



RESERVE BANK OF AUSTRALIA

# Exchange Rates

From the Bank: Jason Griffin  
*(Foreign Exchange)*

Education



# Outline

- What is an exchange rate?
- The AUD: some history and different regimes
- What drives movement in the AUD?
- Why does the AUD matter to the RBA
  - interaction with monetary policy
  - intervention

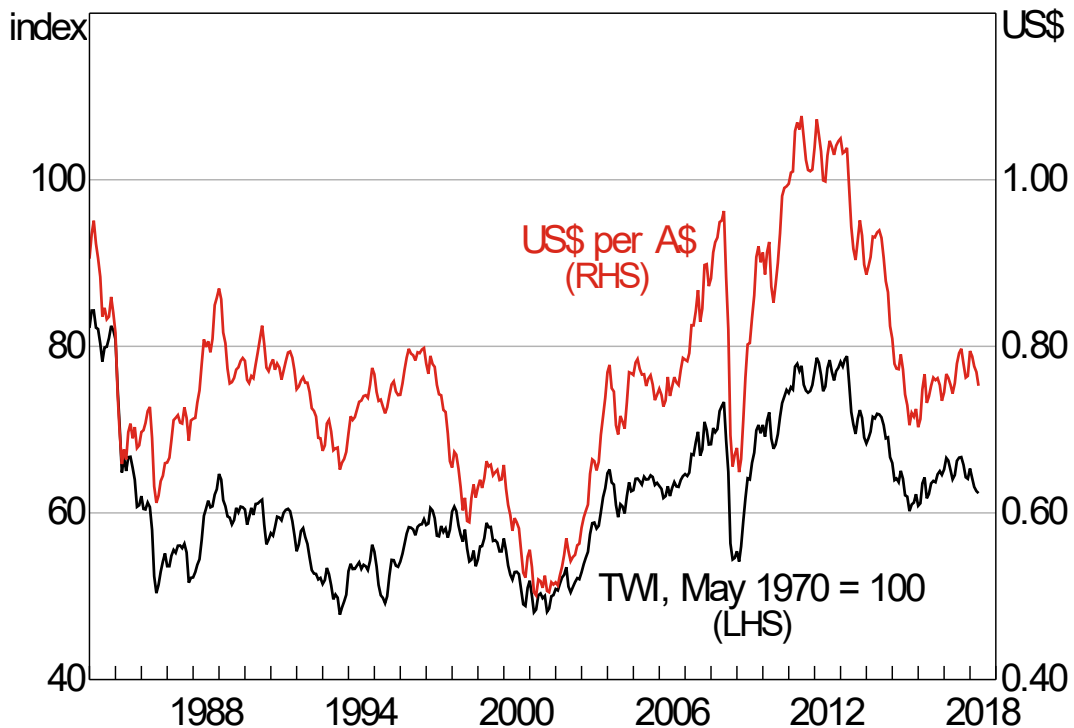


# What is an exchange rate?

- AUD/USD
- Trade-weighted index
- Real/nominal
- Many ways to measure the value of a currency

