$AUS, WHEN SHOULD I MOVE MY MONEY?

By Stephen Caswell - MMT Financial Solutions

The perennial question for Australian ex-pats is "which direction is the $Aus going and is now a good time to move my money?"

Before we attempt to answer that question, it is appropriate to look at what influences the direction of the Australian currency; and then, as there are so many influences we will try to distil them down to a manageable few. Most fundamentally currency is demand focused, if more people want to buy than sell the value goes up and vice versa.

Apart from the obvious demand by businesses trading internationally and travellers moving around the world, the major influence on currency exchange rates are institutions and investors trying to pick the currency direction for investment gains (or to prevent losses). Currency is always valued on a relative basis i.e. AUD v GBP, AUD v EURO, AUD v THB etc., and the most common AUD v USD.

So what influences whether people are buyers or sellers of the Australian dollar? Key themes which can influence $A values are;

- **The outlook for global economic growth**; generally, when global growth forecasts are revised down the AUD/USD tends to come under downward pressure due to our reliance on exports. Further, when investment markets are volatile investors tend to favour the relative safe haven of the USD. Obviously, the opposite situations are positive for the AUD.
- **Movements in commodity export prices**; due to Australia's heavy reliance on exporting commodities including iron ore and coal, any movement in commodity prices will have an influence on Australia's terms of trade and by extension the value of the AUD.
- **The gap between global interest rates**; Australia has historically maintained interest rates significantly higher than the US and, due to its relative 'safe haven' status, Australia is an attractive place for overseas investors to invest thereby increasing demand for the AUD; as interest rates increase around the world in particular the US, we have seen movement out of the AUD.
- **The direction of major Asian currencies**; due to Australia's heavy reliance on exports to its Asian neighbours representing more than 75%, the AUD is influenced by the direction of other Asian currencies. This is clearly evident on the focus of investment markets on the direction of China's economy and its impact on Australia's exports, and by extension the AUD.

The above is a relatively simplistic view of what is an extremely complex subject, on any day there are a myriad of factors influencing the value of the AUD falling broadly, but not exclusively, into; Macro Economic Factors i.e. global economic growth, oil and gold prices, global investment appetite risk-on of risk-off (whether investors are optimistic or pessimistic), and as we have seen recently geopolitical events i.e. Brexit, Trump; Micro Economic Factors i.e. domestic GDP, balance of trade (surplus/deficit), unemployment rate, inflation, consumer and business confidence, to name a few; Monetary Policy where the Reserve Bank looks to manage money flows by increasing or decreasing the 'cash rate' to moderate or expand economic growth, and importantly voicing its view on the direction of the Australian economy.

Over the past five years we have seen the AUD fall from a high of 1.05964 in April 2012, to a low of 0.68587 in January 2016, to a current level of around 0.75013. The problem for anyone contemplating a currency transaction, due to the complexities described above, there is no clear short term direction on which to base your decision; the trick is determine a level at which you are comfortable and/or to consider the opportunity cost of not making a decision.

Clients are encouraged to call me if you have any questions or concerns.

As with any investment decision one should seek advice from your professional adviser before investing!

.