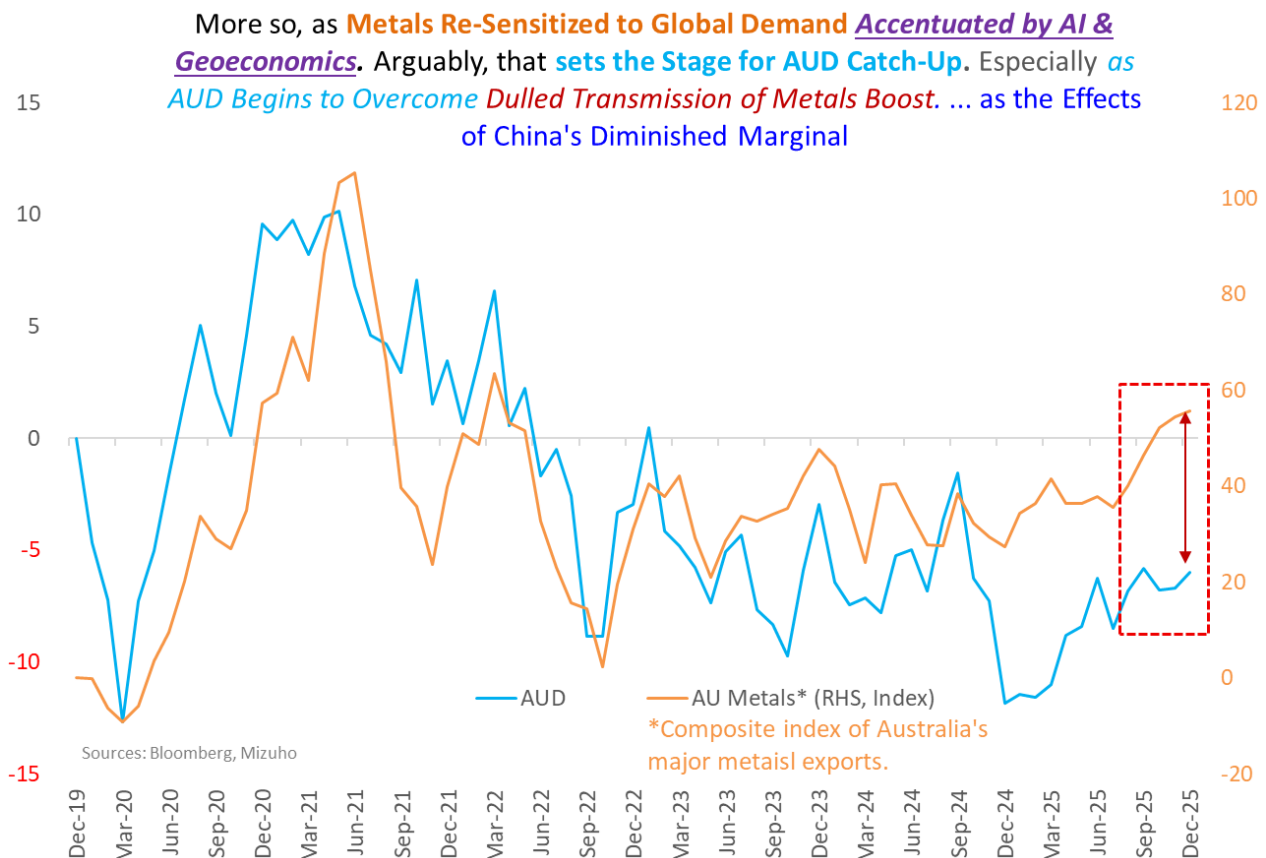
