

The Aussie dollar had its first monthly fall against the greenback since April, losing 1.9% in July. The decline came despite the US dollar also showing some weakness during the month. The US dollar index, which values the big dollar against a basket of major currencies, declined by 1.7% in July.

Solid Aussie economic data and US dollar weakness drove the AUD/USD exchange rate to the highest level since early January, as expectations for the start of the monetary easing cycle continued to build in the US. At the same time, for most of the month, traders expected that the RBA could increase its cash rate target one more time.

A deterioration in financial market sentiment over the second half of July drove a sell-off in the Aussie dollar, which resulted in a sharp fall in the AUD/USD. The exchange rate dipped below US\$0.65 during intraday trade on 31 July, after the Aussie CPI came in close to RBA forecasts and so is unlikely to trigger a near-term cash rate increase.

The Aussie was one of the weaker currencies in the G10 currency basket, surpassing only the Norwegian krone and New Zealand dollar. The Japanese yen was the strongest G10 currency in July, thanks to a swift rebound from its lowest level against the Aussie since 1990 reached early in the month.

Model Expected Value	Present Rate	Expected Value Band
0.6550	0.6542	0.6425 – 0.6675

The Australian dollar traded between US\$0.6538 and US\$0.6784 on a close-of-day basis in July and averaged US\$0.6671, before closing at US\$0.6542. The AUD averaged US\$0.6557 in 2023-24, after averaging USD0.6732 in 2022-23.

The spread between the Australian 2-year Treasury bond yield and the US 2-year Treasury bond yield began July at -59pts and narrowed to as low as -26pts, before widening again to close the month at -38pts. The spread averaged -37pts over the month.

With no RBA Board meeting in July, the cash rate target was unchanged at 4.35% and the interest rate the RBA pays on exchange settlement balances (reserves) remained at 4.25%. Recent higher-than-anticipated readings in the monthly CPI indicator, coupled with warnings from the RBA that its patience with elevated inflation was wearing thin, had traders pricing in as high as a 25% chance of an August cash rate increase. However, when the Q2 CPI came in pretty much in line with the most recent RBA projections, traders were quick to unwind their pricing for a cash rate increase this year.

The futures market is now pricing in around a 60% probability of a 25 basis point cash rate cut by the end of 2024.

Elsewhere, traders in the US market are fully pricing in the first 25bps cut from the Fed at its next meeting in September, with 75 basis points of cuts almost fully priced in by the end of the year. In Europe, the ECB cut its policy rates in June and another 50 basis points in cuts are more than priced in by the end of 2024.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6542	0.6784	0.6538	-1.9%	0.6847	0.6296
AUD/EUR 	0.6043	0.6234	0.6028	-2.9%	0.6234	0.5886
AUD/GBP 	0.5088	0.5272	0.5087	-3.5%	0.5364	0.5024
AUD/JPY 	98.12	109.10	98.12	-8.6%	109.10	93.11
AUD/CNY 	4.7295	4.9219	4.7295	-2.4%	4.9219	4.6007

