

Currency Profile for the Australian Dollar



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A MarketLinkSM Service from Travelex Global Business Payments

AUD performance against the U.S. dollar:

Current bias for the AUD: Neutral

AUD set a one-month high in mid-February

Past week: -0.77%

Past month: -0.63%

Year-to-date: -0.22%

Sources of AUD strength:

The Reserve Bank of Australia raised lending rates three times in the end of 2009 and is widely expected to continue tightening policy further in the months ahead. The AUD's improving yield appeal remains a key source of its strength.

A surprisingly resilient domestic economy, one of the few to have avoided recession in the wake of the crisis, continues to benefit from regional expansion, particularly in China.

Improved sentiment and optimism about a global recovery fuels demand for higher yielding and riskier assets.

Australia's economy has added jobs for five months straight leading up to January. The unemployment rate has fallen to one-year low, highlighting the accelerating recovery.

Soaring commodity prices remain a draw for the AUD. Crude oil near \$80/barrel and gold over \$1,100/ ounce remain broadly supportive of Australia's key resource exports.

Sources of AUD weakness:

The RBA surprised markets by not raising rates by 25 basis points in February. It highlighted the gradual approach to policy tightening likely to be taken by the central bank, which contrasts the more aggressive outlook already priced in.

Monetary tightening in China, as evidenced by the raising of reserve requirements for banks, could put the breaks on a key engine of global economic recovery and undermine some demand for Australia's commodity exports.

While the global economy has improved markedly in recent months, the sustainability of the recovery remains suspect. Signs that growth is failing to meet the market's elevated expectations would weigh on risk appetite and the AUD.

Monetary Policy: The Reserve Bank of Australia (RBA) raised its key cash rate three times in the last three months of 2009, becoming the first of the major industrialized economies to tighten monetary policy in the wake of the global financial crisis. Monetary officials paused in their tightening cycle in February, a move that came as a surprise to many market participants. The surprising resilience of its domestic economy and the relative strength of regional economic conditions should see the RBA resume its tightening cycle in the months ahead. However, monetary tightening in China and concerns about spreading sovereign credit risk in Europe could see the RBA adapt a more gradual pace of rate hikes than many had expected. Australia's proximity to and strong trade ties with regional powerhouses like China have helped dull the blow of the global slowdown and saw its economy benefit from steady demand (and rising prices) for its key commodity exports. Domestically, low borrowing costs, a relatively healthy banking system and improving labor market kept growth underpinned. Recent economic data highlighted surprisingly strong consumer spending and a drop in the unemployment rate to its lowest in a year. Consequently, the RBA is likely to lift its key cash rate from the current 3.75% again at upcoming meetings. However, officials are likely to maintain a more cautious approach to tightening, especially in light of the clouded regional economic outlook amid a backdrop of additional monetary tightening in China. Conversely, signs of accelerating inflation and continued improvement in labor markets could force the RBA to speed up its pace of lending rate hikes.

AUD Outlook: Balance of market opinion: Neutral

The Australian dollar has been one of the main beneficiaries of the revival in global investor risk appetite in 2009. Much of the AUD's strength was the result of the improving global economic outlook in the wake of the worst financial crisis in generations. Improving optimism about recovery and the resulting demand for higher yielding and growth-dependent assets spurred a wave of demand for the AUD, which was complimented by the rise in the price of the nation's key commodity exports. The RBA's policy tightening campaign, the first of the major central banks, added to the Aussie's broad appeal for much of 2009. Most recently though, the Australian dollar's rally has lost steam amid concerns that its key trading partner, China, is applying the breaks on its economy, which has been a key source of demand for Australian exports. Moderating growth in China and a general sense of disappointment in the pace of global recovery could limit AUD gains going forward. However, the Aussie should remain well supported by expectations for additional RBA policy tightening in the months ahead.

Upcoming critical events:

Mar 2: AU January Retail Sales

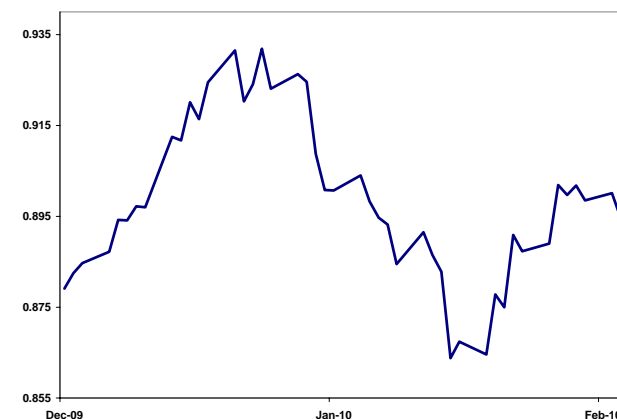
Mar 2: RBA Policy Board Meeting

Mar 4: AU Q4 GDP

Mar 10: AU January Unemployment Rate

Mar 30: AU February Private Sector Credit

Economic indicators	AUD	USD
3-month Deposit Rate	4.19%	0.40%
GDP (annual rate)	0.6%	5.7%
Inflation (annual rate)	2.1%	2.7%
Unemployment	5.3%	9.7%
Trade Balance (US\$)	-7.1 bln	-517.0 bln



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