

Economic Analysis

AUD Monthly July 2023

The Australian dollar was one of the weaker members of the G10 currency basket in July, climbing only against the greenback and Canadian dollar and being unchanged against the euro. The rise against the big dollar was in part driven by USD weakness.

The Aussie dollar threatened to fall below US\$0.66 early in the month, as better-than-expected US economic data pushed the greenback higher and the RBA's decision to keep the cash rate on hold, along with a soft Chinese PMI report, weighed on the Aussie. The currency stabilised before fortunes turned as softer-than-expected US inflation data pushed the USD sharply lower and helped lift market sentiment, driving the AUD / USD exchange rate to its highest closing level in four months on 13 July.

The AUD / USD exchange rate slipped over the remainder of the month, as the USD regained some lost ground and Aussie inflation data raised expectations that the RBA was close to the end of its tightening cycle. The Aussie received a lift toward the end of the month from statements from Chinese authorities regarding support for their ailing economy.

The Japanese yen had its first positive month against the Aussie dollar since March, being one of the strongest members of the G10 basket, as the Bank of Japan's tweaks to its yield curve control policy represented a minor tightening of monetary policy.

Model Expected Value	Present Rate	Expected Value Band
0.7175	0.6717	0.7353 – 0.6992

The AUD traded between USD0.6626 and USD0.6889 on a close-of-day basis in July, averaging USD0.6737 before closing at USD0.6717. The AUD 2-year Treasury bond yield continued to trade well below its US counterpart. The spread opened the month at -68pt and widened over the month to average -81pts. Traders unwound their expectations for further RBA interest rate hikes following the RBA Board decision to keep the cash rate unchanged at the July meeting and the downside surprise to Aussie Q2 CPI inflation. The spread closed the month at -94pts.

The RBA Board kept the cash rate target unchanged at 4.10% and its July meeting, with the 4.0% interest rate it pays on the \$407 billion of exchange settlement balances (reserves) also unchanged.

The Board's post-meeting media statement said future decisions will continue to be data driven (this was followed by another pause in August). The futures market is pricing in only a small chance of a 25bps cash rate increase at the September RBA Board meeting, and only a 50% chance of a further rate hike in the current tightening cycle. In the US, the FOMC increased the fed funds target rate by 25bps. The futures market is pricing in only about a 30% chance of a further fed funds rate hike. However, the above implies that interest rates in the US will remain higher than in Australia for some time.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6717	0.6889	0.6626	0.8%	0.7137	0.6199
AUD/EUR 	0.6108	0.6151	0.6034	0.0%	0.6999	0.5982
AUD/GBP 	0.5234	0.5268	0.5171	-0.3%	0.6038	0.5171
AUD/JPY 	95.57	96.68	93.58	-0.6%	98.39	86.86
AUD/CNY 	4.7989	4.9273	4.7541	-0.7%	4.9273	4.4806

