

AUDUSD

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UBS CIO GWM

RBA holds fire

We cut our AUDUSD forecasts to 0.65 (from 0.69) in three months, 0.68 (0.70) in six months and 0.68 (0.71) in 12 months, given the step-up in US-China trade tensions and slowing domestic growth. We keep an upward sloping forecast profile, however, because of our view for broad US dollar weakness over 12 months. Additionally, we think the deterioration in the country's terms of the terms (as iron prices decline to USD 80/ton) will add pressure on AUDUSD in the short term.

Reserve Bank of Australia (RBA) Deputy Governor Guy Debelle noted household consumption and US-China trade were the key risks. We acknowledge that, for now, with house prices stabilizing, the risks to consumption have diminished somewhat. But we still expect the unemployment rate to drift up further to 5.3% by year-end and to 5.6% in 2020. This likely means wage growth will remain subdued and with few drivers of upward pressure on inflation, we expect the RBA to cut rates by at least 50bps more – one 25bps cut in October and another in February. But the recent weakness in both 2Q capex and construction will likely worry the RBA due to the implications for jobs growth, making a September cut possible.

Investment considerations

Prospects: AUDUSD is trading at its lowest level since 2009. We still believe the next technical level is 0.65, which is our new three-month forecast. As momentum remains negative, the downside risk to our forecast would be to 0.63 if the RBA cuts on 3 September or if 2Q19 GDP disappoints (4 September).

Boundaries: AUDUSD has formed a new trading range between 0.65 and 0.68, in our view. Given that we expect the Fed to cut more than the RBA over the next 12 months, our call for broad US dollar weakness forms the basis of our higher AUDUSD long-term view.

Risks: Positive risks for the pairing in the coming weeks relate to US dollar weakness (such as rising recession risks), a renewed trade truce, a rebound in Asian manufacturing indices or greater stimulus from China. The trade uncertainties, CNY risks, related vulnerabilities in equity markets are headwinds for AUDUSD.

Currency forecast: AUDUSD

29 August 2019: 0.67

in 3m: 0.65

in 6m: 0.68

in 12m: 0.68

PPP*: 0.68

TEEER*: 0.68

Source: Thomson Reuters, Macrobond, UBS calculation.

*Purchasing Power Parity (PPP) is not a forecast per se, but a long-term equilibrium value for an exchange rate, calculated by UBS, TEEER refers to the 'trend-extrapolated equilibrium exchange rate', which is a three-year projection of the PPP.

Appendix

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