



Viewpoint: AUD/USD can still fall further despite supportive commodity prices

AUD falters as fresh RBA easing comes into focus

Chart 1: AUD/USD and AU-US10yr spread trend lower

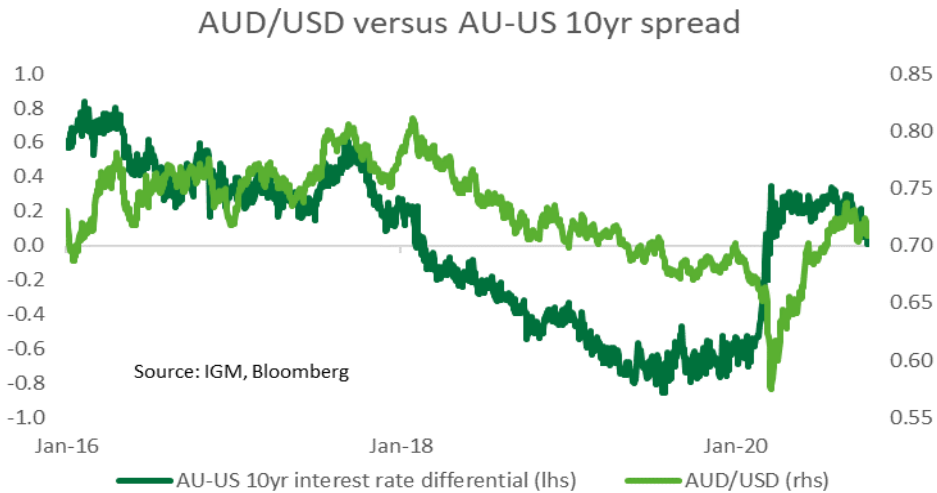
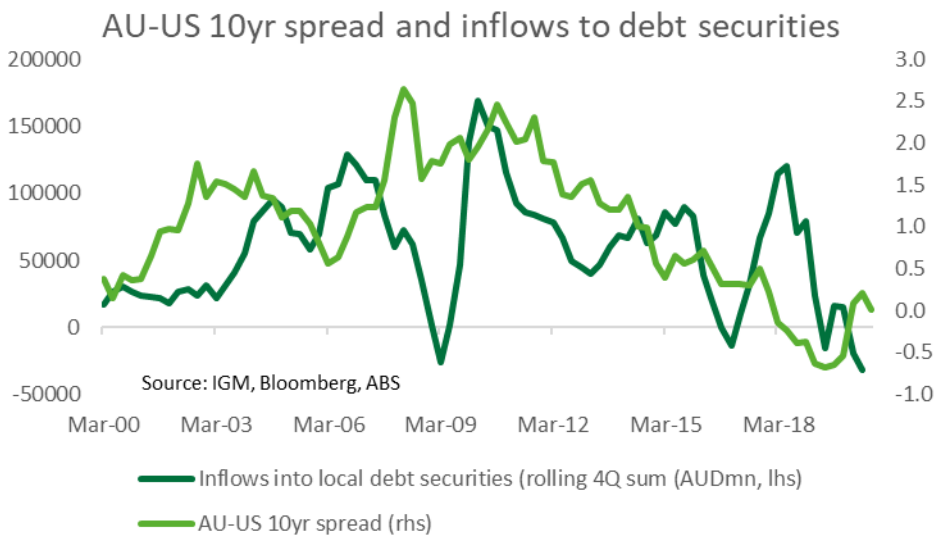


Chart 2: AU-US 10yr spread and inflows into local debt securities





Viewpoint: AUD/USD can still fall further despite supportive commodity prices ...cont'd

