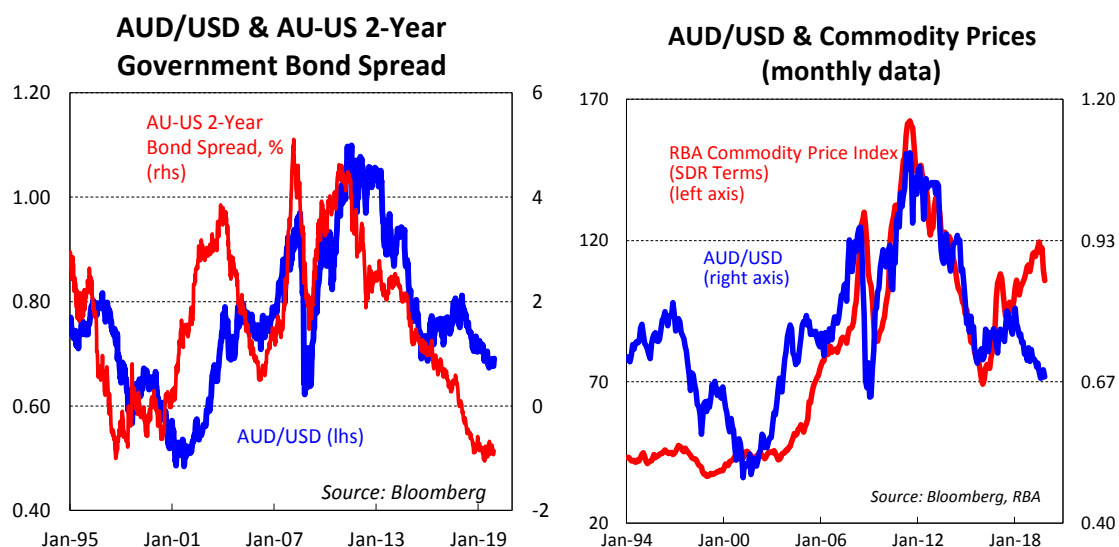


Australian Dollar Outlook

Where's the Action?

- The Australian dollar fell to a recent low of 66.71 US cents on October 2, down from this year's high of 72.95 US cents on January 31.
- Developments around trade relations between the US and China have been the dominant theme driving market sentiment and the Australian dollar for nearly two years. The global trade tensions have been a key factor in bringing down the Australian dollar.
- Downside risks to the Australian economic outlook have also placed downward pressure on the currency. Domestic economic growth is close to its weakest in a decade and the RBA has lowered the cash rate three times this year to a record low of 0.75%.
- Risks for the Australian dollar continue to be skewed towards the downside. While a "phase-one" deal between the US and China has given investors hope that trade tensions are thawing, global growth prospects remain mixed.
- Moreover, Australian economic growth is expected to remain below trend and fall short of the RBA's forecasts. We expect that the RBA will ease monetary policy further in 2020.
- Despite the various risks to the global and domestic economy, movements in the Australian dollar and currency markets overall this year have been extremely muted. The trading range of the Australian dollar this year has been one of the narrowest since the dollar was floated in 1983. Indeed, only 1991 had a narrower trading range in the post-float era.
- We expect just a modestly lower AUD next year. Our end 2020 AUD forecast is 67 US cents, but we expect it could fall lower over the first half of next year.



Developments around trade relations between the US and China have been the dominant theme driving market sentiment and the Australian dollar for nearly two years. The global trade tensions have been a key factor in bringing down the Australian dollar from this year's high of 72.95 US cents on January 31. In addition, momentum in the global economy has weakened. The Australian dollar tends to move closely with prospects for the global economy.

Downside risks to the Australian economic outlook have also placed downward pressure on the currency. Domestic economic growth is close to its weakest in a decade and the RBA has lowered the cash rate three times this year to a record low of 0.75%.

These headwinds have brought down the Australian dollar to a recent low of 66.71 US cents on October 2.

More recently, a "phase-one" deal between the US and China has given investors hope that trade tensions are thawing. The rebound in risk appetite has helped lift the Australian dollar from its lows. Additionally, there has been a substantial unwinding of expectations of further monetary policy easing.

Nonetheless, risks for the Australian dollar continue to be skewed towards the downside.

The outlook for the global economy remains mixed. Indicators around the world are still pointing to activity struggling, particularly within manufacturing, although they have stabilised more recently. In the US, employment is continuing to be resilient, but remain at risk of moderating as the economy softens. Moreover, phase one of the US-China trade agreement does not mean the trade issues have been eliminated; the underlying issues at the heart of the US-China trade deal remain.

Commodity prices have fallen from their recent peaks and are expected to fall further given signs of weakening momentum in the Chinese economy and ongoing challenges in the global economy. That said, the Australian dollar has had limited reaction to the surge in iron ore prices in the middle of this year due to supply disruptions from Brazil. Therefore, the recent fall in commodity prices may not have a substantial impact in bringing down the Australian dollar. Although historically, commodity prices have had a strong relationship with the Australian dollar, this relationship has broken down somewhat over the past few years.

Weak economic growth domestically also poses further downside risks for the Australian dollar. Growth remains well below trend, and is expected to remain so over the coming year. Importantly, this would suggest economic growth will fall short of the RBA's forecasts. We expect that the RBA will lower the cash rate another two times next year. There is also a good chance the RBA will embark on a quantitative easing program (bond purchases) over the second half of next year.

With these risks in mind, we also note that movements in the Australian dollar and currency markets overall this year have been extremely muted by historical comparison. The trading range of the Australian dollar this year has been among the narrowest since the dollar was floated in 1983. Only 1991 had a narrower trading range in the post-float era.

However, the narrow range is in part reflective of the economic conditions we are facing. Consistently slower rates of economic growth and ongoing low inflation have translated to expectations that interest rates will remain at very low levels for an extended time. While developments on the trade tensions continue to be the key risk for the Australian dollar, which is

subject to considerable uncertainty, we expect just a modestly lower AUD. Our end 2020 AUD forecast is 67 US cents, but expect it could fall lower over the first half of next year when the RBA is expected to embark on further monetary policy easing.

Janu Chan, Senior Economist

Ph: (02) 8253-0898

Please see detailed forecasts below

EXCHANGE RATE FORECASTS

End Quarter Forecasts

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
--	--------	--------	--------	--------	--------	--------	--------

USD Exchange Rates

AUD-USD	0.6600	0.6600	0.6700	0.6700	0.6800	0.6900	0.7200
USD-JPY	107.00	106.00	105.00	105.00	106.00	107.00	108.00
EUR-USD	1.0900	1.1000	1.1100	1.1200	1.1300	1.1400	1.1500
GBP-USD	1.3300	1.3200	1.3200	1.3100	1.3100	1.3100	1.3100
NZD-USD	0.6400	0.6400	0.6500	0.6500	0.6600	0.6600	0.6700

AUD Exchange Rates

AUD-USD	0.6600	0.6600	0.6700	0.6700	0.6800	0.6900	0.7200
AUD-EUR	0.6060	0.6000	0.6040	0.5980	0.6020	0.6050	0.6260
AUD-JPY	70.60	70.00	70.40	70.40	72.10	73.80	77.80
AUD-GBP	0.4962	0.5000	0.5080	0.5110	0.5190	0.5270	0.5500
AUD-NZD	1.03	1.03	1.03	1.03	1.03	1.05	1.08

* Note that the AUD cross exchange rates have been rounded.

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Senior Economist

Janu Chan
chanj@stgeorge.com.au
(02) 8253 0898

Economist

Nelson Aston
nelson.aston@stgeorge.com.au
(02) 8254 1316

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
