

## Economic Analysis

## AUD Monthly May 2023

The Australian dollar was one of the strongest members of the G10 currency basket in May but was mixed against the big four currencies, appreciating against the euro and Japanese yen but slipping against the US dollar and British pound.

The Aussie dollar climbed early in May, after the RBA Board surprised most of the financial market by raising the cash rate a further 25 basis points at its meeting, after holding rates steady in April. Uncertainty over whether the US government debt ceiling would be lifted in time to avert federal government worker layoffs weighed heavily on both market sentiment and the Aussie dollar in the second half of the month, with the exchange rate closing May at its lowest level since November last year.

The Australian dollar trade-weighted index had a strong first half of May, hitting a two-month high before sliding over the second half of the month to close where it started.

Model Expected Value	Present Rate	Expected Value Band
0.6650	0.6503	0.6450 – 0.6850

The AUD traded between USD0.6503 and USD0.6782 on a close-of-day basis in May, averaging USD0.6642 before closing at USD0.6503. The AUD 2-year Treasury bond yield continued to trade well below its US counterpart in May. The spread opened April at -97pts and narrowed to as low as -58pts after the unexpected RBA interest rate hike drove Aussie yields higher, while anxiety over the possibility of further problems in US regional banks pushed US yields lower. Fading concerns over the US banking sector problems and optimism that a deal would be reached to raise the US government debt limit pushed US yields higher again. With the increase in US yields outpacing the rise in Aussie yields in the second half of May, the spread widened to close the month at -85pts.

The RBA Board unexpectedly lifted the cash rate by 25 basis points to 3.85% at its May meeting and lifted the interest rate it pays on the \$412 billion of exchange settlement balances (reserves) currently held at the Bank to 3.75%. Surplus exchange settlement balances fell \$21 billion in the month.

The futures market is pricing in only a small chance of a cash rate hike at the June Board meeting, with a further 25-basis point increase fully priced in by August. Current pricing suggests an expectation for interest rate cuts in 2024. In the US, the futures market is pricing in an 80% chance of a further 25-basis point rate increase in the fed funds rate corridor to 5.25%-5.50% at either the June or July FOMC meeting with a 25-basis point cut priced in for later in the year.

		Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD		0.6503	0.6782	0.6503	-1.7%	0.7265	0.6199
AUD/EUR		0.6084	0.6173	0.6031	1.3%	0.6999	0.5982
AUD/GBP		0.5228	0.5374	0.5228	-0.7%	0.6038	0.5228
AUD/JPY		90.62	92.20	89.88	0.5%	98.39	86.86
AUD/CNY		4.6159	4.6923	4.5869	0.9%	4.8423	4.4806

