

## UOB Investment Insights

# FX Insights

5 February 2021

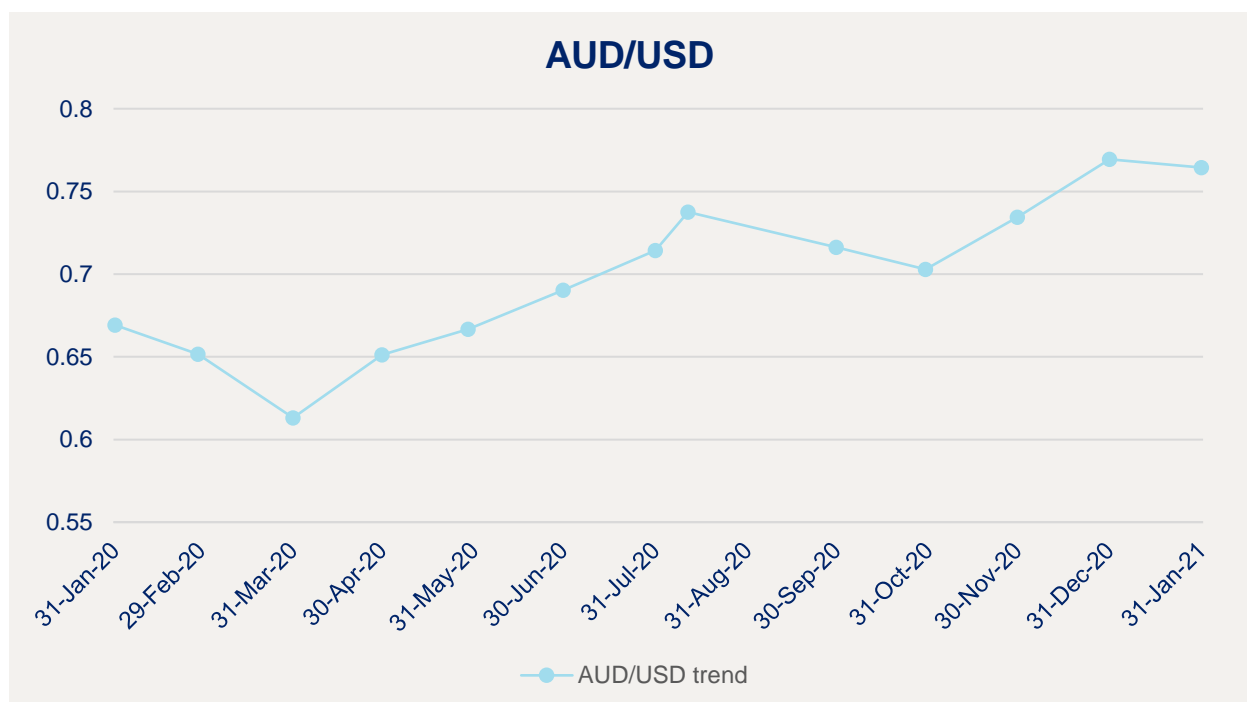
### AUD starts 2021 strong

- The global reflation trade is a key positive driver for Australian dollar (AUD) this year
- AUD strength is underpinned by a domestic economic recovery and strong commodity demand
- We continue to stay positive on AUD this year, both against the US dollar (USD) and Singapore dollar (SGD)

With markets positioning for a reflation trade in 2021, investors piled into commodity-linked currencies such as the AUD, as such currencies tend to benefit from an eventual global economic recovery. As a result, AUD/USD traded to a three-year high of 0.7820 in early January 2021. Against the SGD, the AUD has climbed above the psychological parity mark and is comfortably holding above 1.02 across the month of January 2021.

Domestically, Australia has managed the COVID-19 pandemic well – From a peak of close to 800 new daily infections last August, it is now averaging less than 20 daily this year. This reduces the uncertainties surrounding Australia's expected economic recovery this year. China's strong demand for the country's iron ore exports also helped support AUD's strength.

However, after gaining close to 10% last year, the AUD/USD is showing some signs of easing back. Despite this, we keep to our positive outlook for the AUD this year, with the currency expected to stay supported versus the USD and SGD even on dips. A key risk to the outlook is a return to risk aversion should the pandemic situation worsen globally.



Source: Bloomberg. Data as at 31 January 2021.



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