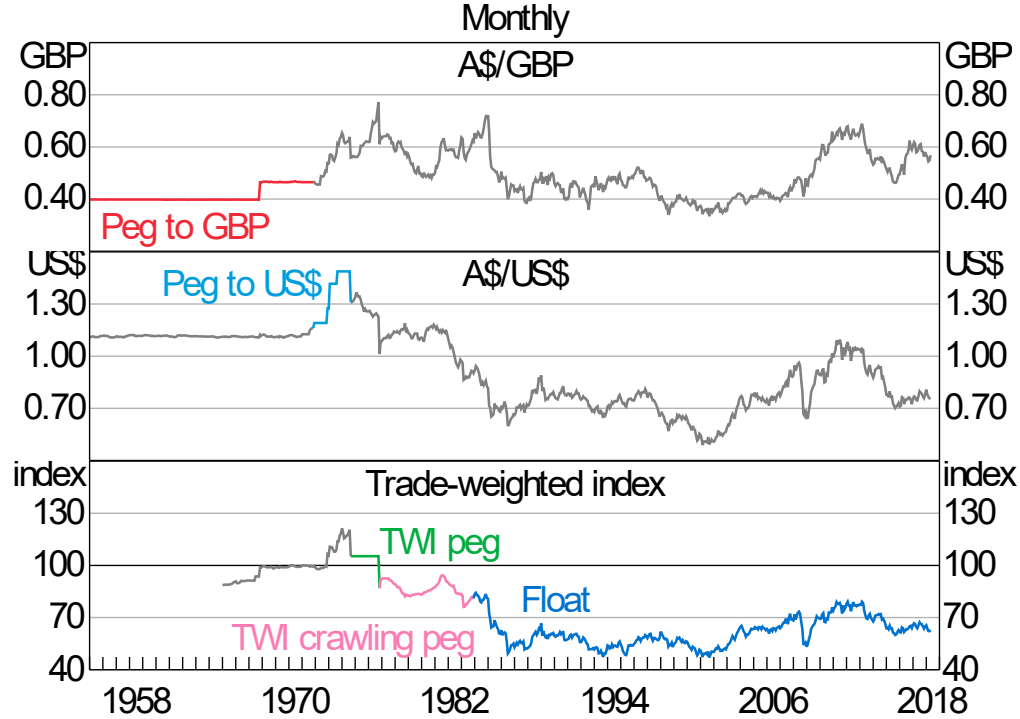


# Australian Dollar



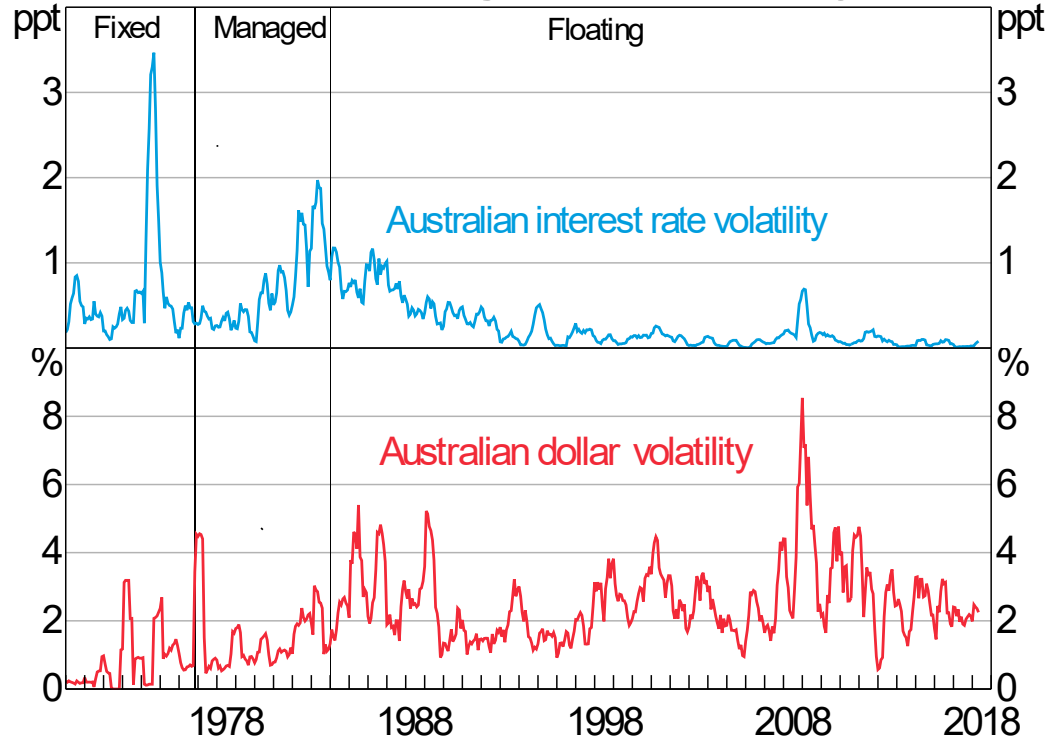


# Australian Dollar





# Australian Interest Rate and Exchange Rate Volatility





# What drives movement in the AUD exchange rate ?

- Demand versus supply?
- Some basic examples:
  - Domestic interest rates
  - Foreign interest rates
  - Export demand
  - Import demand
  - Inflation



