

MEDIA RELEASE



Tuesday, 10 June, 2008

Little profit to be made in Aussie volatility– research finds

It's the sixth most actively traded currency in the world, and at the heart of an Australian economy, which is ranked 19th in terms of economic size. Speculation in the AUD is considered to be significant. Now thanks to research from Deakin University, traders and travellers have a better understanding what makes the Aussie dollar tick.

“All currencies move up and down against each other and the question of whether the Australian dollar is excessively volatile has been asked by financial economists for some time, but people have not been able to agree on how to measure whether movements are excessive,” Dr Terry Boulter from the University's Business School explained.

My research answers this question and develops a way of tracking currency movements across time, as well as measuring how quickly new information is incorporated into the currency's value.

Dr Boulter said volatility in the Australian dollar is healthy and not excessive.

“The movement of the dollar can be likened to a heart beat, you don't want a flatline that is extremely unhealthy, similarly you don't want excessive movement because that in turn increases market uncertainty, ultimately putting the economy's health at risk.

“Monetary authorities like doctors do get involved and try to smooth out excessive movements in order to create stability. My research suggests the currency exchange market is sufficiently efficient. The AUD is robust.”

Dr Boulter's research also looked at the influence of different types of information like economic, political, social and disaster news on the exchange rate. Economic news appears to be the information that has the most significant impact.

“On Wednesday at 11am the Government releases information on the Australian economy, so my research looked at the behaviour of the Australian dollar at that time,” he said.

“It was interesting because the volatility of the Australian dollar begins to increase minutes before an announcement. Then when the announcement is made volatility increases significantly throughout a five minute window and into the new hour.

“The AUD reacts to economic news which you would expect particularly information on inflation, interest rates, the current account deficit and unemployment.

“The good news is that the Currency Exchange market operates efficiently with new information being reflected in the dollar's price virtually instantaneously.” **/more 2**

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Dr Boulter has estimated that the speed of adjustment to new equilibrium occurs within the hour and there is no evidence of a consistent under or over reaction, making it very difficult for speculators to profit from AUD volatility.

“Still it is an attractive currency for speculators given that it is one of the world’s most actively traded currencies.”

Media contact: Dr Boulter is available for interview. Please contact Sandra Kingston 0422 005 485 in the first instance.