

CONFIDENTIAL

Financial Markets and the Bank's Operations

September 2012 Meeting

ATTACHMENT

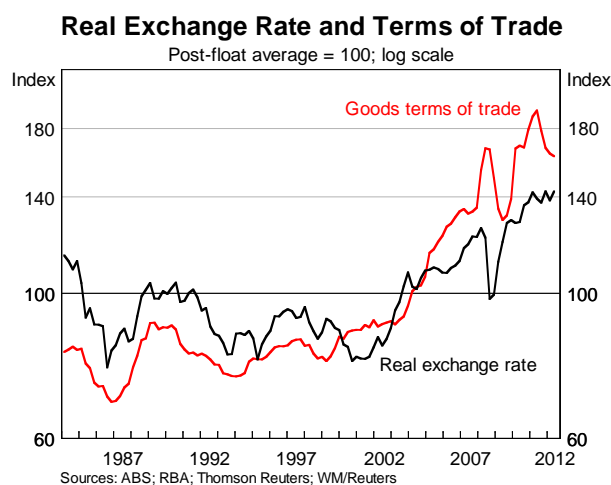
Is the Australian Dollar Overvalued?

The high level of the Australian dollar has been an important factor in the adjustment of the Australian economy to the higher level of the terms of trade over recent years. However, the exchange rate has remained near its highs notwithstanding the deterioration in the global economic outlook, the recent decline in the terms of trade and ongoing fragility of global financial markets. This paper discusses recent developments in the Australian dollar relative to its fundamental determinants.

The Australian Dollar and Fundamentals

Over a long run of years, the terms of trade have been the predominant influence on the Australian dollar. However, at various points in time, other factors have also been important, including differences in interest rates between Australia and other countries, and perceptions about Australia as an attractive place to invest. For example, around 2000, at the height of the tech bubble, the Australian dollar was lower than suggested by fundamentals. The perception was that Australia was a less attractive place to invest because of its reliance on commodities and lack of a sizeable tech sector.

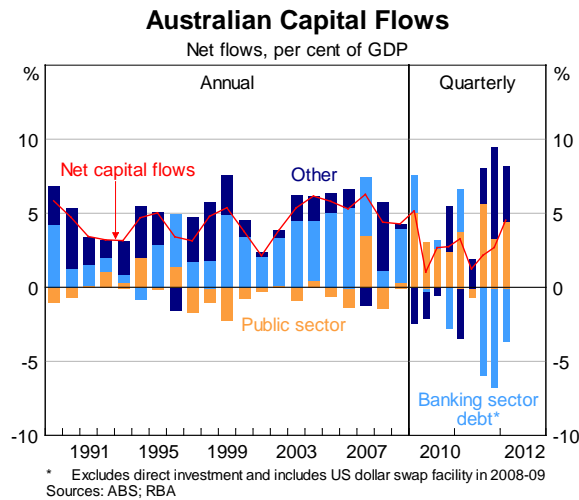
The terms of trade have fallen by around 15 per cent from their historical high in September last year and are expected to fall further. Nevertheless, they still remain at a very high level and part of the recent decline reflects the unwinding of the temporary increase in Australian export prices (most notably coal prices) due to natural disasters.



The strong demand for Australian government debt – reflected in increased foreign ownership of Commonwealth Government securities – has been highlighted as a factor contributing to the higher Australian dollar. Australia has been one beneficiary of the global portfolio reallocation to highly rated assets resulting from the increased relative riskiness of holding euro-denominated assets. Canada and a number of Scandinavian countries, as well as Switzerland, have seen similar flows.

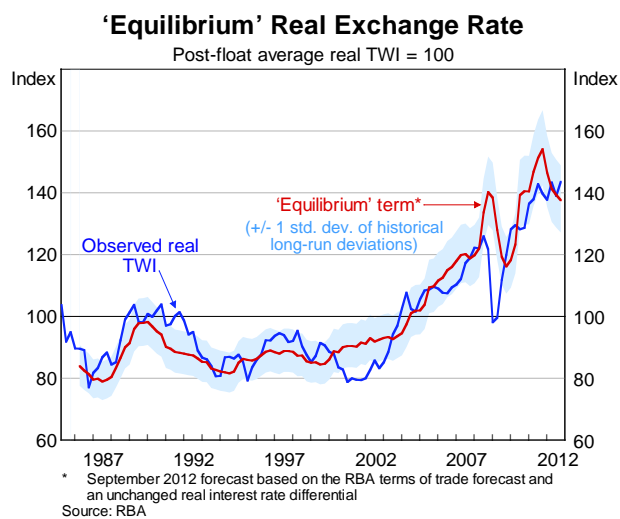
While increased demand for Australian government debt by foreign sovereigns would put upward pressure on the currency, other things equal, it is important to note that the strong foreign demand for Australian government debt over recent years has largely replaced capital inflows into the

Australian banking sector. Aggregate net capital inflows relative to GDP over the past two years have generally been below the historical average.



