



FX Daily

Australian capital flow picture still supportive

Australia's Q3 balance of payments data showed a modest deterioration in the balance of payments picture, with a further widening in the current account deficit. Broader capital flow dynamics remain supportive, however, with ongoing FDI inflows and a pick-up in flows into Australian government debt. Shorter-term flows then continue to largely drive bouts of AUD weakness, leaving AUD vulnerable to sharp corrections higher. It is worth noting then that a lot of the flow in AUD/USD on our platform last week has happened near the recent lows.

Widening in current account deficit largely reflects previously announced revisions

The September quarter balance of payments data released today showed a reasonably solid widening in the current account deficit – from a previously reported AUD9.4bn in Q2 to AUD12.1bn in Q3. To a considerable extent the widening relative to what was previously shown in the Q2 data is a result of previously announced revisions to estimates of import values that largely capture improved reporting of low-value consumer-good imports (in other words internet shopping), with the Q2 deficit now reported at AUD12.1bn.

FDI inflows continue and government debt inflows picked up in Q3

As can be seen in the first two charts today the long-term inflow dynamics revealed in today's data remain supportive, however, with ongoing FDI and portfolio debt inflows. Looking into these flows more closely, it can be seen in Figure 3 that the FDI inflow picture remained little changed, with the fall in net inflows reflecting greater outflows. And Figure 4 shows that there was a marked pickup in inflows into Australian government debt (likely reflecting more attractive valuations given the softness in AUD in the early stages of Q3, as well as still attractive yields).

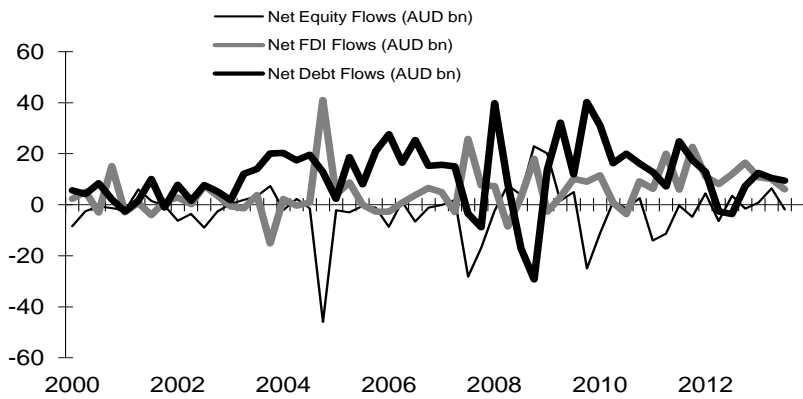
Shorter-term flows driving bouts of AUD weakness this year

As can be seen in Figure 5 this leaves Australia's narrow basic balance of payments in a modestly negative position, although still one that is very healthy relative to most of the past 2 decades. If we broaden this picture out to include longer-term debt and equity portfolio flows, it can be seen in Figure 6 that Australia broad basic balance of payments picture remains at levels historically associated more often with AUD strength than AUD weakness, and is certainly far from the sort of picture that has been associated with sustained AUD weakness in the past.

These data then indicate it remains shorter-term flows that have largely driven the bouts of AUD weakness this year (Figures 7 and 8 are indicative of the extent of these flows). This likely leaves AUD vulnerable to sharp corrections higher unless the outflows broaden out to include the sort of longer-term flows associated with sustained AUD weakness in the past. Given this, it is worth noting then that the heaviest flow in AUD/USD on our platform last week has happened near the recent lows (see Figure 9, and also our *DBFX Flow Report*, 2 December 2013, for more on these flows).

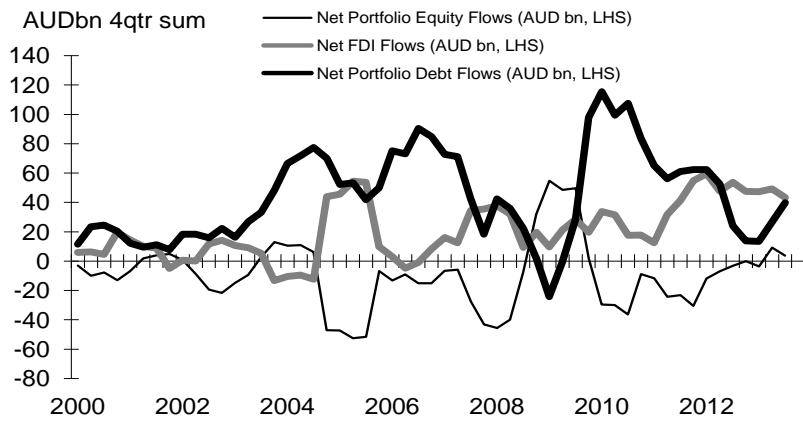


Figure 1: Long-term capital flows into Australia remain positive ...