Stronger commodities are an important offset

Chart 3: Simple fair value for AUD/USD suggests the A\$ is cheap

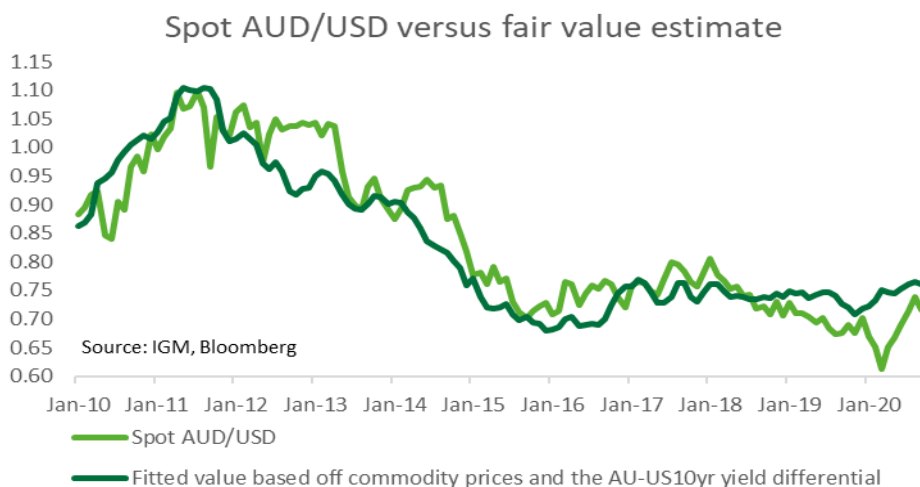
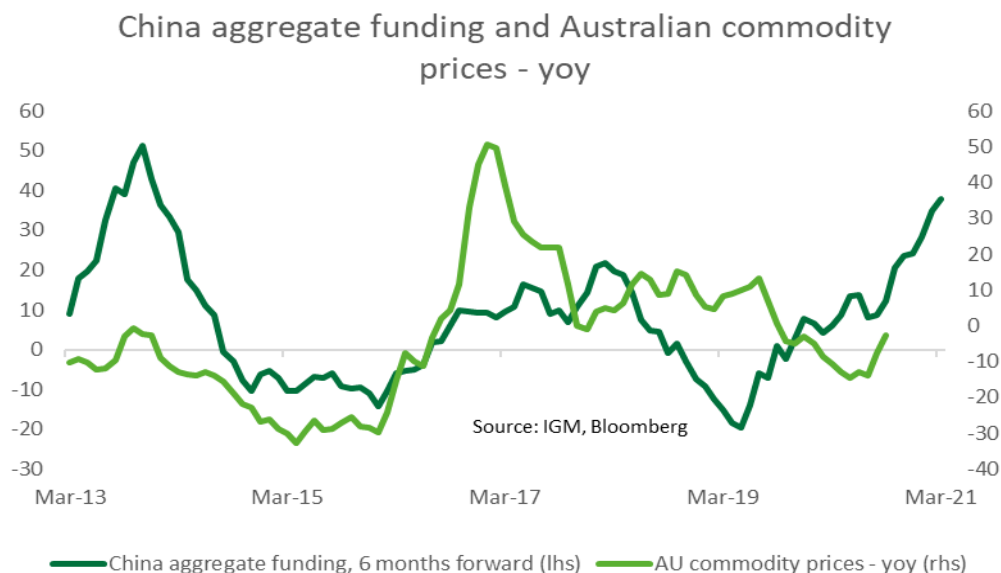


Chart 4: A stronger China typically leads to higher AU commodity prices





Viewpoint: AUD/USD can still fall further despite supportive commodity prices ...cont'd

But this is unlikely to prevent further weakness in the near term

Chart 5: Commodity price correlation with the A\$ has fallen in the past 12 months

