

The Australian dollar was one of the strongest members of the G10 currency group in July, behind only the US dollar, Canadian dollar and Swiss franc. The AUD trade-weighted index – which values the Australian dollar against a basket of foreign currencies based on their share of trade with Australia – posted its highest monthly close since November last year.

The AUD/USD exchange rate had its worst month since December last year, slipping by 2.4% amid a sharp rise in the greenback. The US dollar index climbed by 3.2% in July, its first monthly increase in seven months.

Most of the USD gains came in the last week of the month following news of a trade deal between the US and European Union that saw the two sides agree to a 15% baseline tariff on US imports from the EU. The EU also committed to lift spending on US energy products and armaments and to increase European investment in US industries by hundreds of billions of dollars. The agreement helped push the euro to its lowest levels against the greenback in almost two months.

Similar deals were made with Japan and South Korea, and Washington has imposed 'reciprocal' tariffs on a range of countries, including a 35% tariff on imports from Canada not covered by the US-Mexico-Canada Agreement (USMCA). The baseline US tariff on Australian goods currently remains at 10%.

Despite the overall monthly decline, the AUD reached an eight-month high of US\$0.6602 on 24 July, before the greenback's late surge pushed the exchange rate lower again, with the AUD/USD closing July at its lowest level since 22 May.




Model Expected Value	Present Rate	Expected Value Band
0.6700	0.6425	0.6900 – 0.6500

The Australian dollar traded between US\$0.6425 and US\$0.6602 on a close-of-day basis in July and averaged US\$0.6536, before closing at its monthly low. The AUD/USD has averaged US\$0.6467 over the past 12 months.

The Australian two-year Commonwealth bond yield continued to trade below its US counterpart in July, with the yield spread averaging -53bps during the month. The spread began the month at -51bps and widened to -64bps after better-than-expected US payrolls drove an increase in US Treasury yields. The spread narrowed again as Aussie bond yields rose after the RBA unexpectedly kept the cash rate steady, before widening later in July as Australian yields fell back and US yields rose. The spread closed the month at -60bps.

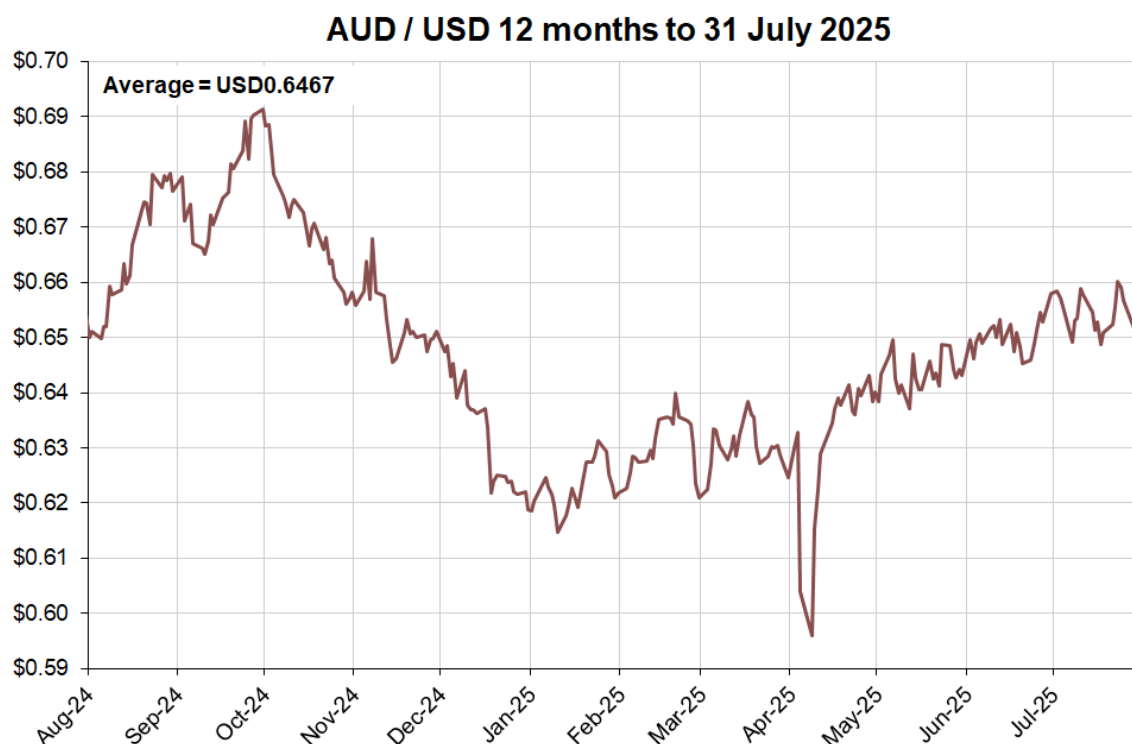
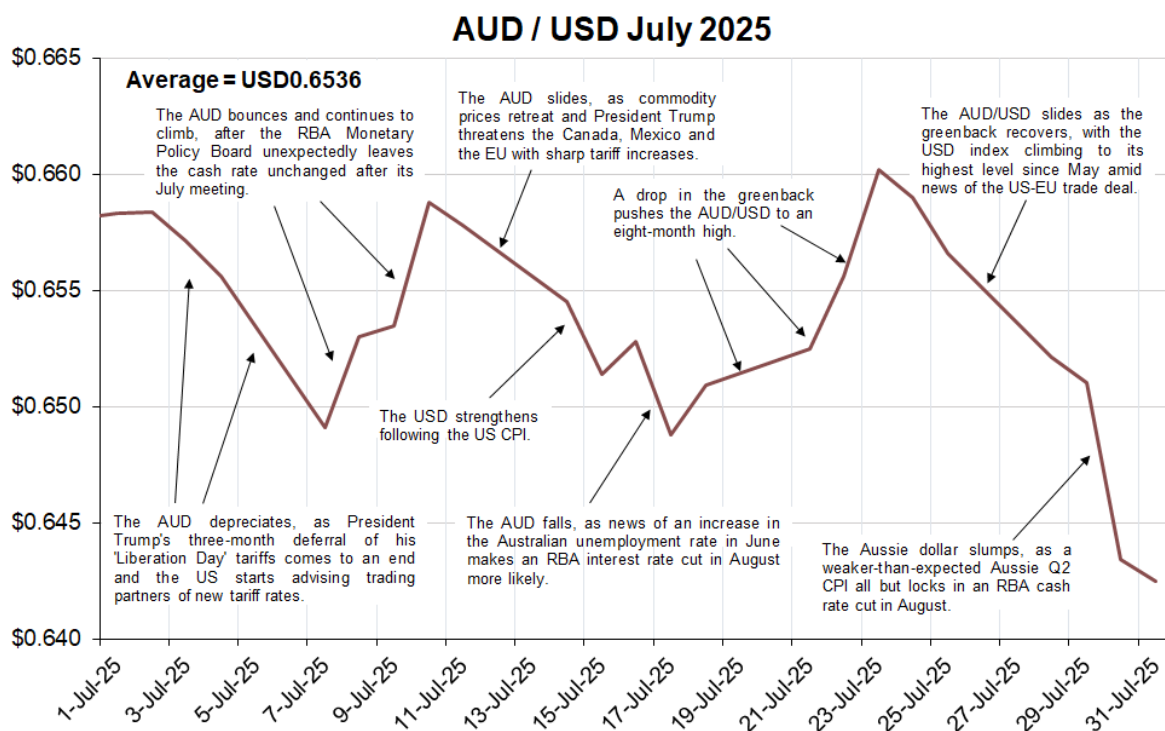
The RBA Monetary Policy Board rattled markets in early July by keeping the cash rate target rate unchanged at 3.85%, defying widespread expectations for a 25bps cut. The surprise decision saw traders unwind their expectations for cash rate cuts this year, with the market currently pricing in an end of year cash rate of 3.23%, up from 3.04% at the end of 30 June. News of an unexpected rise in the Australian unemployment rate in June and the softer-than-expected Q2 CPI currently sees traders pricing in a 50% chance of a 50bps cash rate cut in August.

