

Forex Focus: Aussie Will Suffer As The Doves Start To Circle

By Nicholas Hastings

A DOW JONES NEWSWIRES COLUMN

LONDON (Dow Jones)--As hopes for the global recovery run out, so do hopes for more Australian dollar gains.

In fact, the Aussie's rally over \$0.90 earlier this month is hardly likely to be repeated again just now.

The problem for the Australian currency is the increasing risk of a double dip recession in the global economy, which already has the dovish elements both in the U.S. and Japan seeking to increase monetary easing.

This is quite a turnaround from the days when financial markets were confident the recession was over and, as a leading commodity currency, the Aussie was able to capitalize on the prospect of increased global demand.

As reports from the central bankers' symposium in Jackson Hole, Wyoming, later today are likely to show, both Japanese and U.S. officials are now well aware that their economies aren't staging the recoveries that had been expected and that more monetary help is needed.

But in both cases the monetary easing hasn't emerged as quickly as expected.

In Japan, discussions between the government and the Bank of Japan over how to tackle the strong yen and fight deflation pressures have been going on for weeks. Only now are there signs that the country might be about to opt for an increase in non-conventional monetary easing, rather than direct market intervention to cap the yen's rise.

Similarly, in the U.S., dovish elements in the Fed may well be arguing for more quantitative easing now that more evidence that the recovery is stalling has emerged. But, these doves are facing opposition from Fed members who continue to fear the inflationary consequences of easy policy. Many even opposed the Fed's decision earlier this month to just hold liquidity conditions at current levels.

So, while both Japan and the U.S. negotiate their policy reactions to the new economic risks, chances are their economies will slow even further, ensuring that demand for commodities in general continues to decline.

For the Aussie, additional concern has come from China, Australia's principle trading partner. Efforts by Beijing to prevent the economy from overheating have proved even more successful than expected with recent trade data from both Japan and South Korea showing that while Chinese demand is still relatively strong, it has certainly lost momentum.

As the price of commodities have tumbled, so too have the prospects for further Aussie gains as the market waits to see how long it will take for the next global upswing to emerge.

Australian politics certainly aren't helping the Aussie either.

In itself, last Saturday's general election ending in a hung parliament shouldn't have posed a problem. With its budget deficit well under control, Australia isn't at risk from a downgrade like many other major economies, including the U.S.

However, coalition negotiations over the last week have thrown the issue of a tax on mining companies, that could hurt Australia's mining-intensive economy, back into the equation.

With three out of the four independent and Green members of parliament involved in the coalition talks supporting the tax, there is a high chance that it will have to be resurrected, especially now that Labor leader and incumbent prime minister, Julia Gillard, appears to be pulling ahead in the polls.

Just the headlines this week confirming the MP's tax position were enough to knock the Aussie lower.

Early Friday the dollar is also little changed against the majors as most players move to the sidelines ahead of events in the U.S. later Friday that should dictate the dollar's fate for many sessions to come.

At 1230GMT the second estimate of U.S. 2Q GDP figures will be released, where growth is expected to be revised down to 1.3% from the 2.4% advance estimate released in late July.

Then at around 1400GMT Federal Reserve Chairman Ben Bernanke speaks on the economic outlook and the Fed's response at the Kansas City Fed Symposium in Jackson Hole, Wyoming.

At Around 0640GMT Friday the AUD trades at \$0.8873, little changed from \$0.8867 seen in late New York trade Thursday.

The euro fetches \$1.2720, down slightly from \$1.2724 while the pound is worth \$1.5522, down from \$1.5530 and the dollar fetches Y84.70, up from Y84.41 seen in late U.S. trade Thursday.

The JPY slipped a little in Asia Friday as local newswires reported Japan's prime minister would hold a press conference later in the day to outline steps that would be taken to fight yen strength.

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