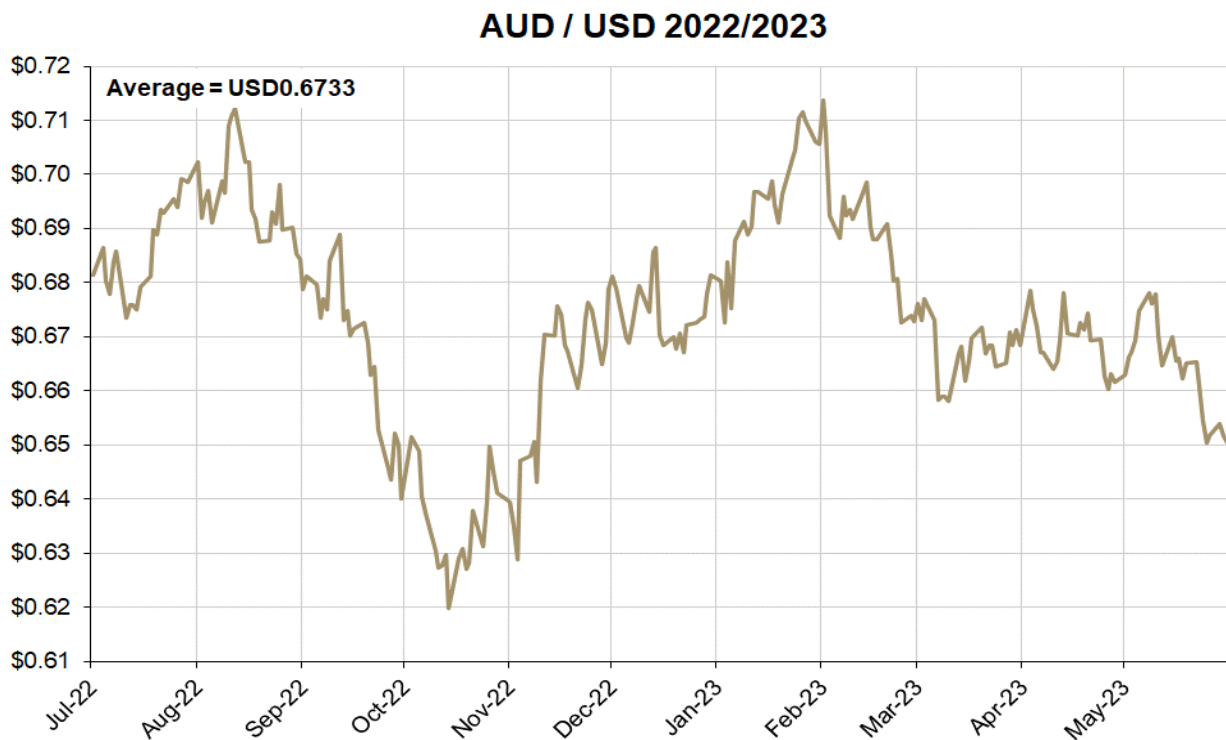
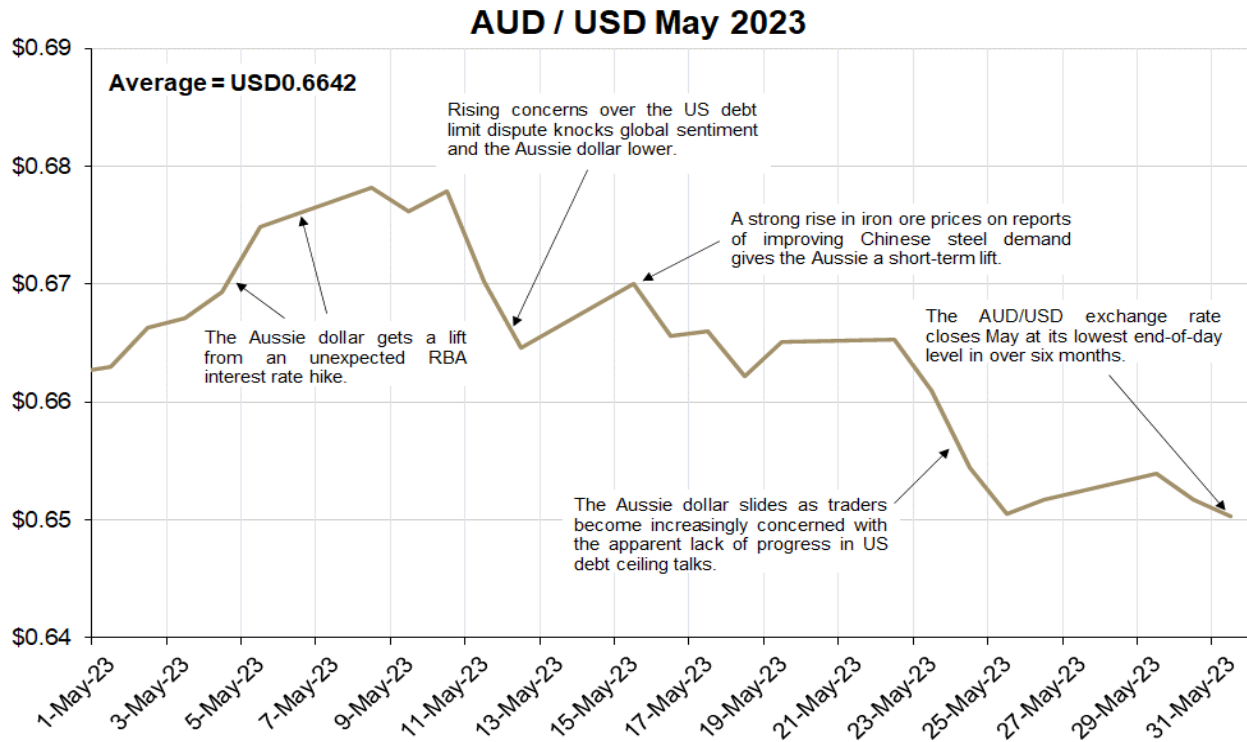
The AUD averaged USD 0.6642 in May, after averaging USD0.6691 in April, USD0.6674 in March and USD0.6897 in February. The AUD has averaged USD0.6733 in the first 11 months of 2022-23 after averaging USD0.7256 in 2021-22.

The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, fell 6.8% in Aussie dollar terms in May, its third monthly decline in the last four months and 17.6% lower than a year ago. The drop was broad-based with the non-rural bulk commodities spot price index down 10.8% for the month.

Commodity AUD	31-May-23	MoM (%)	YoY (%)
CRB Index	392.6	-3.1%	-10.8%
RBA Commodity Price Index	97.0	-6.8%	-17.6%
Brent Crude	\$111.34	-9.4%	-33.2%
Singapore Gasoil 10 ppm	\$134.22	-1.1%	-41.4%
Gold	\$3,035.94	0.9%	18.8%
Singapore Iron Ore Futures (62% Fe)	\$156.58	-1.1%	-16.7%
Nickel	\$31,845.32	-13.0%	-19.4%
Copper	\$12,511.99	-3.7%	-4.8%
Aluminium	\$3,474.09	-2.4%	-10.4%

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