

The Australian dollar had a rollercoaster month against the USD, with the exchange rate starting December at an 11-week high before sliding sharply as global financial market sentiment took a turn for the worse. There was a quick rebound after softer-than-expected US inflation data pushed the big dollar lower and the AUS / USD exchange rate to a three-month high. However, the Aussie soon weakened again as the Fed, ECB, Bank of England, and other central banks raised interest rates.

The Aussie eventually closed the month a little higher against the greenback following a late slump from the big dollar that saw the USD Index fall to its lowest level in over six months.

For 2022, the Australian dollar lost 6.6% versus the greenback and was also down against the Swiss franc and euro but gained against the remainder of the G10 currency basket.

Model Expected Value	Present Rate	Expected Value Band
0.7050	0.6813	0.6750 – 0.7350

The AUD traded between USD0.6670 and USD0.6864 on a close-of-day basis in November and averaged USD0.6745 before closing at USD0.6813. The AUD 2-year Treasury bond yield continued to trade well below its US counterpart. The spread opened November at -120pts and widened to as far as -140pts on 5 December, before narrowing again to close at -103pts. The spread averaged -110pts through the month.

The RBA Board increased the cash rate target by 25bps at its December meeting, to be currently sitting at 3.10%. The interest rate on the \$456 billion of exchange settlement balances currently held at the Bank was increased to 3.0%. The RBA again indicated that it will continue to lift interest rates in the period ahead to ensure inflation returns to target over time. The most recent RBA forecast is that inflation will remain above the target band until at least the end of 2024. The RBA is also not reinvesting the proceeds of maturing government bonds held in its portfolio. The maturity of loans extended to ADIs under the Term Funding Facility, will drive a significant decline in surplus ES balances held at the central bank over the next 18 months.

The futures market is pricing in a strong chance of a 25bps rise in the cash rate target to 3.35% at the February Board meeting and a 3.75% cash rate by June. A 4.0% cash rate target is currently priced in by September 2023.

Elsewhere, the US Federal Reserve raised the fed funds rate corridor by 50bps to 4.25%-4.50% in December with a 5.0% fed funds rate almost fully priced in for June. The ECB deposit facility rate of 2.00% is expected to peak at 3.50% by July 2023.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6813	0.6864	0.6670	0.4%	0.7579	0.6199
AUD/EUR 	0.6366	0.6472	0.6287	-2.4%	0.6999	0.6370
AUD/GBP 	0.5634	0.5634	0.5482	0.1%	0.6038	0.5217
AUD/JPY 	89.37	92.98	87.97	-4.6%	98.39	80.57
AUD/CNY 	4.6686	4.7974	4.6453	-1.6%	4.8450	4.4463

The AUD averaged USD0.6745 in December after averaging USD0.6610 in November, USD0.6363 in October and USD0.6673 in September. The AUD has averaged USD0.6705 in the first six months of 2022-23 after averaging USD0.7256 in 2021-22.

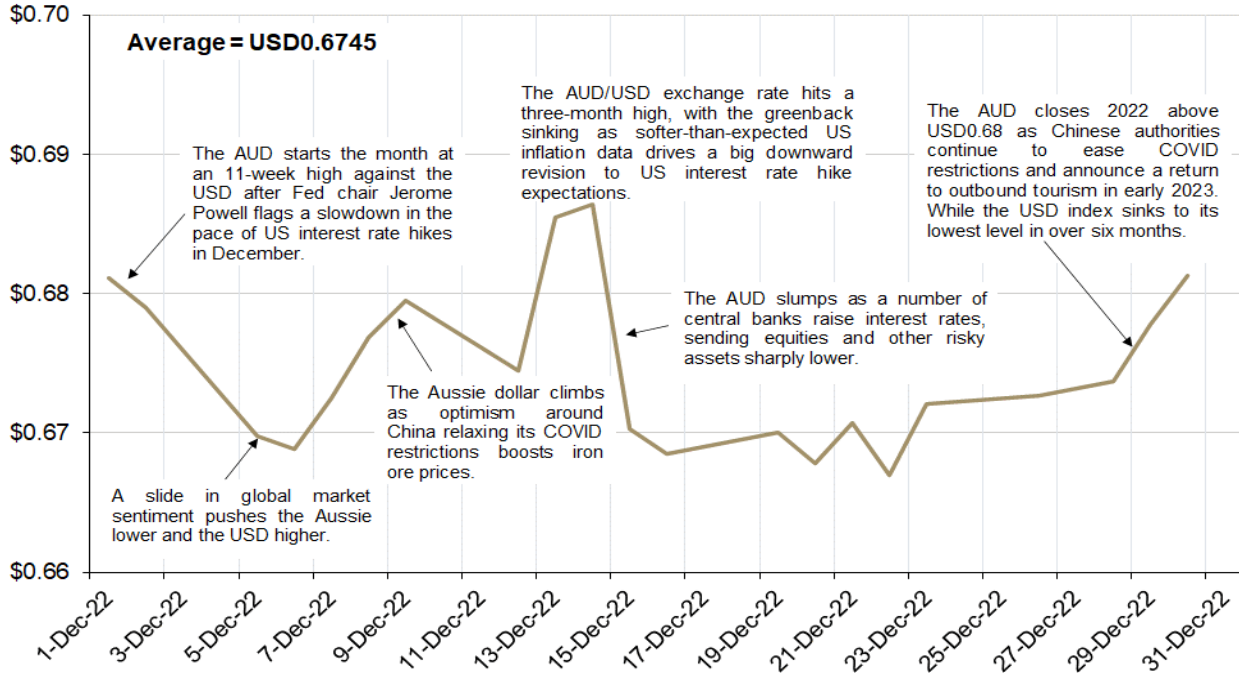
The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, fell 3.3% in Aussie dollar terms in December, the second decline in a row. Iron ore prices continued the strong recovery that began in November, while nickel prices rose for the fourth month in a row. Brent crude oil slipped 3.4% in Aussie dollar terms on lingering concerns over the demand outlook.

