

The Australian dollar ended 2025 strongly, rising against almost all the other G10 currencies behind only the Swedish krona.

The Aussie's gains were fuelled by growing expectations for RBA cash rate increases in 2026. The RBA Monetary Policy Board kept the cash rate unchanged at its December meeting, as expected, but confirmed the change in interest rate outlook. Governor Bullock told a media gathering after the meeting that it looks like further cuts won't be needed. She indicated an increase is possible at the first meeting for 2026 in early February, depending on the inflation and labour market data due for release in January.

Meanwhile in the US, expectations are moving in the opposite direction. The Fed cut interest rates and voiced increased concern about the outlook for the labour market, although they remain worried about elevated inflation. The updated economic projections showed that the median expectation among FOMC participants for interest rate cuts in 2026 was unchanged at 25bps. The US dollar index, which values the greenback against a basket of major currencies, had its worst year since 2017, falling over 9 per cent in 2025.

The rise in the AUD and the weaker greenback saw the AUD/USD exchange rate rise to its highest level since October 2024, before easing late in the month and gained almost 8 per cent in 2025. The Aussie climbed to its highest level against the Japanese yen since July 2024.

The trade-weighted index, which values the AUD against a basket of currencies based on the share of trade with Australia, also climbed to its highest levels in over a year.

Model Expected Value	Present Rate	Expected Value Band
0.6800	0.6673	0.6950 – 0.6650

The Australian dollar traded between US\$0.6544 and US\$0.6716 on a close-of-day basis in December and averaged US\$0.6646. The AUD/USD averaged US\$0.6554 over the first six months of 2025-26, after averaging US\$0.6479 in 2024-25.

The spread between the Australian two-year Commonwealth bond yield and its US counterpart widened in December as expectations for RBA cash rate increases continued to build. The spread began December at 32bps and widened to 49bps by the end of the month.

The RBA Monetary Policy Board kept the cash rate target unchanged at 3.60 per cent at its December meeting as expected. However, the RBA communication put a spotlight on the recent pick-up in inflation, noting that it will bear close monitoring. The Bank also highlighted that while employment growth had slowed and the unemployment rate had increased, the labour market remains a little tight.