# Australian Dollar Against the US Dollar







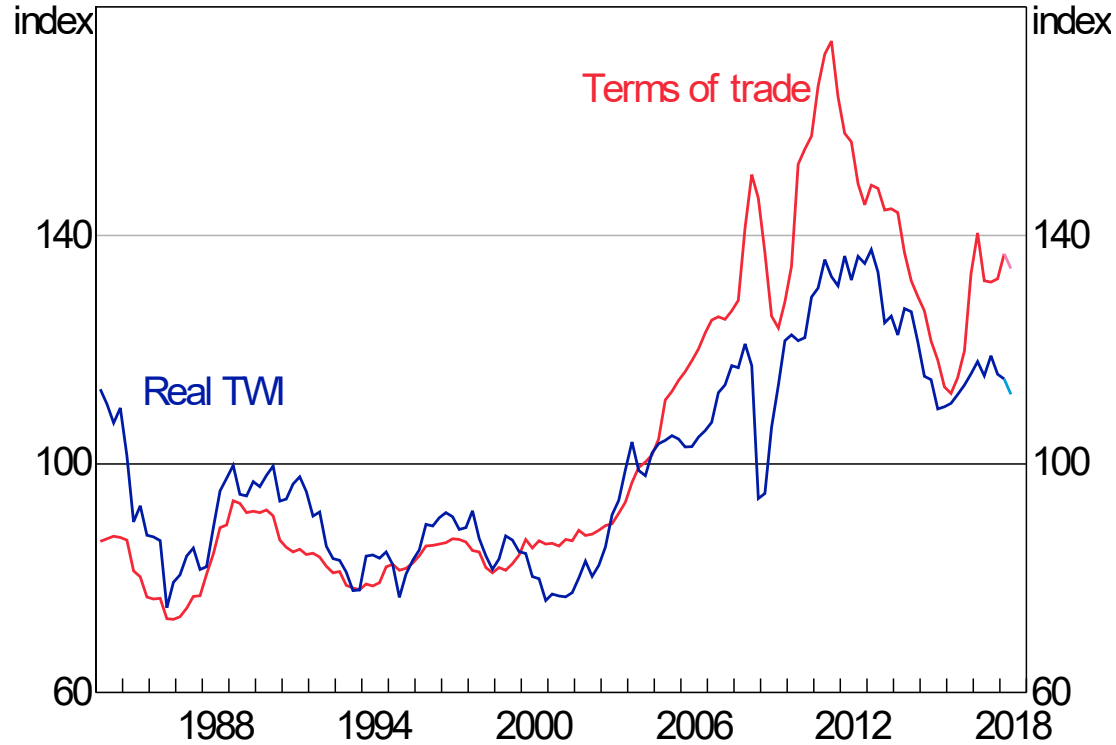
# What drives movement in the AUD exchange rate?

- Macro economic fundamentals
  - terms of trade
  - capital/investment flows
  - interest rate differentials