Commodity AUD	30-Dec-22	MoM (%)	YoY (%)
CRB Index	407.3	-2.3%	27.6%
RBA Commodity Price Index	152.9	-3.3%	16.5%
Brent Crude	\$124.61	-3.4%	17.1%
Singapore Gasoil 10 ppm	\$169.33	-3.0%	37.1%
Gold	\$2,674.90	1.5%	6.4%
Singapore Iron Ore Futures (62% Fe)	\$171.80	14.5%	3.3%
Nickel	\$44,065.11	9.6%	54.5%
Copper	\$12,277.46	0.0%	-8.1%
Aluminium	\$3,487.31	-5.5%	-9.6%

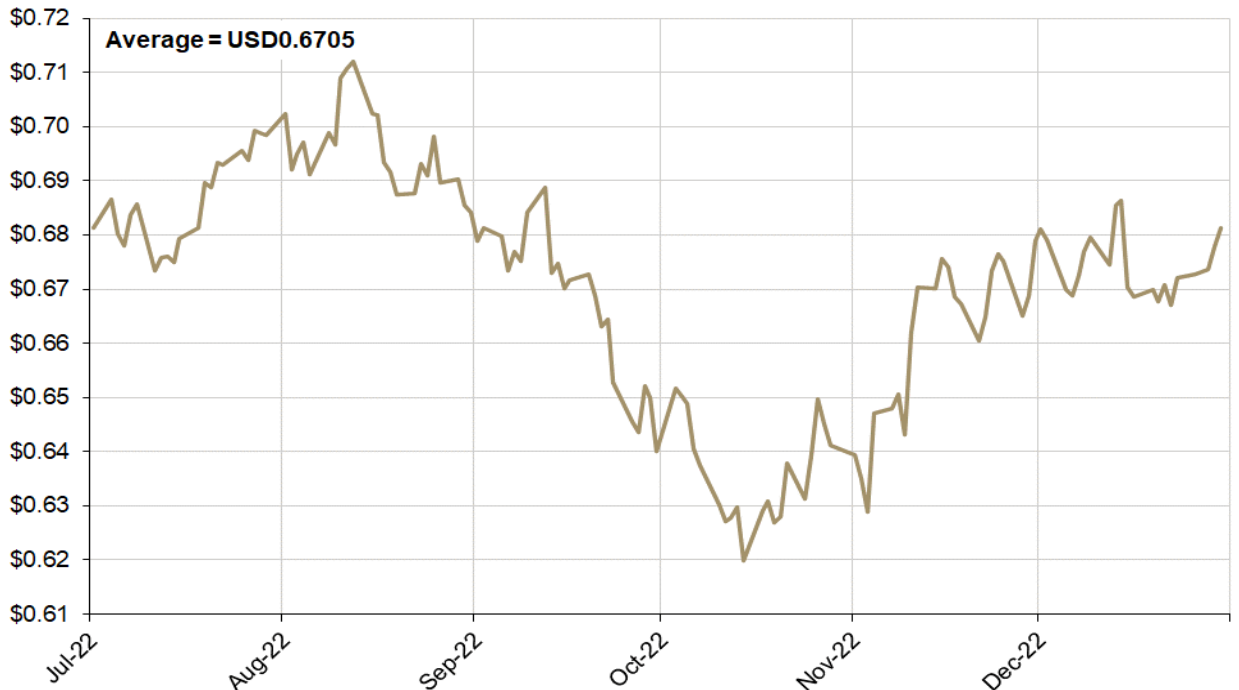
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**AUD / USD December 2022**



**AUD / USD 2022/2023**



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