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## **The Rising Aussie dollar and Fiji**

**T.K. Jayaraman**

The Aussie dollar is rising. The economy is doing well and so its currency!

If a person is doing well in his profession, business or studies, his credibility improves and status goes up. Credibility is a flexible concept, just as the floating currency. It wanes or waxes, depending upon the performance.

The opposite of the term “flexible” is fixed.

Fiji dollar is under a fixed exchange rate regime. The last time the value of the Fiji dollar (US\$0.5697) in terms of the United States dollar was re-fixed on April 15, 2009. It was reduced by 20 percent to US\$0.4558.

If one currency gets devalued, the other currency goes up in value, similar to the see-saw effect. As a mirror-image reaction, the US dollar went up in value from F\$1.76 to F\$ 2.19. Until another official change, the exchange rate is allowed to fluctuate within a permissible band.

Currencies of advanced countries are flexible currencies. Their price varies on a daily basis, even on hour to hour basis, just as the price of any commodity, apples or gold.

### **Supply and demand**

Under a flexible exchange rate regime, the interaction between forces of supply and demand determines the value of the currency.

If Aussie dollar goes up in value in terms of the US dollar, it is due to an increase in demand for the Australian currency relative to its supply. Supply of the Aussie dollars is represented by Australian imports from overseas; and demand for Aussie dollars by demand for its mineral exports and other products and services.

So, the result of an increase in demand for Aussie dollars relative to supply is the rise in its value in terms of the US dollar.

In these uncertain days, when the eurozone is faltering and the Japanese economy is yet to recover from its two decade-long recession, there is another factor to consider. Following the expansion of money supply in USA, Japan and others, as part of response to the ongoing recession, known as quantitative easing, their currencies are increasingly debased. Fears of inflation fuel the expectations of further depreciation of their currencies.

The Aussie dollar benefits from these fears. Just as the boat people seek asylum in Australia, jittery savers the world over and currency speculators rush to hold the Aussie dollar. This is known as safe haven factor.

In addition, every bit of good news about Australian economy pushes up the value of Aussie dollar. The latest news of April 3 was that Australian trade defect narrowed to A\$178 million in February from a deficit of A\$1.2 billion in January 2013. That was due to rise in exports by three percent and fall in imports by one percent. The market immediately reacted. The Aussie dollar rose to US\$1.0469 from US\$ 1.0449.

### **Pros and cons**

Aussies travelling overseas love their rising currency. They can get more foreign currency for every Aussie dollar they would change. Consumers are also happy as a higher dollar makes imports cheaper. Lower import prices keep inflation down.

Further, it helps contain official interest rates for longer. In fact, that was one of the reasons which prompted the Reserve Bank of Australia on April 3, to maintain the benchmark interest rate unchanged.

It will continue to be at the historically low rate of three percent, the lowest since the 2008 financial crisis.

On the other hand, the rising Aussie dollar makes exporters unhappy. Exports become more expensive to importers overseas. Mineral exports have become insensitive to price changes due to insatiable Chinese demand. They are bringing more money to Australia than before. The traditional exports such as agricultural products, beef and fruits and tourism are likely to lose.

### **Need for niche markets**

Fiji knows the rising Aussie dollar buys more.

A major part of Fiji's foreign exchange earnings come from tourism. Promotional efforts are needed in view of the stories that Australians are booking more trips to the UK as the Aussie dollar hit a 28-year high against the British pound, with other popular destinations being Thailand and Bali.

This may be true for older people who want to have a longer holiday in Europe; and couples and singles with exotic trips to Southeast Asia.

Fiji's attraction will continue and remain unbeatable in terms of shorter vacation packed with exciting things for the young family with kids in a safer setting. With North Korea's sabre rattling, and Asia becoming a hotter place in terms of the oncoming summer heat, Fiji is the best place for Aussie tourists.

One more encouraging piece of news: it is about the Fiji's apparel industry.

The New Zealand High Commission trade official made a very timely observation that he was impressed with the progress of Fiji's apparel companies in terms of supplying corporate wear to Australia and New Zealand.

“Countries such as China, which are concerned more with large supplies, would not be so interested in the small niche markets that Fiji had entered.”

That underscores the need for building and maintaining a stronghold on small niche markets.