

AUD determine the outlook

Tuesday, 28 October 2008

The Australian Dollar appears to have resumed its downward trend following a couple of days of consolidation. Higher than expected inflation data from the third quarter has provided some support as it lowered expectations of a further cut in interest rates. However, despite the elevated price pressure, RBA Governor Stevens fully expects inflation to ease as growth slows which he reinforced when he stated "Forces seem now to be building that will start to dampen pressures on prices -- even though we won't have evidence of that for a good six months". Therefore, expectations are that the central bank will continue to cut rates which will be a weighing factor on future price action.

On top of the poor domestic data the Aussie also suffered from the continued unwinding of carry trades as investors pursued their flight for safety, with the beleaguered currency hitting a 7 year low against the Yen and 5 year low against the USD.

Overall the GBP/AUD cross looks set to be governed by weakness, with exchange rates likely to depend on which economy is weaker at any given time. Analysts are pointing to interest rate futures to try and determine the outlook, with both central banks looking to ease the cost of lending over the next quarter. Those buying the AUD might want to make use of Limit orders to take advantage of the current highs and volatile market and Stop Loss orders to prevent any sudden market movement in the opposite direction. If you do not need your currency just yet but like the rates you are seeing make sure you speak to your account manager about the option of buying forward.