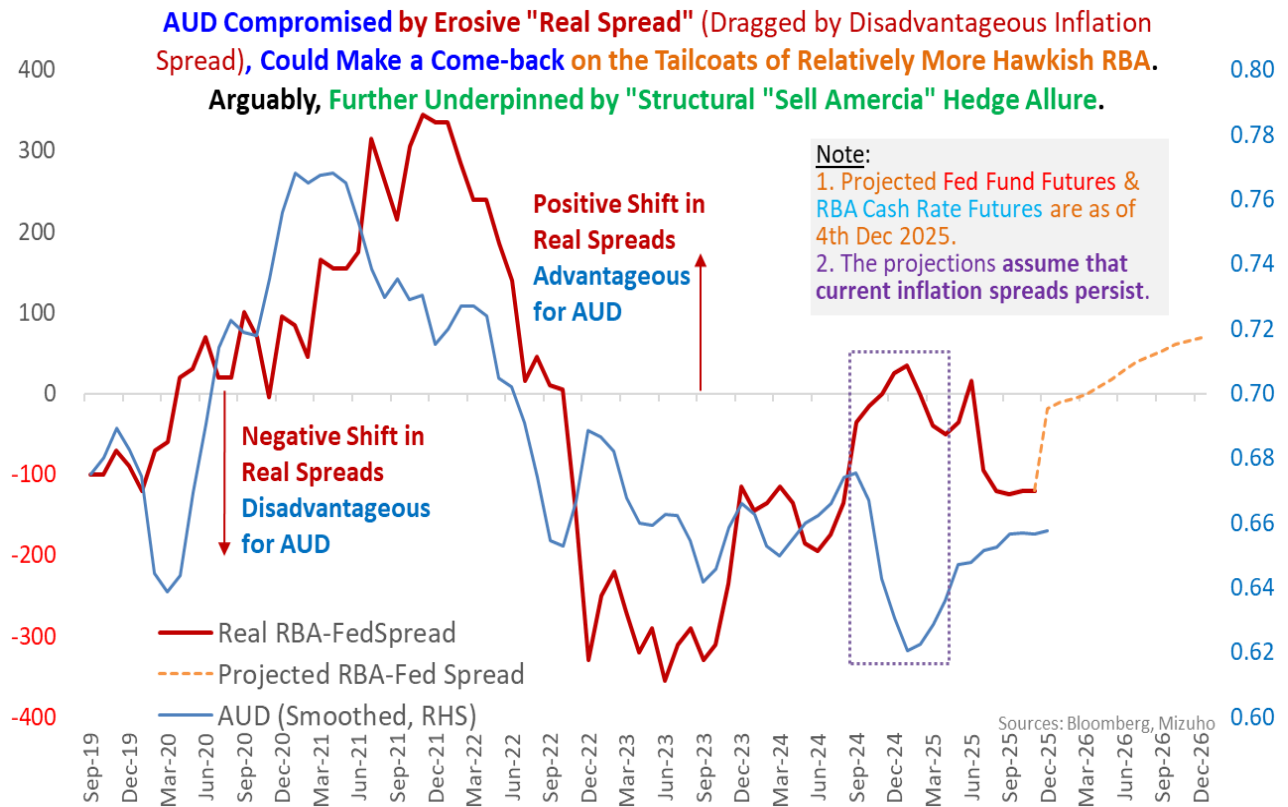


