

The Australian dollar climbed through most of January after a choppy start and was the strongest member of the G10 currency basket over the course of the month.

The Aussie posted its third monthly increase in a row against the big dollar, rising above USD0.70 for the first time since August last year. The gain against the USD was driven by a combination of a stronger Australian dollar and weaker greenback.

The Aussie dollar was supported by improved sentiment on global financial markets, the stronger-than-expected Aussie Q4 CPI report and the ongoing recovery in iron ore prices linked to the easing of COVID-19 restrictions in China. The fall in the USD was largely driven by weaker US economic data and declining US inflation that saw traders wind back their expectations for future US interest rate increases.

Model Expected Value	Present Rate	Expected Value Band
0.7200	0.7055	0.6900 – 0.7500

The AUD traded between USD0.6727 and USD0.7115 on a close-of-day basis in January and averaged USD0.6950 before closing at USD0.7055. The AUD 2-year Treasury bond yield continued to trade well below its US counterpart. The spread opened January at -103pts and widened to as far as -126pts on 23 January, before narrowing again to close at -108pts. The spread averaged -106pts through the month.

The cash rate target remains 3.10% as there was no RBA Board meeting in January. The interest rate on the \$470 billion of exchange settlement balances currently held at the Bank is 3.0%. CPI inflation climbed to 7.8% YoY in Q4. The RBA expects that this will be the inflation peak and that inflation will ease over the course of 2023. 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 peak of 3.75% is priced in by August 2023.

Elsewhere, the US Federal Reserve is expected to raise the fed funds rate corridor by 25bps to 4.50%-4.75% on 1 February with an effective fed funds rate of 4.90% currently priced in by the middle of the year. The ECB deposit facility rate of 2.00% is expected to peak at 3.50% in the middle of the year.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.7055	0.7115	0.6727	3.6%	0.7579	0.6199
AUD/EUR 	0.6495	0.6541	0.6377	2.0%	0.6999	0.6180
AUD/GBP 	0.5727	0.5735	0.5577	1.6%	0.6038	0.5236
AUD/JPY 	91.78	92.65	88.12	2.7%	98.39	81.53
AUD/CNY 	4.7675	4.8267	4.6550	2.1%	4.8450	4.4806

The AUD averaged USD0.6950 in January after averaging USD0.6745 in December, USD0.6610 in November and USD0.6363 in October. The AUD has averaged USD0.6740 in the first seven months of 2022-23 after averaging USD0.7256 in 2021-22.

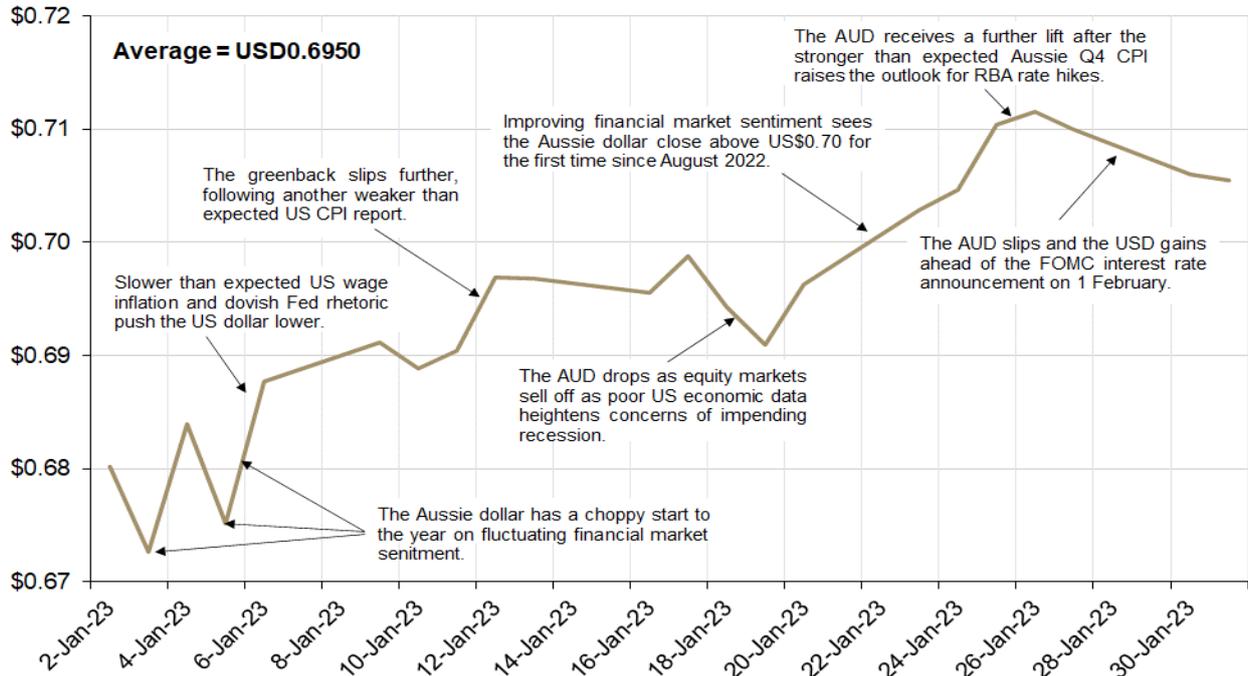
The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, rose 1.8% in Aussie dollar terms in January, the first rise in three months. Iron ore prices continued the strong recovery that began in November, while Brent crude and Singapore gasoil prices fell for the third month in a row.

