

# Rising sum

The rising Aussie dollar has pros and cons.

By Beth Quinlivan

When the Australian dollar reached its highest level in a decade just recently, you could practically hear travel agents laughing.

At just under 81 cents against the US dollar, the Aussie is 14 per cent higher than it was a year ago and 53 per cent higher than five years ago.

It means an overseas holiday in the US or in Asia, where currency movements tend to follow those of the US dollar, offers better value now than at any time since the late 1990s.

But if the rising dollar is great for overseas holidays, and also limits price rises on plasma screens and other imported goods, the currency news is not all good.

Anyone with offshore investments, either held directly or through a managed fund, has seen returns eroded by the currency movements.

The impact is also negative for non-commodity based businesses that earn revenue from US and Asian markets. For the resources companies, the huge commodity price rises over recent years

have more than compensated for any decrease in earnings due to the higher Australian dollar.

But for other exporters, where global prices haven't experienced such increases, the higher dollar makes life a lot tougher.

In that category are farmers, already reeling from the drought; listed companies such as Billabong and Cochlear whose primary markets are offshore; manufacturers; and many services businesses.

One example is universities, which are being kept afloat thanks to large numbers of fee-paying foreign students, many from Asian countries. The appreciation of the currency means that in one year students have been hit with a 10 per cent or more rise in their course costs.

It makes life more difficult for them but education is also a competitive international business. Australian universities would be hard hit if foreign students opted to look for better value elsewhere.

## BETTER DEAL WHEN YOU MAKE AN EXCHANGE

Having worked for several of the banks, Matt Gilmour founded OzForex in 1998 because he believed individuals and small- to medium-sized companies often got a raw deal on their foreign exchange transactions. Smaller clients were charged high fees and often made do with poor service.

Ten years later, his business is booming. "People have been leaving the banks in droves because they see they can save money using smaller independent operators," he says.

So how do you get a better deal? "There are two components to foreign exchange fees. The first is the transaction cost, which is a flat fee and transparent. The second is on the exchange rate, which is not so easy to see but where bigger savings can be made. If the inter-



Photo: Rob Homer

bank rate on the Australian-US dollar is 80, the client's rate might be 78.5. It is not called a fee but it can get very expensive."

"The currency rise is a fantastic story for anyone travelling to Asia or the US because of the increase in buying power. That doesn't extend to Europe, where the Australian dollar has been reasonably stable," says Matt Gilmour, director of the specialist currency business OzForex.

"Compared with the big rise against the US dollar, the Australian dollar is up just 2 per cent against the Euro over the past 12 months and down 1 per cent compared with five years ago. Against the pound, it is down 1 per cent over 12 months and 11 per cent higher than five years ago."

Movement in the US dollar directly affects currencies in most Asian countries. Some, for example the Hong Kong dollar, are directly linked, rising and falling in sync with the US. Others, including the Singapore dollar and Japanese Yen, are not explicitly tied but correlate strongly with the US currency.

"For anyone who owns US dollar assets, currency is not such a good story. Most international equity funds aren't hedged so investors wear the impact of currency movements," says Gilmour.

In the latest survey of unhedged international shares funds by asset

consulting group InTech, the median return over the year to January 31 was 12.9 per cent. The median five-year return was a modest 2.6 per cent.

Apart from international fund investors, others caught include the growing number of people who directly own offshore assets, such as the (mostly) more sophisticated investors who buy equities directly in the US market or own offshore property.

"There is a trend in Australia to buy homes overseas. In the last few years, we've seen a lot of people buying ski apartments in Japan and houses in places such as Thailand, where you can own something in a great location at far less cost," he says.

But it has been an expensive exercise. In the past year, the currency movement has wiped 15 per cent off the Australian dollar value of a Japanese ski lodge.

Just where the Aussie dollar is heading from here is the big question. Following its recent strength, economists and forex specialists have offered various views on the future. Some believe it is likely to keep rising, while others say it has reached its level.

Unfortunately, it really is all nothing more than conjecture. Where it ends up will depend on a range of factors including the strength of the global economy, future commodity prices and interest rates.

