

Irrelevant under section 22

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- The structural drivers of the substantial appreciation in the AUD over the past few years remain in place. Irrelevant under section 22
 - The very high terms of trade are generating export income flows that create demand for AUDs. High profitability of resource companies also induces capital inflows that appreciate the AUD. In the past, the trade-weighted exchange rate has generally appreciated when the terms of trade have been rising, although there was an apparent shift in the relationship in the first half of the current decade (Chart 4).
 - Australia's relatively strong economic performance compared to other advanced economies, and the wide interest rate differentials associated with this, also attract capital inflows that appreciate the AUD. Since low inflation was established in the early 1990s, widening interest rate differentials have generally been associated with an appreciating AUD.
 - Australia's strong public finances reduce perceived risks on Australian investments relative to other advanced economies with high government debt.
 - AUD assets continue to be traded as a proxy for China (and Asia more generally), due to our strong economic links to the region and more developed and liquid financial markets (whereas many Asian markets, especially in China, are heavily regulated, illiquid and difficult or impossible to trade).
- These drivers are likely to continue to support the AUD for the foreseeable future. However, like the other commodity currencies, it will remain vulnerable to swings in global risk sentiment — such as those seen over the past week.

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Pages 3-4 irrelevant under section 22