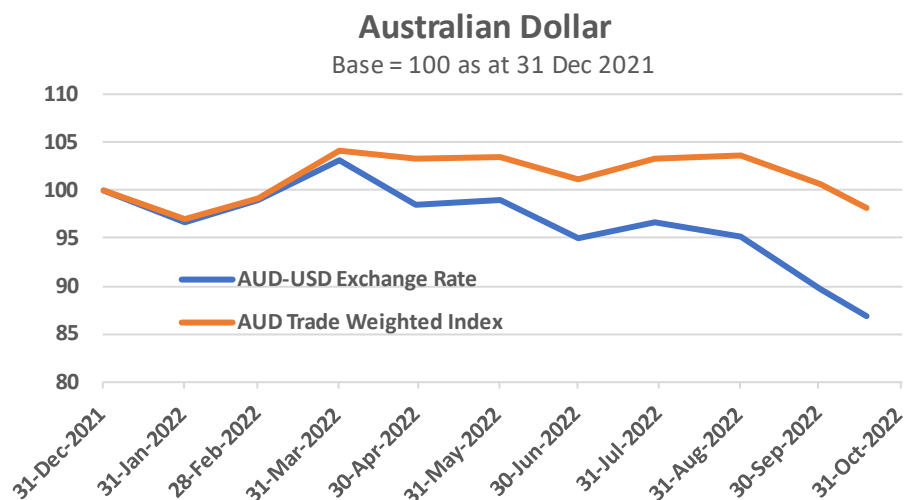


## Pacific Peso?

When Paul Keating delivered his famous Banana Republic Speech in 1986 the Australian Dollar (AUD) was mocked as the Pacific Peso. Since that time the AUD has traded as high as US \$1.10 and as low as US \$0.50. During 2022 the AUD has fallen 13% to US \$0.63, one standard deviation below its long-term average of approximately US \$0.75.

On face value, a falling AUD increases the cost of imports, adding further upward pressure to inflation. By raising interest rates aggressively and creating increased demand for US dollars, the Federal Reserve is exporting inflation to the rest of the world.

In comparison to the decline against the USD, the Australian Dollar trade weighted index (TWI) has declined by less than 2% during 2022. When assessing the impact of exchange rates on inflation, TWI is the RBA's preferred measure as the "TWI provides a broader measure of whether the Australian dollar is appreciating or depreciating against the currencies of its trading partners." The USD represents only 10% of the TWI basket.



source: RBA, Sintra Capital

It is possible that natural resources could (once again) provide significant support to the Australian economy and the AUD. Only this time it is predominantly coal, natural gas, lithium and other battery minerals.

The Sintra Global Fund is currently 70% exposed to the AUD.