The US Federal Reserve monetary policy committee, the FOMC, kept interest rates unchanged as expected in July. Fed Chair Jerome Powell reiterated that the prospects for interest rate cuts in the second half of the year will depend on economic data. The Fed last cut rates in December 2024, and traders are pricing in 33bps of cuts over the remainder of 2025.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6425	0.6602	0.6425	-2.4%	0.6913	0.5960
AUD/EUR 	0.5629	0.5641	0.5544	0.8%	0.6240	0.5437
AUD/GBP 	0.4865	0.4886	0.4773	1.5%	0.5212	0.4667
AUD/JPY 	96.87	96.97	94.41	2.2%	102.16	87.15
AUD/CNY 	4.6303	4.7258	4.6289	-1.8%	4.8564	4.3725

Commodity prices were mainly higher in July, with the RBA Australian dollar commodity price index rising for the first time in seven months. Oil prices rose sharply toward the end of July, as supply risks escalated after US President Donald Trump threatened Russia with fresh sanctions on its oil exports if it does not agree to a ceasefire with Ukraine by 8 August. These penalties would include secondary tariffs on countries importing Russian oil and other products. The US administration also tightened sanctions on Iranian oil exports. Iron ore futures prices climbed to the highest levels since early April in Australian dollar terms. Prices were lifted by news that Beijing plans to proceed with a huge hydropower project reported to be three times the size of the Three Gorges Dam. Iron ore prices slipped back late in the month, as concerns over the outlook for steel demand re-emerged.

Commodity AUD	31-Jul-25	MoM (%)	YoY (%)
CRB Index	466.1	3.1%	9.4%
RBA Commodity Price Index	90.0	1.1%	-3.8%
Brent Crude	\$112.76	9.6%	-3.3%
Singapore Gasoil 10 ppm	\$142.37	9.3%	-2.8%
Gold	\$5,114.94	1.8%	36.5%
Singapore Iron Ore Futures (62% Fe)	\$154.56	7.7%	-0.2%
Nickel	\$23,221.39	0.3%	-8.7%
Copper	\$14,942.48	-0.5%	5.8%
Aluminium	\$3,987.87	0.9%	13.7%



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