AUD: Cyclical & Structural Stars Aligning?

In a Nutshell:

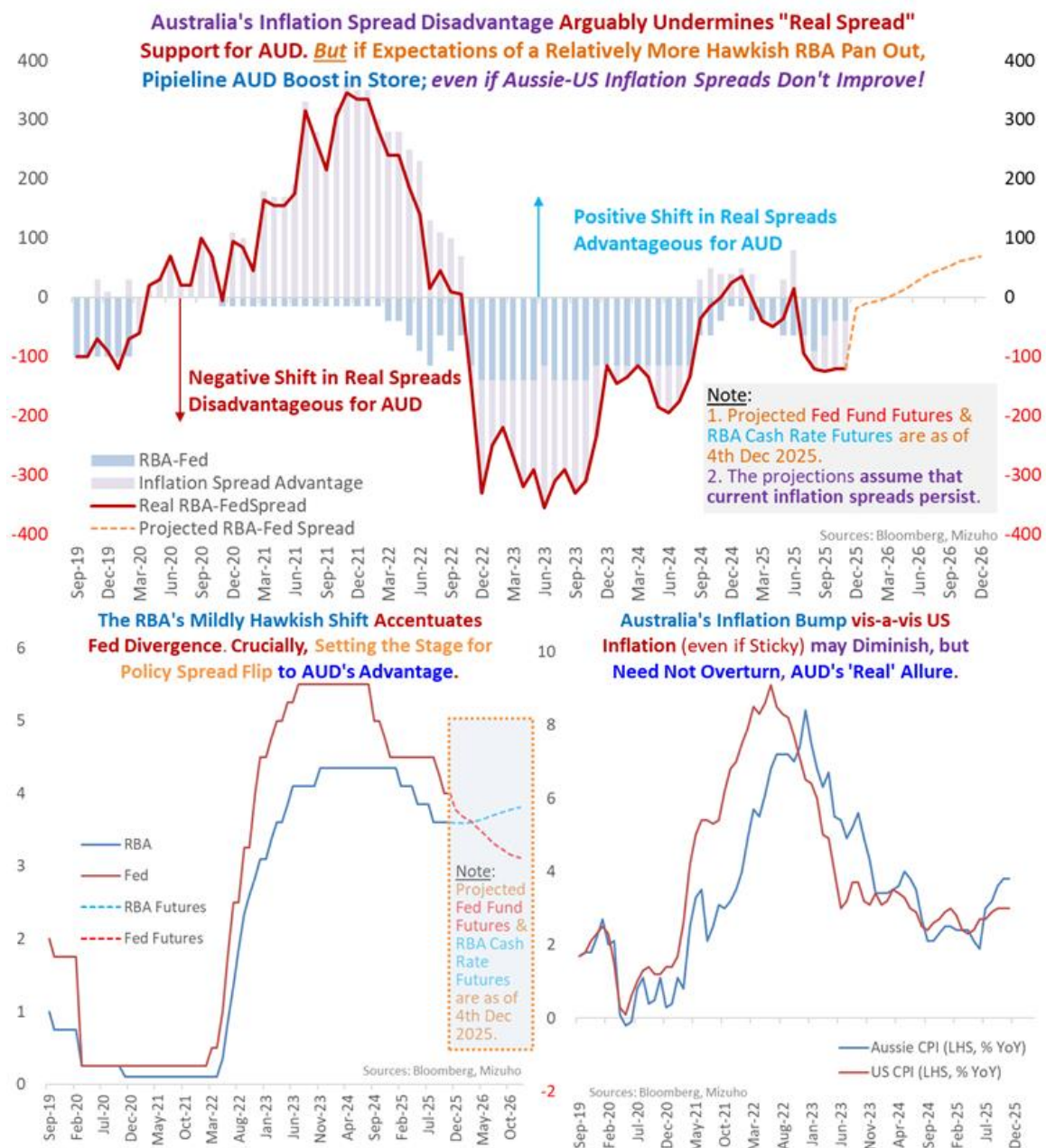
- Seemingly Counter-intuitive AUD Out-performance: *Despite the OECD flagging a moderation in global growth into 2026 (from 3.2% to 2.9%), **AUD may counter-intuitively be positioned for out-performance ahead.***
- Not Passively Premised on Softer USD: This is **not exclusively** premised on our view of a modestly **softer USD**. Point being, **AUD is arguably primed to out-pace**, not passively piggy-back, **tailwinds from USD pullback**.
- As Cyclical & Structural Stars Align: Notably, our constructive AUD view is built **on a confluence of cyclical and structural shine aligning the stars for durable AUD boost**.
 - Hawkish Divergence: AUD's **leg-up** may initially **be led by (relatively) hawkish RBA divergence, offsetting disadvantages inflation spread dynamics**. *More so if the Fed turns more aggressively dovish.*
 - Structural "Sell America" Hedge: Beyond cyclical policy fillip, **AUD is set to be more durably underpinned by structural demand for AUD-denominated reserve assets**, as a key hedge to "Sell America". Arguably, this will be *accentuated as relative AUD carry turns favourable*.
 - Commodity Super-cycle: Moreover, AUD is also likely to be underpinned by a **constructive commodity super-cycle** that is **underpinned by late-stage monetary largesse spill-over** and **further amplified by a conspiracy of AI infrastructure build-out** and *race for geoeconomic resource security*.
- China May Dampen, Not Decimate: Admittedly, **China's property market crash** casts a **long shadow on AUD**. *But China's marginal commodity demand hit is already priced into AUD level shifts*. Hence, **China risks merely dampen upside beta on bullish AUD cues, not decimate pick-up prospects**.
- Risks & Attendant Volatility a Feature, Not Bug: To be sure, **despite the bullish out-performance case**, innate **AUD vulnerabilities to "risk off" and adverse demand shocks remain prominent**. So, **inherent cyclical/headline risk volatility through structural support, is a feature, not bug**.
- What Could Go Wrong: There are obvious, non-negligible **risks to the AUD out-performance view**. A prominent source of AUD pain **wider "risk off" spill-over from AI correction**, entailing a *double whammy of "risk off" and knee-jerk commodity slump*. **Unforeseen geoeconomic threats** and/or **monetary policy flip-flops** also feature in the litany of risks.



