



RESEARCH NOTE

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Exchange Rates—The Statistics

Throughout September 2000 the value of the Australian dollar declined dramatically and unexpectedly against the United States dollar.

This Research Note shows details of that decline and provides some of the relevant statistical background.

Introduction

In December 1983 the Australian government 'floated' the Australian dollar. This meant that the Government was no longer prepared to stand in the market ready to support a particular value of the Australian dollar. Instead it has permitted the value of the Australian dollar to be set in the foreign exchange market place.

The Australian dollar is bought and sold for many reasons. Australians who wish to buy goods, services and assets from the rest of the world will either need to exchange Australian dollars for foreign currencies or will make payments in Australian dollars to foreigners who will then wish to sell their Australian dollars in exchange for their own currency. The opposite happens when foreigners wish to make a purchase from Australia. Both sets of actions give rise to trade in the Australian dollar. In addition there are many foreign exchange dealers and speculators who add liquidity to the market.

Exchange rates

The exchange rate between Australian and overseas currencies is expressed in terms of the amount of foreign currency one Australian dollar will buy. Thus unlike other commodities the exchange rate with foreign currencies is not expressed as the price that Australians need to pay for those currencies but the price that holders of those currencies need to pay for one Australian dollar. This means that when the Australian dollar is stronger, i.e. worth more, the exchange rate goes up; when the Australian dollar is weaker, i.e. worth less, the exchange rate goes down.

The relative value of the Australian dollar can thus be gauged from the exchange rates at any time.

Historical exchange rates

The Australian dollar is traded against many foreign currencies. Principal of these is the US dollar, the main international currency and the currency used for most of Australia's international contracts. Thus the US dollar value of the Australian dollar is often taken as an indicator of the health of the Australian currency. This exchange rate is the most quoted measure of the value of the Australian dollar.

Graph 1 shows for the period since December 1983 the average monthly price in US dollars of the Australian dollar.

Recent exchange rates

From a high of over 66 US cents to the dollar in January this year the value of the Australian dollar has been gradually eroded. Table 1 shows the daily value of the Australian dollar in US cents in the period since the beginning of September 2000. It shows that during September the dollar fell below 55 US cents.

Trade weighted index

When the Australian dollar moves in value against the US dollar it is never clear whether the move originated in the Australian dollar or the US dollar. For this reason the Trade Weighted Index (TWI) is used to provide a broader measure of the value of the Australian dollar. The TWI gives a more accurate measure of the Australian dollar when the US dollar itself may be changing in value.

The TWI is an index of the weighted average value of the Australian dollar with respect to a basket of currencies. This basket includes currencies of Australia's trading partners which together are sufficient to make up at least 90 per cent of our import and export trade. Currently there are 22 currencies in

this basket. Weights for currencies in the basket are re-assessed every October on the basis of trade figures for the previous financial year. Figures using the new weights are spliced onto the old to give a continuous series with its base month May 1970 at an index of 100.

Graph 2 shows the movement in the end of month TWI since 1980. It too shows a decline in the value of the Australian dollar in part because of the importance of the US dollar in the TWI basket.

However, against the TWI the Australian dollar fell by 12.7 per cent between its peak in January and its low in September. This is a more modest fall than the 17.6 per cent fall from the peak in January to the low in September when expressed in US dollars.

Sources:

Datastream for Graphs 1 and 2.
RBA for Table 1.

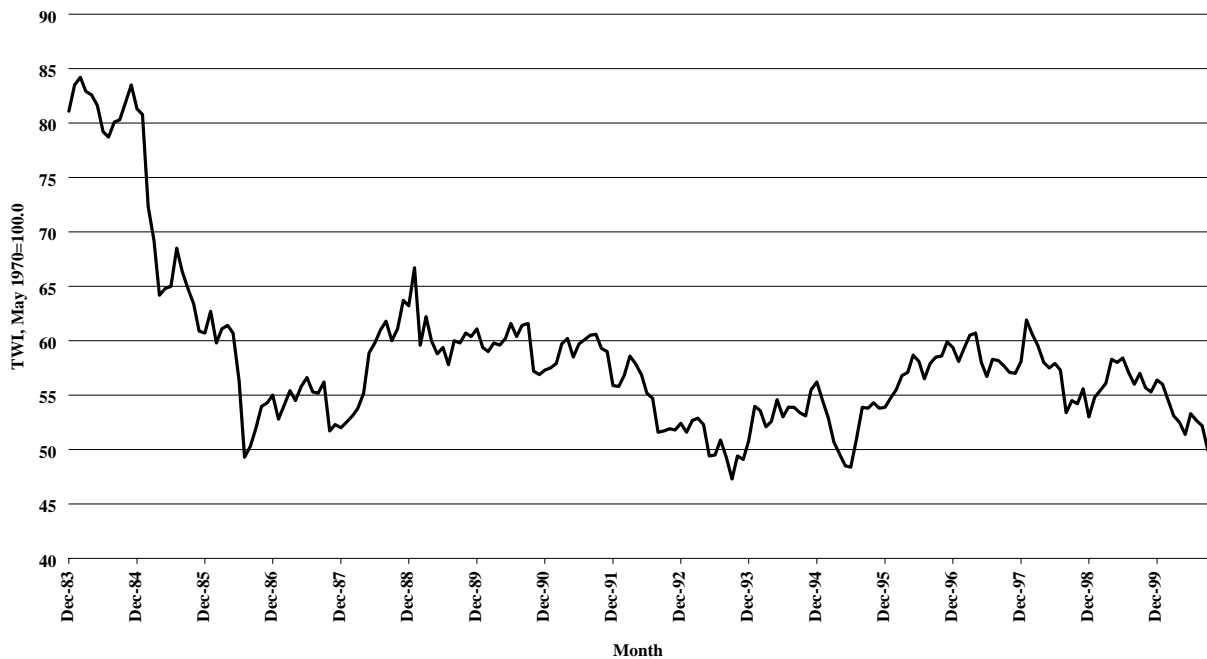
Table 1: Australian exchange rate daily since 1 September 2000

September	US cents per Australian dollar
1	57.48
4	57.68
5	57.35
6	56.68
7	56.39
8	55.93
11	55.85
12	55.73
13	55.47
14	54.98
15	55.01
18	54.33
19	54.35
20	54.03
21	53.86
22	54.64
25	54.65
26	55.03
27	54.88
28	54.98
29	54.33

Graph 1: Australian dollar exchange rate since floating



Graph 2: Australian dollar exchange rate since floating:
Trade Weighted Index



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