

The Australian dollar gained against all the major trading currencies except for the stronger British pound.

The AUD/USD exchange rate settled down from the high volatility in April, and traded in its narrowest range since June 2024, as some of the heat seemed to come out of the trade war. High level talks between US and Chinese representatives saw the world's two largest economies pull back on the sky-high tariffs imposed in April, at least temporarily, and agree to hold further talks to resolve their differences.

The AUD jumped early in the month, as better-than expected US employment data boosted market sentiment and news broke that the US and China would hold trade talks, with the AUD/USD closing at US\$0.6495 on 6 May, its highest end-of-day level in five months.

There was a quick reversal, as the greenback itself began to pick up, while later in the month the Aussie was pushed lower by more dovish than expected communication from the RBA Monetary Policy Board after it cut the cash rate by 25bps at its 19-20 May meeting.

The Australian dollar trade-weighted index – which values the AUD against a basket of currencies based on their share of Aussie trade – fell for the first time in three months, as the Chinese renminbi strengthened on the positive tariff news.

Model Expected Value	Present Rate	Expected Value Band
0.6675	0.6431	0.6875 – 0.6475






The Australian dollar traded between US\$0.6372 and US\$0.6495 on a close-of-day basis in May and averaged US\$0.6434, before ending the month at US\$0.6431. The AUD/USD averaged US\$0.6477 over the first 11 months of 2024-25, after averaging US\$0.6557 in 2023-24.

The spread between the Australian two-year Treasury bond yield and its US counterpart began the month at -33bps and widened to as far as -65bps, after the RBA cut the cash rate by a further 25bps on 20 May and delivered a more dovish than expected post-meeting statement. The spread closed the month at -61bps.

The RBA Monetary Policy Board cut the cash rate target by 25bps to 3.85% on 20 May, as expected. While maintaining that low and stable inflation is the priority, the Board considered that the upside risks to inflation appear to have diminished. The RBA updated the economic forecasts in its quarterly Statement on Monetary Policy. It is now projecting underlying inflation to fall to 2.6% in Q2 2025 and remain there until the end of the forecast period in mid-2027; this is 0.1ppts lower than the previous projection in February. The RBA is forecasting the unemployment rate to rise to a peak of 4.3% by the end of the year, 0.1ppts higher than the February forecast. In a major development, the Monetary Policy Board said in the crucial last line of the post-meeting statement that it was *'focused on its mandate to deliver price stability and full employment and will do what it considers necessary to achieve that outcome'*.