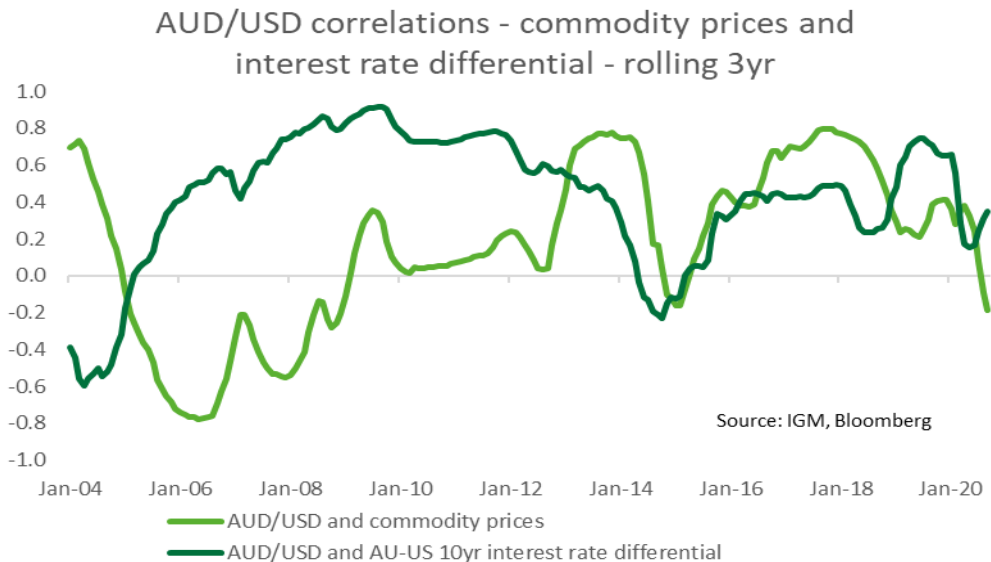
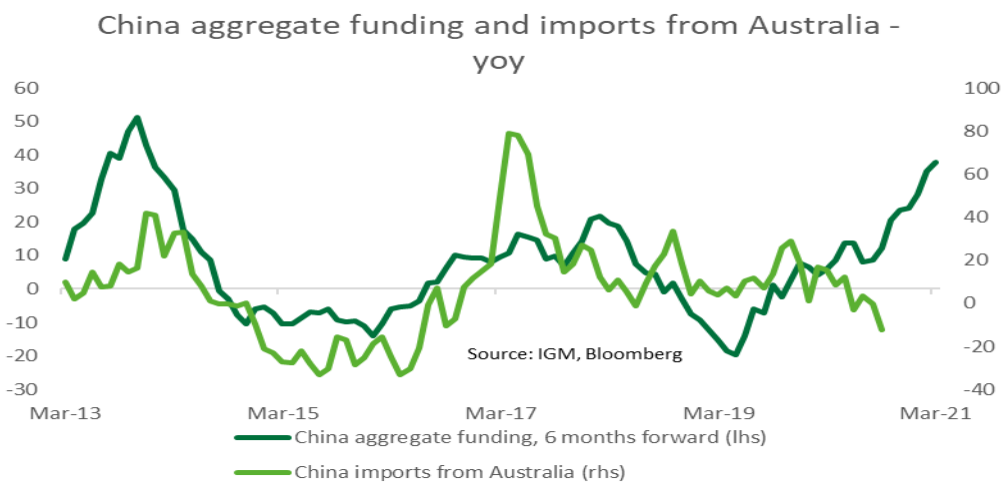


Chart 6: China uplift not boosting imports from Australia yet





Viewpoint: AUD/USD can still fall further despite supportive commodity prices ...cont'd

- Yield momentum has clearly shifted against AUD/USD as the market looks for fresh easing from the RBA at the November meeting.
- Higher commodities still underpin higher levels of AUD/USD fair value and will act as a medium-term support for the currency.
- This is unlikely to prevent lower A\$ levels in the near term though – correlations with commodity prices have been declining in the past 12 months. Trade tensions with China may also be a source of concern in terms of how much benefit Australia actually enjoys from stronger China activity.
- The level of fair value is also declining due to lower yields, which typically coincides with weaker spot levels.
- The market is likely to maintain a short A\$ bias into next month's RBA meeting. We retain a short AUD/IDR view via the 3-month forwards. Current spot is 10418 versus entry level of 10572 (see this [link](#)).

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Full report is available to IGM clients upon request, please email to sales@informagm.com

Jonathan has +17 years of direct APAC market experience and joined IGM from JP Morgan where he was the Head of EM Asia FX Strategy (based in Singapore) for five years. Prior to this he spent over a decade at Westpac, in senior roles, including a senior currency strategist and started his career as an economist at the Reserve Bank of Australia.

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