Can we expect another Mining export boom if the Dollar drops to US62c?

Despite our still-weak domestic growth, the dollar hypothetically could loss its status as a high-yielding currency that in turn could cause the Aussie to plunge to US62¢, forcing the Reserve Bank to raise interest rates

Historically Australia has had to offer higher interest rates to attract foreign capital into the country. But the country's yield advantage is vanishing.

The yield differential between 10-year US and Australian government bonds has shrunk to less than 30 basis points, the tightest in about 15 years, as the US engages in monetary tightening while the RBA appears set to keep rates steady at 1.5 per cent.
So while the weak consumer economy is making it difficult for the RBA to raise interest rates. Australia is fast becoming less attractive as a location for overseas investment, which in turn is weakening the demand for the Aussie dollar.

This should be a serious concern to Australian policymakers and share traders, because a large number of foreign investors are principally attracted to the high-yield status of the local currency.

If the Fed where to increase three or four times, and the RBA stays firm, we won't be high-yield. That doesn't mean the Aussie falls to US70¢. It means it collapses to US62¢. And think of the inflation shock that would cause."

"I think the Fed is likely to continue to hike, economy should gain extra traction, and US treasury yields will rise, and Australia will have to work harder to attract offshore capital."

That's the way it's meant to work, but if you draw a chart of rate differentials between Australia and US, the relationship has completely broken down.

The Aussie has been very difficult to gauge this year. Historically tied to the iron ore price and strongly influenced by interest rate differentials with the United States, it has stubbornly refused to move outside a set band.

It's been remarkably range-bound. Since the end of 2015 it's traded in the US70¢ to US78¢ range. There has not been a lot of volatility for a currency that's regarded as one of the more adventuress.

The Australian dollar is Asia's second-most traded, behind the Japanese yen.

While the yen is viewed as a defensive bet, the Aussie is viewed as a risky currency.
The country's high exposure to China, through iron ore, means our price should raise and fall depending on iron ore prices, this relationship failed to play out in the early part of this year.
While iron ore surged to $US90 a tonne, the dollar saw some strength, but failed to break past US78¢.
In the past month iron ore has lost a third of its price, but the Australian dollar has barely moved. This could be because investors now realize, while iron ore is dropping, it isn't Australia's only export.

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