Econometric modelling can be used to more formally estimate a medium-term ‘equilibrium’ level of the exchange rate based on its historical relationship with economic fundamentals. These exercises, while subject to a reasonable degree of uncertainty, suggest that the Australian dollar is overvalued, but not substantially so:

- Most models – including the staff’s internal models and the IMF’s models suggest the exchange rate is overvalued by 4–15 per cent. The range of estimates reflects differences in the choice of economic fundamentals and time periods that are used to estimate the ‘equilibrium’ levels.
- The staff’s preferred model is based on the long-run relationship between the real exchange rate and the terms of trade and the real policy rate differential with the G3 (US, euro area and Japan) over the post-float period. It suggests the exchange rate is around 5 per cent overvalued. However, given the uncertainty of the estimates, the model also suggests that the exchange rate could be reasonably assessed (at roughly a 70 per cent probability) as being anywhere between 4 per cent undervalued and 12 per cent overvalued (shown by the shaded band on the graph).



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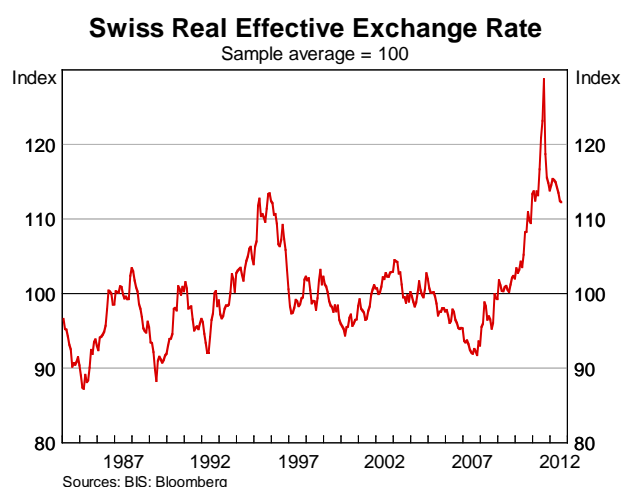
- Illustrating the sensitivity of the model results, if this model is estimated over a substantially longer (starting in 1971) or shorter (starting in 2002) period, the current level of the exchange rate is estimated as being between 23 per cent undervalued and 13 per cent overvalued.

| Models of the Australian Dollar | | |
|--|-----------------------------------|--------------------|
| | Estimated exchange rate valuation | |
| | Under/over—valuation | Per cent deviation |
| Staff models | | |
| From 1971* | Under | 23 |
| From 1986 | Over | 4 |
| From 2002 | Over | 13 |
| External models | | |
| IMF models | Over | 5–15 |
| Big Mac Index (PPP based) | Over | 8 |
| * Model excludes the real interest rate differential | | |
| Sources: The Economist; IMF; RBA | | |

- It should be noted that there are some external estimates that suggest the Australian dollar is more than 30 per cent overvalued. In contrast to the staff's preferred model, these estimates typically exclude both cyclical and structural factors – such as real interest rate differentials and the terms of trade – from their assessments of 'equilibrium'.

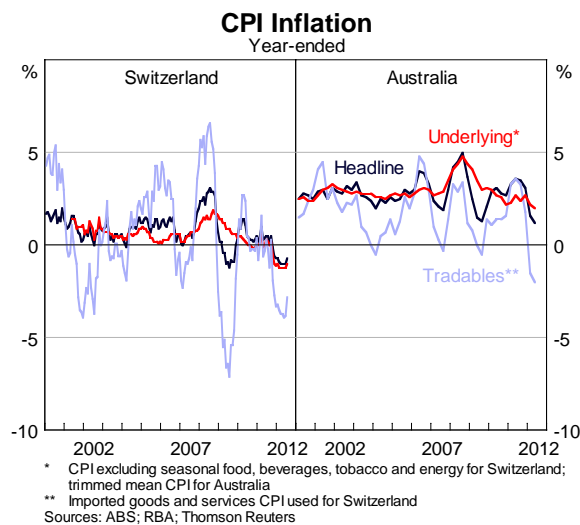
The Swiss Case

Last September, the Swiss National Bank (SNB) imposed a 1.20 Swiss franc (CHF) per euro ceiling, and made a commitment to purchase 'unlimited quantities of foreign currency' as necessary to defend the ceiling. As a result of this commitment, the SNB purchased around €30 billion worth of foreign exchange in total over May, June and July this year, taking their foreign exchange reserve holdings up to almost 70 per cent of annual GDP from around 40 per cent of GDP three months earlier. The introduction of the ceiling was based on their assessment that the CHF was 'massively overvalued' and posed an 'acute threat' to the Swiss economy. As a traditional 'safe-haven' currency, the CHF had been the recipient of strong safe-haven flows that resulted in the currency appreciating by 28 per cent against the euro in the four months leading up to its peak in August 2011. Between end 2009 and the August 2011 peak, the real effective exchange rate appreciated by 26 per cent.



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The unusually rapid pace of appreciation in the CHF last year occurred against a background of vulnerabilities in the Swiss economy, particularly given its exposures to the rest of Europe and its very large (and already stressed) financial sector. The Swiss traded sector is equivalent to around 90 per cent of domestic GDP (compared to 40 per cent for Australia) and around 70 per cent of its merchandise trade is with the European Union (compared to 15 per cent for Australia). Furthermore, Switzerland has a large reliance on manufacturing exports that are sensitive to exchange rate fluctuations (whereas the rural and resource sectors account for the largest share of Australian exports). As a result, the Swiss authorities were particularly concerned about the loss of external competitiveness and deflationary pressures (which have subsequently been borne out) from the rapid appreciation of the exchange rate from an already very high value.

