

Economic Analysis

AUD Monthly June 2023

The Australian dollar began June well and truly on the front foot, rising over the first half of the month as commodity prices gained and the RBA again lifted the cash rate while, in the US, the Federal Reserve kept the fed funds rate unchanged.

The second half of June wasn't as positive. The Aussie peaked at its highest level since February on the 15th before sliding as the minutes of the RBA Board meeting were less hawkish than traders expected, business activity data pointed to weakness across several major economies and the Australian monthly CPI indicator was softer than expected.

The Aussie closed the month 2.5% higher than where it started against the big dollar, despite losing most of its early gains over the second half of the month. This was the Aussie's first positive month against the greenback since January.

Across the broader currency universe, the Aussie was one of the strongest members of the G10 currency basket, behind only the Norwegian krone and Canadian dollar.


Model Expected Value	Present Rate	Expected Value Band
0.7000	0.6664	0.6800 – 0.7200

The AUD traded between USD0.6571 and USD0.6885 on a close-of-day basis in June, averaging USD0.6717 before closing at USD0.6664. The AUD 2-year Treasury bond yield continued to trade well below its US counterpart, though the spread narrowed. The spread opened April at -85pts and narrowed to as low as -46pts on 15 June as the rise in Aussie yields outstripped the increase in the US, with traders pricing in a higher peak in the RBA cash rate than previously.

The spread narrowed again in the second half of June to close at -68pts after averaging -63pts during the month.

The RBA Board lifted the cash rate by a further 25 basis points to 4.10% at its June meeting and lifted the interest rate it pays on the \$409 billion of exchange settlement balances (reserves) currently held at the Bank to 4.0%.

The futures market is pricing in a 30% chance of a 25bps increase in the cash rate hike at the July Board meeting. A further 25bps cash rate increase is fully priced in by September this year and 50bps of increases are almost fully priced in by the end of the year. Current pricing suggests an expectation for interest rate cuts in the second half of 2024. In the US, the FOMC kept the fed funds target rate unchanged at its June meeting. The futures market is fully pricing in another 25bps increase by September and a 36% chance of a follow-up 25bps rise in November.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6664	0.6885	0.6571	2.5%	0.7137	0.6199
AUD/EUR 	0.6109	0.6288	0.6048	0.4%	0.6999	0.5982
AUD/GBP 	0.5249	0.5396	0.5224	0.4%	0.6038	0.5224
AUD/JPY 	96.15	97.56	91.23	6.1%	98.39	86.86
AUD/CNY 	4.8339	4.9078	4.6656	4.7%	4.9078	4.4806

The AUD averaged USD 0.6717, after averaging USD 0.6642 in May, USD0.6691 in April, and USD0.6674 in March. The AUD averaged USD0.6732 in 2022-23 after averaging USD0.7256 in 2021-22.

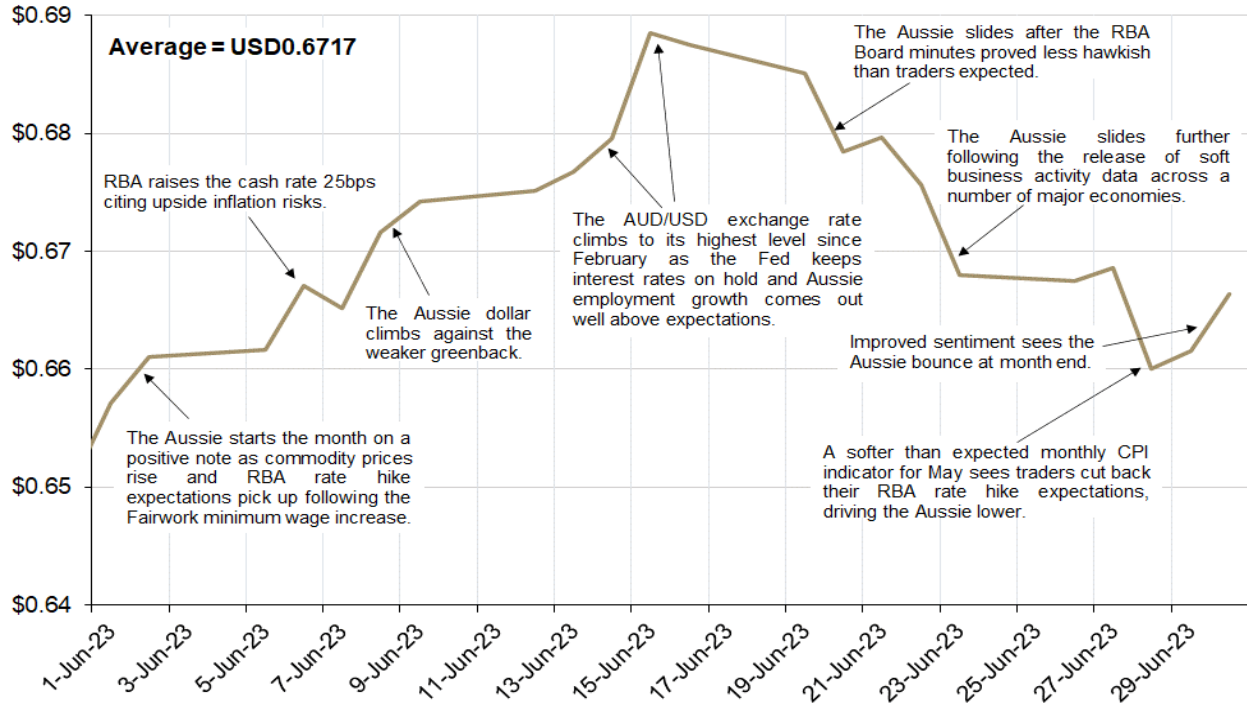
The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, fell 1.3% in Aussie dollar terms in June, its third monthly decline in a row to be 18.1% lower than a year ago. The drop was broad-based with the non-rural bulk commodities spot price index down 10.8% for the month. Base metals and rural commodity prices posted solid falls, as did gold. Bulk commodity spot prices increased. Iron ore futures prices had the biggest monthly increase in Aussie dollar terms since December last year.