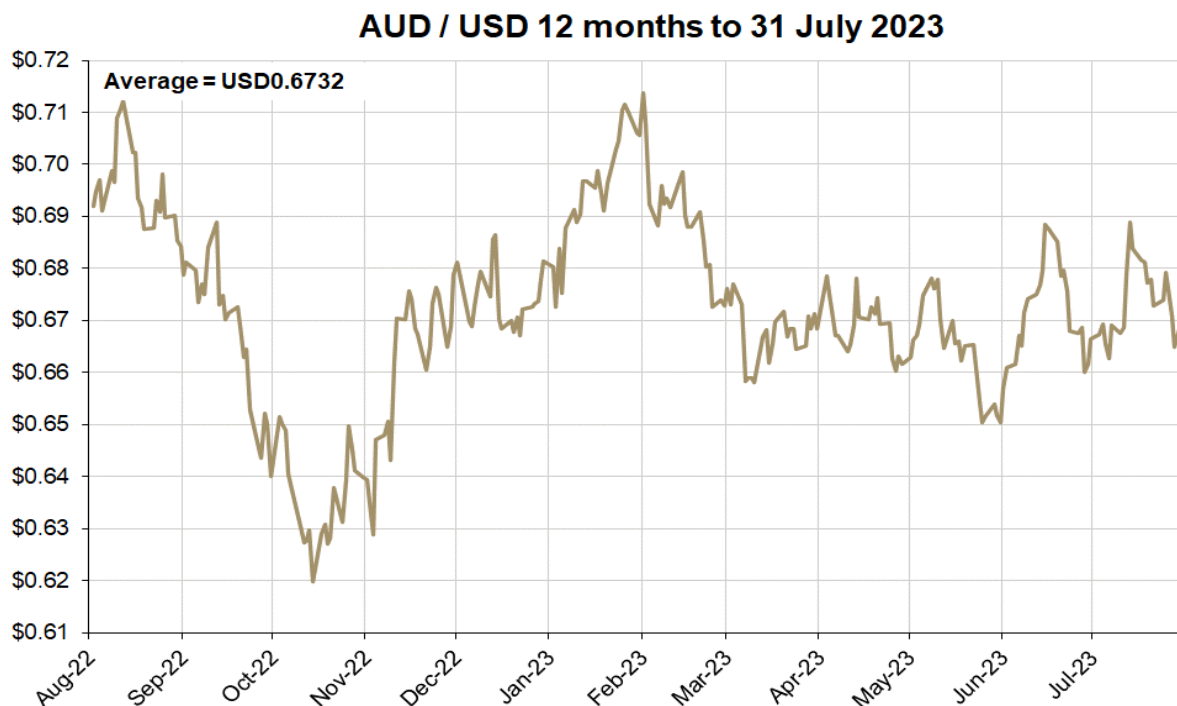
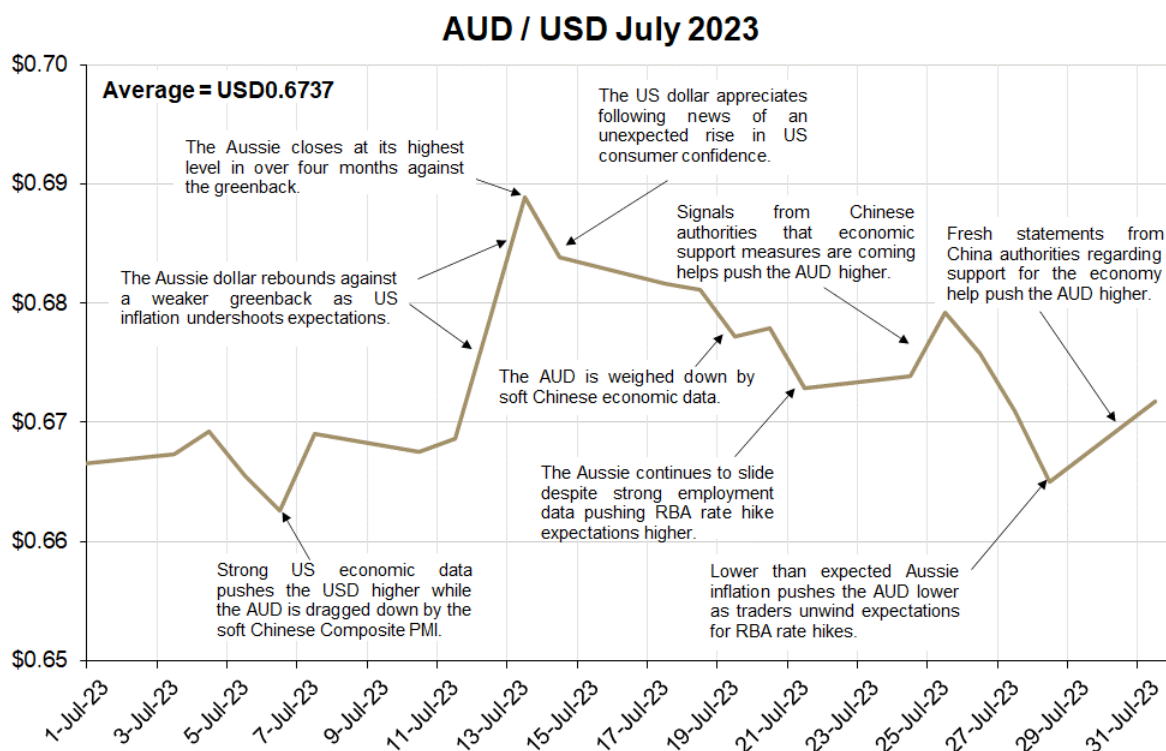
The AUD averaged USD 0.6737, after averaging USD 0.6717 in June, USD0.6642 in May, and USD0.6691 in April. The AUD averaged USD0.6732 in 2022-23 after averaging USD0.7256 in 2021-22.

The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, fell another 2.9% in Aussie dollar terms in July. This was its fourth monthly decline in a row, which took the index 20.6% lower than a year ago. The drop was broad-based, with the non-rural bulk commodities spot price index down by another 4.8% for the month. Iron ore futures prices retreated amid uncertainty about the Chinese economic outlook and steel output restrictions. Petroleum prices jumped sharply with Brent crude rising to the highest level since April.

Commodity AUD	31-Jul-23	MoM (%)	YoY (%)
CRB Index	419.6	6.8%	0.3%
RBA Commodity Price Index	91.1	-2.9%	-20.6%
Brent Crude	\$126.53	11.5%	-18.2%
Singapore Gasoil 10 ppm	\$167.20	20.9%	-18.3%
Gold	\$2,922.07	1.5%	15.5%
Singapore Iron Ore Futures (62% Fe)	\$162.35	-2.4%	-1.9%
Nickel	\$33,149.44	7.8%	-2.1%
Copper	\$13,132.34	5.3%	15.7%
Aluminium	\$3,394.05	5.2%	-4.8%

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