

The Australian dollar appreciated for the second month in a row against the greenback in December, driven by ongoing weakness in the US dollar and strength in the AUD as market sentiment continued to improve.

The major difference between the outlook for the AUD and USD dollars has been driven by the evolution of interest rate expectations, with traders on financial markets pricing in 75 basis points of Fed interest rate cuts in the first half of 2024, while only 30 basis points are being priced in for the RBA.

The Aussie closed the month above US\$0.68 for the first time since mid-July.

More broadly, the Australian dollar was middle of the road against the G10 currencies and posted its first monthly fall against the Japanese yen since August, as speculation continues to mount that the Bank of Japan will ease up on its ultra-easy monetary policy in the coming months.

Model Expected Value	Present Rate	Expected Value Band
0.7000	0.6812	0.7150 – 0.6800

The Australian dollar traded between US\$0.6549 and US\$0.6847 on a close-of-day basis in December, and averaged US\$0.6699, before closing at US\$0.6812. The AUD has averaged US\$0.6529 over the first five months of 2023-24, after averaging USD0.6732 in 2022-23. The exchange rate is at the low end of our expected value band.

The Australian 2-year Treasury bond yield continued to trade below the 2-year US Treasury yield. The spread opened the month at -57pts and widened to as much as -72pts, only to fall back to -54pts by the end of the month, as traders priced in a more aggressive Fed rate cut profile following the FOMC meeting in mid-December.

As expected, the RBA Board left its cash rate target unchanged at 4.35% and the interest rate it pays on exchange settlement balances (reserves) at 4.25%, at its December meeting. Exchange settlement balances climbed to \$356.6 billion at the end of January from \$349.1 billion at the end of December.

A RBA Board will adopt new monetary policy meeting arrangements in 2024. Monetary policy meetings will be held eight times a year rather than the previous schedule of 11 monthly meetings from February to December. The meetings will be for two days rather than one and the governor will hold a press conference after each meeting. The futures market is currently pricing in around a 90% probability of a 25-basis points cash rate cut by the middle of the year, with a further 25 basis point cut more than fully priced in for the second half of the year.

In the US, the FOMC dropped its tightening bias from the statement following its January meeting but pushed back against market pricing for a March interest rate cut, saying any adjustments to the fed funds target range will depend on the data. The futures market is pricing in 75 basis points of interest rate cuts by the US Federal Reserve over the first half of 2024.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6812	0.6847	0.6549	3.1%	0.7137	0.6296
AUD/EUR 	0.6172	0.6180	0.6068	1.7%	0.6541	0.5886
AUD/GBP 	0.5351	0.5364	0.5202	2.3%	0.5789	0.5024
AUD/JPY 	96.06	98.01	95.06	-1.9%	98.53	86.86
AUD/CNY 	4.8426	4.8903	4.6839	2.8%	4.9273	4.5498

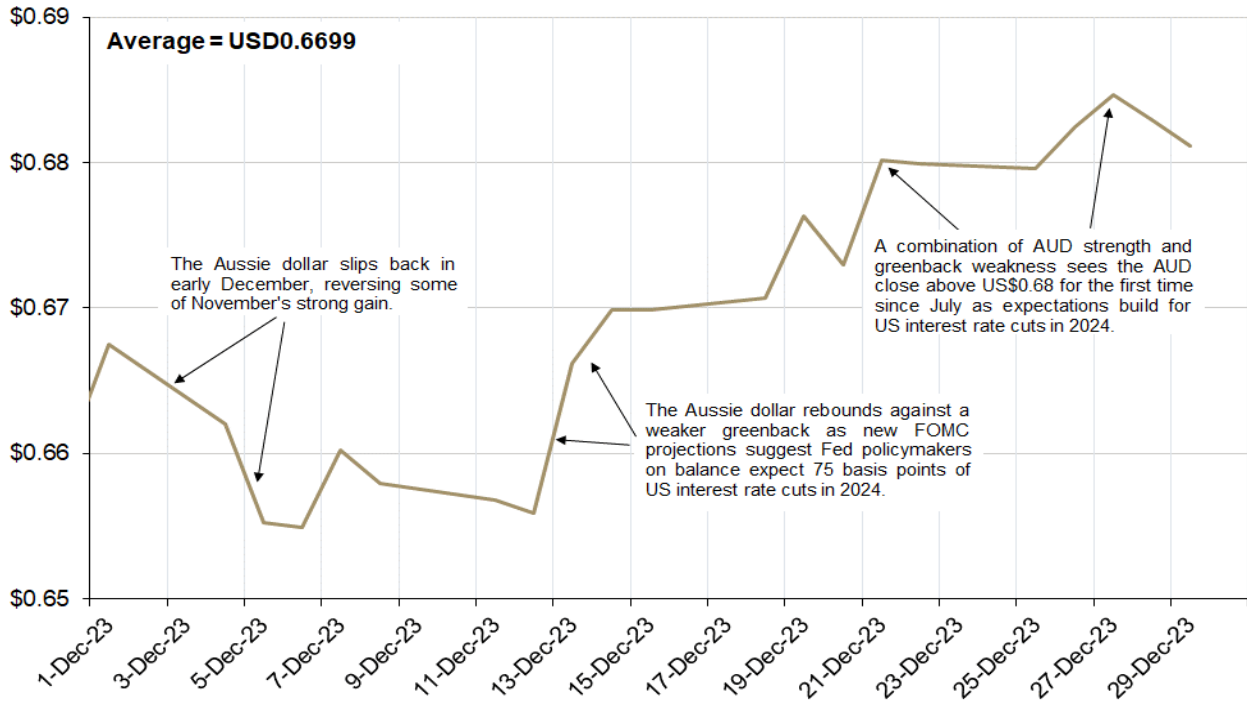
The RBA Commodity price index, which is an indicator of prices received by Australian commodity exporters, has increased in four of the past five months. Oil prices fell as concerns over the demand outlook continues to more than offset efforts by OPEC+ to support prices by limiting supply.