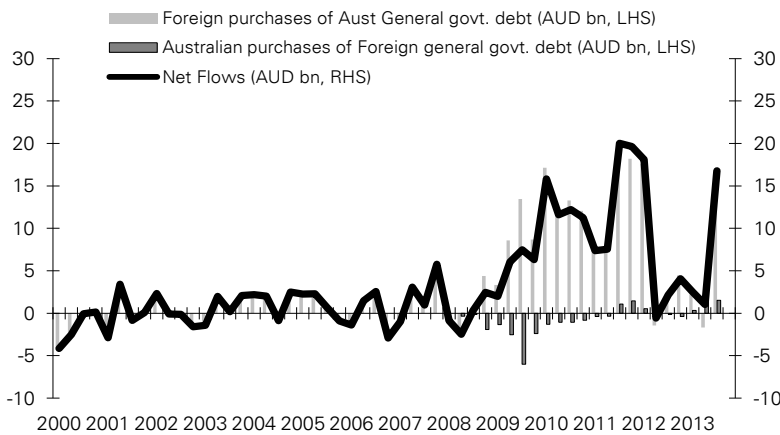
Source: Deutsche Bank, Bloomberg Finance LP, Australian Bureau of Statistics

Figure 2: ...consistent with the trends of recent quarters...



Source: Deutsche Bank, Bloomberg Finance LP, Australian Bureau of Statistics

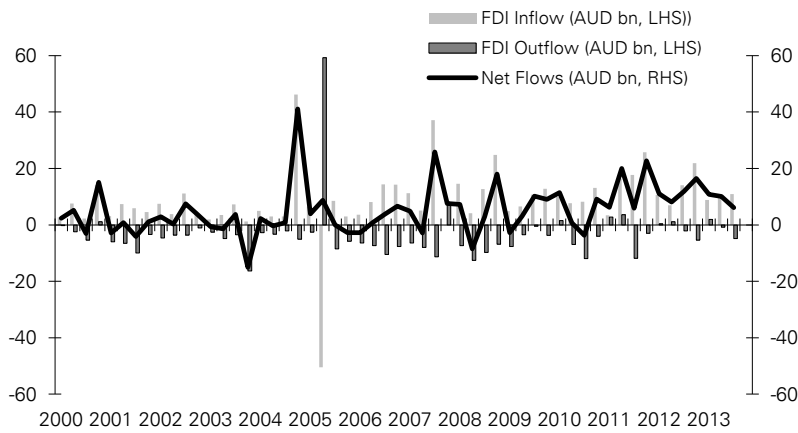
Figure 3: ... the big flow in the quarter was into government bonds...



Source: Deutsche Bank, Bloomberg Finance LP, Australian Bureau of Statistics

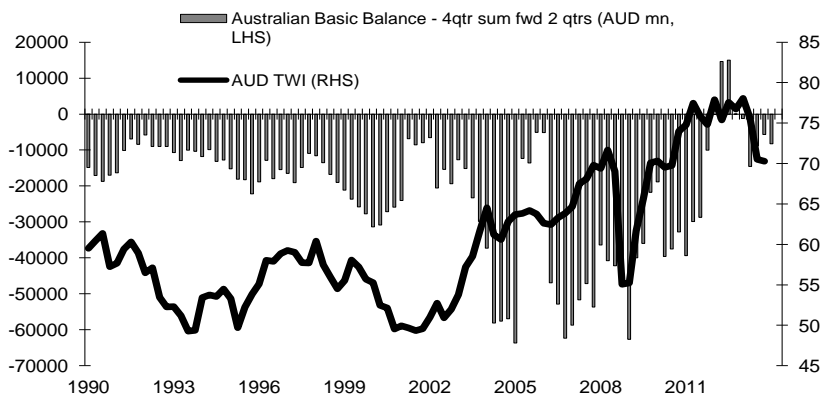


Figure 4: ...and FDI inflows remain healthy...