# Real TMI and Terms of Trade

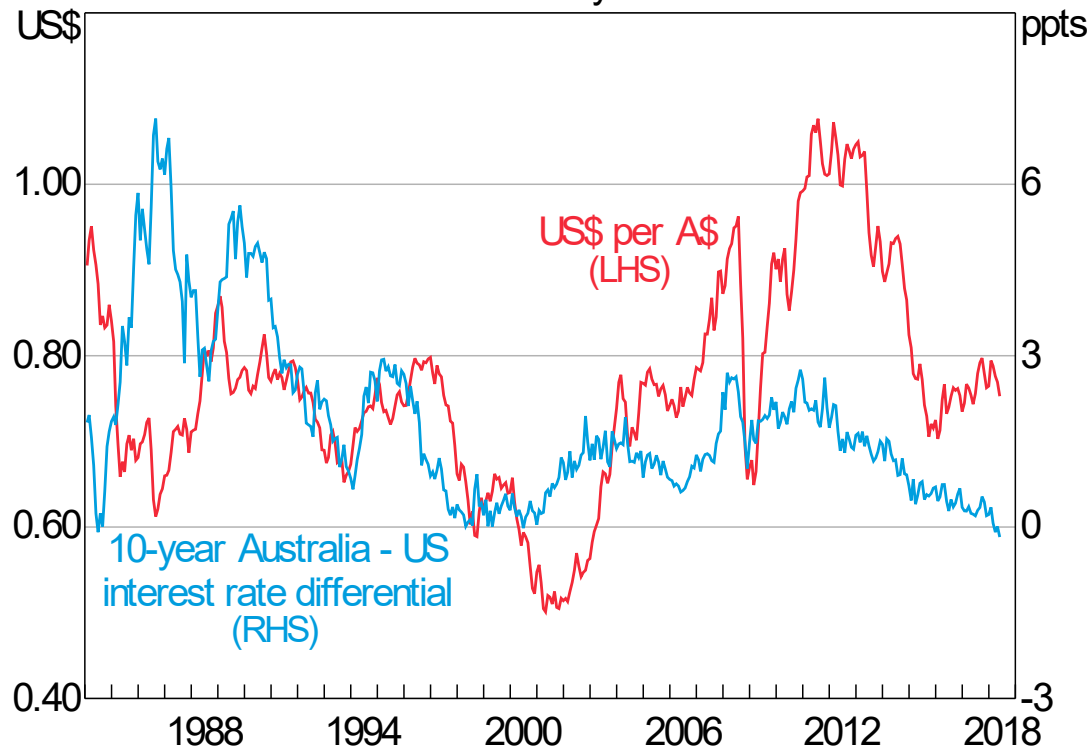
Post-float average = 100





# Australian Dollar and Interest Differentials

Monthly





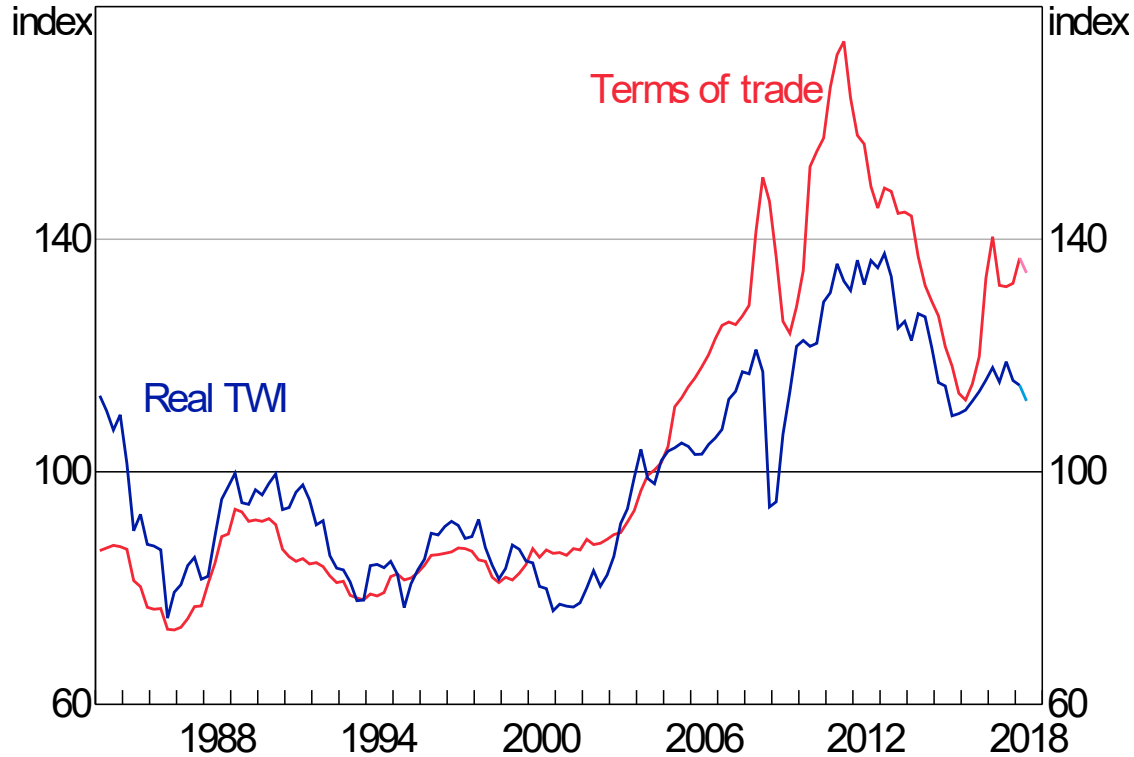
# Why does the AUD matter?

