Aussie Falls, Bonds Rise After RBA Says Currency May Extend Drop
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By Mariko Ishikawa

July 2 (Bloomberg) -- Australia's dollar fell toward an almost three-year low, after the central bank said the currency may depreciate after it left interest rates unchanged at record low 2.75 percent.

Traders see about a 39 percent chance the Reserve Bank of Australia will cut its key rate next month, based on swaps data compiled by Bloomberg. Australia's currency "remains at a high level," Governor Glenn Stevens said a statement today. Local bonds rose and the Aussie fell toward the lowest in 4 1/2 years against its New Zealand counterpart.

"The RBA's jawboning has worked quite well," said Sean Callow, a senior currency strategist at Westpac Banking Corp. in Sydney. "This is probably as large a sell-off in the Aussie as you could expect, given that they didn't touch interest rates.
They are probably happy that they can still get a bit of bang for their buck when it comes to the statement."

The Australian dollar dropped 0.8 percent to 91.65 U.S. cents as of 4:35 p.m. in Sydney from yesterday, when it touched 91.10, the lowest since September 2010.

The Aussie fell 0.3 percent to NZ$1.1773. It dropped to NZ$1.1753 on June 20, a level unseen since January 2009.
Australia's currency declined 0.6 percent to 91.51 yen from yesterday.

New Zealand's dollar weakened 0.5 percent to 77.84 U.S. cents. It slipped 0.3 percent to 77.72 yen.

The yield on Australia's 10-year government bond dropped eight basis points, or 0.08 percentage point, to 3.74 percent.
The three-year rate slid four basis points to 2.77 percent.

December Odds

Since the RBA unexpectedly cut rates to a record low on May 7, the Aussie has dropped about 10 percent. The slump also reflects slowing growth in China and comments by Federal Reserve Chairman Ben S. Bernanke, who said May 22 the central bank could scale back stimulus efforts should the U.S. jobs market outlook show sustainable improvement.

"It is possible that the exchange rate will depreciate further over time, which would help to foster a rebalancing of growth in the economy," Stevens said in the statement accompanying today's decision.

Twenty-five of 28 economists surveyed by Bloomberg News expected Stevens and his policy board to hold borrowing costs unchanged. Interest-rate swaps data signal a 77 percent chance of a reduction by December.

The Australian dollar has weakened 11 percent in the past three months, the worst performer among the 10 developed-nation currencies tracked by Bloomberg Correlation-Weighted Indexes.
The kiwi has declined 5.2 percent in the same period, the second-biggest loser.

"The more that the Aussie dollar falls, the less likely that the RBA is going to go by cutting in the near term,"
Joseph Capurso, a Sydney-based currency strategist at Commonwealth Bank of Australia, said in a Bloomberg Television interview today before the central bank decision. "If the Aussie dollar were to lose another 10 percent on the trade- weighted index, that would actually make the RBA quite happy."

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