

Economic Analysis

AUD Monthly August 2023

The Australian dollar was again one of the weaker members of the G10 currency basket in August 2023, surpassed only by the Scandi currencies and the Kiwi dollar. The Aussie dollar dropped to its lowest levels against the USD since November 2022, but found support at US\$0.64. The decline of the AUD/USD pair was both due to weakness in the AUD and the USD's strength.

The Aussie dollar's weakness at the start of the month came after the RBA left the cash rate target unchanged and indicated increased confidence that inflation would return to target in a reasonable timeframe. The depreciation of the AUD accelerated with negative news from China, including soft economic data and press reports of troubles in the Chinese real estate and shadow banking sectors. The straw that broke the AUD's back was the downside surprise to the Q2 wage price index and an unexpected fall in employment in July, which sent RBA cash rate expectations even lower.

The Aussie pared some of its losses towards the end of the month, supported by measures taken by the Chinese authorities to stabilise the economy and a rebound in commodity prices due to mounting hopes for more stimulus.

The US dollar index strengthened over most of August, supported by hawkish communication from some Fed officials, who did not rule out further interest rate increases, as US economic data remained relatively solid, and disinflation slowed.

Model Expected Value	Present Rate	Expected Value Band
0.6968	0.6475	0.7144 – 0.6792

The AUD traded between US\$0.6404 and US\$0.6613 on a close-of-day basis in August, averaging US\$0.6483 before closing at USD0.6484. The AUD 2-year Treasury bond yield continued to trade well below its US counterpart. The spread opened the month at -94pt and widened over the month to average -103pts, as traders unwound their expectations for further RBA interest rate hikes. The spread closed the month at -107pts.

The RBA Board kept the cash rate target unchanged at 4.10% at its August meeting, with the 4.00% interest rate it pays on the \$407 billion of exchange settlement balances (reserves) also unchanged.

The Board's post-meeting media statement said future decisions will continue to be data driven. The August projection showed that inflation is forecast to return to the top of the target band in 2025 and RBA Governor Philip Lowe said that there is a 'credible path' for inflation returning to target without further interest rate increases.

The futures market is pricing in no change to the cash rate at the September RBA Board meeting, and only a 25% chance of a further rate hike in the current tightening cycle. At the same time, in the US, the futures market is pricing in about a 40% chance of a further fed funds rate hike. However, the futures also imply that interest rates in the US will remain higher than in Australia for some time.

		Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD		0.6484	0.6613	0.6404	-3.5%	0.7137	0.6199
AUD/EUR		0.5927	0.5983	0.5886	-3.0%	0.6844	0.5886
AUD/GBP		0.5090	0.5155	0.5024	-2.8%	0.6038	0.5024
AUD/JPY		94.70	94.70	93.11	-0.9%	98.39	86.86
AUD/CNY		4.7231	4.7284	4.6605	-1.6%	4.9273	4.4806

The AUD averaged US\$0.6483 in August, after averaging US\$0.6737 in July, US\$0.6717 in June and US\$0.6642 in May. The AUD has averaged US\$0.6604 over the first two months of 2023-24 after averaging USD0.6732 in 2022-23.

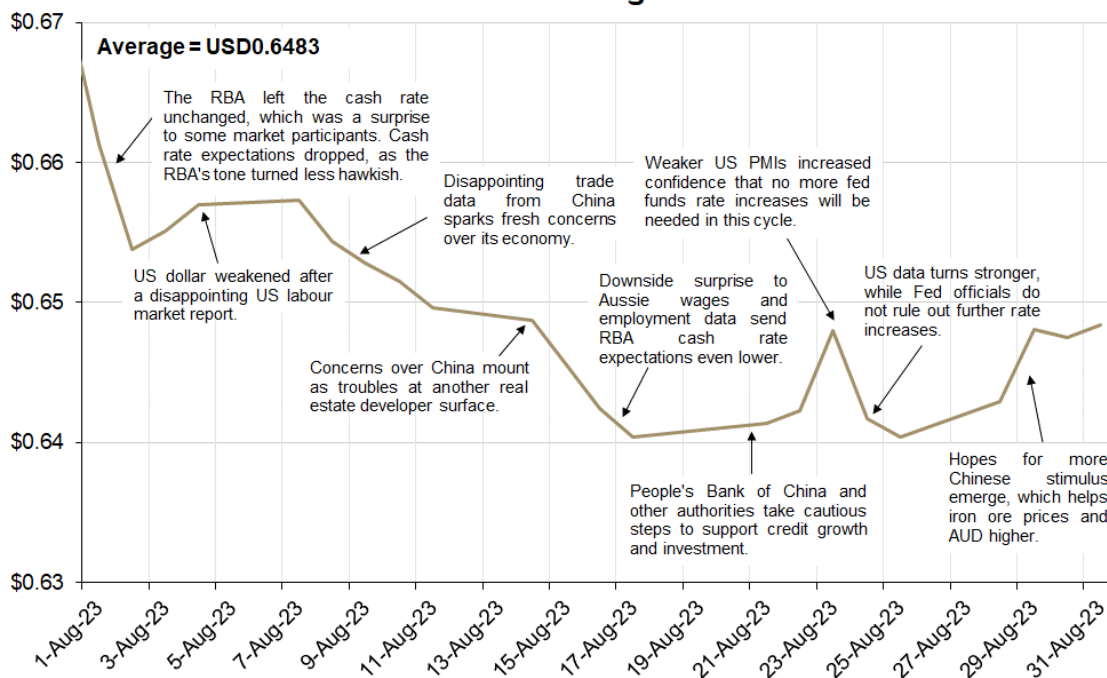
The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, picked up by 0.7% in Aussie dollar terms in August. This follows four monthly declines in a row, which are reflected in a 16.5% drop in the annual terms. Iron ore futures rose 10.7%, supported by hopes for stimulus in China, while petroleum prices rose 6.1% on supply concerns.

Commodity AUD	31-Aug-23	MoM (%)	YoY (%)
CRB Index	435.7	3.8%	2.9%
RBA Commodity Price Index	91.3	0.7%	-16.5%
Brent Crude	\$135.10	6.1%	-4.2%
Singapore Gasoil 10 ppm	\$177.58	6.2%	-14.7%
Gold	\$2,998.74	2.6%	20.2%
Singapore Iron Ore Futures (62% Fe)	\$179.80	10.7%	21.9%
Nickel	\$31,358.58	-5.4%	0.4%
Copper	\$13,017.77	-0.9%	14.4%
Aluminium	\$3,412.67	0.5%	-0.8%

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AUD / USD 2023-2024



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