**new super rules**

**super opportunities**

**reduce tax**

### Don't miss your window of opportunity

If you're retiring soon, there's limited time to find out how major changes to superannuation could affect your plans:

- ~ What one-off opportunities are there if you act before 1 July 2007?
- ~ How can you reduce (or eliminate) your tax bill in retirement?
- ~ Can you access any age pension under the new rules?

Attend our free "Super Opportunities" seminar and learn what decisions you need to make and when.

ipac are financial advice specialists, co-founded by Paul Clitheroe. We've helped thousands of Australians make the right choices and we can help you too.

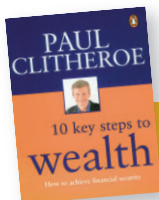
## free "Super Opportunities" seminar

<p><b>Sydney</b> Lvl 30, Grosvenor Pl 225 George St Thurs 19th April 12pm - 1.30pm &amp; 6pm - 7.30pm</p>	<p><b>Parramatta</b> The Sebel Parramatta (previously Carlton Hotel) 350 Church St Wed 18th April 6pm - 7.30pm</p>	<p><b>Mosman</b> Mosman Art Gallery Cnr Myahgah Rd &amp; Short St Tues 17th April 6pm - 7.30pm</p>	<p>Dee Why RSL Club Lvl 3, 932 Pittwater Rd Thurs 19th April 6pm - 7.30pm</p>
---	--	--	---

**Don't miss out!**  
Reserve your seat now at  
[www.ipac.com.au](http://www.ipac.com.au) or call  
**1800 800 127**

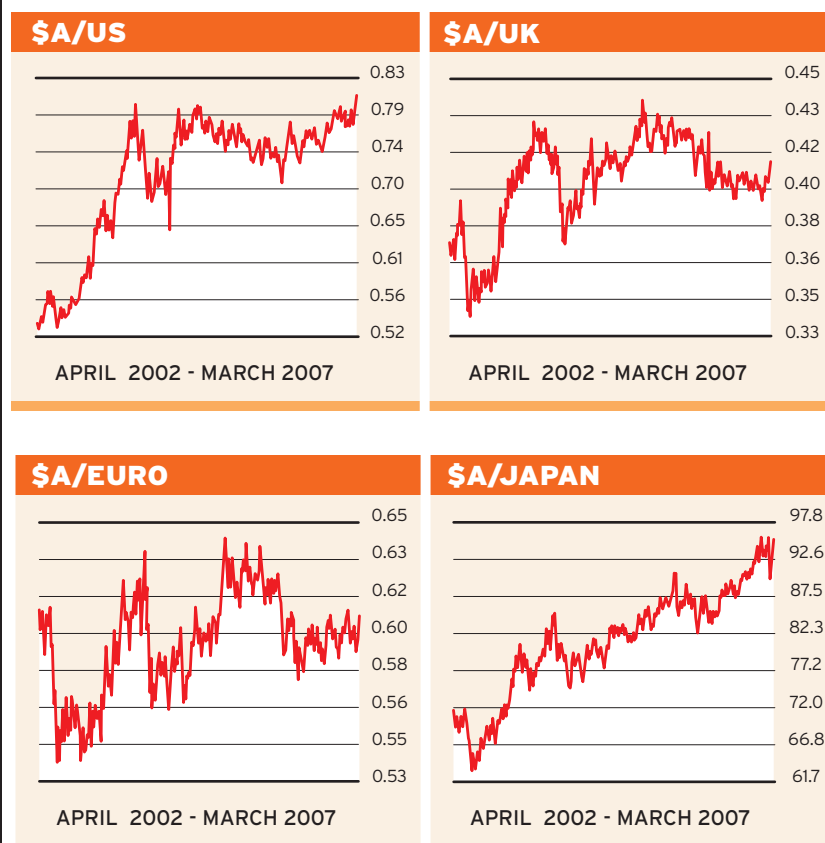


Come along and receive your FREE pocket book by Paul Clitheroe



ipac securities limited. ABN 30 008 587 595. AFS Licence No. 234656.

IPC0016/SMH



SOURCE: OZFOREX