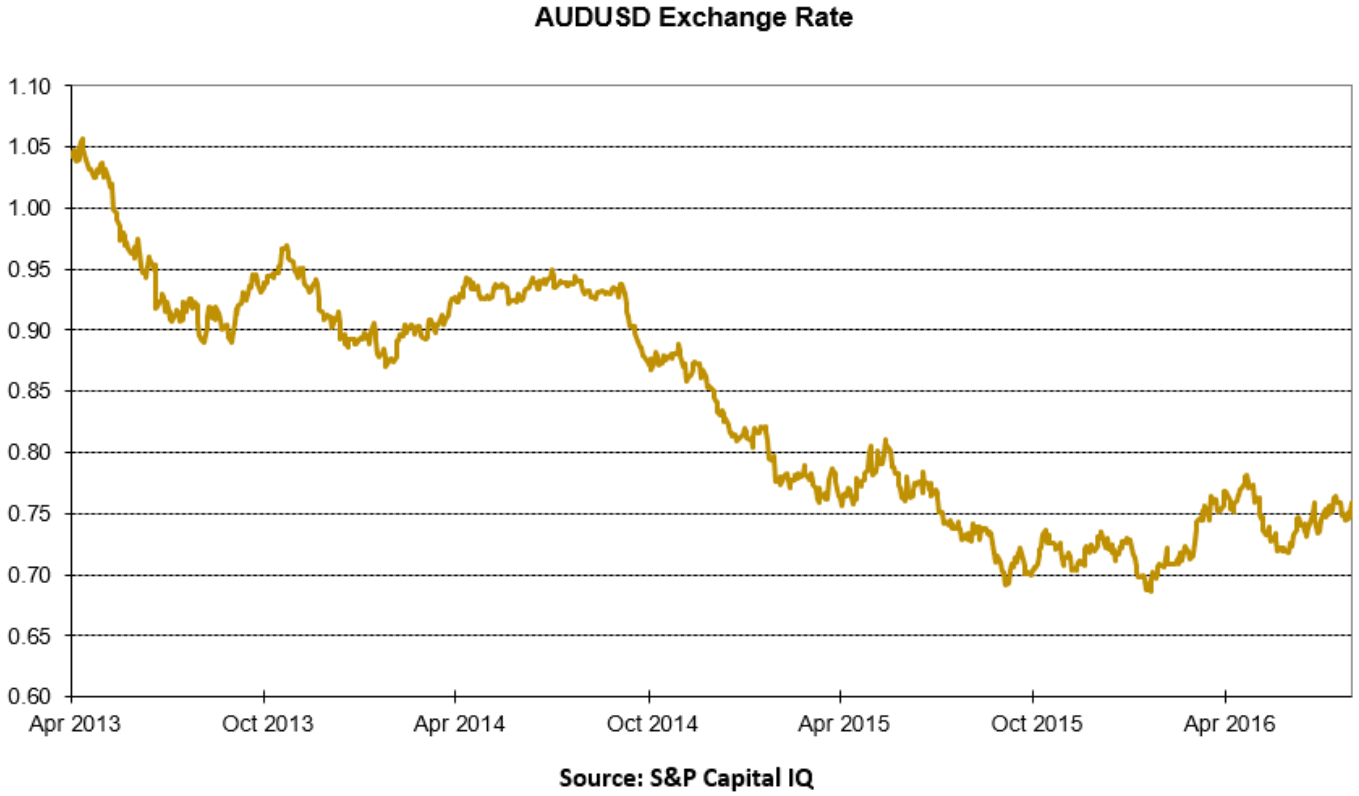
Reporting Season and the Dollar

Reporting season is on our doorstep. This semi-annual affair, occurring every February and August, is where companies report their half year and full year earnings. It can be a time of backslapping or a time for airing dirty laundry. And its lead-up is associated with an abundance of crystal ball gazing.

At this time of year, broker reports and the financial press are plastered with expected themes for reporting season. Unsurprising, the predominant theme for this reporting season is the ongoing low growth environment, with sales growth hard to come by. Companies that focus on reducing costs will be the ones rewarded with earnings growth. While this theme has been prevalent for several years, and will likely continue for several more, one theme that might not continue for much longer is the impact of the lower Australian dollar on earnings.

Our market has a large number of constituents which benefit from a weaker Australian dollar. These include the big mining and oil and gas companies who sell commodities in US dollars and multinationals with significant offshore earnings. There are even a few listed exporters left who survived the Aussie's meteoric rise from 49 cent battler in 2001 to beyond parity in 2010/11. These companies have been major beneficiaries of the Australian dollar's depreciation, which began in earnest in April 2013, falling from $1.05 US to just under $0.90 US in less than four months. By September 2015, it fell below $0.70 US.



What might have been overlooked by some crystal ball gazers is that the Australian dollar has

been remarkably stable since mid-2015, clawing back over $0.75. Not even today's interest rate cut by the RBA has had a major impact, with the Aussie down just 0.25 cents against the US dollar. Should its resilience continue, this reporting season will be the last for a while where a large constituency of our market benefits from what has been a meaningful free kick.