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PARITY OVERVIEW PHILIP BAKER AND PIP FREEBAIRN

Aussie battler comes long way

It took 28 years but soaring commodity prices, rising domestic interest rates and expectations the US Federal Reserve will need to do more to bolster the US economy have finally propelled the Australian dollar to parity against the US dollar for the first time since it was floated in December 1983.

For all the attention, the $A's rise above the psychologically important $US1 mark lasted only seconds. Strategists, though, are generally upbeat on the outlook for the $A and expect it to remain strong over coming months.

That's a plus for importers and those taking overseas holidays who can buy goods more cheaply, but it is a headache for exporters and manufacturers of locally produced goods.

The last time the $A traded above one US dollar was on July 28, 1982, when the dollar rate was periodically set by the Reserve Bank of Australia against a basket of currencies. The Labor government, led by prime minister Bob Hawke and treasurer Paul Keating, as part of major reforms to the Australian financial landscape, pushed for Australia to adopt a floating exchange rate policy. From December 12, 1983, the currency was "floated" and its value was from then on set by the market.

Prior to being floated, the $A had traded as high as $1.4885 on December 7, 1973.

The $A's strength through most of 2010 is in stark contrast to the bouts of weakness and risk aversion that earned the currency the nickname "the Aussie battler".

Through the years, the $A has endured some tremendous tumbles.

After floating at about US91.25¢, the $A traded to as low as US57¢ in the following 3½ years, which culminated in a violent sell-off in June and July of 1986. Over those two months, investors wiped as much as US16 ¢ from the local unit.

It was during this two-month period that Keating's famous "banana republic" statement and Moody's Investors Service hit Australia's foreign currency credit rating with a double downgrade.

Keating's warning that Australia was at risk of becoming too reliant on a single industry was a left-field shock to Australian complacency.

It was in stark contrast to the normal "steady as she goes" rhetoric of the day which most politicians were used to dishing out.

It allowed the government to move swiftly to a sounder fiscal policy, and to persuade the unions to accept a significant erosion in real wages. And it also enabled Labor to win the 1987 election on a policy of austerity rather than handouts.

The $A muddled through the recession of the early 1990s and took a beating in 1997 as the Asian financial crisis took hold.

The $A slid to new record lows against the $US during the tech boom, reaching a low of US47.75¢ in April 2001, as Australia was viewed by global investors to be "old economy" and clearly not the way of the future.

Over the past decade, the $A has doubled in value, supported by burgeoning demand for Australia's natural resources.

Accordingly, the $A has often been branded a commodity currency, and is viewed as a proxy for Asian growth.

This unwound spectacularly during the global financial crisis in 2008. The $A was tracking towards parity with the $US, eventually peaking at US98.49¢, but following the bankruptcy of Lehman Brothers, tumbled toward US60¢ as investors fled riskier assets.

Now, though, higher-yielding assets like the $A are back in demand. The still-parlous state of the US economy has the US Federal Reserve poised to undertake another round of government bond purchases in a process known as quantitative easing. This would put downward pressure on the $US, but expectations the financial system

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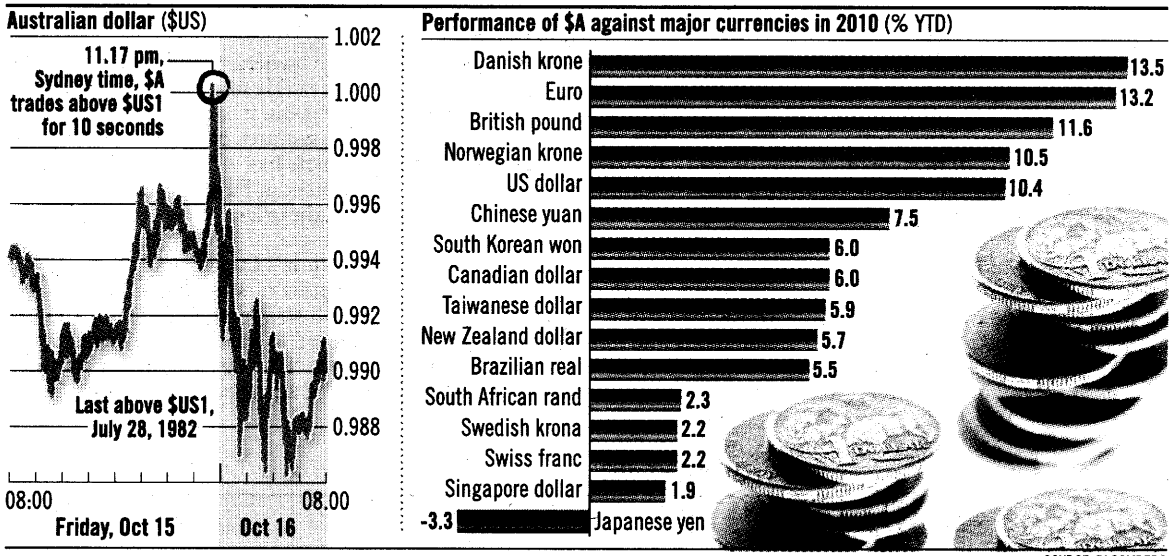
Brief candle



SOURCE: BLOOMBERG

ROAD TO PARITY

There are some obvious risks for the $A, the most likely being that a renewed bout of risk aversion that sees investors return to the greenback.

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