

## Box B: Large Movements in the Australian Dollar Exchange Rate During 2000

Since late January there have been 15 days on which the exchange rate of the A\$ to the US\$ moved by a large amount – defined here as a move of more than US0.7 cents. Consistent with the overall decline of the exchange rate during the year, ten of these were falls.

The main causal factors reported to the Bank by market dealers at the time of the moves are listed below. In the first part of the period, most of the factors related to news affecting interest rate expectations (see Table B1). More recently, the tendency has been for dealers to attribute the moves in the exchange rate to a range of non-economic factors.

### 28 January: US1.6 cent fall

**Lower Australian CPI figures  
Stronger US GDP & wage data**

The change in sentiment towards the A\$ began with the release of lower-than-expected CPI figures which reduced expectations of monetary tightening in Australia. During local trading, the currency declined. In the US that evening, December quarter GDP figures and the employment cost index were both stronger-than-expected, increasing the expected degree of Fed tightening and therefore the extent to which expected interest rates favoured US assets. This added to the downward pressure on the A\$.

### 24 February: US0.7 cent fall

**Weaker Australian investment data  
Strong US durable goods figures**

In Australia, the currency fell after weaker-than-expected domestic capital expenditure figures for the December quarter. That evening, stronger-than-expected US durable goods

**Table B1**

Date	Exchange rate move (US cents)	News affecting interest rate expectations	Other factors
28 January	-1.6	*	
24 February	-0.7	*	
1 March	-1.2	*	
17 April	-1.1		*
3 May	0.7	*	
8 May	-1.3	*	
15 May	-0.8	*	
2 June	0.8	*	
6 June	0.7		*
5 July	-0.9	*	
16 August	0.9	*	
22 August	-0.8		*
23 August	-0.9		*
7 September	-0.9		*
20 October	1.0		*

figures for January saw the currency fall further.

### 1 March: US1.2 cent fall

**Declining Australian retail sales data**

The release of much weaker-than-expected retail sales data for January saw the exchange rate fall over US1 cent in local trading.

### 17 April: US1.1 cent fall

**No local or US releases**

**Strong rally in US share prices**

No economic news to affect interest rate expectations. The A\$ fell against the US\$ in offshore markets, as did other major currencies. Market participants attributed this to a strong rally in US stock markets, which underpinned buoyant US\$ sentiment.

**3 May: US0.7 cent rise****RBA policy tightening****Improved current account data**

The announcement of the 25 basis points rise in the cash rate to 6 per cent pushed the A\$ higher. The release of lower-than-expected current account data for March added to the better tone and the A\$ rose.

**8 May: US1.3 cent fall****Slower Australian retail sales growth****Falling Australian job vacancies**

The release of lower-than-expected March retail sales, a decline in ANZ job vacancies for April, and the NAB business survey showing weakening conditions in April saw the currency slip in local trading and continue to decline in offshore markets.

**15 May: US0.8 cent fall****Falling Australian housing data****Stronger US industrial production**

News that housing finance for March fell sharply saw the A\$ fall in the local market. Overnight, the release of strong US industrial production numbers added to the US dollar's firm tone and caused the Australian dollar to slide further.

**2 June: US0.8 cent rise****Weaker US employment data**

Weaker US payrolls data for May saw the US\$ fall against all major currencies. The A\$ rose against it.

**6 June: US0.7 cent rise****No local or US releases****Rumours of Bundesbank intervention**

No economic news to affect interest rate expectations. Other than reports that the Bundesbank was active in the foreign exchange market, there was no specific news to trigger the temporary bout of US\$

weakness. All major currencies rose against the US\$, including the A\$.

**5 July: US0.9 cent fall****No change in Australian monetary policy**

The RBA did not announce a change in the cash rate. The A\$ gradually slipped over the local day and in London, and was sold more aggressively in New York.

**16 August: US0.9 cent rise****Weaker US housing data****Release of RBA quarterly report**

The release of weak US housing data saw the A\$ rise in New York. This was consolidated after the release of the RBA's quarterly report which was regarded as hawkish.

**22–23 August: US1.7 cent fall****No local or US releases****Weak euro and NZ dollar**

No economic news to affect interest rate expectations. Dealers attributed the fall to weakness in the euro and the NZ dollar.

**7 September: US0.9 cent fall****No local or US releases****A\$/yen selling and weak euro**

No economic news to affect interest rate expectations. A rise in the yen triggered a bout of stop-loss selling of the A\$ when the A\$-yen cross rate fell to 60. A fall in the euro that evening took the A\$ lower.

**20 October: US1 cent rise****No local or US releases****Strong euro and NZ dollar**

No economic news to affect interest rate expectations. Dealers reported that news of the possible sale of assets by a major telecommunications company had added to demand for A\$. Strength in the euro and NZ dollar reinforced the rise. ♣