PinPoint Macro Analytics

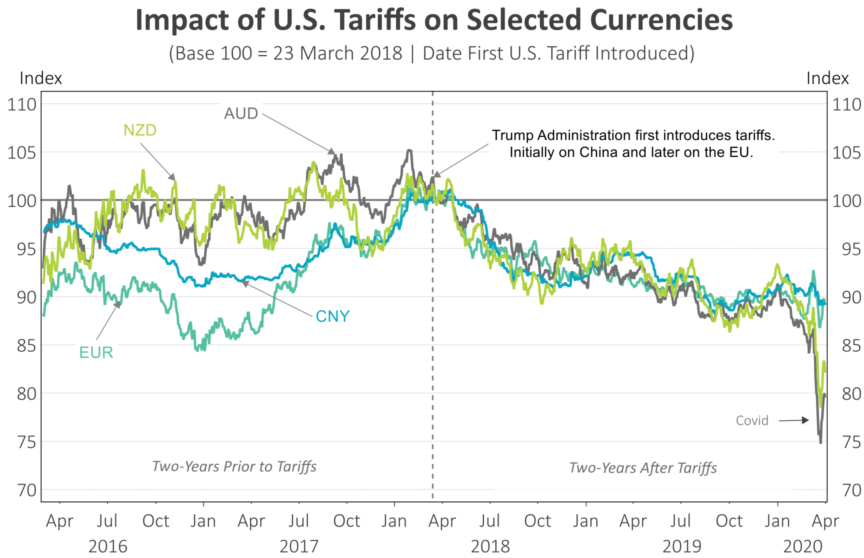
Macro Research

Friday 15th November 2024

AUD Outlook

Since Donald Trump won the U.S. Presidential election on November 5th, AUD has declined some 3.0% to around 0.6450. For those familiar with Donald Trump's pre-announced policies, the decline in AUD should not come as a total surprise.

During the previous 2016-2020 Trump presidency, as tariffs on Chinese and European goods were announced, the USD strengthened, pushing AUD lower. Most currencies depreciated against the USD as global trade tensions and retaliatory actions by the Chinese and Europeans cast a cloud over global economic growth. Notably, CNY, EUR, AUD, and NZD (chart 1). For similar reasons, we should expect more of the same.



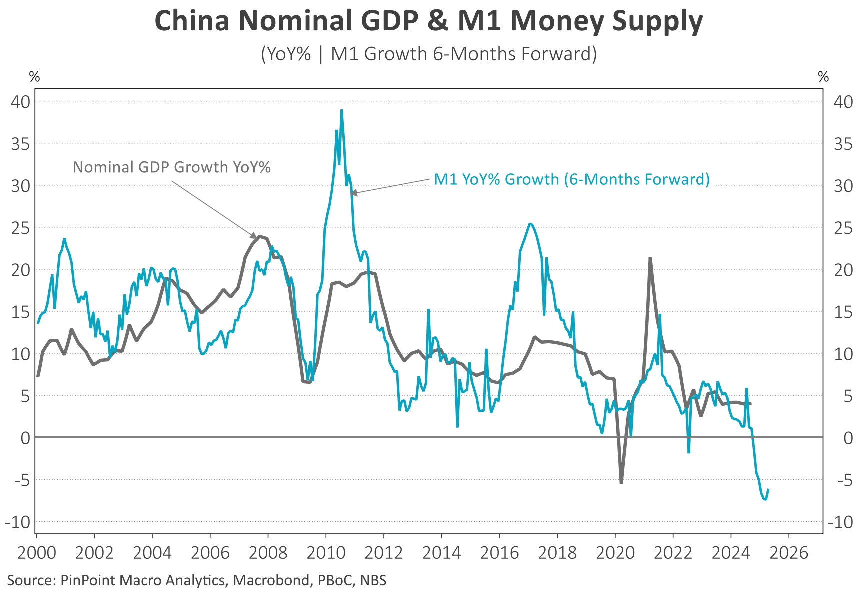
Source: PinPoint Macro Analytics, Macrobond

Trump's current key policies centre around the lifting of tariffs on Chinese, European, and "all imports". More specifically, Trump plans to lift the tariffs on Chinese imports from its current *average* of around 10% to 60%, and lift the universal tariff on all U.S. imports, including those from Europe, Mexico, and Canada, from an *average* of around 3% to 20%.

These would be by far the largest tariffs ever invoked in U.S. economic history. U.S. tariffs implemented during the 2016-2020 Trump Presidency were not dismantled during the in 2020-2024 Biden Administration. Current tariffs levied on some US$300 billion of Chinese goods remain in place. Chinese electric vehicles, semiconductors, and solar cells are currently taxed at 25%. The proposal is to lift the tariffs on Chinese electric vehicles four-fold to 100%, and double the tariff on semiconductors, and solar cells to 50%.

Foreign exchange markets are moving in anticipation of the proposed tariffs, and there is likely to be a larger reaction once we know what gets passed through Congress. However, this time around the Chinese economy is even weaker as its struggles to cope with the collapse in China's property sector, creating additional headwinds for the AUD.

A host of recent monetary and fiscal stimulus packages by the Chinese government have not been enough to turn the Chinese economy around. The historical lessons from a property collapse indicate that the economic recovery process takes years. The Chinese economy is also experiencing some demographic challenges as population growth peaks, which will also slow the economic recovery. Chart 2 illustrates the clear downside risks facing China's economy.



The depreciation pressures on AUD from the stronger USD and weak Chinese economy, are likely to continue over the first half of 2025. When Australia's domestic services inflation currently 4.6%, eventually falls back into the RBA's 2% to 3% target range during H1 2025, it will allow the RBA to begin cutting interest rates. RBA rate cuts will likely add to downside pressure on AUD over 2025.

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