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Corporate Finance & FX Advisory

Currency Market - a TAT FX & Foresight view

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The AUD is looking to escape the grasps of a bearish trend that we have seen throughout this year: with the assistance of the weakening Greenback, and what looks to be seen as a positive statement from RBA yesterday morning.

The Australian Dollar had fallen more than 9% against the U.S. Dollar during the 10 months to the beginning of November - thanks to Reserve Bank of Australia interest rate policy, events then saw the currency correct higher.

A glimpse of a recovery in commodity prices and supportive global environment has pushed the AUD/USD back to the 0.72s.

It goes almost without saying the RBA held its cash rate at a record low of 1.5% again in November, citing below-target inflation. The bank wants to see the consumer price index rise sustainably above 2% before raising interest rates.

According to the RBA Governor, steady improvement in the economy and continued falls in unemployment will eventually lead to faster wage growth, which should also help lift inflation back within the 2% to 3% target band.

Australian inflation has spent most of the last five years below 2%, necessitating a steady pace of interest rate cuts to support the economy, which culminated in rates being cut to a record low in August 2016.

➢ AUD/USD

The AUD/USD rate was quoted 0.30% higher at 0.7232 during early trading Tuesday - the 6th, while the Pound-to-Aussie rate was down 0.25% at 1.8059. The Aussie was higher against all other G10 currencies for the session too.

A daily close above the 0.7244 level would mean the Australian Dollar's 2018 downtrend has been broken in a decisive manner, which could enable the current correction to extend all the way back up to 0.7474.

Foresight models continue to be more bearish then sell-side (smart-estimate) for AUD/USD. The projected rates are closer to 0.69-0.70 (~-0.8% to -3.2%) over the coming 12 months. Foresight projects over the 3-month period have very high accuracy, for instance the correlation between actual and forecast is over 90%.

Foresight Analysis: AUD/USD - bearish -0.8% to -3.2%

➢ **AUD/EUR**

Despite continued tensions between Italy and the European Commission over budget negotiations, the EUR managed to crawl back most of its earlier session losses, ensuring only a modest decline against the AUD.

Foresight Analysis: AUD/EUR - flat outlook

Foresight Foreign Exchange Forecast
Foreign Exchange Rate Forecasting: Base currency: Australian dollar - Price Currency: Euro - Spot Rate as at 30/09/18: 0.6345
The best model is one with the highest ratio between correlation and mean absolute deviation measures and is colored in orange.

Model	31/12/18 Expanding window	31/03/19 Expanding window	30/06/19 Expanding window	30/09/19 Expanding window
Relative purchasing power parity	0.6454 (1.72%)	0.6554 (3.29%)	0.6644 (4.71%)	0.6726 (6.00%)
Real interest rate differential	0.6347 (0.04%)	0.6352 (0.11%)	0.6356 (0.18%)	0.6360 (0.24%)
Behavioral equilibrium exchange rate	0.6236 (-1.71%)	0.6109 (-3.71%)	0.6040 (-4.81%)	0.6029 (-4.98%)
Behavioral equilibrium exchange rate with short run dynamic predictors	0.6189 (-2.45%)	0.6097 (-3.90%)	0.5929 (-6.56%)	0.6132 (-3.36%)
Average rate across models	0.6307	0.6278	0.6242	0.6312
Average return across models	-0.60%	-1.05%	-1.62%	-0.52%
	Real interest rate differential_Expanding window	Real interest rate differential_Expanding window	Real interest rate differential_Expanding window	Real interest rate differential_Expanding window
Rate from the best model	0.6347	0.6352	0.6356	0.6360
Return from the best model	0.04%	0.11%	0.18%	0.24%

Price_Currency   Model   Window
Euro   All   Expanding window

Source: Foresight Analytics
Data source: Thomson Reuters and Datastream

➢ **AUD/GBP**

The one exception to the broader trend was the GBP, which continued to rally on speculation of an imminent Brexit breakthrough. If the UK economy continues to hold up in the face of increasing Brexit uncertainty and political worries, this should encourage the GBP to return to a stronger footing.