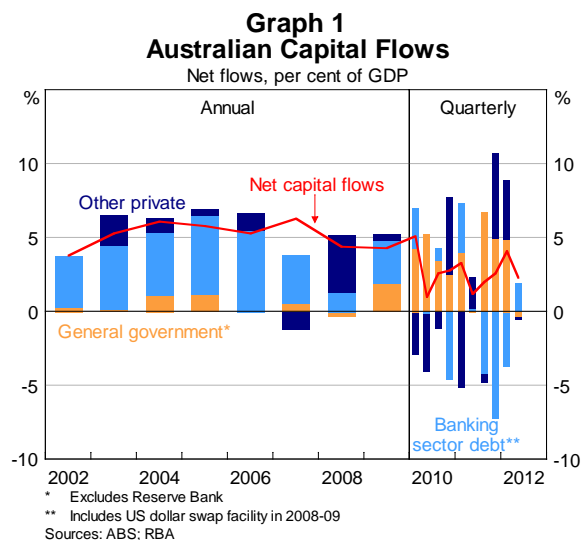


While the extreme circumstances facing Switzerland last year presented a clear and credible case for intervention, the circumstances in Australia cannot yet be considered comparable. There is not strong evidence that the Australian dollar is posing an imminent threat of deflation or is highly contractionary for the domestic economy. While those sectors of the Australian economy that are most exposed to external developments, such as manufacturing and tourism, have been adversely affected by the current high level of the Australian dollar, inflation is forecast to be within the target range over the next few years and the Australian economy is expected to grow at around 3 per cent over 2013 and 2014. This is partly related to the fact that the Australian economy (and financial sector) is less exposed to external developments (particularly in Europe) than the Swiss economy.

A Sectoral Breakdown of Capital Flows – June Quarter 2012

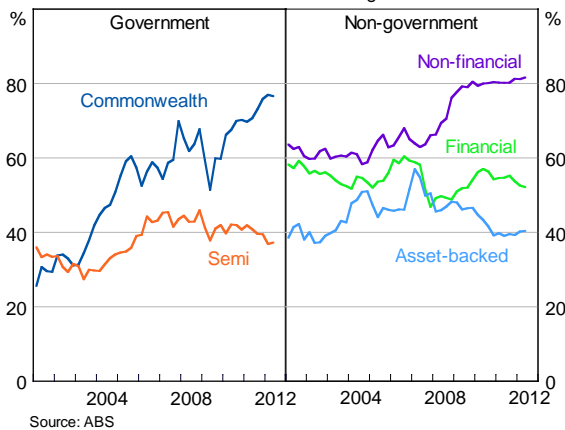
As in the BOP release there was a net outflow from general government debt of 0.7 per cent of GDP; however, the FA data reveal a somewhat offsetting net inflow of 0.4 per cent of GDP to state and local government debt (which are included with “private” flows in the BOP release) in the June quarter. This reallocation of state and local government capital flows saw the net outflow from the public sector revised down to 0.3 per cent of GDP and the net inflow to the private sector revised down to 1.7 per cent (from 2.1 per cent in the BOP release).

As reported in the BOP release, the net outflow from the general government sector may have been affected by a number of factors, namely a large government bond maturing and another coming due for maturity in a year’s time (which is a trigger for some investors - including some prominent central banks - to roll out of these positions). The net inflow to state government debt largely reflected a net increase in foreign investment in long-term state and local government debt, which was partially offset by a net decrease in foreign investment in their short-term debt.



Graph 2
Foreign Ownership of Australian Debt

Share of outstandings



As a result of these flows, there was a slight decline in the share of Commonwealth government securities held by foreigners (to 76.7 per cent) and a small increase in the foreign ownership share of state and local government securities (to 37.4 per cent; Graph 2).

From:
Sent: Friday, 14 December 2012 6:40 PM
To:
Cc:
Subject: Australian Dollar Model Results [SEC=UNCLASSIFIED]

Dear

Our preferred model indicates that the Australian dollar is currently overvalued by about 7 per cent, which is around one standard deviation from the estimated long-run 'equilibrium' real exchange rate. This is somewhat larger than our estimate of an overvaluation of the exchange rate of around 4 per cent in September 2012 (which was reported in the September Board attachment). Alternative approaches largely confirm that there is a substantial degree of uncertainty in producing estimates of under or overvaluation. That is, if our preferred model is estimated over a substantially longer (starting in 1971) or shorter (starting in 2002) period, the current level of the exchange rate is estimated as being between 18 per cent *undervalued* (1 standard deviation) and 14 per cent *overvalued* (1½ standard deviations). Note that the estimates from the IMF models and Big Mac index are now somewhat dated.

Regards

| Models of the Australian Dollar | | | |
|--|--|---------------------|---------------------|
| Staff models | Estimated exchange rate valuation | | |
| | Under/over - valuation | Per cent deviations | Standard deviations |
| From 1971* | Under | 18 | 1.0 |
| From 1986 | Over | 7 | 0.9 |
| From 2002 | Over | 14 | 1.5 |
| External models | | | |
| IMF Models** | Over | 5-15 | |
| Big Mac Index (PPP based)*** | Over | 8 | |

