

## Explainer: how the Australian dollar affects the results of companies

Written by The Conversation

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Some companies are really affected by foreign exchange markets.

Like any other major currency, the Australian dollar (AUD) plays a crucial role in the economic and financial system. Exports and imports, domestic and international investors are all affected by, and react to, exchange rate fluctuations. One way to see this in action is by looking at the [latest round](#) of company results.

The past year can be characterised as a relatively stable year for the AUD. One Australian dollar can currently buy [around 0.75 US dollars](#) and it has traded within the 0.70 - 0.80 range throughout the year.

However, the AUD is special among the major currencies as it belongs to a rather small group of “[commodity currencies](#)”. These currencies generally move along with the prices of commodities and the shares of commodity-based companies. Because of this, the movements of the Australian dollar affects companies differently than classical theory might suggest.

### The AUD and commodity prices

You can see the differing impact of the AUD through the financial reports of four companies; Evolution Mining, an Australian-based gold miner, Qantas, which burns jet fuel and imports planes to provide air transport, JB Hi-Fi, which sells consumer goods (much of which is imported), and Carsales.com, an online platform for buying and selling cars.

Rising gold prices are good for Evolution Mining while rising oil prices are bad for Qantas. Since commodity prices move with the Australian dollar, both companies are affected by currency changes through their exposure to commodity price changes. In other words, an appreciating Australian dollar is good for Evolution Mining and bad for Qantas.

The commodity - currency link is less important for the other companies which are less exposed to commodity prices and thus display a more “classical” reaction to exchange rate changes.

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Normally, when the AUD depreciates relative to other currencies, it becomes more expensive to buy goods or services from overseas and our goods become cheaper for foreigners to buy. It works the other way round as well - when the AUD goes up it becomes cheaper to import and our exports become more expensive.

JB Hi-Fi may be positively affected by an appreciating Australian dollar as imported consumer goods become cheaper with a stronger AUD. The same factors come into play for Carsales.com – a lot of cars and parts are imported. However, Carsales.com's recent expansion into [Latin America](#) and [Asia](#) makes this a little more complicated.

### How the effects of dollar fluctuations show up in results

Evolution Mining's [financial results](#) show a significant fraction of their gold production is [hedged](#) through until December 2019. This means the company bought "insurance" against adverse gold price fluctuations. The insurance explains the rather weak exposure to the Australian dollar and the gold price.

Qantas' [financial report](#) notes that the "short-term outlook remains subject to variable factors, including oil price movements, foreign exchange movements and global market conditions." Qantas is trying to limit these issues by hedging against a worst case scenario where fuel costs blow out. The report also mentions fuel-efficient planes which will lower the future exposure to oil price changes.

JB Hi-Fi [reported](#) small changes to its foreign currency translation reserve of A\$5 million and notes that it uses foreign exchange forward contracts – a way to lock in a certain future exchange rate and thus eliminate exchange rate risk.

Carsales.com [reported](#) a \$A1.3m loss this year for "translation of foreign operations". The ongoing expansion into Latin American and Asian countries most likely increased the foreign exchange exposure depending on the correlation of the currencies within these regions and between the regions. If the currencies are highly correlated, the foreign exchange exposure to the markets may be significant.

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The latest financial reports illustrate the importance of the Australian dollar as a commodity currency. Evolution Mining and Qantas are exposed to commodity prices and thus to the Australian dollar, while JB Hi-Fi and Carsales.com are less obviously exposed to changes in the Australian dollar.

What is remarkable is that Evolution Mining and Qantas explicitly mention risk factors that may affect future profits while JB Hi-Fi and Carsales.com are rather silent regarding risk factors.

If companies are affected by exchange rate changes, consumers are affected as well. If a firm gains from a rising Australian dollar, consumers may gain from cheaper products and services. One way for consumers to understand the impact of the dollar on the Australian economy is to look at its effect on company results.

*Dirk Baur does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.*

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