Commodity AUD	30-Jun-23	MoM (%)	YoY (%)
CRB Index	392.9	0.1%	-6.7%
RBA Commodity Price Index	96.7	-1.2%	-18.1%
Brent Crude	\$113.48	1.9%	-31.8%
Singapore Gasoil 10 ppm	\$138.33	3.1%	-39.7%
Gold	\$2,878.02	-5.2%	10.1%
Singapore Iron Ore Futures (62% Fe)	\$166.26	6.2%	-3.8%
Nickel	\$30,763.23	-3.4%	-6.3%
Copper	\$12,468.89	-0.3%	4.4%
Aluminium	\$3,226.12	-7.1%	-8.8%

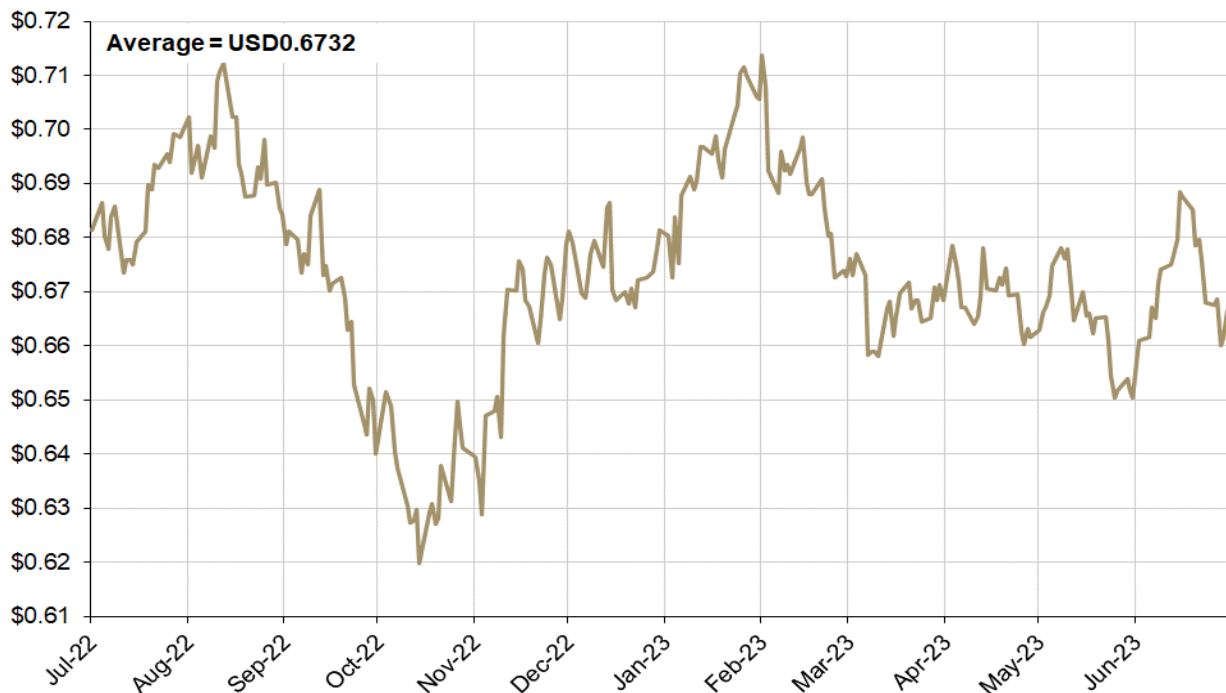
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