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HD **$A reaches year high of US91¢**

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Currency - Analysts say downward trend not over yet

A surprisingly strong run of economic data in the past week, including evidence of higher retail spending and building approvals, has pulled the Australian dollar back above US90¢ and raised familiar frustrations for companies on the foreign exchange front.

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On Friday it was fetching US91.13¢, the highest level this year.

Reserve Bank of Australia governor Glenn Stevens described the currency as still "high by historical standards" in a statement that morning.

Goldman Sachs**equity** strategist Matthew Ross said the general rule was that a lower currency was better for the Australian sharemarket. However, it was important to identify what conditions were underpinning the move in foreign exchange.

"If the currency is going lower because commodity prices are declining, then that would be the best of both worlds for the average Australian industrial **company** that's not that leveraged to the Australian resource sector," Mr Ross said. "[For] sectors like retail that have higher levels of input costs priced in US dollar terms it's potentially not that good."

However, this time currency traders appear to be responding to the fact the Australian economy is in an upswing and the prospects of further rate cuts are diminishing.

"It is quite clear the Australian dollar remains above fair value and in a sense the Australian economy would perform better were the currency lower," said BT Financial Group chief economist Chris Caton, who thinks the RBA is finished easing and that realisation is setting in.

"It's above fair value so the odds are that markets will eventually realise that. Therefore I don't think the downward movement is over yet."

He added that while companies had a right to complain when the exchange rate was over $US1, at these levels – albeit above fair value – "if you can't compete at US90¢ then you may not be able to compete".

Citigroup economist Paul Brennan said the ideal combination, regardless of the currency, was an improvement in productivity and a pick-up in demand. "At US90¢ and above with lower commodity prices it's still too high," he said. "What we've seen recently is the **iron ore** price has fallen and we haven't seen the currency fall – it's strengthened. I'**m** hopeful that as we get better data on the US economy … that will in turn mean that the exchange rate will moderate."Mixed response from business

Views on the currency tend to be split by what sector a business operates in.

Panoramic Resources managing director Peter Harold said he longed for the days when US75¢ was the long-term forecast. "I hate it. Every US1¢ rise costs us $2.5 **million** per year," he said.

Mr Harold felt the economy was struggling enough to warrant a lower dollar. "I'**m** not so bullish on how the economy is going and I would have thought that would start to have an impact on it, but it seems other factors are getting in the way," he said.

Bega Cheese executive chairman Barry Irvin said dairy farmers and processors were in a different position. They needed the combination of a weakening Aussie and strong commodity prices to generate good returns.

"The [$A] has stayed stronger than we had expected but so has the commodity price," Mr Irvin said. The currency's stubbornness was not ideal and its strength was hindering the ability of milk processors to capitalise on rallying commodity prices.

"It's a bit frustrating because you do worry that we're looking at very, very strong global prices for dairy and inevitably those prices will soften a little. We'd like to think that the [$A] will at least soften in parallel or indeed soften ahead of it."

Mr Irvin said Australia would benefit more as the US and European economies improve. He is not alone in that view.

The most supportive conditions for currency weakness were those which pointed to an uptick in global demand from the US and Europe, said Goldman's Mr Ross. (Goldman anticipates the RBA has one more rate cut left in this easing cycle).

Hills Ltd chief executive Ted Pretty said he didn't think the benefits of a broadly lower Australian dollar over the past few months had flowed into the local economy yet. "The extremes are never good for anyone," he said.

Hills imported a large amount of raw materials and products. "With a [$A] at around US90¢ it neither hurts us nor benefits us," he says. But it was easier for planning and to run the overall business when the currency was consistent.

A lower Australian dollar would benefit businesses exporting, and make them more competitive in offshore markets. "The lower Australian dollar from an export perspective is helpful," Mr Pretty said.

In retailing, companies which source stock directly from overseas rather than through agents are most exposed to currency fluctuations. Specialty Fashion chief executive Gary Perlstein says when the currency is weaker the retailer has to work harder at sourcing to keep its cost of goods down and maintain selling prices.

The stronger dollar takes some of the pressure off margins for the retailer, which sources about 70 per cent of its products from **China**, up from 55 per cent previously. Retailers such as Specialty Fashion hedge their currency exposure. Mr Perlstein says it's not the currency's level that causes problems, but volatility. "I'**m** less concerned with where the dollar goes than the speed," he said. "It's the speed at which it moves that forces you to recalibrate supply sources," he said.

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