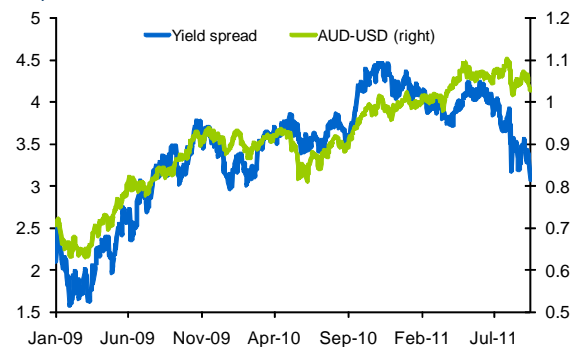


# Market Watch

15 September 2011

## Interest rate differentials not as supportive 3yr government bond yield spread (Australia minus US) versus AUD-USD



Source: Bloomberg, Standard Chartered

## AUD-USD resting on key support levels between 0.99 and 1.01



Source: Bloomberg, Standard Chartered

## USD also strengthening against Asian currencies ADXY



Source: JP Morgan, Bloomberg, Standard Chartered

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## AUD: Heightened risks?

- AUD-USD approaching key support in the 0.99-1.01 area
- Global risk aversion partly responsible – the USD has been strengthening against Asian currencies - but deterioration in local economic fundamentals also important
- Unclear whether “Operation Twist”, America jobs plan sufficient to boost risk appetite amidst significant uncertainty in Europe
- On the other hand, the AUD bounced significantly after Bernanke hinted at the possibility of QE2 in 2010 - we expect QE3 in Q1 2012

### AUSTRALIA

- Economic growth slumps in H1
- Concerns over the outlook for the key property sector rise as house prices start to fall modestly. Building approvals are down 15% yoy
- Retail sales slow significantly while unemployment edges higher
- Expectations have shifted from further Reserve Bank of Australia (RBA) rate hikes to the prospect for the RBA to unwind 150bps of the 175bps in rate hikes seen over the past 24 months
- AUD-USD interest differentials have fallen sharply, despite the US’s implicit easing in policy, undermining support for the AUD

### INTERNATIONAL

- Risk aversion has increased on continued global growth concerns, heightened uncertainty in Europe and weak leadership on both sides of the Atlantic. High yield currencies have suffered as a result
- Removal of CHF as a safe-haven currency – following the implementation of a one-sided CHF peg to the EUR – has pushed investors back towards the USD in times of risk aversion. Asian FX also suffering
- Industrial metals have fallen 10-15% since the beginning of August and the correlation with AUD-USD has increased to around 0.6
- Expectations for QE3 could be very supportive for the AUD in Q4

### TECHNICALS

- AUD-USD down 7.3% from its July 31<sup>st</sup> peak
- AUD-USD is testing key support levels, which include key trend support stretching back to early 2009 (around 1.01) and the 38.2% Fibonacci retracement of the appreciation since mid-2010 (0.9930).

## Disclosure Appendix

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