

**HD** **Australian Dollar Falls on Jobless Rise, Disappointing **China** Trade**

**BY** By David Rogers

**WC** 534 words

**PD** 10 July 2014

**ET** 18:22

**SN** Dow Jones Newswires Chinese (English)

**SC** RTNW

**LA** English

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SYDNEY--A rise in Australia's unemployment rate and a smaller-than-expected **China** trade surplus provided the catalysts for a sell-off in the Australian dollar after recent strength.

At 0715 GMT, the Aussie dollar was trading around US\$0.9370 after touching a five-day high of US\$0.9459 immediately following the domestic employment report, which included a slightly stronger-than-expected rise in employment.

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Overnight, the Australian dollar benefited from U.S. dollar weakness after minutes from the U.S. Federal Reserve's June board meeting reiterated that a rise in U.S. interest rates is still likely to occur "a considerable time" after its asset **purchase** program ends in October, provided longer-term inflation expectations remained "well anchored."

But investors appeared disappointed as the rise in unemployment reduced the prospect of interest rate hikes, and **China's** trade data suggested growth in Australia's biggest trading partner wasn't quite as strong as expected.

"June's headline employment growth came in at a stronger than expected 15,000," Royal Bank of Canada Senior Currency Strategist Sue Trinh said. "But there were soft undertones with the unemployment rate rising to 6.0% and full-time employment falling 3,800, so it didn't take long for the Australian dollar to give up the kneejerk gains."

Nevertheless, while Australia's June unemployment rate hit an 11-year high, some economists were encouraged by gains in total employment and average hours worked.

"It must be remembered that the Reserve Bank of Australia had already previously expected unemployment to rise above 6%, and we note the recent improvement of **lead** indicators of the labour market suggests that there will be enough jobs growth ahead to hold unemployment around our long-held forecast peak of 6%," UBS economists Scott Haslem and George Tharenou said in a report.

A rise in employment and steady trend rate of unemployment in June provide further evidence that the Aussie labor market has stabilized, according to HSBC Chief Economist Paul Bloxham.

"Despite some evidence of a loss of momentum, consistent with weaker retail sales, building approvals and consumer sentiment data--due to the Federal Budget, weaker **iron ore** prices and the stubbornly high Australian dollar--there are still signs that Australia's great rebalancing act is underway," Mr. Bloxham said. "Low interest rates are continuing to support the housing market, with housing prices picking up in recent weeks...business confidence and conditions remained well above the low levels they reached last year, despite the impact of the recent budget on consumer sentiment."

Still, Mr. Bloxham said the central bank was likely to continue to try to verbally encourage the Australian dollar lower, through 'jawboning', as a lower exchange rate could speed up the economic rebalancing process after the end of a decadelong **mining** investment boom fuelled by **China's** economic expansion.

**China** recorded a US\$31.6 **billion** trade surplus in June versus market expectations of US\$36.9 **billion**, as exports rose less than expected in the month.

Write to David Rogers at david.rogers@wsj.com

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10-07-14 0822GMT

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**AN** Document RTNW000020140710ea7a00080