



WILL THE AUSSIE DOLLAR CONTINUE TO CLIMB?

Agenda

5 Drivers Model:

- Global and Australian growth
- Interest rate differentials
- Investor sentiment and technical
- The relative strength of the US dollar.
- Investment Impacts

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Global and Australian growth

Fiscal Spend

- **US:** leader, targeting demand
- **China:** tightening, set to slow in H2
- **Europe:** behind the curve
- **Japan:** more of the same
- **Australia:** long marketing, short delivery
- **Critical:** Chimerican growth leadership reversed vs previous cycles

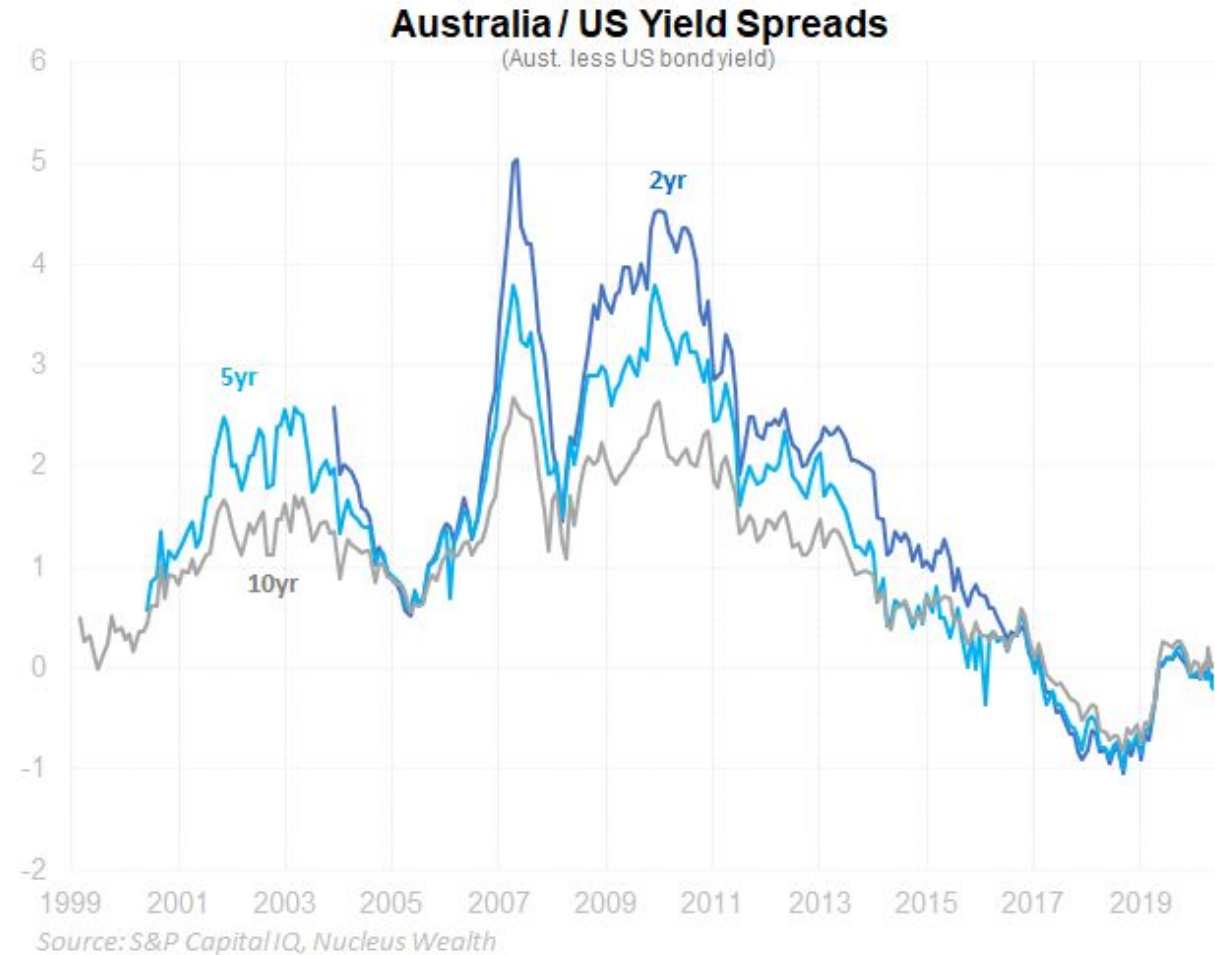
Terms of Trade



SOURCE: TRADINGECONOMICS.COM | AUSTRALIAN BUREAU OF STATISTICS

Interest rate differentials

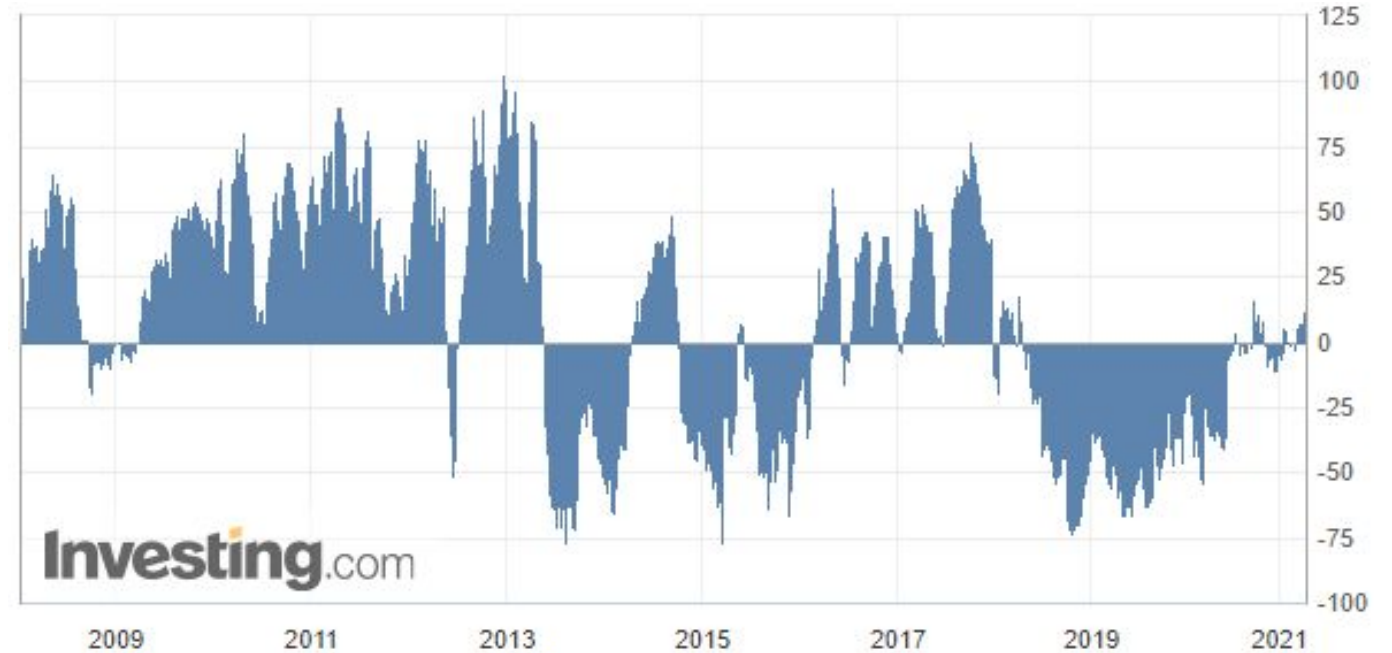
- Monetary policy low forever everywhere
- Australia (RBA) doing more than US for first time in forever
- Inflation in both low, fiscal stimulus key
- US to move first