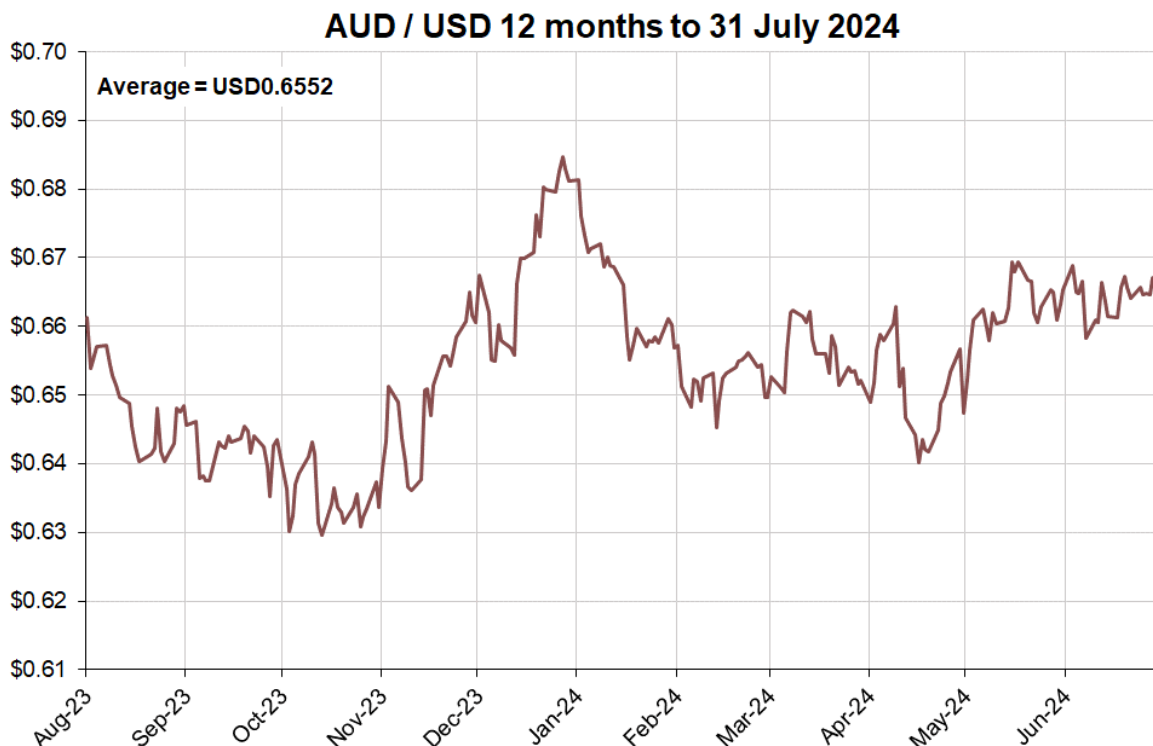
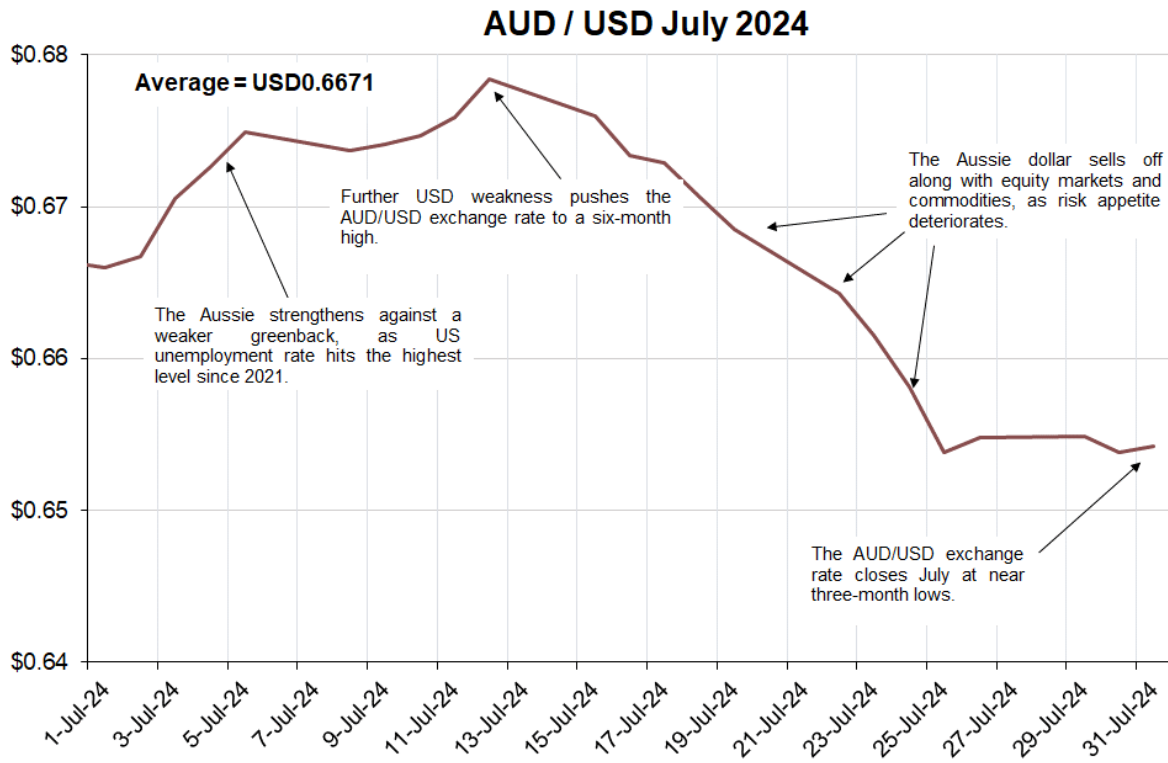
Commodity prices fell almost across the board, as market sentiment deteriorated and concerns over the outlook for the Chinese economy continued to build. The CRB commodity price index slumped to its lowest levels since March in Aussie dollar terms. Oil prices fell to near eight-week lows in late July before a rise in geopolitical tensions pushed them higher again.

The RBA Commodity Aussie dollar price index fell for the fifth time in the last six months and has dropped to its lowest level since October 2021. Iron ore futures prices fell for the sixth month out of the past seven, though prices have found support at US\$100/tonne. The ABS export price index, which is dominated by commodities, fell 5.9% in Q2 after a 2.1% decline in Q1.

Commodity AUD	31-Jul-24	MoM (%)	YoY (%)
CRB Index	425.8	-2.2%	1.5%
RBA Commodity Price Index	80.3	-0.2%	-3.6%
Brent Crude	\$123.60	-4.5%	-7.9%
Singapore Gasoil 10 ppm	\$146.49	-5.7%	-12.4%
Gold	\$3,747.67	7.5%	28.3%
Singapore Iron Ore Futures (62% Fe)	\$154.82	-3.2%	-4.6%
Nickel	\$25,423.36	-1.9%	-23.3%
Copper	\$14,124.94	-1.8%	7.6%
Aluminium	\$3,507.12	-7.3%	3.3%

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