- Effects on the economy
- Interaction with monetary policy



# Real TWI and Terms of Trade

Post-float average = 100



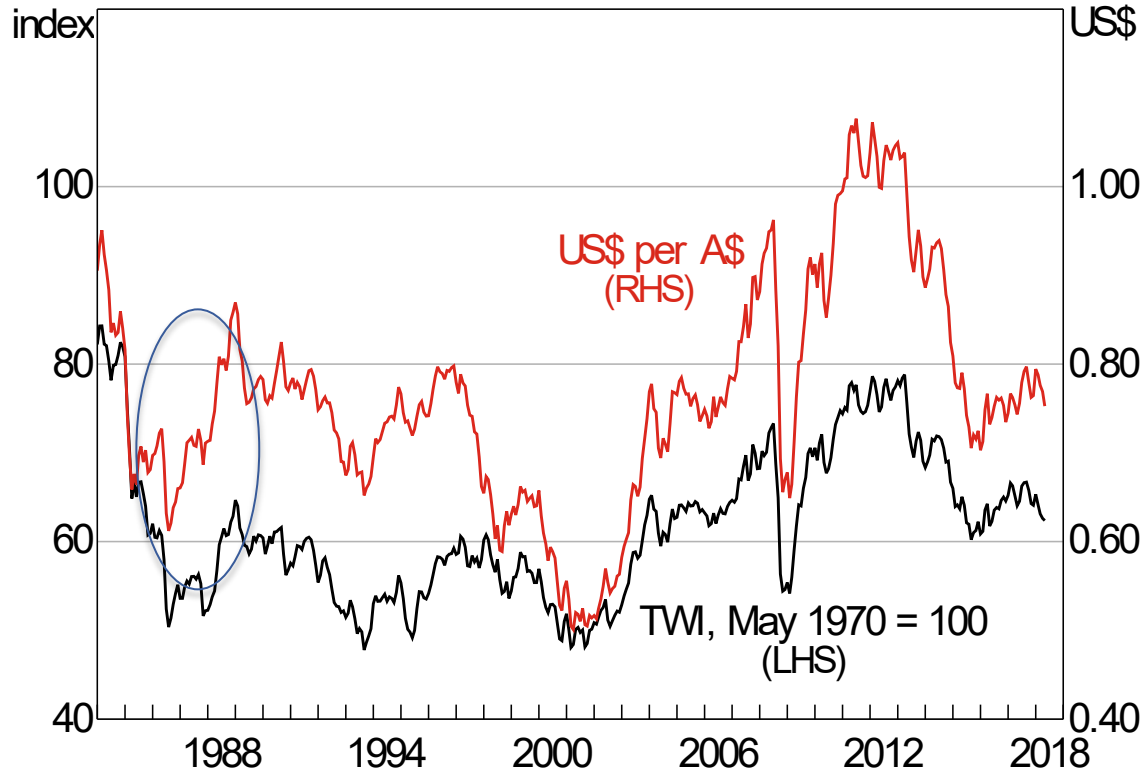


# Why does the AUD matter (Part 2)?

- Three phases of intervention in the post-float era:
  - testing and smoothing
  - overshooting
  - offsetting market disorder