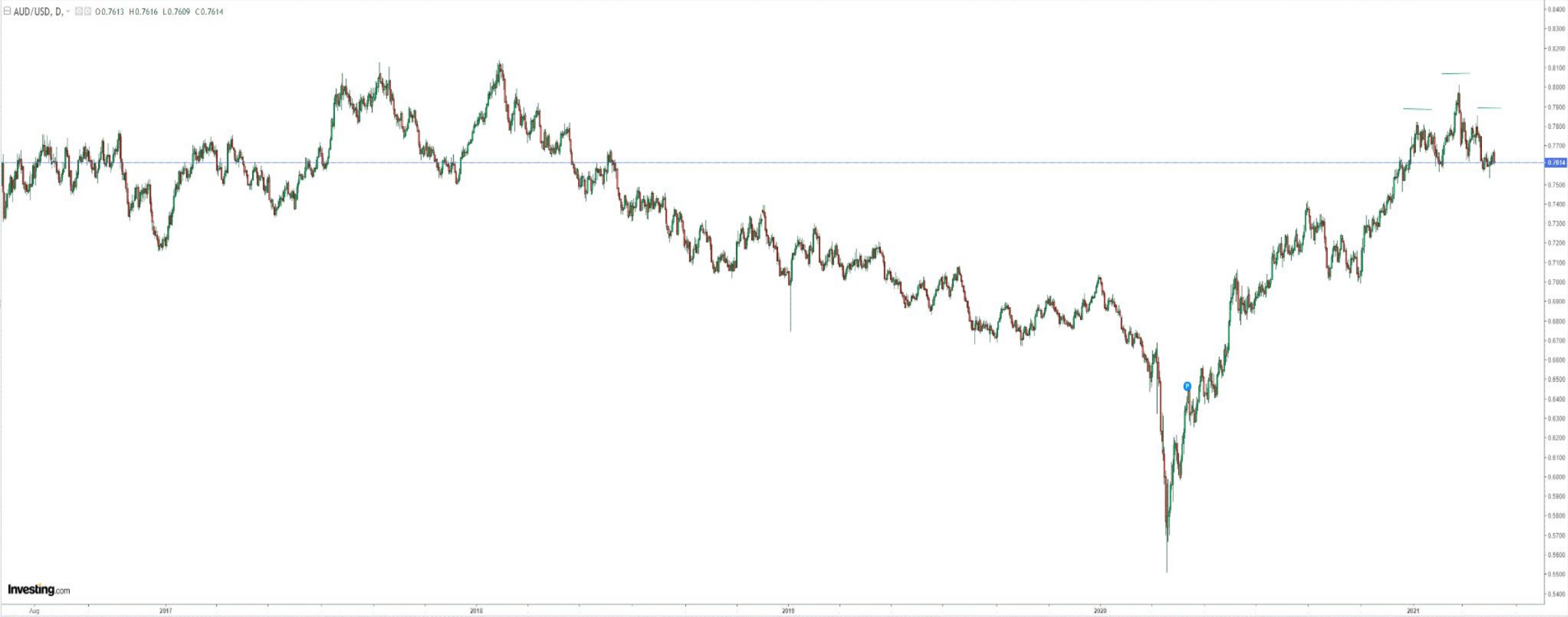
Investor Sentiment

AUD Commitment of Traders

Market moderately bullish
CFTC
Recently has been
flipping between mildly
bullish and mildly bearish

