

Forex Focus: Aussie Looking Ripe For A Fall

By Nicholas Hastings

A DOW JONES NEWSWIRES COLUMN

LONDON (Dow Jones)--The Aussie dollar's bounce over the last few days is totally unconvincing.

If anything, the currency's climb back over \$0.90 makes it look even more ripe for selling.

See how the Aussie has bounced:

<http://www.dowjoneswebservices.com/chart/view/4441>

At the moment, a recovery in global risk appetite combined with an upbeat assessment from the Reserve Bank of Australia have helped to fuel the rebound.

After all, the Australian economy is still well out front in terms of growth prospects of major economies. As the latest business sentiment survey from Germany reminded us Tuesday, strong improvements in the first half of the year are likely to disappear quickly in the second half.

However, despite all the optimism from the RBA, which has some economists anticipating another Australian rate hike as early as November, the outlook for the Australian economy, and for the Aussie, is not anywhere as good as it once was.

The decline that has brought the Aussie back down from well over \$0.92 early this month looks very much like it is here to stay.

First of all there are international pressures.

The outlook for the global recovery is being ratcheted steadily lower, not only because of disappointing growth data from the U.S., the euro zone and Japan, but also from signs that the Chinese economy is losing momentum.

This means that Australia's primary trading partner is not living up to scratch and commodity prices, to which the Aussie is so closely aligned, are likely to continue softening.

As Bank of New York Mellon's currency strategist Neil Mellor pointed out: "Perhaps significantly, the Australian dollar's lock step retreat with the Commodity Research Bureau index since early last week has also coincided with a modest retreat by investors from Australia's asset markets."

There is also the risk element.

If the global economic outlook continues to deteriorate and international investment flows continue to shift in

favor of safe havens, then the higher-yielding Aussie will be even more in the firing line.

Domestic developments aren't helping the Aussie either.

Although the RBA may say the current level of interest rates is appropriate for now, there are those who feel that the central bank's past rate increases have been overdone. In other words, the RBA has raised rates too fast too soon, given that the global recovery is now struggling.

As these higher interest rates start to bite, Australia could well be forced to scale back its growth projections even more.

Last but not least of the domestic risks for the Aussie is this weekend's general election. Prime Minister Julia Gillard's bid to keep her Labor Party in power could easily fail--leaving Australia with a hung parliament that would hardly be seen as supportive for the country's currency.

Early Wednesday, the Aussie had slipped slightly to \$0.9027 by 0645 GMT from \$0.9052 late Tuesday in New York, according to EBS.

Profit-taking hit most high yielders, which had previously benefited from stronger data from the U.S., upbeat comments about the economy from Minneapolis Fed President Narayana Kocherlakota and rallies in both the Dow Jones Industrial Average as well as the Nikkei.

The euro slipped back to \$1.2847 from \$1.2879 and to Y109.81 from Y110.12. The dollar was flat at Y85.51 compared with Y85.50.

Bloomberg TNI FRX POV