

## Australian Dollar Gives Up Much Of Overnight Gains

SYDNEY (Dow Jones)--The Australian dollar gave up its morning gains in the afternoon Wednesday, trading near where it ended Tuesday's session late in the day.

Australian bonds were little changed on the session, pausing after a steady stream of week-long gains.

After an overnight, earnings-led rally by the U.S. stock market helped risk currencies, including the Australian dollar, the local currency gave up some of those gains during the Asian session. The move lower wasn't fueled by any particularly concerning news, with the currency markets largely shrugging off BHP Billiton's unsolicited US\$38.6 billion offer for the world's largest fertilizer producer Potash Corp. of Saskatchewan Inc.

Still, some disappointing local data didn't help.

Among the reports, the Housing Industry Association and the Commonwealth Bank of Australia said Australian housing affordability nudged closer to a record low in the second quarter as interest rate increases and rising home values dented the hopes of buyers. In addition, a leading index of the Australian economy grew at an annualized rate of 6.0% in June, compared with growth of 7.4% in May.

The conflicting U.S. stock reaction and local data had the Australian dollar stuck seemingly in a holding pattern on the session, with traders pointing to the U.S. for the next event likely to impact the currency.

"Jobless claims tomorrow is a big one. They've disappointed for a few weeks and if it's bad again that would be risky. If concerns are specific to the U.S., then USD will weaken. But if the market sees it as sign the global recovery is in jeopardy, the Aussie will go lower," said Gareth Berry, director of foreign exchange strategy for UBS in Singapore.

At 0630 GMT, the Australian dollar was quoted at US\$0.9020, up slightly from US\$0.9015 late Tuesday. Against the Japanese yen, the Australian dollar was at Y77.12, up from Y76.915.

Berry signalled support for the Australian dollar at US\$0.8860, and then at US\$0.8781 should it break that primary level.

In the fixed income markets, a week-long rally in Australian bonds came to a halt on the session, a move Stephen Nash, head of strategy for FIIG in Sydney, said could foreshadow bond price declines in coming weeks.

"I think the equity market is too optimistic right now and the bond market is too pessimistic (about the economy). We could get a situation where equities correct and yields move up a little bit," said Nash.

In the rates futures market, the three-year and 10-year September spot contracts were unchanged, trading at 95.46 and 95.075, respectively.

For the past week, however, the Australian 3-year bond is up 14 ticks, while the 10-year bond has tacked on 18 ticks.

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