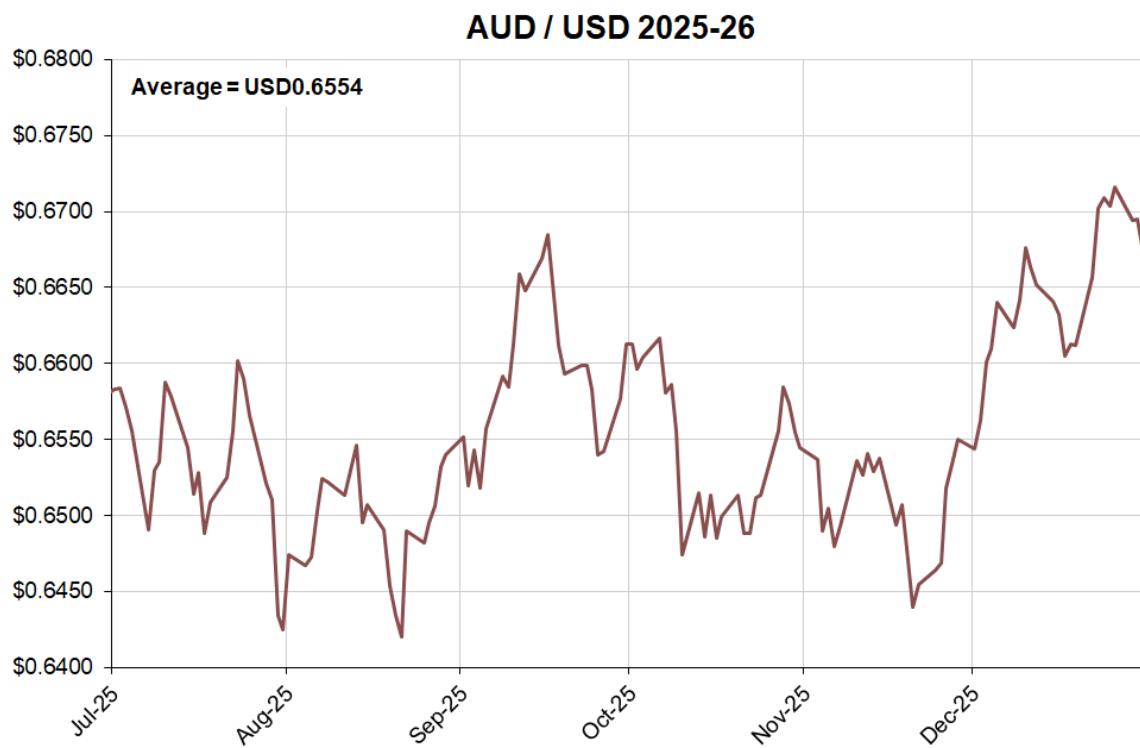
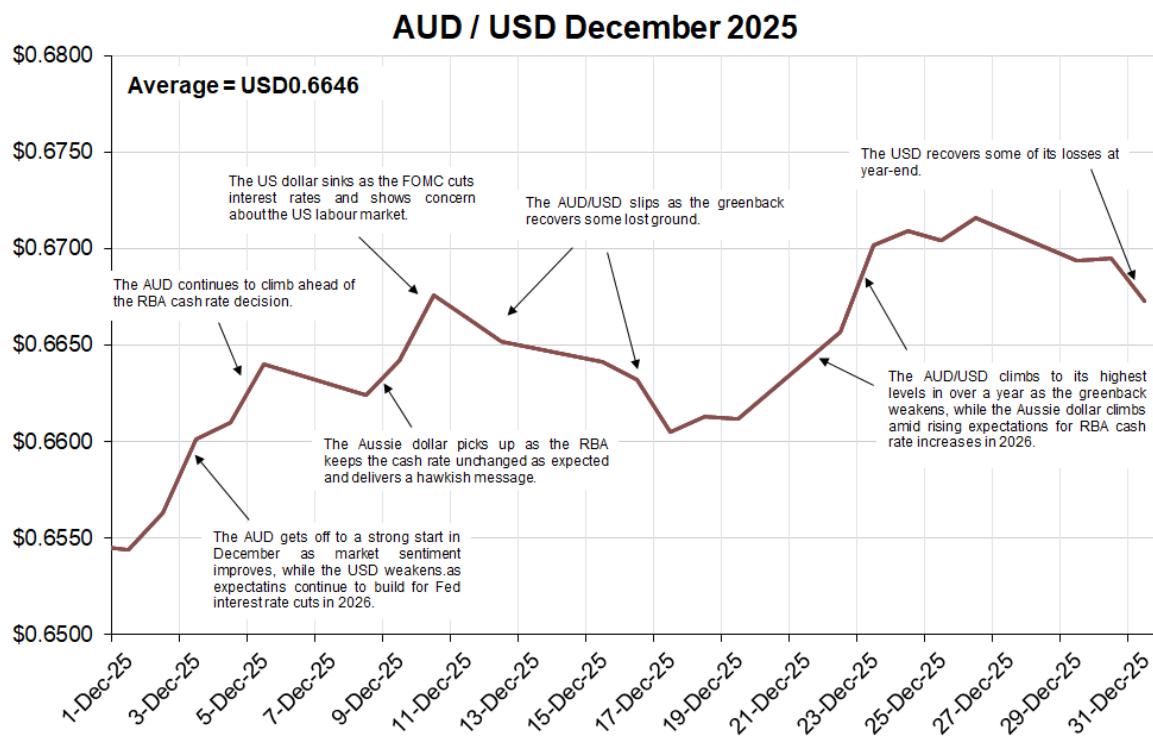
The overarching message was that the outlook for monetary policy will depend on the incoming economic data, but that the next move in the cash rate is most likely to be up. Traders are currently pricing in a near 40 per cent chance of a 25bps cash rate increase at the first meeting of 2026 on 2-3 February and 45bps by the end of the year.

In the US, the FOMC cut the fed funds range by 25bps to 3.50-3.75 per cent as expected. The market is fully pricing in a further 25bps reduction by the middle of 2026 and 56bps by the end of the year.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low	
AUD/USD	 	0.6673	0.6716	0.6544	1.9%	0.6716	0.5960
AUD/EUR	 	0.5682	0.5713	0.5626	0.6%	0.6095	0.5437
AUD/GBP	 	0.4954	0.4995	0.4938	0.1%	0.5094	0.4667
AUD/JPY	 	104.55	105.17	101.74	2.2%	105.17	87.15
AUD/CNY	 	4.6621	4.7074	4.6311	0.6%	4.7549	4.3725

Commodity prices were mixed in December. RBA Index of Commodity Prices – which is an indicator of prices received by Australian exporters – fell for the first time in five months in December, led by declines in bulk commodity prices. Brent crude oil futures prices dropped to the lowest levels since 2021 in Australian dollar terms, as concerns over supply continued to more than offset geopolitical risk. Iron ore futures prices fell for the second month in a row amid further soft Chinese economic data. Copper climbed to fresh record highs, while gold also hit a record high before falling back late in the month.

Commodity AUD	31-Dec-25	MoM (%)	YoY (%)
CRB Index	447.8	-2.7%	-6.7%
RBA Commodity Price Index	94.1	-0.4%	-4.2%
Brent Crude	\$91.20	-5.5%	-25.7%
Singapore Gasoil 10 ppm	\$119.94	-9.0%	-18.4%
Gold	\$6,473.88	0.0%	52.6%
Singapore Iron Ore Futures (62% Fe)	\$157.90	-1.9%	-3.3%
Nickel	\$24,949.04	10.2%	0.7%
Copper	\$18,619.60	9.0%	31.3%
Aluminium	\$4,489.66	2.6%	8.8%



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