* Model excludes the real interest rate differential

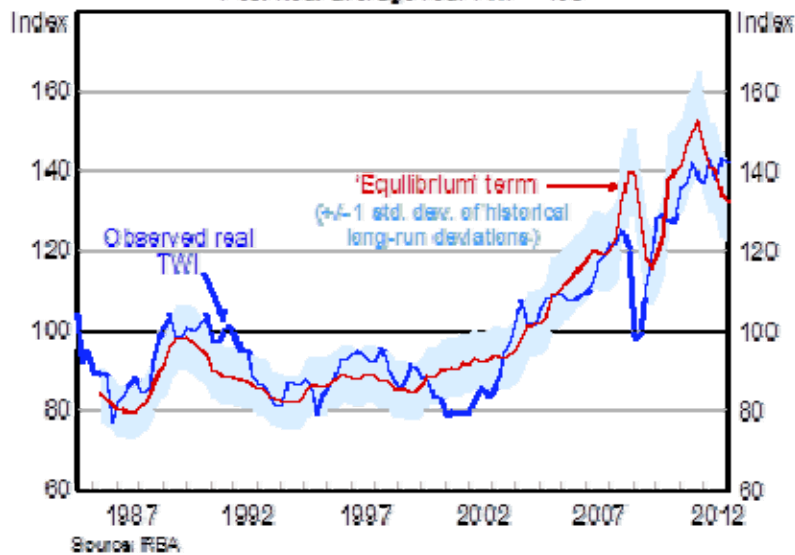
** June 2012

*** July 2012

Sources: The Economist; IMF; RBA

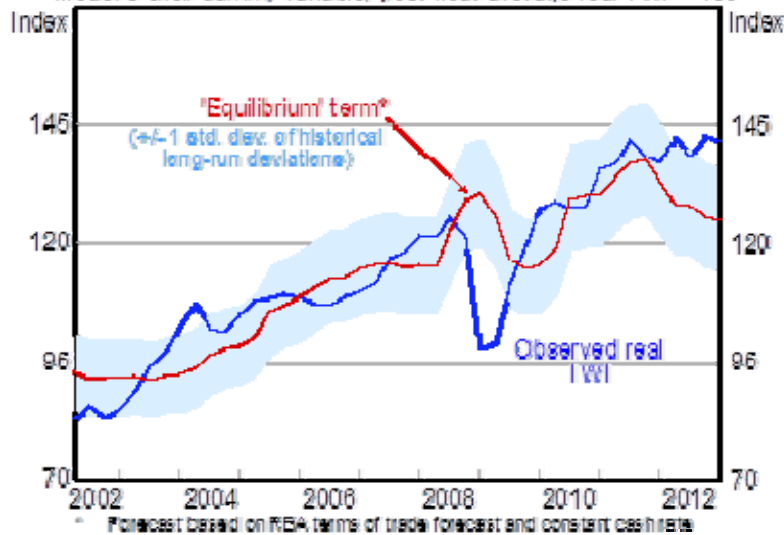
'Equilibrium' Real Exchange Rate

Post-float average real TWI = 100



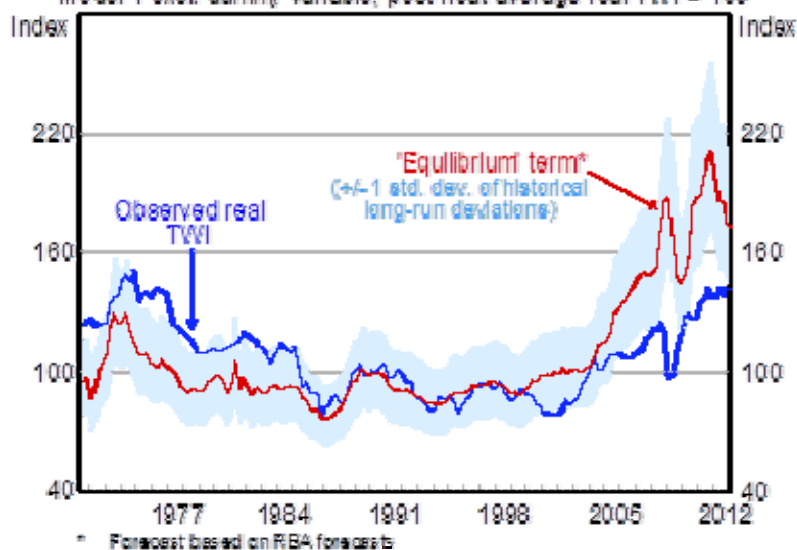
'Equilibrium' Real Exchange Rate

Model 3 excl. dummy variable, post-float average real TWI = 100



'Equilibrium' Real Exchange Rate

Model 1 excl. dummy variable, post-float average real TWI = 100



| Senior Analyst | International Department
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| w: www.rba.gov.au

Composition of Foreign Exchange holdings of International Countries - AUD Focus

| | |
|------------------------------|----|
| Number holding AUD: | 15 |
| Number possibly holding AUD: | 8 |
| Not holding AUD | 20 |

| |
|-----------------------------|
| Answered |
| May never know answer |
| Needs further investigation |