"The probability lies in that direction" – Sherlock Holmes

1. The Cyclical (Real Rates) Case

- A **relatively hawkish RBA** is the **most prominent** (cyclical) **policy trigger for AUD out-performance**.
- To be sure, the catalyst for more emphatic AUD pick-up may be from a more aggressively dovish Fed rather than RBA hawks doubling down.
- Notably, **a distinctly more disadvantageous inflation spread for AUD in recent months is likely to plateau**, hence, *priming the AUD for accentuated upside from more emphatic RBA-Fed divergence* ahead.
- Crucially, **AUD is not over-reliant on cyclically more constructive real rates**. So, *even if RBA hawks are be tempered further out, AUD need not be devastated*.



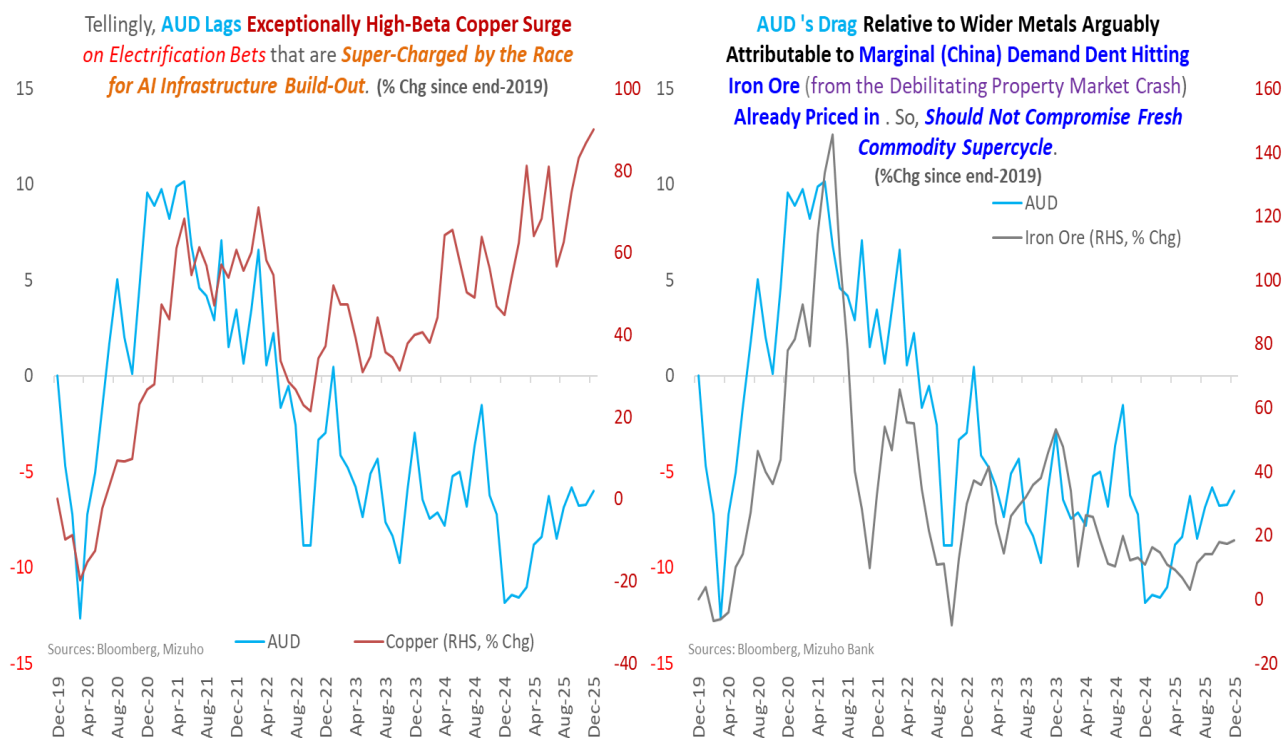
2. The Structural "Sell America" Hedge – accentuated by in-coming "Carry" Boost

- A **key AUD backstop**, if not **incrementally binding support**, is its **obvious allure as a hedge against structural "Sell America", USD debasement fears**.

