

Currency Market Review

A Foresight Report



Foresight Analytics

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Foresight currency market review

Longer term trend for AUD remains negative against major trading partners March 2019

Summary:

- While AUD has made some gains against major currencies over the past one and three months, the longer-term trend has been negative
- The continued soft outlook for AUD is underpinned by weaker domestic economic data, dovish RBA and mixed outlook for commodity prices
- Volatility of AUD against JPY and Swiss Francs stand out
- The USD Index continues to display an uptrend despite the shift in Fed Reserve policy stance
- The British Pound index continues to experience heightened volatility as 'Brexit' drama continues in UK

Exhibit 1. The Australian dollar index (as proxied by REER - real effective exchange rate) maintains its downward trajectory reflecting weakness against major trading partner currencies.



- The moving average of the real Australian dollar index highlights the continued weakness of the AUD as the exchange rate continues to decline against its major trading partners
- This bearish trend is underpinned by weak domestic economic data and dovish stance taken by the RBA
- Broader geopolitical concerns and trade wars also weighed on the AUD which is often perceived as a 'risk' currency

Exhibit 2. Longer term performance of AUD against major currencies have been negative. Volatility against JPY and Swiss Francs stand out over the past year.

Top 15 currencies by weight in the MSCI ACWI NR index (March 2019)			Currency Pairs Returns (31.03.2019) The returns are calcuated using monthly closing mid spot rates at 4 p m London time expressed as amount of foreign currencies for one unit of Australian dollar.										
US Dollar	57	.61%	1 month	3 month	6 month	1 year A	nnualised 2 year	Annualised 3 year	Annualised 5 year	Annualised 7 year	Annualised year	10 Annualised year	
Furo		AUDUSD	0.02%	0.64%	-1.85%	-7.39%	-3.55%	-2.51%	-5.19%	-5.24%	0.25%	-0.51%	
	9.46%	AUDEUR	1.39%	2.90%	1.57%	1.52%	-6.01%	-2.04%	-1.22%	-2.86%	1.94%	0.11%	
Japanese Yen	7.23%	AUDJPY	-0.46%	1.82%	-4.31%	-3.60%	-3.78%	-3.00%	-9.83%	-1.21%	1.41%	-0.11%	
		AUDGBP	1.79%	-1.47%	-1.87%	-0.60%	-5.33%	0.70%	-0.42%	-2.41%	1.20%	1.82%	
Pound Sterling	5.16%	AUDHKD	0.02%	0.87%	-1.58%	-7.37%	-3.06%	-2.12%	-4.97%	-5.10%	0.38%	-0.47%	
Hong Kong Dollar	3.79%	AUDCAD	1.38%	-1.51%	1.49%	-4.35%	-3.44%	-1.66%	-1.54%	-1.22%	0.81%	-0.39%	
		AUDCHI	-0.28%	2.04%	-0.53%	-3.59%	-3.92%	-1.38%	-2.93%	-3.90%	-1.09%	-2.10%	
Canadian Dollar	3.12%	AUDKRW	1.04%	2.72%	0.56%	-0.96%	-2.70%	-2.72%	-3.93%	-5.18%	-1.62%	-0.55%	
Swiss Franc	2.68%	AUDTWD	0.11%	1.54%	-0.59%	-1.99%	-2.72%	-3.89%	-4.94%	-4.64%	-0.69%	-0.96%	
		AUDINR	-2.32%	0.08%	-6.35%	-1.81%	-0.39%	-1.09%	-2.46%	-0.99%	3.44%	2.63%	
Australian Dollar South Korean Won	Periodic Volatility of Currency Pairs (31.03.2019) The volatility is calcuated using monthly closing mid spot rates at 4 p.m. London time expressed as amount of foreign currencies for one unit of Australian dollar.												
Journal Carl Hon			1 year	Annual	lised 2 year	Annualised 3 year	r Annualis	ed 5 year 🛛 🕅	nnualised 7 year	Annualised	10 year Ar	nnualised 15 y	
New Taiwan Dollar	1.30%	AUDUSD	8.09%	1	4.53%	8.75%	9.5	2%	9.92%	11.98	%	12.84%	
Indian Rupee	1.03%	AUDEUR	9.20%	1	1.35%	7.89%	8.02%		8.7S%	8.86%		8.80%	
Indian Rupee									11.60%	13.12	%	14.61%	
Indian Rupee		AUDJPY	10.63%	1	0.00%	10.07%	10.5	o4%					
Indian Rupee Brazilian Real		AUDIPY	10.63% 8.45%		0.00% 4.00%	10.07%	10.9		10.32%	10.55	%	10.90%	
Brazilian Real	D.83%							57%	10.32% 9.83%	10.55		10.90%	
	D.83%	AUDGBP	8.45%	3	9.00%	11.93%	10.3 9.4	57%			%		
Brazilian Real Swedish Krona	D.83%	AUDGBP AUDHKD	8.45%	1	8.00% 8.55%	11.93% 8.73%	10.3 9.4	3% 1%	%EB.9	11.85	% 6	12.75%	
Brazilian Real Swedish Krona South African Rand	0.83% 0.75% 0.67%	AUDGBP AUDHKD AUDCAD	8.45% 7.96% 7.00%	3	4.00% 4.55% 5.40%	11.93% 8.73% 6.40%	9.4 9.4 5.7 9.5	3% 1%	9.83% 7.18%	11.85	% 6 6	12.75% 9.01%	
Brazilian Real Swedish Krona	0.83% 0.75% 0.67%	AUDGBP AUDHKD AUDCAD AUDCHF	8,45% 7,96% 7,00% 10,25%		9.00% 4.55% 5.40% 9.32%	11.93% 8.73% 6.40% 8.14%	10.3 9,4 5,7 9,5 7,5	57% 3% 1% 8%	9.83% 7.18% 9.67%	11.85 7.909 9.749	54 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5	17.75% 9.01% 10.48%	

Source: Foresight Analytics Data source: Morningstar and Thomson Reuters

- The AUD has negative currency returns against all major currencies between the periods of 1 year to annualized 5 years. Across this broad-based weakness, continuous negative returns are more pronounced against the USD.
- This negative returns against the USD are further weakened by the high level of currency volatility between the AUD and US dollar over the past 10 years.
- The poor performance of the AUD comes on the back of weaker domestic economic data and dovish stance of the RBA.

Exhibit 3. Long term trend of the real US dollar index (REER) remains positive



• The US dollar Index continues its upward trajectory despite the Federal Reserve Bank taking a dovish stance last month

Exhibit 4: Uncertainty surrounding Brexit continues to weaken GBP against its major trading partners



- The GBP Index shows continued volatility of the currency against its major trading partners.
- This volatility is expected to continue until the confirmation of Brexit terms

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