Foresight Analysis: AUD/GBP - slightly bullish 0.5% to 1.7%

Foresight Foreign Exchange Forecast
Foreign Exchange Rate Forecasting: Base currency: Australian dollar - Price Currency: Pound Sterling - Spot Rate as at 30/09/18: 0.5519
The best model is one with the highest ratio between correlation and mean absolute deviation measures and is colored in orange.

Model	31/12/18 Expanding window	31/03/19 Expanding window	30/06/19 Expanding window	30/09/19 Expanding window
Relative purchasing power parity	0.5566 (0.86%)	0.5607 (1.60%)	0.5645 (2.29%)	0.5686 (3.03%)
Real interest rate differential	0.5547 (0.51%)	0.5562 (0.79%)	0.5587 (1.22%)	0.5612 (1.69%)
Behavioral equilibrium exchange rate	0.5481 (-0.69%)	0.5401 (-2.13%)	0.5335 (-3.34%)	0.5273 (-4.46%)
Behavioral equilibrium exchange rate with short run dynamic predictors	0.5481 (-0.69%)	0.5417 (-1.85%)	0.5442 (-1.39%)	0.5323 (-3.56%)
Average rate across models	0.5519	0.5497	0.5502	0.5473
Average return across models	0.00%	-0.40%	-0.30%	-0.83%
	Real interest rate differential_Expanding window	Real interest rate differential_Expanding window	Real interest rate differential_Expanding window	Real interest rate differential_Expanding window
Rate from the best model	0.5547	0.5562	0.5587	0.5612
Return from the best model	0.51%	0.79%	1.22%	1.69%

Price_Currency Pound Sterling	Model All	Window Expanding window

Source: Foresight Analytics
Data source: Thomson Reuters and Datastream

➢ **AUD/CNY**

The AUD strength continues into early November, but whether this period of appreciation can continue, might actually be closely tied to the fortunes of CNY, where the outlook remains shaky.

At present, a notable improvement in global investor sentiment has lifted Chinese stocks, the CNY and the AUD.

China is Australia's biggest export market; a stronger RMB increases Chinese corporate buying power and makes Australian exports more affordable. This in turn increases import demand in China, bidding up AUD in the process. How long will it last, is the question!

Foresight Analysis: AUD/CNY – bearish

Foresight Foreign Exchange Forecast
Foreign Exchange Rate Forecasting: Base currency: Australian dollar - Price Currency: Chinese Yuan - Spot Rate as at 30/09/18: 4.971
The best model is one with the highest ratio between correlation and mean absolute deviation measures and is colored in orange.

Model	31/12/18 Expanding window	31/03/19 Expanding window	30/06/19 Expanding window	30/09/19 Expanding window
Relative purchasing power parity	5.0550 (1.69%)	5.1377 (3.36%)	5.2008 (4.63%)	5.2434 (5.48%)
Real interest rate differential	5.0242 (1.07%)	5.0843 (2.28%)	5.1240 (3.08%)	5.1450 (3.50%)
Behavioral equilibrium exchange rate	4.9701 (-0.01%)	4.8714 (-2.00%)	4.7312 (-4.82%)	4.5662 (-8.14%)
Behavioral equilibrium exchange rate with short run dynamic predictors	4.9937 (0.46%)	4.7885 (-3.67%)	4.9526 (-0.37%)	4.8064 (-3.31%)
Average rate across models	5.0108	4.9705	5.0021	4.9402
Average return across models	0.80%	-0.01%	0.63%	-0.61%
	Relative purchasing power parity_Expanding window	Behavioral equilibrium exchange rate_Expanding window	Behavioral equilibrium exchange rate_Expanding window	Behavioral equilibrium exchange rate_Expanding window
Rate from the best model	5.0550	4.8714	4.7312	4.5662
Return from the best model	1.69%	-2.00%	-4.82%	-8.14%

Price_Currency Chinese Yuan	Model All	Window Expanding window

Source: Foresight Analytics
Data source: Thomson Reuters and Datastream

➢ **AUD/INR**

Rupee has fallen in value, due to a widening current account deficit. The main culprit of this is the rise in oil prices over the past several months. India is a large importer of oil, and a higher oil price is a big negative for its current account. The worsening current account deficit has led to the rupee selling off strongly.

