



UOB Investment Insights

FX Insights

6 February 2020

The Australian Dollar has had a rough start in 2020 - the result of domestic bushfires and virus outbreak

- A key downside risk is a dovish Reserve AUD is one of the worst performing G10 currencies year-to-date
- Domestic bushfires and the outbreak of the novel coronavirus put pressure on the AUD
- AUD may continue to slide in the near term

The Australian Dollar (AUD) has had a rough start in 2020, plummeting from about 0.7000 against the US dollar (USD) at the turn of the year to the current levels of 0.6730 (as of 5 Feb 2020). The 4.2% drop resulted in the AUD being one of the worst performing currencies in the Group of Ten (G10) space.

Concerns over the domestic bushfires and the global risk aversion - arising from the novel coronavirus - pressured the AUD to its weakest levels since last October. These factors overshadowed the Phase One trade agreement between US and China signed on 15 Jan 2020 and a better-than-expected labour report in December, which clearly signals that monetary and fiscal stimulus deployed last year are beginning to work.

In the near term, it is likely that global risk appetite may remain weak as long as the virus continues its spread. As a result, the AUD may see further declines. Assuming that the nascent growth and inflation recovery in Australia is not derailed by the novel coronavirus, we maintain an upward trajectory forecast for the AUD/USD to be at 0.69 by end-2020. Risks to our forecasts include a marked downgrade to growth and the Reserve Bank of Australia resuming its aggressive rate cuts.



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