

FED:\$A higher after weak GDP and \$US softness

By Ehssan Veiszadeh

SYDNEY, June 1 AAP - The Australian dollar finished almost half a US cent stronger, after news the local economy had slumped to its biggest contraction in two decades.

At 1700 AEST on Wednesday, the local currency was trading at 107.43 US cents, up from 107.03 cents on Tuesday.

Since 0700 AEST, it traded between 106.52 US cents and 107.52 cents.

The local currency reached 110.11 US cents on May 3, a record high since the currency was floated in December 1983.

Gross domestic product (GDP) fell 1.2 per cent in the quarter, after an upwardly revised 0.8 per cent rise in the December quarter, the Australian Bureau of Statistics reported (ABS) on Wednesday.

It was the first fall in GDP since the September quarter of 2008, at the height of the global financial crisis, and the largest quarterly contraction since the recession of the early 1990s.

The Australian dollar gained half a US cent shortly after the release of the economic data.

St George Bank chief economist Besa Deda said traders had positioned themselves for a much weaker GDP print.

"On the back of the actual result itself, some of those positions unwound and this saw the Aussie dollar move a bit higher," Ms Deda said.

She said weakness in the US dollar also helped lift the Australian currency.

Ms Deda said US private payroll data due overnight (AEST) may set the short-term direction for currency markets.

"The general run of economic data from the US has been pretty soft and raised some concerns about the US economic outlook.

"So, I think employment will be looked at quite closely. If it is soft, then I expect that the US dollar would come under fresh selling pressures."

On Thursday, the ABS is due to release trade data and retail sales figures for the month of April.

"I'd probably eye the retail spending numbers a bit closer, given that the retail spending data has exhibited a soft trend and suggested that consumers are cautious," Ms Deda said.

She expected the local unit to trade between 106.30 US cents and 108 US cents during the offshore session.

The RBA's trade weighted index was at 78.0 on Wednesday, up from 77.8 on Tuesday.

At 1700 AEST, the Australian dollar was at 74.47 euro cents, up from 74.44 euro cents on Tuesday, and at 87.45 yen, up from 87.32 yen previously.

Meanwhile, the Australian bond market was weaker.

At 1630 AEST, the June 10-year bond futures contract was trading at 94.720 (implying a yield of 5.280 per cent), down from 94.795 (5.205 per cent) on Tuesday.

The June three-year bond futures contract was at 95.050 (4.950 per cent), down from 95.140 (4.860 per cent).

FIIG associate director Andrew Hicks said Australian bond yields rose about 10 basis points after the GDP report.

"The market had a lot of negativity priced into it and the result was pretty much as expected," Mr Hicks said.

The weak GDP figures didn't support the argument for an immediate cash rate hike by the Reserve Bank of Australia (RBA).

"I think the consensus is still that there will be some action later in the year but certainly the market is not looking for anything next week (when the RBA board meets).

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