The Indian government has been acting by restricting imports of non-essential goods, such as gold, and also allowing banks to raise debt capital from overseas. Yet, it has continued to fall, and with the RBI keeping rates on hold at 6.5%, it will continue to put downward pressure on the INR.

Foresight Foreign Exchange Forecast

Foreign Exchange Rate Forecasting: Base currency: Australian dollar - Price Currency: Indian Rupee - Spot Rate as at 30/09/18: 52.42

The best model is one with the highest ratio between correlation and mean absolute deviation measures and is colored in orange.

Model	31/12/18 Expanding window	31/03/19 Expanding window	30/06/19 Expanding window	30/09/19 Expanding window
Relative purchasing power parity	52.5658 (0.28%)	53.1172 (1.34%)	53.6192 (2.29%)	54.1144 (3.24%)
Real interest rate differential	51.8242 (-1.13%)	51.6603 (-1.44%)	51.6070 (-1.55%)	51.5910 (-1.58%)
Behavioral equilibrium exchange rate	51.6361 (-1.49%)	51.5871 (-1.58%)	52.4050 (-0.02%)	53.4610 (1.99%)
Behavioral equilibrium exchange rate with short run dynamic predictors	49.2527 (-6.04%)	52.0090 (-0.78%)	52.5295 (0.21%)	54.0140 (3.05%)
Average rate across models	51.3197	52.0934	52.5402	53.2951
Average return across models	-2.09%	-0.62%	0.23%	1.68%
	Real interest rate differential_Expanding window	Relative purchasing power parity_Expanding window	Real interest rate differential_Expanding window	Relative purchasing power parity_Expanding window
Rate from the best model	51.8242	53.1172	51.6070	54.1144
Return from the best model	-1.13%	1.34%	-1.55%	3.24%

Price_Currency	Model	Window
Indian Rupee	All	Expanding window

Source: Foresight Analytics
Data source: Thomson Reuters and Datastream

Major events/data this month:

⇒ Thursday 8, 2018
Feds Monetary Policy Statement - United States
Fed Interest Rate Decision - United States

⇒ Friday 9, 2018
RBA Monetary Policy Statement - Australia
Gross Domestic Product (QoQ/MoM) - United Kingdom

⇒ Wednesday 14, 2018
Gross Domestic Product (QoQ) - Germany
Core Consumer Price Index (YoY) - United Kingdom
Consumer Price Index (YoY) - United Kingdom
Gross Domestic Product s.a. (QoQ/YoY) - European Monetary Union
Consumer Price Index Ex Food & Energy (YoY) United States

⇒ Thursday 15, 2018

Employment Change s.a. Australia

Participation Rate - Australia

Unemployment Rate s.a. - Australia

Retail Sales control group - United States

Retail Sales ex Autos (MoM) - United States

⇒ Friday 16, 2018

Consumer Price Index - (YoY) / Core (YoY) - European Monetary Union

⇒ Tuesday 20, 2018

RBA Meetings Minutes - Australia

BoJ Monetary Policy Statement - Japan

⇒ Thursday 22, 2018

ECB Monetary Policy Meeting Accounts - European Monetary Union

⇒ Friday 23, 2018

Retail Sales (MoM) - Canada

Consumer Price Index (YoY/MoM) - Canada

Bank of Canada Consumer Price Index Core (YoY/MoM) - Canada

⇒ Wednesday 28, 2018

Gross Domestic Product Annualized - United States

Core Personal Consumption Expenditures (QoQ) - United States

⇒ Thursday 29, 2018

Core Personal Consumption Expenditure - Price Index (YoY) - United States

FOMC Minutes - United States

Tokyo CPI ex Fresh Food (YoY) - Japan

⇒ Friday 30, 2018

Consumer Price Index - Core (YoY) - European Monetary Union

Consumer Price Index (YoY) - European Monetary Union

Find more about the Foresight Currency Market review below:

[Foresight currency market review – Nov 2018](#)

[Foresight FX report - 30.09.2018](#)