

## FxMax AUD Manager

#1 Monday, 27 October, 2008

Clifford Bennett, Chief Economist  
[c.bennett@sonray.com.au](mailto:c.bennett@sonray.com.au)

### Managing real business currency exposures.

**Real business exposures need to be managed in a very real way in current markets.**

Option spreads are wider, and volatility pricing is likely to remain high for some time. This daily report will contain a brief comment on the AUD/USD, but significantly **we will carry out an on-going theoretical management of both export and import exposures, as well as capital risk management** such as investments overseas, or local investments undertaken by offshore investors.

- **The first objective is defence against adverse currency movements.**
- **The second objective is to maximise favourable trending periods.**

**The starting point is AUD .6225.** We will provide buying and selling signals on the basis that a full one year of projected export/import flows are being managed, and in the case of investments, 100% of the value of the investment is being managed.

**So let us begin, The Reserve Bank of Australia has intervened in the Australian dollar market** and while this will offer some momentary relief, the big picture will remain dominated by US dollar movement. (Please see copy of earlier e-mail re the USD on the following page.) Therefore RBA intervention cannot as yet be viewed as the turning point in the AUD sell off. The immediate price action suggests a move above .6360 would be needed to signal a lasting low may have been seen. There is good resistance in the .6250 to .6275 area, which is where we will see some of the traders who went long with RBA buying, start to take their profits. Above .6275 would be early warning of the low being in place, but tend to think .6275 or .6360 may contain for fresh lows.

**Exporters** (includes holders of overseas investment exposures) should purchase 10% of their next full year AUD exposure at market at .6225. They should purchase another 20% at .6299 on an on stop basis.

**Importers** (includes offshore holders of Australian investment exposures) should sell AUD, hedge 10% of exposures at market, and a further 20% on stop at .6160.

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# Sonray Market Economics

*global investment research*

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### **Earlier today e-mail,**

Think Dotcom bubble in USD

Good Morning,

Why mince words, the world is in full on “get out of all assets and back to the US dollar” panic mode. It probably has a way to go, though the Australian dollar making the front page of the daily paper today is a sign of nearing its low, and perhaps a broad based US dollar top. As with equity markets however, “don’t stand in front of the freight train” just yet.

As with the dotcom rally that defied all logic and reason for an overly extended period of time, so too could this US dollar rally. While I have been looking, watching, but not pre-empting, a US dollar top, I am now more of the mind that the dotcom analogy may be our most helpful tool, in that this is the next great asset bubble to burst, but will take longer to peak than expected. This is the next great trading opportunity however.

When the US dollar bubble bursts, and that may not be for another 3-9 months, or it could be in 3 days, it is that difficult to forecast, when it does it will represent the last great market dislocation and critical threat to the world’s financial system and economic integrity. The world is getting long and long and long of the US dollar. As with any market bubble from tulips to dotcom, it is when everyone who wants to buy has done so, that a market can only go one way, and that is back toward earth with gravitational acceleration.

When the US dollar turns, nothing and no one will be able to forestall a 30% to 40% collapse over a manner of months. This last great wave of wealth destruction as it will be, for it will be an assault on where many will have put all their wealth, thinking it the ultimate safe haven, is something to be avoided at all costs. It may well become the ultimate bonfire. Sounds scary and negative, but it is better to be warned and aware of this further risk to the world’s wealth, than to be caught with all ones eggs in the same basket. Cash may be king, but be sure to diversify cash holdings among several currencies. With other currencies having been sold so severely it is worth commencing small flows and nibbles of the Australian dollar, the Euro and others, stating this week.

While the US dollar may continue to rally, it is not worth having all your cash in one currency, particularly the currency of a nation such as the US which will suffer the worst and most severe economic down-turn along with a sovereign risk down grade that must surely occur.

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### **Sonray Market Economics**

The approach taken at Sonray Market Economics is that the economic fundamentals are the driving force of markets in the long term, while market focus may shift in the medium and short term based on a range of factors. The objective is to provide clients with over the horizon economic and market insights that will become consensus in the days, weeks and months to come.

Our research is distinct in that it is repeatedly ahead of the investment banks in outlook and market forecasts.

Past Performance is not a reliable indicator of future results. The performance results are theoretical and have inherent limitations. Unlike actual performance record, theoretical results do not represent actual trading. Since the trades have not actually been executed, the results may have under or over compensated for the impact, if any, of certain market factors such as liquidity. Leveraging is factored in but the results do not take into account any brokerage or commissions. Theoretical performance results are generally prepared with the benefit of hindsight. In addition, theoretical trading does not involve financial risk, and no such trading record can completely account for the impact of financial risk in actual trading. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown.

For further information please contact Clifford Bennett by e-mail at [c.bennett@sonray.com.au](mailto:c.bennett@sonray.com.au)

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