Forex Focus: Aussie Parity But Nothing More

By Nicholas Hastings

A DOW JONES NEWSWIRES COLUMN

LONDON (Dow Jones)--Parity between the Australian and U.S. dollars will no doubt pose as a magnet for currency investors.

But, once parity has been hit, the Aussie will slide back again as recent euphoria over the Australian economy starts to fade.

The Reserve Bank of Australia has already signaled its concerns by failing to hike interest rates as so many had expected last week.

For the moment, the Aussie is being helped not only by some strong economic numbers still coming out of Australia, such as Wednesday's unexpectedly sharp rise in jobs last month, but the uncertainty that continues to hang over policy direction elsewhere.

In the case of the U.S., the dollar could well remain under pressure for a few more weeks as the market speculates over an increase in quantitative easing when the Federal Reserve next meets in early November.

The Australian dollar has also got help from China, which has kept a firm lid on any yuan appreciation and ensured continued Chinese demand for Australian exports.

A rally in gold prices to new record highs and strong support for commodity prices in general as markets look ahead to a global recovery have all helped to drive the Aussie steadily higher for most of this year and pushing it to the highest level it has ever reached, at $0.9920, since the currency was floated back in 1983.

However, the wheels that have been driving the Aussie higher will soon start to fall apart.

With employment now reaching maximum levels, and wage inflation likely to creep in, the RBA may still need to hike rates some more next month.

However, other numbers suggest that the economy is already starting to come off the boil. Retail sales have softened and the latest purchasing managers' index tumbled under the key 50 level, suggesting contraction in the manufacturing sector.

Externally, commodity prices have probably more than discounted a global recovery now and even demand from China has slowed rapidly in recent months.

Analysts at BNP Paribas point out that this is particularly true about iron ore, one of Australia's most important exports.

The price of crude oil may also have hit a new five-month high this week. However, the price is being supported largely by dollar weakness rather than by any increase in global demand.

So even as Sydney starts to celebrate a currency that is now as strong as the U.S. dollar, the seeds for the

Aussie's decline are being sown.

The fact that short U.S. dollar positions against commodity currencies in general and the Australian dollar in particular, are very high only increases the chances that the Aussie will be seen as a sell once, if not before, it has crossed that parity line.

Around 0700GMT the Australian dollar was trading at $0.9812, slightly lower than $0.9825 seen in late U.S. trade Thursday.

Overnight the dollar enjoyed a brief reprieve against its peers helped by comments from Kansas City Fed president Thomas Hoenig who reiterated his opposition to further easing measures, and Dallas Fed president Richard Fisher's comments that investors should not assume the Fed is on the path of further easing.

However, a good chunk of the dollar's overnight gains were given back during Friday's Asia session after Moody's Investors Service Inc. said it had put China on review for a possible upgrade within three months.

The euro now changes hands at $1.3942, up from $1.3912 and well ahead of its overnight low of $1.3857.

The pound is unchanged at $1.5862 while the dollar fetches Y82.37, little changed from the Y82.40 seen in late New York Thursday.

For Friday the action kicks off at 1230GMT with the U.S. non-farm payrolls report which is expected to show 10,000 job losses in September and the unemployment rate creeping up to 9.7% from 9.6% in August.

This weekend also sees the International Monetary Fund and the World Bank meeting in Washington D.C. which will also include a meeting of the Group of Seven leading industrial nations.

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