| Country | Central bank | Series description | Base Currency | Hold AUD? | Assumed AUD holdings | Other info | Link | Article | Documentation | Year of latest AR |
|----------------------|--|----------------------|-------------------|---------------|------------------------------|-----------------------|-------------------------|---------------------------|-------------------------------|-------------------|
| Argentina | Banco Central de la Republica Argentina | None | Peso | ? | | No annual report: | Primary | | | 1989 |
| Australia | Reserve Bank of Australia | Currency and residu: | Australian dollar | #N/A | Table 32 | | Primary | | | 2012 |
| Armenia | Central Bank of the Republic of Armenia | Currency compositio | Armenian drams | No | | Currency held app | Primary | Armenia | | 2011 |
| Austria | Oesterreichische Nationalbank | | Euro | | | | Primary | | | |
| Belarus, Republic of | National Bank of the Republic of Belarus | | Belarusian ruble | Yes | | Page 137 of Annu | Primary | | | |
| Brazil | Banco Central do Brasil | | Brazilian Real | Yes | 3.10% | | Primary | Secondary | | 2010 |
| Belgium | Nationale Bank van België | | Euro | | | | Primary | | | |
| Bulgaria | Bulgarian National Bank | | Euro | | | | Primary | | | |
| Canada | Department of Finance Canada | Currency compositio | CAD | No | | Reserves only con | Primary | Canada | | 2011 |
| Colombia | Banco de la Republica Colombia | Currency compositio | Peso | No | | Composition is 85 | Primary | | | 2009 |
| Croatia | Croatian National Bank | | Kuns | | | | Primary | | | |
| Czech Republic | Czech National Bank | Annual Report 2011 | Koruna | Yes | 5.30% | | Primary | | | |
| Chile | Banco Central de Chile | | Peso | Yes | <10% | Benchmark for po | Primary | | | 2011 |
| China | People's Bank of China | None | Renminbi | ??? | ? | | Primary | | | |
| Costa Rica | Banco Central de Costa Rica (BCCR) | | Colon | | | | Primary | | | |
| Cyprus | Central Bank of Cyprus | | Euro | | | | Primary | | | |
| Denmark | Danmarks NationalBank | Currency compositio | Kroner | No | 0 | Hold reserves in n | Primary | | | |
| Ecuador | Banco Central del Ecuador | | US\$ | ? | | Site not in English | Primary | | | |
| El Salvador | Banco Central de Reserva de El Salvador | | Colon | | | Site not in English | Primary | | | |
| Egypt | Central Bank of Egypt | None | Pound | ? | | Mention of reserv | Primary | | | |
| Estonia | Bank of Estonia | | Euro | | | | Primary | | | |
| Euro area | European Central Bank | Currency allocation | Euro | No | | US\$ and yen portl | Primary | | | |
| Finland | Bank of Finland | | Euro | Yes | 0.40% | Possibly, publishe | Primary | Finland | | |
| France | Banque de France | | Euro | | | | Primary | | | |
| Georgia | National Bank of Georgia | Currency compositio | Georgian Lari | Yes | Total in Georgian Laris - co | See table in Docu | Primary | Georgia | | 2011 |
| Greece | Bank of Greece | | Euro | | | | Primary | | | |
| Germany | Bundesbank | Announced but not f | Euro | Yes | | Media reports sta | Primary | Secondary | | |
| Hong Kong, SAR, PRC | HKMA | | HKD | Yes | <14.3% | 78.2% allocated to | Primary | Hong Kong | | 2011 |
| Hungary | Magyar Nemzeti Bank | | Euro | No | | Seems to be just l | Primary | | | 2011 |
| Iceland | Central Bank of Iceland | | Krona | Possibly | | Foreign bonds by | Primary | | | 2011 |
| Indonesia | Bank of Indonesia | Statistics | Rupiah | Possibly | | Absolute number: | Primary | | | |
| Israel | Bank of Israel | | Israeli Shekel | Apparently so | <\$8 billion US\$ | Couldn't find on w | Primary | Secondary | | 2012 (article) |
| India | Reserve Bank of India | | Rupee | Not likely | | Foreign currency : | Primary | Secondary | | |
| Ireland | Central Bank of Ireland | | Euro | No | | Basically holding r | Primary | | | |
| Italy | Banca D'italia | | Euro | No | | See table 22.2 | Primary | Italy | | |
| Japan | Bank of Japan/Ministry of Finance | | Yen | No | | Foreign currency : | Primary | Secondary | Press release | |
| Jordan | Central Bank of Jordan | Annual Report 2010 | Dinar | Possibly | | Under "other" in f | Primary | | | |
| Kazakhstan | National Bank of Kazakhstan | IIP | Tenge | Yes | | I believe it's in the | Primary | Secondary | | |
| Kyrgyz Republic | Not giving me much here... | | Som | | | | Primary | | | |
| Korea | The Bank of Korea | Currency allocation | Won | Yes | ? | Couldn't find on w | Primary | Secondary | | 2011 |
| Latvia | Latvijas Banka | None | Lats | No | | "The foreign curre | Primary | | | |