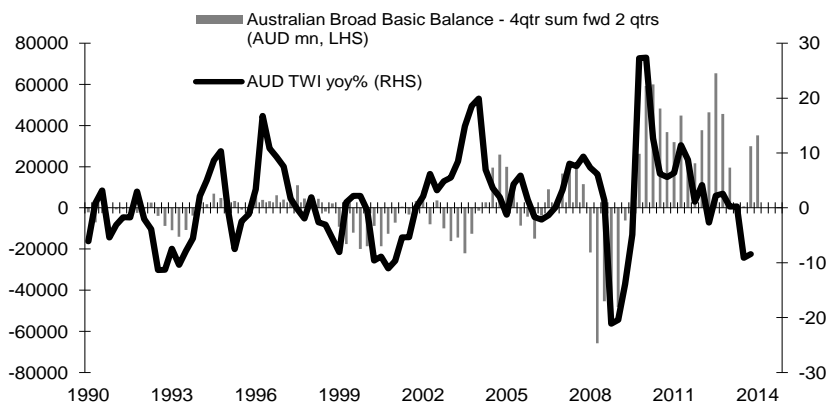
Source: Deutsche Bank, Bloomberg Finance LP, Australian Bureau of Statistics

Figure 5: ... and while the narrow basic balance is a little off its peak...



Source: Deutsche Bank, Bloomberg Finance LP, Australian Bureau of Statistics

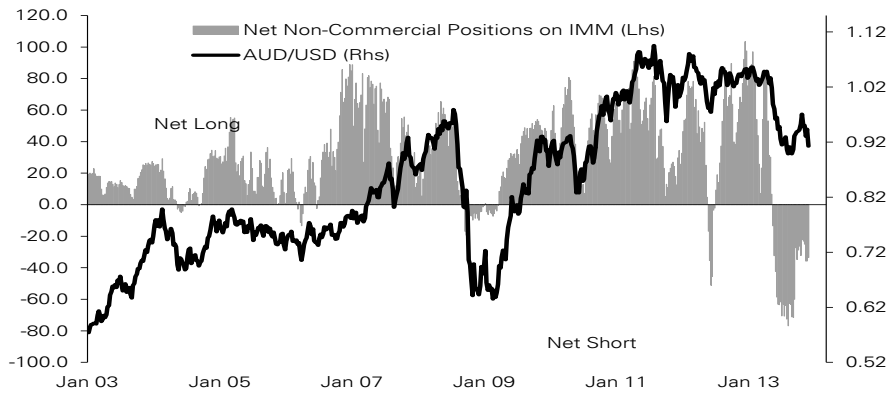
Figure 6: ... including long-term portfolio flows the picture is healthier...



Source: Deutsche Bank, Bloomberg Finance LP, Australian Bureau of Statistics



Figure 7:so it is shorter-term flows that have largely been responsible ...



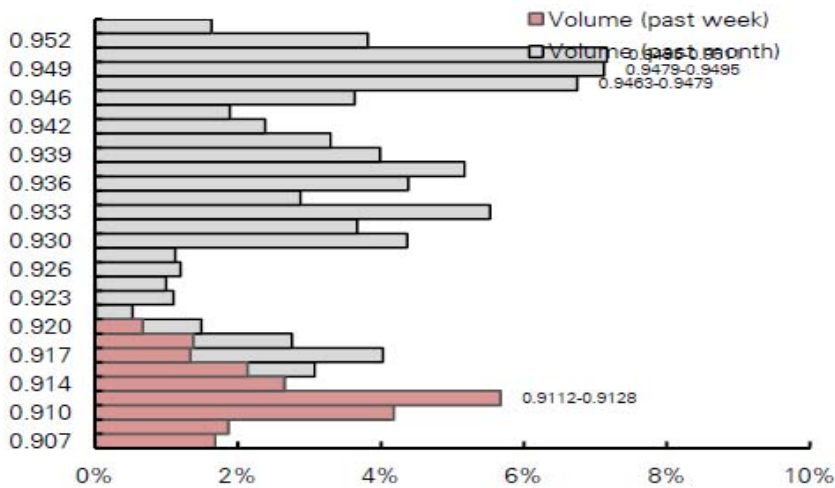
Source: Deutsche Bank, Bloomberg Finance LP

Figure 8:for AUD weakness...



Source: Deutsche Bank, Bloomberg Finance LP

Figure 9:and it is worth noting a lot of the flow on our platform last week was near the lows



Source: Deutsche Bank