

The AUD remained in a downtrend against the USD in the first half of October, falling to its lowest level since the first half of 2020, before recovering over the second half of the month to close virtually where it started.

The Aussie dollar began the month well enough, climbing to over USD0.65 on early USD weakness. The exchange rate soon fell back after the RBA Board raised the cash rate by a smaller than expected 25 basis points at its October meeting and hawkish Fed rhetoric fuelled US interest rate hike expectations. The Aussie slipped below USD0.62 for the first time since April 2020, however, rising speculation that the Fed will also slow the pace of interest rate hikes later this year weighed on the greenback in the second half of the month.

Across the broader currency market, the AUD was one of the weaker members of the G10 basket in October, only managing gains against the Swiss franc and weak Japanese yen. The yen fell to ¥150 to the US dollar for the first time since 1990, before Japanese authorities stepped in to stabilise the currency, with the exchange rate closing the month at ¥148.71.

Model Expected Value	Present Rate	Expected Value Band
0.6450	0.6399	0.6750 – 0.6150

The AUD traded between USD0.6199 and USD0.6516 on a close-of-day basis in October and averaged USD0.6363 before closing the month at USD0.6399. The AUD 2-year Treasury bond yield continues to trade below its US counterpart. The spread opened the month at -97pts and narrowed to as low as -82pts before widening again to close at -125pts. The spread averaged -105pts through the month.

The RBA Board increased the cash rate target by 25bps at each of its October and November meetings, to be currently sitting at 2.85%. The interest rate on the \$455 billion of exchange settlement balances currently held at the Bank was increased to 2.75%. The RBA continues to indicate that it would 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. This, and the maturity of loans extended to ADIs under the Term Funding Facility, will drain surplus ES balances held at the central bank over time.

The futures market is pricing in a 3.0% cash rate for the end of 2022, a 3.50% cash rate by March 2023, rising almost 4.0% by the end of 2023.

Elsewhere, the US Federal Reserve raised the fed funds rate corridor by 75bps to 3.0%-3.25% in September and is expected to raise rates by a further 75bps at its November meeting. The median expectation among FOMC participants is for a 4.40% fed funds rate by the end of 2022, in line with current market pricing. A peak of 4.90% is priced in for April 2023. The ECB lifted its deposit facility rate from 0.75% to 1.50% at its meeting in October and a 2.50% deposit rate is priced in for March 2023.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6399	0.6516	0.6199	0.0%	0.7579	0.6199
AUD/EUR 	0.6474	0.6631	0.6379	-0.9%	0.6999	0.6465
AUD/GBP 	0.5583	0.5754	0.5519	-2.6%	0.6038	0.5217
AUD/JPY 	95.16	95.16	91.49	2.7%	98.39	78.95
AUD/CNY 	4.6581	4.6963	4.4806	1.6%	4.8450	4.4463

The AUD averaged USD0.6363 in October after averaging USD0.6673 in September, USD0.6957 in August and USD0.6860 in July. The AUD has averaged USD0.6719 in the first four months of 2022-23 after averaging USD0.7256 in 2021-22.

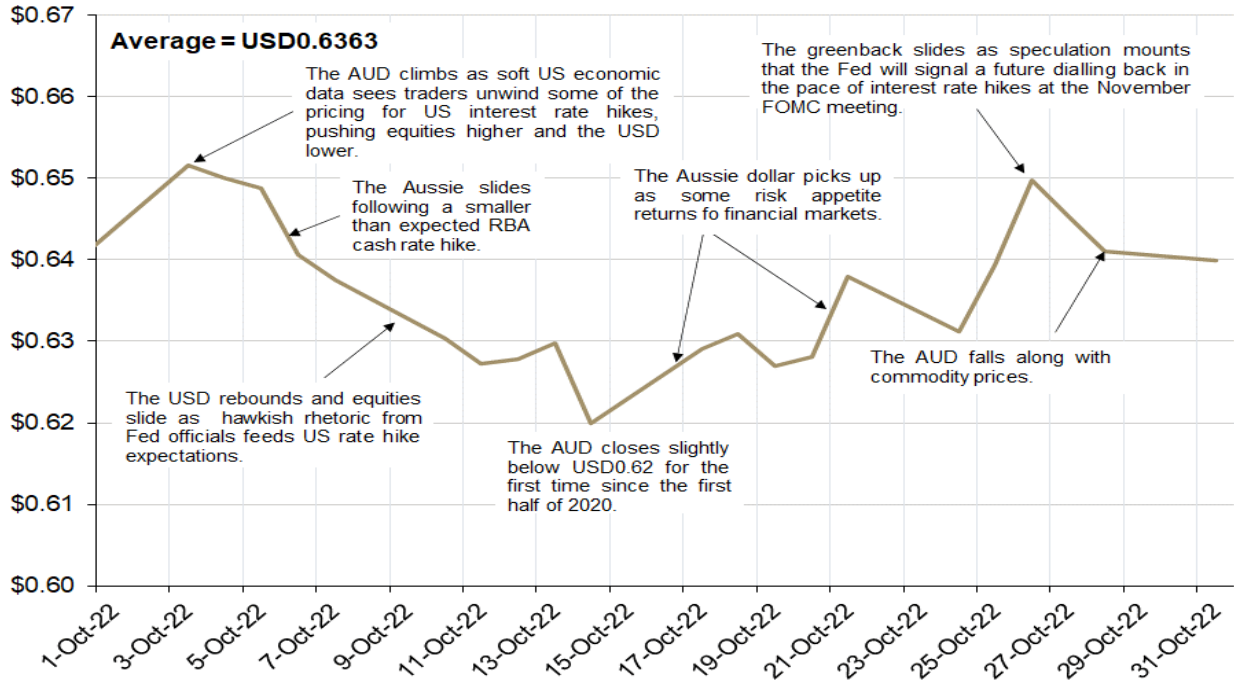
The RBA index of commodity prices increased by 2.0% in Aussie dollar terms in October. This was the second rise in a row and was driven by increases in the base metals and rural goods sub-indices. Iron ore prices fell sharply in October, with the benchmark Singapore futures price declining 17.3% in the month. Oil prices posted their first monthly increase since May after receiving an early boost following the announcement of a production cut by OPEC+ that pushed the Aussie dollar price of Brent futures to the highest level since July. Ongoing demand concerns saw prices ease over the remainder of October.

Commodity AUD	31-Oct-22	MoM (%)	YoY (%)
CRB Index	428.6	2.7%	35.4%
RBA Commodity Price Index	157.2	2.0%	29.0%
Brent Crude	\$145.81	8.8%	30.5%
Singapore Gasoil 10 ppm	\$210.02	13.0%	66.8%
Gold	\$2,554.03	-1.1%	7.6%
Singapore Iron Ore Futures (62% Fe)	\$122.84	-17.3%	-13.1%
Nickel	\$34,097.88	3.9%	31.7%
Copper	\$11,647.91	-0.9%	-7.9%
Aluminium	\$3,474.05	3.3%	-3.9%

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