| | | | | | | | | | |
|----------------------|--|-----------------------|---------|-----------------------------------|------------------------------|-----------------------------|-------------------------|---------------------------|-------------------------------------|
| Luxembourg | Banque Centrale du Luxembourg | Balance sheet - asset | Euro | No | | Breakdown in BS | Primary | | |
| Lithuania | Lietuvos Bankas | Countries not in SDR | Euro | Yes | | If assumption that all non- | Primary | | |
| Macedonia, FYR | National Bank of the Republic of Macedonia | | Denar | Yes | | Included in an "other" cate | Primary | Macedonia, FYR | |
| Malta | Bank Centrali ta' Malta | Balance sheet - asset | Euro | No | | Talks about divers | Primary | | |
| Moldova, Republic of | National Bank of Moldova | Currency compositio | Leu | Possibly | <0.03% | Other currencies i | Primary | Moldova, Republi | 2011 |
| Malaysia | Bank Negara Malaysia | Currency compositio | Ringgit | Possibly | <23.4% | In 2011 68.4% US | Primary | | |
| Mexico | Banco de Mexico | None | Peso | No | | | Primary | | |
| Morocco | Bank Al-Maghrib | Balance sheet - asset | Dirham | No | | | Primary | | |
| Netherlands | De Nederlandsche Bank | Currency Composition | | No | | Breakdown of cor | Primary | Netherlands | |
| Norway | Norges Bank | Currency compositio | Kroner | No | | 75% USD, 25% EU | Primary | | |
| Peru | Banco Central de Reserva Del Peru | Currency compositio | Sole | Possibly | | Holdings in US\$ o | Primary | | |
| Poland | Narodowy Bank Polski | Currency compositio | Zloty | Yes | 7.48 US\$ bill. | In 2010 their benc | Primary | Poland | |
| Philippines | Bangko Sentral Ng Pilipinas | None | Peso | "Other" quoted, no mention of AUD | | Other foreign cou | Primary | Secondary | |
| Portugal | Banco de Portugal | None | Euro | | | | Primary | | |
| Romania | Banca Nationala a Romaniei | Currency compositio | Leu | No | | 66% Euro, 24% US | Primary | Romania | |
| Russian Federation | Bahk Pocchh | AR doesn't open... | Rouble | Yes | Up to 1% of their total rese | Article suggest the | Primary | Secondary | |
| Singapore | Monetary Authority of Singapore | None | Dollar | Possibly | | Pretty secretive al | Primary | | |
| Slovenia | Bank of Slovenia | None | Euro | | | | Primary | | |
| Spain | Banco de Espana | None | Euro | | | Quite a lot of info | Primary | | |
| Switzerland | Swiss National Bank | Currency Compositio | Franc | Yes | | See reserves spre | Primary | | |
| Slovak Republic | Narodna Banka Slovenska | None | Euro | | | | Primary | | |
| South Africa | South African Reserve Bank | | Rand | Doesn't seem to be | | Apparently there' | Primary | Secondary | Annual Report 11/12 |
| Sweden | Sveriges Riksbank | | Krona | Yes | 10.1 SEK billion | Also hold USD, Eu | Primary | | |
| Thailand | Bank of Thailand | None | Baht | No | | Only interested in | Primary | Sweden | |
| Turkey | The Central Bank of the Republic of Turkey | Market value of fore | Lira | No | | Only Euro and US | Primary | | |
| Tunisia | Central Bank of Tunisia | None | Dinar | ? | | | Primary | | |
| Ukraine | National Bank of Ukraine | None? | Hyrvnia | ? | | Look closer - there | Primary | | |
| United States | Federal Reserve | Treasury and Fed Re | Dollar | Apparently not | | Predominately Ye | Primary | Secondary | |
| United Kingdom | Bank of England | Currency compositio | Pound | No | | BOE holds only US | Primary | Secondary | |
| Uruguay | Banco Central Del Uruguay | | Peso | | | Not available in Ei | Primary | | |

Country Reference Article

Finland [Link](#)

Table 2.
Breakdown of debt securities in the Bank of Finland's financial assets by home state of the issuer (according to market value of debt security)

| Country or region | 31 Dec 2011 % | 31 Dec 2010 % |
|--------------------------------------|------------------|------------------|
| Euro area | 66.7 | 71.5 |
| Germany | 23.2 | 21.7 |
| France | 19.3 | 22.1 |
| The Netherlands | 6.8 | 6.0 |
| Finland | 6.5 | 6.8 |
| Austria | 3.4 | 3.4 |
| Spain | 3.3 | 4.7 |
| Italy | 2.1 | 3.6 |
| Belgium | 0.9 | 1.4 |
| Ireland | 0.5 | 0.6 |
| Portugal | 0.4 | 0.7 |
| Greece | 0.2 | 0.6 |
| Luxembourg ¹ | 0.0 | 0.0 |
| Europe excl. euro area | 8.6 | 7.4 |
| United Kingdom | 3.8 | 4.0 |
| Sweden | 2.5 | 2.2 |
| Norway | 1.3 | 0.5 |
| Denmark | 1.0 | 0.8 |
| America | 14.1 | 10.2 |
| United States | 13.0 | 9.1 |
| Canada | 1.1 | 1.1 |
| Asia and Pacific Ocean region | 3.8 | 4.8 |
| Japan | 3.2 | 4.2 |
| Australia | 0.4 | 0.6 |
| Singapore | 0.1 | 0.1 |
| New Zealand ¹ | 0.0 | – |
| International institutions | 6.8 | 6.1 |

¹ 0.0 means less than 0.05,
– means zero.

Source: Bank of Finland.

