

The Australian dollar opened February in a strong position, closing at its highest level against the USD since June last year, on the first day of the month. The early rise was largely due to weakness in the greenback after comments from Fed Chair Jerome Powell were taken as a hint that the Fed is close to concluding its cycle of interest rate hikes.

The Aussie dollar soon came under downward pressure after strong US employment figures saw traders again revise their expectations for Fed rate hikes upwards, which in turn drove a deterioration in risk appetite and a slide in the Aussie.

More hawkish-than-expected RBA communication, saying the Board expects to increase interest rates further in the months ahead, generated a short-term rebound in the currency which remained supported until around the middle of the month. However, robust US economic data and higher-than-expected US CPI inflation drove a slump in risk appetite, which saw the Aussie slide over the second half of February and close at the lowest levels in around two-months against the big dollar.

The Aussie also slipped against the broader currency universe in February and was the weakest member of the G10 currency basket.

Model Expected Value	Present Rate	Expected Value Band
0.6925	0.6729	0.7225 – 0.6625

The AUD traded between USD0.6726 and USD0.7137 on a close-of-day basis in February and averaged USD0.6950 before closing at USD0.6729. The AUD 2-year Treasury bond yield continued to trade well below its US counterpart. The spread opened January at -108pts and widened to as far as -140pts after strong US employment data drove a sharp rise in US treasury yields, before narrowing again to close at -122pts. The spread averaged -116pts through the month.

The RBA raised the cash rate target by 25bps to 3.35% and the interest rate on the \$454 billion of exchange settlement balances currently held at the Bank to 3.25%, at the Board meeting in February. The RBA Governor's post-meeting media statement said the Board expects further increases in interest rates will be needed over the months ahead to ensure inflation returns to target. The latest RBA forecasts project that headline inflation will fall to 4.75% by the end of 2023, from 7.8% at the end of 2022, but won't return to the upper bound of the 2% to 3% target range until the middle of 2025.

The futures market is pricing in a strong chance of a 25bps rise in the cash rate target to 3.60% at the March Board meeting and a peak of around 4.25% is priced in by August 2023.

Elsewhere, the US Federal Reserve raised the fed funds rate corridor by 25bps to 4.50%-4.75% on 1 February and is expected to announce another 25bps increase in March. An effective fed funds rate of 5.40% is currently priced in for August. The ECB deposit facility rate of 2.50% is expected to peak at 4.0% in early 2024.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6729	0.7137	0.6726	-4.6%	0.7579	0.6199
AUD/EUR 	0.6363	0.6508	0.6352	-2.0%	0.6999	0.6287
AUD/GBP 	0.5597	0.5789	0.5586	-2.3%	0.6038	0.5443
AUD/JPY 	91.67	93.01	90.83	-0.1%	98.39	83.35
AUD/CNY 	4.6768	4.7720	4.6768	-1.9%	4.8450	4.4806

The AUD averaged USD0.6897 in February after averaging USD0.6950 in January, USD0.6745 in December and USD0.6610 in November. The AUD has averaged USD0.6758 in the first eight months of 2022-23 after averaging USD0.7256 in 2021-22.

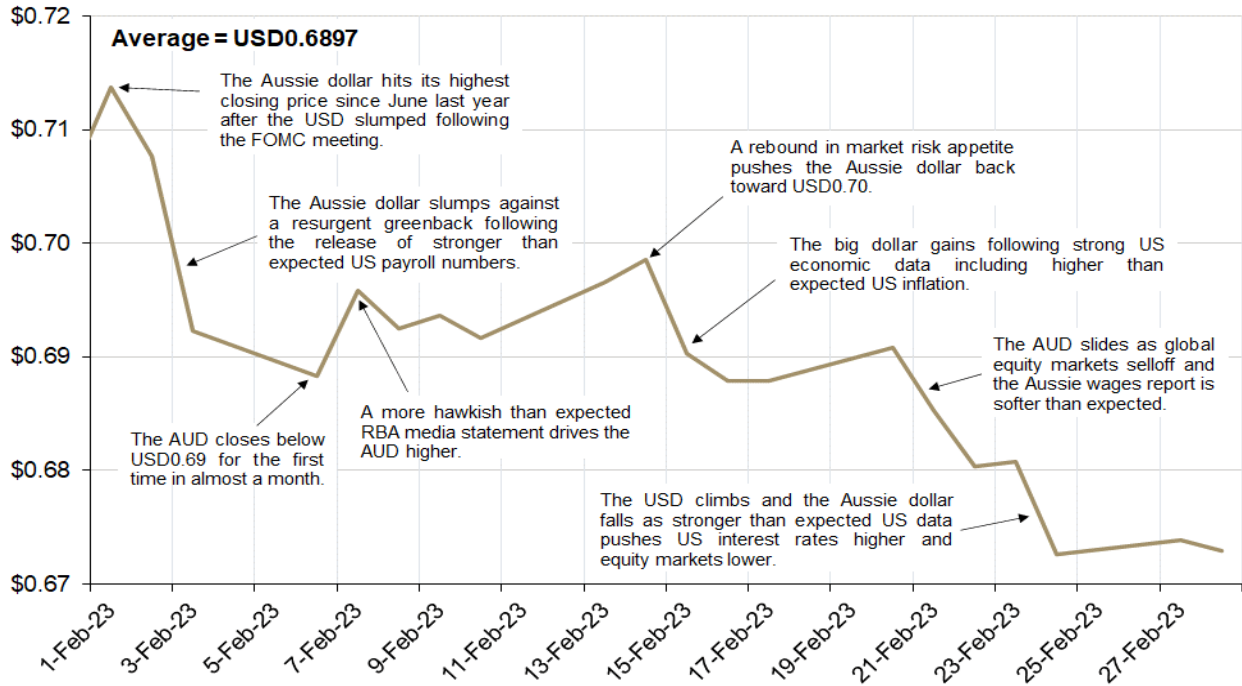
The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, fell for the fourth month in a row in February, after the initially reported increase in January was revised away. The fall was led by big falls in base metal and bulk commodity spot prices.