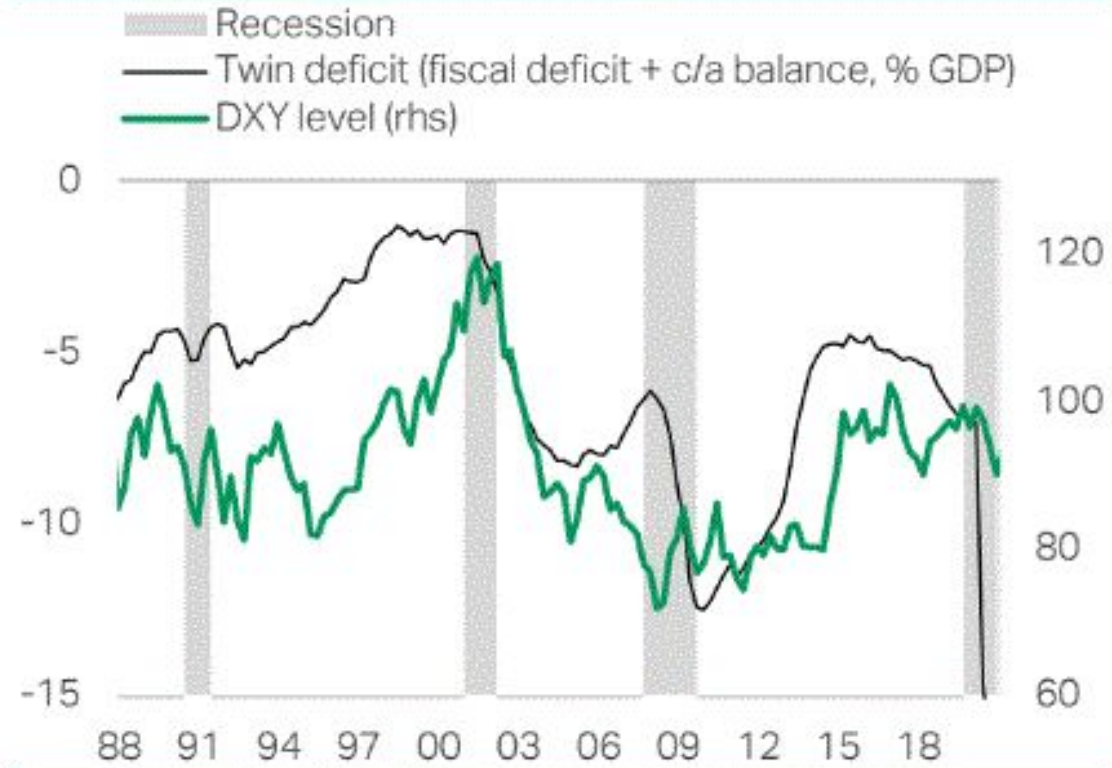


AUD/USD: Bearish Head and Shoulders



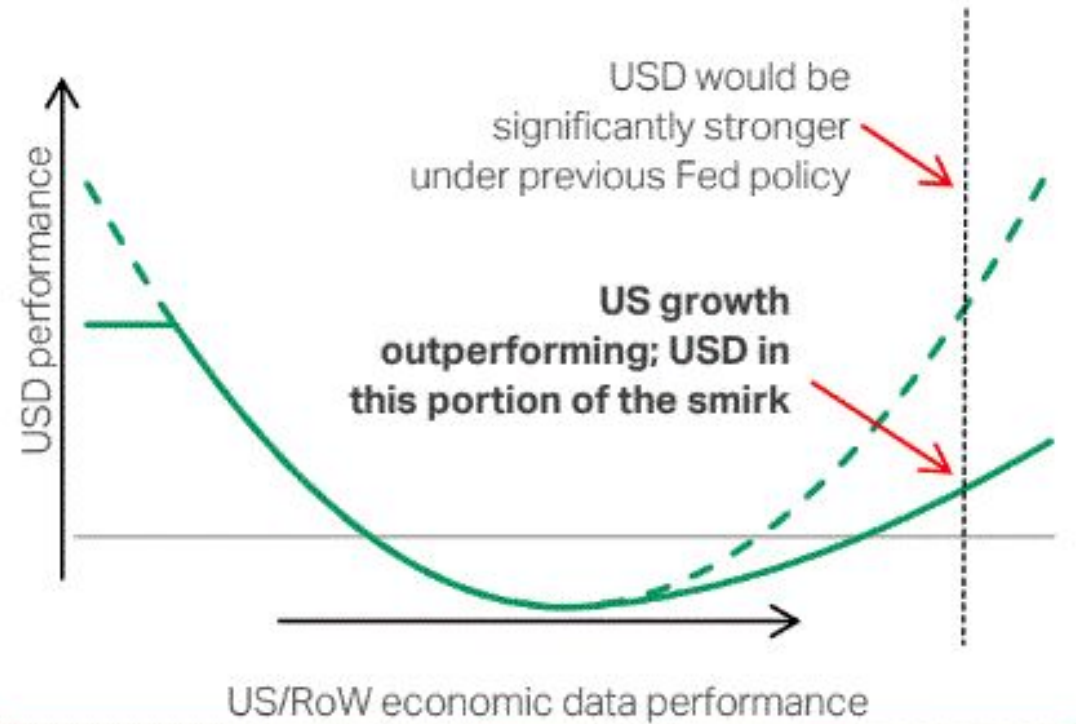
Relative Strength of US Dollar

If the twin deficit rises, USD unlikely to fall



Sources: TS Lombard, Bloomberg.

USD at the right-hand side of its smirk



Source: TS Lombard.

Risks

- Policy error
- Virus and Vaccines
- Emerging markets crisis
- Debt crisis
- European growth rebound

Investment Outlook & wrap up

Structural downturn lurking, acute or chronic?

Key positive factors

- Government stimulus
- Low probability of US tax hikes
- Earnings very good
- Inequality to increase

Other positive factors

- Bankruptcies limited
- Evictions limited
- Mortgage repayment holidays
- Wage growth very low
- Capital efficiency
- Low oil prices
- Vaccine hope
- Policy certainty
- Structural change in industries leading to cost efficiencies

Key negative factors

- Virus in Northern Hemisphere
- Valuation
- Latent bankruptcies
- Low genuine credit growth

Other negative factors

- Short term gap in US economic conditions
- Inequality longer-term effects
- Effects gradually rolling off
- Structural change in industries leading to weak demand
- Cycle
- Demand weak
- Australian stimulus badly targeted

Viewer question of the week:

Where do you see the AUD/USD in 6 months time?

Drop your answers in the comments

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