

Top-10 investment strategies for 2019:

#6 Short AUD

Group Research

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Philip Wee
Strategist



Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@db.com

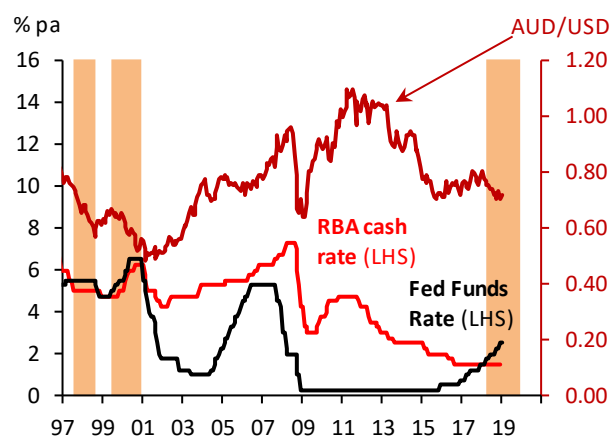
- [#1 Bet on more rate hikes by the Fed](#)
- [#2 Looking for USDSGD to hit 1.40](#)
- [#3 Long Indonesian equities](#)
- [#4 Support for high grade credit, especially BBB](#)
- [#5 Bullish 10Y China govies](#)

- *Idea #6 out of 10: We see the Australian dollar depreciating below 0.70 against the US dollar in 2019*
- *The Fed Funds Rate will increase another 50 bps to 3% which will be twice as high as the RBA's cash rate target*
- *The RBA will keep rates stable for a record third year on increased domestic and external risks to the Australian economy*

AUD/USD will remain weak and trade in a lower 0.65-0.70 range in 2019 on a further deterioration in Australia's negative interest rate differential against the US. We see two increases in the Fed Funds Rate totalling 50 bps to 3% or double the level of its Australian counterpart.

The Reserve Bank of Australia is set to keep its cash rate target unchanged at 1.50% for a record third straight year on increased domestic and external risks to the economy. The RBA will need to downgrade, in next month's Statement of Monetary Policy, its 3.25% growth forecast for 2019. Having slowed to 2.8% YoY in 3Q18 from 3.1% in 1H18, real GDP growth is likely to further retreat below 3% into 1H19 before bottoming out.

AUD/USD to stay weak on unfavourable interest rate differentials



Sources: DBS Research, Bloomberg data

Apart from Black Friday and Cyber Monday sales, there was no Christmas spending spree in 4Q18. Falling house prices have led consumers (especially heavily indebted mortgage holders) to tighten their wallets and led to a slump in construction activities. The Royal Commission into misconduct in the bank and financial services sector has (ahead of its final report in February) already slowed credit growth. The negative spill-over effects into business confidence and investment expectations were evident in recent surveys.

On the external front, pessimism over China's slowing economy has not offset the optimism for a possible US-China trade deal next month. Weaker demand from China would weigh on growth in East Asia, the destination for some two-thirds of Australia's exports. Australia is also a favourite tourist destination for many Chinese and Asian travellers. Not surprisingly, the AUD has a strong correlation with the region's currencies.

Against this dovish background, the RBA's tightening stance is now regarded as technical. The RBA has indicated, under a worst-case scenario, its willingness to cut rates and the option to use quantitative easing in a crisis.

Group Research

Economics & Strategy Team

Taimur Baig, Ph.D.

Chief Economist - G3 & Asia

+65 6878-9548 taimurbaig@dbs.com**Nathan Chow**

Strategist - China & Hong Kong

+852 3668-5693 nathanchow@dbs.com**Masyita Crystallin, Ph.D.**

Economist – Indonesia & Philippines

+ 62 21 2988-4003 masyita@dbs.com**Joanne Goh**

Regional equity strategist

+65 6878-5233 joannegohsc@dbs.com**Neel Gopalakrishnan**

Credit strategist

+65 6878-2072 neelg@dbs.com**Eugene Leow**

Rates Strategist - G3 & Asia

+65 6878-2842 eugeneleow@dbs.com**Chris Leung**

Economist - China & Hong Kong

+852 3668-5694 chrisleung@dbs.com**Ma Tieying, CFA**

Economist - Japan, South Korea & Taiwan

+65 6878-2408 matieying@dbs.com**Radhika Rao**

Economist - Eurozone & India

+65 6878-5282 radhikarao@dbs.com**Irvin Seah**

Economist - Singapore, Malaysia, & Vietnam

+65 6878-6727 irvinseah@dbs.com**Duncan Tan**

Rates/FX Strategist - ASEAN

+65 6878-2140 duncantan@dbs.com**Samuel Tse**

Economist - China & Hong Kong

+852 3668-5695 samueltse@dbs.com**Philip Wee**

FX Strategist - G3 & Asia

+65 6878-4033 philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E. PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000. Company Registration No. 09.03.1.64.96422.