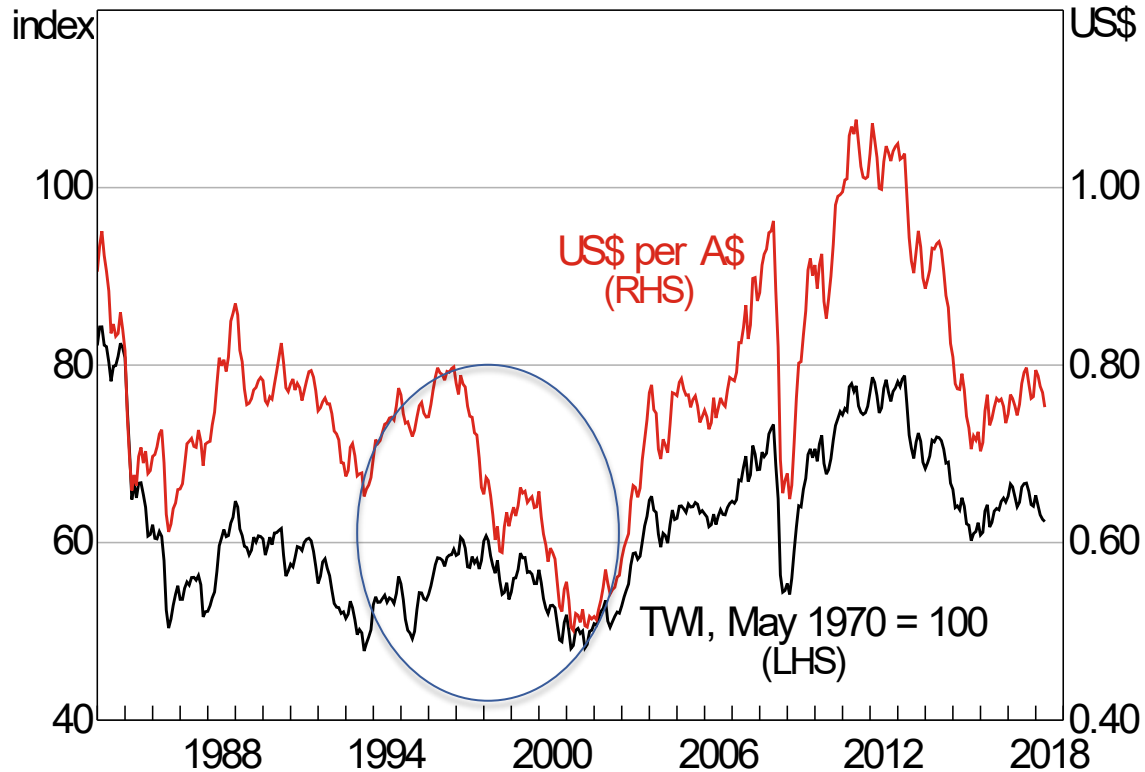


# Australian Dollar





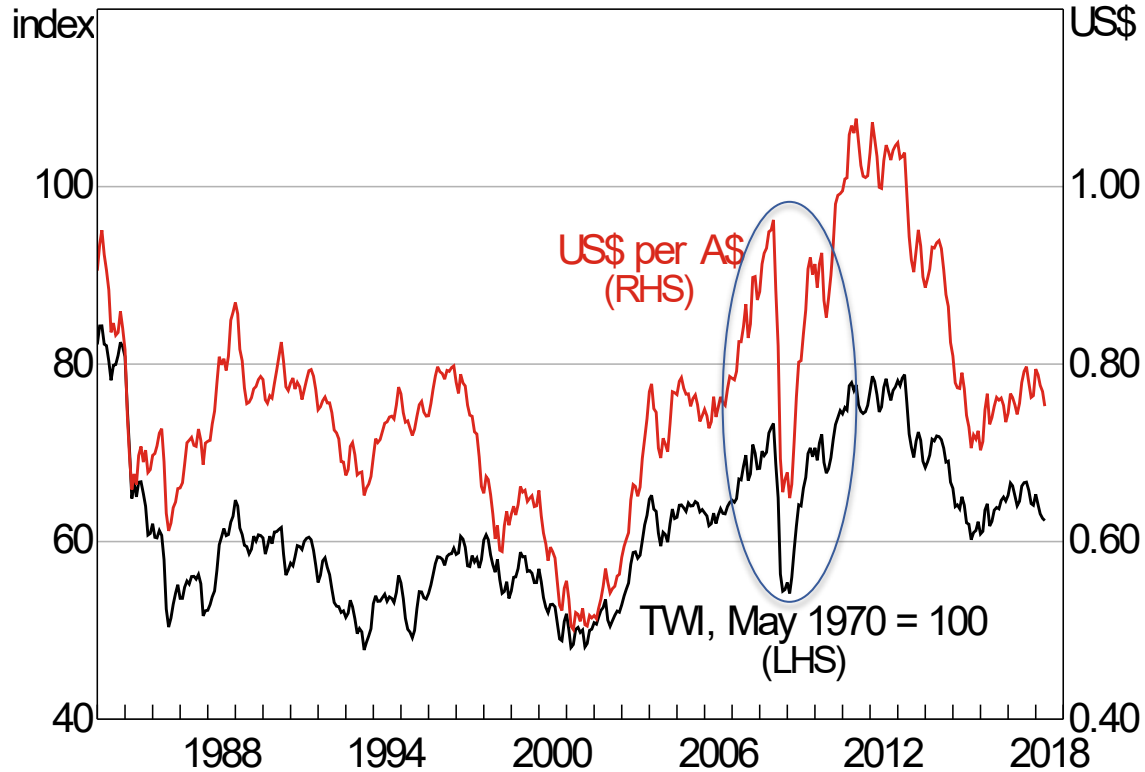
# Australian Dollar







# Australian Dollar





# Summary

- History of the AUD
- Drivers of the AUD: Terms of trade, interest rates, investment flows etc
- The AUD is an important part of the economy and also part of the monetary policy transmission mechanism
- Questions?