- b. Point being, **AUD's USD hedge proposition** is **outstanding given the fast shrinking universe of 'AAA' assets**. And its *allure enhanced by its existing SDR inclusion and Gold proxy properties*.
- c. To be sure, this is **not expected to be a tectonic bullish shift for AUD valuations** in the short-term (as AUD remains a *hedge not wholesale substitute* for USD) and the "Sell America" theme will only play out over a much longer horizon between ebbs and flows.
- d. Nonetheless, **as the Fed cuts aggressively**, the "carry" tide turns more constructive for AUD will arguably *amplify marginal re-allocation to AUD's noticeable benefit*. ¥
- e. As a corollary, this means that **AUD out-performance** is *necessarily not solely reliant on a softer USD outlook*.

3. The Commodity Boost – Both Catch-Up & Super-cycle

- a. Crucially, the **making of a commodity Supercycle** getting underway also promises to be **naturally constructive for AUD**.
- b. Not only do **commodities typically tend to do well after monetary largesse**, but this "monetary effect" may be **more pronounced as real asset gain even more allure** amid broader concerns "Sell America" and attendant debasement risks.
- c. What's more, the **AI infrastructure build-out race amplified by geopolitical rivalries** is **likely to bolster the commodity (and consequent AUD) boost** – led by, *but not limited to, copper*.
- d. Taking place against a wider backdrop of *geoeconomic clamour for resource* and *energy security*, the *commodity up-cycle may be amplified*.
- e. **Ahead of structural commodity build-up for AUD**, there is still *room for two cyclical legs to boost AUD*. First, **Copper's catch-up** on drawdown inventories and alongside that, **AUD's catch-up to Copper's loftier valuation cues**.



4. China is a Bullish Beta-Dampener, Not Party-Pooper

- a. **China's dimming domestic demand** outlook with **risks of gathering headwinds** raise a *fair doubt, curbing overly-bullish AUD views*.
- b. Fact is, following China's property market crash, **AUD's upside beta to Chinese demand has been dampened**.
- c. Even so, the pertinent point is that the **AUD re-pricing (lower)** on China's property market travails is mostly behind us.
- d. Crucially, the China property market overhang **merely checks upside AUD sensitivity**. And in turn, **dampening amplitude of AUD upside, not decimate bullish fresh triggers**.

5. Volatility & Cyclical Undulations Embedded into (Not Eliminated From) Structural Upside

- a. Notably, this phase of **conspiring cyclical and structural boost for AUD** *while somewhat more broad-based*, is **no less susceptible to inherent volatility**.
- b. Point being, scope for inherent volatility in the AUD is in no way diminished, possibly even potentially exacerbated as;
 - i. the cyclical elements such as **monetary divergence remain fluid**;
 - ii. the **commodity Supercycle** far more uncertain **as colliding geoeconomic threats** and **AI unknowns may amplify swings**, and;
 - iii. the "Sell America" hedge allure remains non-linear, and possibly pro-cyclical, retrenching AUD on accentuated commodity-/risk-induced downside.
- c. The upshot is that **volatility is embedded**, *sometimes enhanced*, **within this peculiar cyclical-structural AUD boost**.

6. What Could Go Wrong?

- a. By definition, the number of moving parts involving hard-to-predict geoeconomic variables and AI transformation are **replete with risks to the bullish AUD view**.
- b. A more **accentuated AI correction** is top of the list, as the **generalized "risk off"** is **amplified by potential knock-on bearish commodity shocks** to acute AUD pain.
- c. Wider **geoeconomic threats** and **monetary policy flip-flips** also **feature in the litany of interruptions to AUD's cyclical and structural stars aligning**.

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