Italy [Link](#)

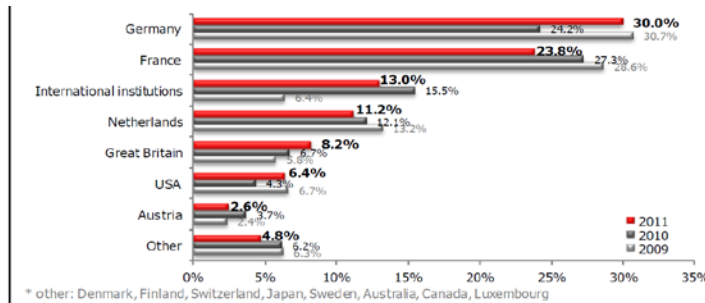
Table 22.2

| Gold and net foreign currency assets (1) (millions of euros) | | |
|---|----------------|----------------|
| | 31.12.2011 | 31.12.2010 |
| Gold | 95,924 | 83,197 |
| US dollars | 18,970 (2) | 18,175 |
| Pounds sterling | 3,506 | 3,682 |
| Japanese yen | 5,380 | 5,571 |
| Swiss francs | 275 | 268 |
| Other currencies | 4 | 4 |
| SDRs relating to net assets vis-à-vis the IMF | 4,421 | 1,853 |
| Total | 128,480 | 112,750 |

(1) Valued at market exchange rates and prices. The reserves do not include financial assets (ETFs and shares/units of UCITS) denominated in foreign currency representing the investment of ordinary and extraordinary reserves, provisions and other capital funds, as they constitute a separate foreign currency item. – (2) Includes €1,546 million of temporary operations in dollars as part of an agreement between the ECB and the Federal Reserve to offer short-term liquidity in dollars to the banking system.

Macedonia, F [Link](#)

Figure 153
Geographical structure of foreign reserves, annual average



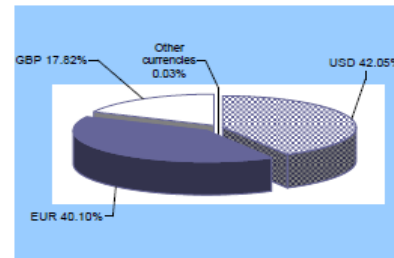
Moldova, Rej [Link](#)

The Chart 2.44 shows the share of currencies in which the foreign exchange reserves were denominated at the end of 2011. The U.S. dollar holds the most significant share - 42.05 percent, followed by the euro - 40.1 percent.

It should be mentioned that, de facto, the foreign currency composition of foreign exchange reserves might deviate in the range of +/- 10.0 percent from the normative foreign currency composition (Chart 2.43).

Despite the unfavorable conjuncture of global economic environment and the negative development of profitability rates of investment instruments, the decisions taken within the management foreign exchange reserves process have led to a rate of profitability of 1.29 percent for 2011 or USD 24.66 million, as compared to 1.12 percent, or USD 17.18 million in 2010.

Chart 2.44: Foreign exchange reserves as of 12/31/2011



Source: NBM

Netherlands [Link](#)

EUR million

| | 31 December 2011 | | | | | | 31 December 2010 | | | | | |
|-------------------------------|------------------|---------------|---------------|-------------|------------|---------------|------------------|--------------|---------------|-------------|----------|---------------|
| | Total | EUR | USD | JPY | GBP | SDR | Total | EUR | USD | JPY | GBP | SDR |
| Foreign currency swaps | | | | | | | | | | | | |
| Claims | 10,247 | 9,743 | 504 | 0 | 0 | 0 | 9,157 | 8,911 | 246 | 0 | 0 | 0 |
| Liabilities | -10,761 | -5 | -7,445 | -509 | -13 | -2,789 | -9,114 | -17 | -6,918 | -235 | 0 | -1,944 |
| | -514 | 9,738 | -6,941 | -509 | -13 | -2,789 | 43 | 8,894 | -6,672 | -235 | 0 | -1,944 |
| Forward contracts | | | | | | | | | | | | |
| Claims | 1,025 | 647 | 378 | 0 | 0 | 0 | 926 | 464 | 462 | 0 | 0 | 0 |
| Liabilities | -1,027 | -348 | -382 | 0 | 0 | -297 | -924 | -447 | -477 | 0 | 0 | 0 |
| | -2 | 299 | -4 | 0 | 0 | -297 | 2 | 17 | -15 | 0 | 0 | 0 |
| Total | -516 | 10,037 | -6,945 | -509 | -13 | -3,086 | 45 | 8,911 | -6,687 | -235 | 0 | -1,944 |

Poland [Link](#)

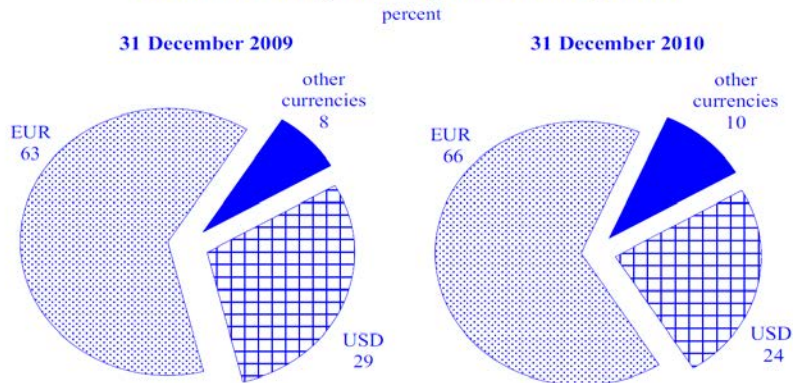
Table 4
Benchmark currency composition in years 2006–2010 (in %)

| | Benchmark currency composition | | | | |
|------|--------------------------------|-----|-----|-----|-----|
| | USD | EUR | GBP | AUD | NOK |
| 2006 | 45 | 40 | 15 | 0 | 0 |
| 2007 | 40 | 40 | 15 | 5 | 0 |
| 2008 | 40 | 35 | 15 | 5 | 5 |
| 2009 | 40 | 35 | 15 | 5 | 5 |
| 2010 | 38 | 35 | 13 | 8 | 6 |

Source: NBP data.