Commodity AUD	31-Dec-23	MoM (%)	YoY (%)
CRB Index	386.0	-6.8%	-5.2%
RBA Commodity Price Index	99.3	0.3%	-9.6%
Brent Crude	\$113.53	-7.0%	-4.8%
Singapore Gasoil 10 ppm	\$144.24	-10.9%	-14.8%
Gold	\$3,018.26	-2.1%	12.8%
Singapore Iron Ore Futures (62% Fe)	\$204.95	3.4%	19.3%
Nickel	\$24,291.15	-3.6%	-44.9%
Copper	\$12,522.31	-2.3%	2.0%
Aluminium	\$3,487.93	5.1%	0.0%

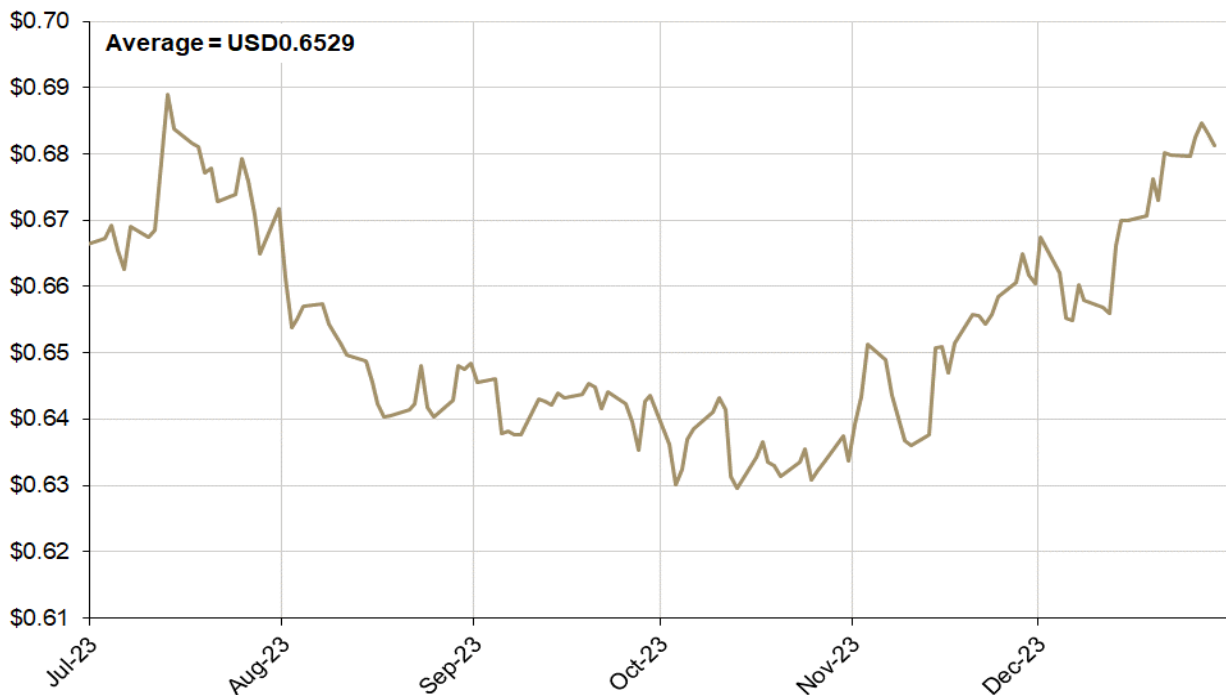
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AUD / USD December 2023



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