese economy’s positive response to Beijing’s stimulus efforts, here too is a source of sustenance for the AUD.

Of course, we remain of the view that a weaker CNY remains a medium term threat to the AUD; but a more immediate hurdle for AUD longs is tomorrow’s jobs data and the potential for a dovish spin.

The RBA’s immediate point of focus is the labor market and the spare capacity therein

Indeed, the Reserve Bank of Australia’s (RBA’s) immediate point of focus is the labor market and the spare capacity therein. As the minutes of its early July meeting note, “the board will continue to monitor developments in the labour market closely and adjust monetary policy if needed”.

But if the consensus forecast for Thursday’s unemployment rate is prescient (5.2%), then this could be inferred as a sign that progress towards the 4.5% rate (below which the Bank expects wage pressures to emerge) remains somewhat sluggish.

Whether this in itself would warrant a further and immediate rate cut is open to question, but any indecision on the RBA’s part could feasibly be resolved by further AUD strength.

3. South Korean sources cast doubt on international arbitration as a means to resolve trade dispute with Japan (Reuters)

4. Iran comes to aid of international oil tanker in trouble - Iranian government

On the Radar

July 17, 2019

• G7 Finance Ministers & Central Bank Governors – Chantilly

• UK Jun core CPI (0930 GMT+1)

• CA Jun CPI (1330 GMT+1)
The innocuous observation in the July minutes that lower interest rates would keep the AUD/USD lower than \textit{“otherwise would be the case”} is very much in keeping with the Bank’s history of pointed comments about currency-orientated stimulus.

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This was at its height in 2012/2013 when the AUD was regarded as \textit{“uncomfortably high”} (above 90 cents) and when Deputy Governor Heather Ridout felt that AUD/USD 0.80 would be a \textit{“fair deal”} for the Australian economy.

As such, that AUD/USD was trading at around eight cents below the post-millennium average (78) nearly two years later was nothing short of a bonus; but the RBA simply felt that the \textit{“exchange rate was adjusting to the significant declines in key commodity prices and boosting demand for domestic production”}.

And if the AUD’s slide into the 60s was of concern to Governor Lowe last month, it was difficult to discern from his observation that the AUD is \textit{“an important channel”} through which easing stimulates growth. But then, for an exporter of commodities that are priced in USDs this is hard to refute.

The status of the Fed “put” and tomorrow’s Australia jobs data therefore constitute potential pivots for the AUD.

But given the technical space that could be opened-up were the AUD to rally, we may learn more of the RBA’s tolerance thresholds before the AUD meets its post-November 2018 downtrend at 0.7080 and 200 day moving average at USD 0.7090.

Please direct questions or comments to:

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