Romania [Link](#)

Romania's Foreign Exchange Reserve Composition



Canada

Table 3
Currency Composition of EFA Liquid Reserves

| | March 31, 2011 | March 31, 2010 | Change |
|--|----------------|----------------|--------|
| (market value in millions of dollars, settled basis) | | | |
| US dollars | 28,622 | 24,800 | 3,822 |
| Euro | 18,609 | 20,095 | -1,485 |
| Yen | 128 | 305 | -179 |

Notes: Liquid reserves exclude gold and SDR holdings. Numbers may not add due to rounding.

Armenia

| Currency | Decrease in currency rate in % 2011 | Effect on profit 2011 | Decrease in currency rate in % 2010 | Effect on profit 2010 |
|----------|-------------------------------------|-----------------------|-------------------------------------|-----------------------|
| EUR | -17.23% | (32,384,098) | -25.00% | (40,947,634) |

| | | | | |
|-----|---------|--------------|---------|--------------|
| GBP | -14.18% | (6,484,220) | -17.58% | (4,361,370) |
| JPY | -16.46% | (11,276,229) | -25.00% | (19,156,602) |
| USD | -11.13% | (30,866,071) | -10.15% | (27,399,128) |
| SDR | -14.18% | 32,611,118 | -17.58% | 37,685,905 |

Georgia

| | 31 December 2011 | | | | | | |
|--|------------------|------------------|------------------|------------------|----------------|--------------|------------------|
| | GEL | USD | EUR | SDR | AUD | Other | Total |
| Financial assets: | | | | | | | |
| Cash and cash equivalents | - | 1,329,186 | 348,363 | - | 8,576 | 4,176 | 1,690,301 |
| Due from financial institutions | 13,505 | 990 | 189 | - | - | 35 | 14,719 |
| Special Drawing Rights holdings with the International Monetary Fund | - | - | - | 373,034 | - | - | 373,034 |
| Trading securities | - | 151,269 | - | - | - | - | 151,269 |
| Investments available-for-sale | 124,997 | 1,486,537 | 784,407 | - | 210,275 | - | 2,606,216 |
| Investments held to maturity | 562,361 | - | 11,493 | - | - | - | 573,854 |
| Other financial assets | 2,313 | - | 106 | - | - | - | 2,419 |
| Total financial assets | 703,176 | 2,967,982 | 1,144,558 | 373,034 | 218,851 | 4,211 | 5,411,812 |
| Financial liabilities: | | | | | | | |
| Due to resident financial institutions | 385,852 | 636,288 | 125,314 | - | - | 34 | 1,147,488 |
| Due to the Ministry of Finance | 573,818 | 82,509 | 101,910 | - | - | 514 | 758,751 |
| Due to the International Monetary Fund | - | - | - | 1,350,738 | - | - | 1,350,738 |
| Due to customers | 621 | - | - | - | - | - | 621 |
| Debt securities issued | 442,128 | - | - | - | - | - | 442,128 |
| Other financial liabilities | 3,615 | 298 | 1,202 | - | - | - | 5,115 |
| Total financial liabilities | 1,406,034 | 719,095 | 228,426 | 1,350,738 | - | 548 | 3,704,841 |
| NET FINANCIAL POSITION | (702,858) | 2,248,887 | 916,132 | (977,704) | 218,851 | 3,663 | 1,706,971 |

Hong Kong

Table 3 Currency mix of the Exchange Fund's assets on 31 December 2011 (including forward transactions)

| | HK\$ billion | % |
|------------------|--------------|------|
| US dollar | 1,945.6 | 78.2 |
| Hong Kong dollar | 186.4 | 7.5 |

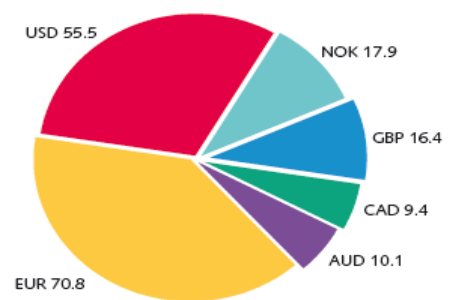
| | | |
|---------------------|----------------|--------------|
| Others ¹ | 356.0 | 14.3 |
| Total | 2,488.0 | 100.0 |

¹ Other currencies included mainly Australian dollar, Canadian dollar, euro, renminbi, sterling and yen.

Sweden

Chart 19

The Riksbank's foreign currency exposure at the end of 2011, SEK billion



Source: The Riksbank.

| Country | Hold reserves in A | Total reserves | AUD Reserves | % of Total reserves/ capital inflows??? |
|---------|--------------------|----------------|--------------|---|
|---------|--------------------|----------------|--------------|---|

Original

Reuters

AFR http://afr.com/p/markets/russia_joins_growing_club_OzQablsLkKBEKzbtTYh6L

Regions speculated to have bought Aussie:

Asia

Also large fund managers?

South America

Western Europe

Speculation that COFER data on the "other" reserves category is largely AUD is backed up by turnover data suggesting the Aussie is the 5th most heavily trade currency in 2010, with traders consensus agreeing that volumes have picked up since then.