Commodity AUD	31-Jan-23	MoM (%)	YoY (%)
CRB Index	394.5	-3.1%	9.2%
RBA Commodity Price Index	153.6	1.8%	9.6%
Brent Crude	\$121.09	-2.8%	-6.0%
Singapore Gasoil 10 ppm	\$158.53	-6.4%	8.0%
Gold	\$2,735.65	2.3%	7.5%
Singapore Iron Ore Futures (62% Fe)	\$181.37	5.6%	-6.4%
Nickel	\$43,047.24	-2.3%	36.2%
Copper	\$13,083.42	6.6%	-2.8%
Aluminium	\$3,750.89	7.6%	-12.3%

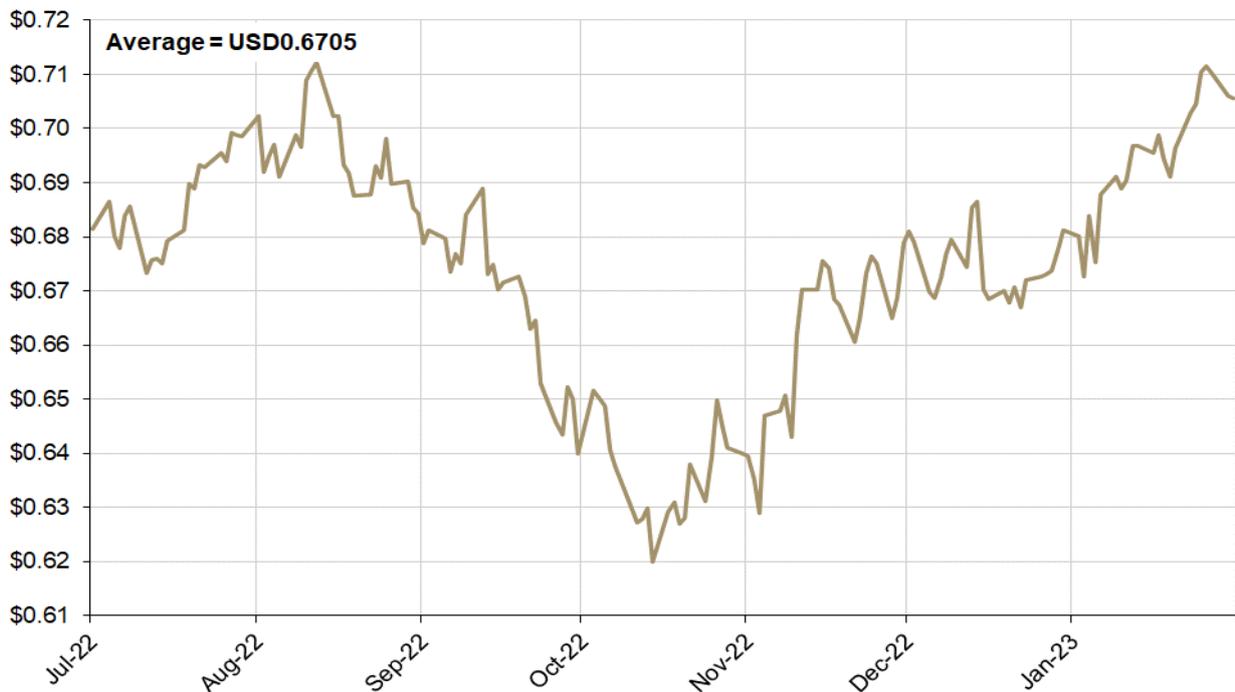
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