Commodity AUD	28-Feb-23	MoM (%)	YoY (%)
CRB Index	399.6	1.3%	7.7%
RBA Commodity Price Index	152.1	-1.3%	2.5%
Brent Crude	\$122.12	0.9%	-12.2%
Singapore Gasoil 10 ppm	\$155.74	-1.8%	-1.0%
Gold	\$2,705.75	-1.1%	2.8%
Singapore Iron Ore Futures (62% Fe)	\$183.78	1.3%	-5.2%
Nickel	\$36,720.97	-14.7%	9.7%
Copper	\$13,271.62	1.4%	-2.6%
Aluminium	\$3,514.51	-6.3%	-24.3%

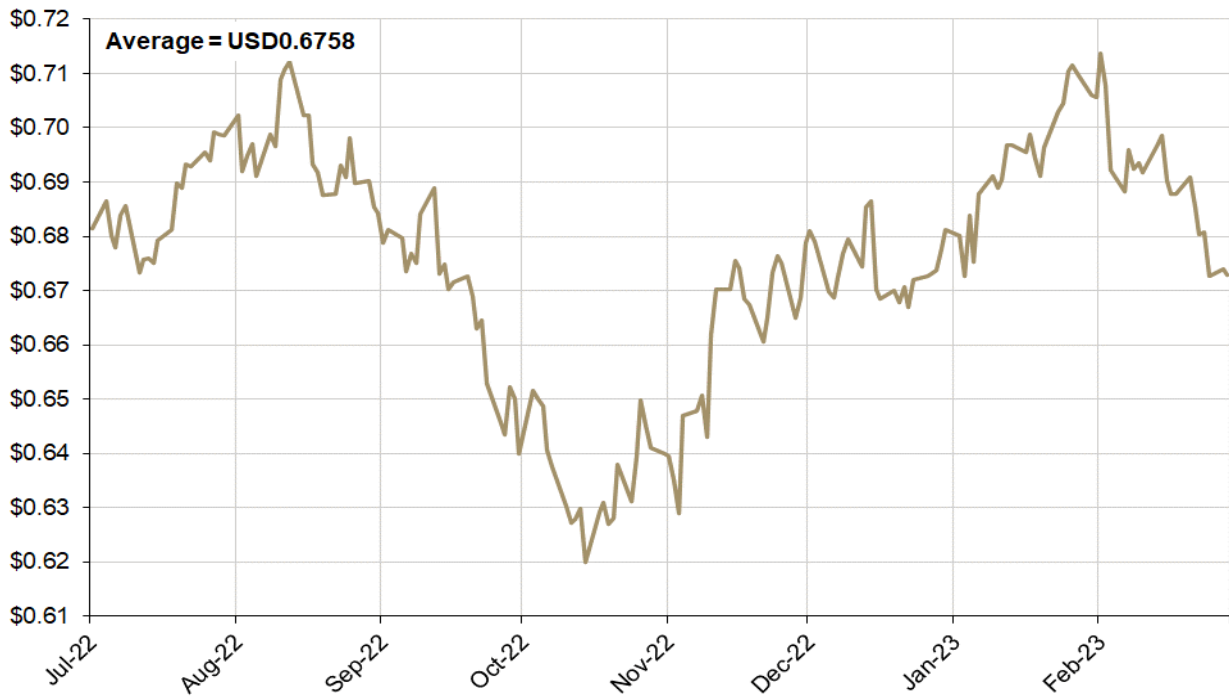
Disclaimer

Any opinions, judgments, conclusions, forecasts, predictions or estimations contained in this advice are made in reliance on information provided to Western Australian Treasury Corporation which Western Australian Treasury Corporation believes to be reliable. Western Australian Treasury Corporation, however, cannot guarantee the accuracy of that information. Thus, any recommendations are made in good faith but are provided only to assist you with any decisions which you make. These recommendations are not intended to be a substitute for professional advice on a particular matter. Before accepting or rejecting those recommendations you must discuss your particular needs and circumstances with Western Australian Treasury Corporation.

**AUD / USD February 2023**



**AUD / USD 2022/2023**



1 MARCH 2023

**Disclaimer**

Any opinions, judgments, conclusions, forecasts, predictions or estimations contained in this advice are made in reliance on information provided to Western Australian Treasury Corporation which Western Australian Treasury Corporation believes to be reliable. Western Australian Treasury Corporation, however, cannot guarantee the accuracy of that information. Thus, any recommendations are made in good faith but are provided only to assist you with any decisions which you make. These recommendations are not intended to be a substitute for professional advice on a particular matter. Before accepting or rejecting those recommendations you must discuss your particular needs and circumstances with Western Australian Treasury Corporation.