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HD **Aussie Dollar Parity Talk Resumes; Australian Currency Hits Eight-Month Peak as Higher Interest Rates and Bond Yields Attract Global Investors**

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SYDNEY—The Australian dollar is catching up with its U.S. namesake as higher interest rates and bond yields lure investors from around the world.

The Australian dollar, also known as the Aussie, has risen 6.5% against the U.S. dollar so far this year, making it the second-best-performing major currency after the New Zealand dollar. In the futures market, hedge funds and other money managers are holding the biggest bullish bet on the currency since April 2013, according to the latest data from the U.S. Commodity Futures Trading Commission.

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Tuesday, bullish investors got further ammunition when the Reserve Bank of Australia held interest rates steady at a record-low 2.5% but left out a reference to uncertainty over the need for further stimulus to offset the impact of slowing **mining** investment and planned fiscal austerity.

Traders interpreted the absence of this line, which was included in the minutes from the RBA's June meeting, to mean that further rate cuts were less likely. Falling interest rates tend to boost bond prices, which move in the opposite direction of yields, but weigh on currencies.

The Aussie traded as high as US$0.9506, less than five U.S. cents from parity with the U.S. dollar. The last time the two currencies were at parity was in May 2013. The Aussie jumped 0.8% on Tuesday to a nearly eight-month high.

The yield on the 10-year Australian government bond rose to 3.586%, from Monday's 3.531%. The yield on the 10-year U.S. Treasury was at 2.563% Tuesday.

As central banks in the U.S., Europe and Japan continue to keep interest rates low, the Australian currency and **bonds** are becoming a favorite haven for fund managers looking for some returns on their investments.

Also bolstering the outlook for Australian assets are recent data pointing to stability in **China**, the biggest customer for Australia's **mining** riches.

Richard Grace, global head of foreign-exchange strategy at Commonwealth Bank of Australia, predicts the Aussie will climb to 99 U.S. cents by the first quarter of 2015. Even if the Federal Reserve raises interest rates, it will take time for Treasury yields to rise high enough to be attractive again. "The Australian dollar has a lot going for it" because the difference in yields is quite high, Mr. Grace said.

An important support for the currency is Japanese life-insurance firms offering retail clients high-yielding products underpinned by Aussie **bonds**. This is on top of buying by many of the world's central banks and sovereign-wealth funds, which in past years have allocated more of their investment portfolio to Australia., buying vast amounts of **iron** and **coal**, which together comprise around 30% of the country's total export basket

"Australia is getting attention as an investment destination because European bond yields have fallen quite a bit," said Takashi Hiratsuka, a senior trader in the asset-management division of Resona Bank, which has about ¥17 trillion ($167.8 billion) in assets.

The recent rally in the Aussie illustrates how investors' appetite for risk is returning following shakeouts in global financial markets in recent months. One reason investors demand higher yields from Australian government bonds despite the country's triple-A rating is the Aussie's tendency to swing more wildly than many other currencies.

The Aussie fell 11% against the dollar between October 2013 and January 2014 amid deepening concerns about the slowdown in China and its implications for Australia's exports of iron ore and coal. Despite this year's jump, the currency is 14% below a nearly 29-year high in July 2011, when outlook for China's commodity demand was brighter.

Pacific Investment Management Co. has been trimming bets on Australian government debt this year although the money manager, which oversees $1.9 trillion, still holds more than recommended by its bond-fund benchmarks. Pimco is locking in profits due to declining prices for Australia's commodity exports and uncertainty about Australia's growth, said Scott Mather, Pimco's head of global portfolio management. Iron-ore prices recently fell to a two-year low. However, "we doubt a big reversal is likely soon," Mr. Mather said.

The RBA statement was released as two measures of manufacturing activity in China indicated rising output from its factories. More factory activity could increase China's demand for raw materials, potentially benefiting Australia's economy and currency.

Not all investors believe the Aussie is in the clear. Nuveen Asset Management closed out a bet on the Aussie in recent weeks. Portfolio manager Steve Lee said he was concerned that a Chinese probe into the use of metal as collateral for loans could show less industrial demand for Australia's exports than previously believed.

"There are better opportunities in other markets for currency appreciation and higher real yields," Mr. Lee said.

And the RBA in the past has been sensitive to the headwinds a strong currency poses for the economy. A stronger currency deters tourism and puts exports at a competitive disadvantage to rivals in other countries. For now, though, analysts say the central bank is constrained from cutting rates further because it wants to avoid bolstering a hot housing market.

In its July policy statement, the Reserve Bank indicated continuing discomfort with the exchange rate, but didn't go so far as to alter its neutral policy bias in response.

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