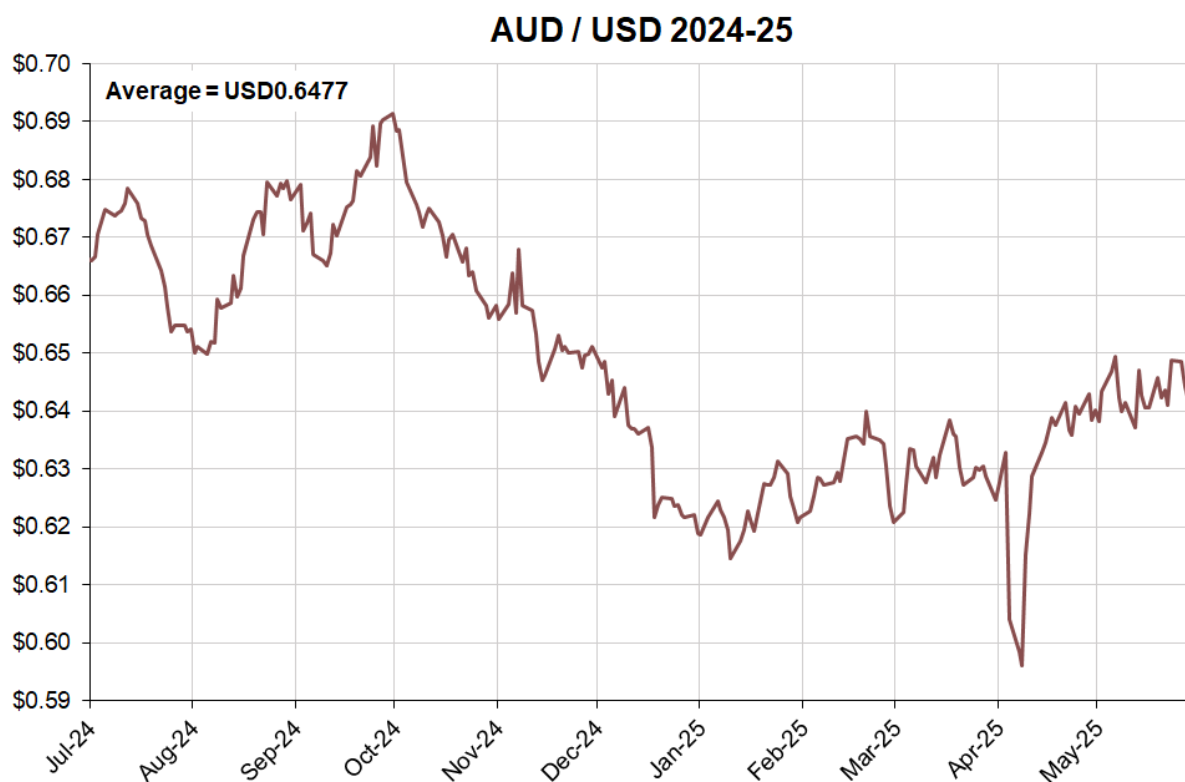
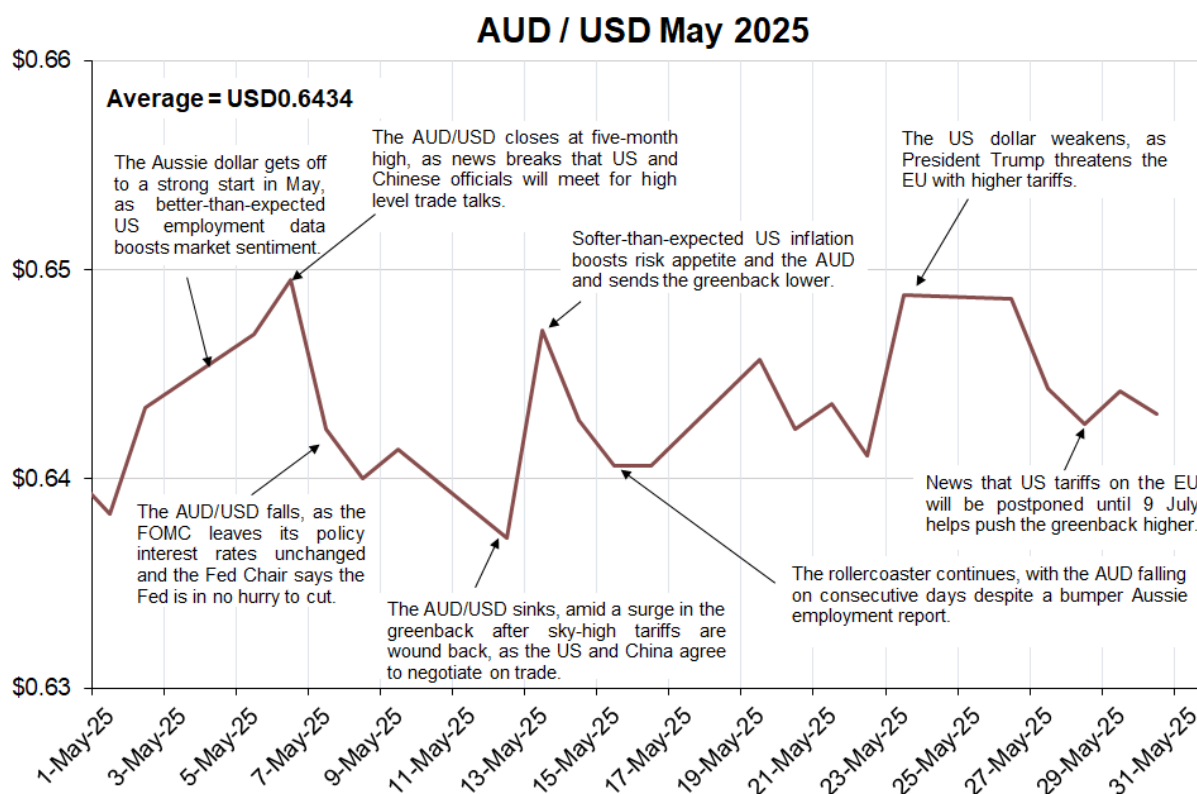
The cash rate futures market is currently pricing in a further 75bps of cuts by the end of the year.

Elsewhere, the next 25bps cut from the US Federal Reserve is not fully priced in by the market until October and a total of 55bps in cuts are priced for 2025, while the European Central Bank is expected to cut rates by a further 25bps in June and by 57bps in total over the remainder of the year.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6431	0.6495	0.6372	0.5%	0.6913	0.5960
AUD/EUR 	0.5669	0.5785	0.5654	0.3%	0.6240	0.5437
AUD/GBP 	0.4780	0.4865	0.4770	-0.5%	0.5274	0.4667
AUD/JPY 	92.66	95.43	92.32	1.2%	109.10	87.15
AUD/CNY 	4.6376	4.7188	4.5883	-0.4%	4.9219	4.3725

The RBA's A\$ Index of Commodity Prices fell for the fifth month in a row in May. Iron ore futures gained on positive tariff news but slipped back late in the month amid lingering uncertainty over steel demand. Oil prices continue to be pushed around by concerns over the outlook for both supply and demand. On the demand side, prices were pushed up by the trade truce between the US and China, which helped relieve some of the concerns over demand, but this was offset by reports that OPEC+ would announce a further output increase in July.

Commodity AUD	30-May-25	MoM (%)	YoY (%)
CRB Index	452.0	0.1%	3.5%
RBA Commodity Price Index	92.9	-1.5%	-2.8%
Brent Crude	\$99.46	0.8%	-23.2%
Singapore Gasoil 10 ppm	\$122.43	-1.1%	-15.8%
Gold	\$5,119.46	-0.5%	46.1%
Singapore Iron Ore Futures (62% Fe)	\$150.16	-1.4%	-13.6%
Nickel	\$23,715.18	-1.6%	-20.1%
Copper	\$14,782.88	3.6%	-2.2%
Aluminium	\$3,803.89	1.4%	-4.8%



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