

Economic Analysis

AUD Monthly April 2023

The Australian dollar declined against most of the G10 currency basket in April, closing the month ahead of only the New Zealand dollar, Norwegian krone, and the weak Japanese yen.

The Aussie dollar closed lower against the US dollar for the third month in a row. The exchange rate was volatile early in the month, with the Aussie climbing to a 5½-week high before the RBA's decision to keep the cash rate unchanged for the first time in a year pushed the Aussie dollar lower. There was a short rebound in the middle of the month following another bumper Australian employment report, however the Aussie slipped against the greenback over the second half of April with the big dollar boosted by hawkish comments from the US Federal Reserve, while the Aussie dollar was weighed down by deteriorating market sentiment and softer-than-expected Aussie inflation data.

The Australian dollar trade-weighted index also fell for the third month in a row, with the index closing the month at its lowest level since October last year.

Model Expected Value	Present Rate	Expected Value Band
0.7025	0.6615	0.6825 – 0.7225

The AUD traded between USD0.6603 and USD0.6786 on a close-of-day basis in April and averaged USD0.6691 before closing at USD0.6685. The AUD 2-year Treasury bond yield continued to trade well below its US counterpart. The spread opened April at -102pts and fluctuated in the first half of the month before widening to as much as -118pts following a sharp rise in US interest rate hike expectations. The spread narrowed to as low as -80pts after concerns over the health of the US banking sector re-emerged, before closing the month at -97pts. The spread averaged -101pts through April.

The RBA kept its cash rate target unchanged at 3.60% at the Board meeting in April but said some further tightening may be needed. The interest rate on the \$434 billion of exchange settlement balances currently held at the Bank was also unchanged at 3.50%. The RBA Governor's post-meeting media statement and the Board minutes saw an easing of the hawkish commentary that was a feature of the February statement.

The futures market is pricing in only a small chance of a cash rate hike at the May Board meeting and around a 50% probability of a 25bps interest rate hike by August, with no more cash rate increases priced in after that.

The US Federal Reserve is expected to raise the fed funds rate corridor by 25bps to 5.00%-5.25% after the FOMC meeting on 2-3 May. Current market pricing and the latest Fed expectations from March, suggest that this is likely to be the peak in the fed funds rate. The market is currently pricing in rate cuts toward the end of the year.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6615	0.6786	0.6603	-1.0%	0.7265	0.6199
AUD/EUR 	0.6005	0.6223	0.5982	-2.6%	0.6999	0.5982
AUD/GBP 	0.5266	0.5465	0.5266	-2.8%	0.6038	0.5266
AUD/JPY 	90.17	90.51	87.90	1.6%	98.39	86.86
AUD/CNY 	4.5729	4.6671	4.5673	-0.4%	4.8423	4.4806

The AUD averaged USD0.6691 in April, after averaging USD0.6674 in March, USD0.6897 in February and USD0.6950 in January. The AUD has averaged USD0.6743 in the first 10 months of 2022-23 after averaging USD0.7256 in 2021-22.

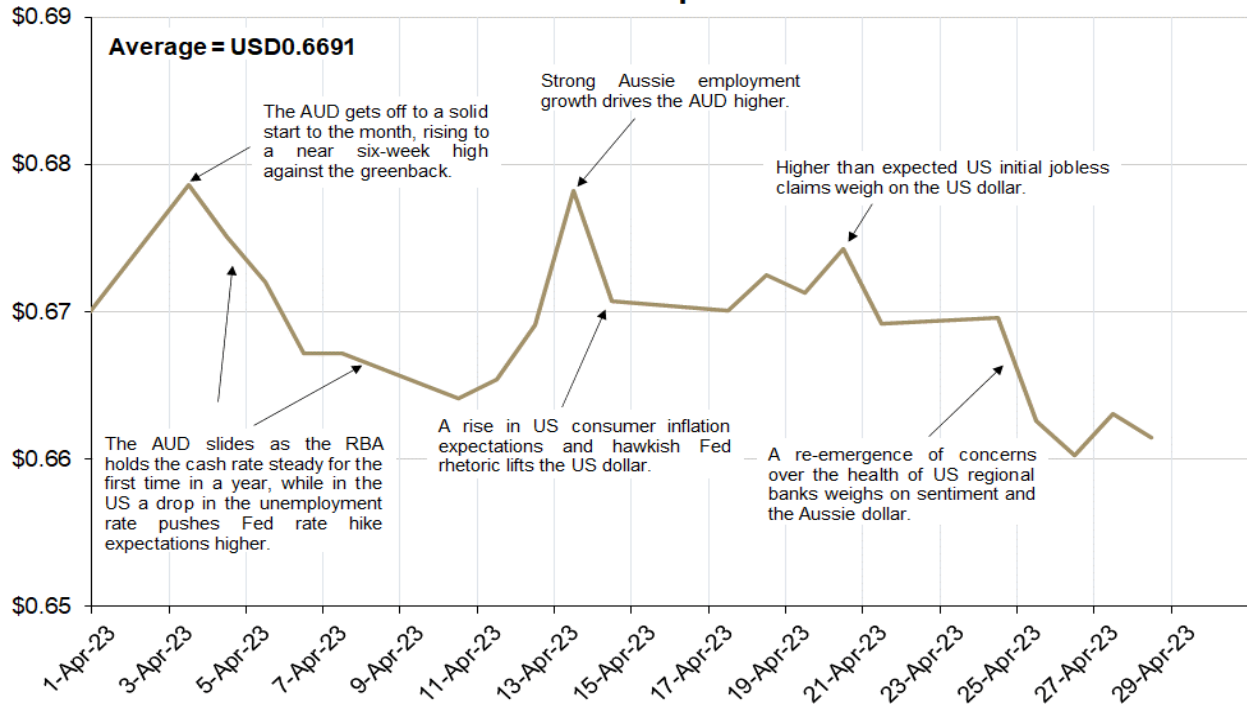
The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, fell 4.7% in Aussie dollar terms, to be 11.4% lower than a year ago. The drop was led by declines in bulk commodities. Iron ore futures prices had their first monthly fall since October last year, while the Aussie dollar gold price hit record highs during the month.

Commodity AUD	28-Apr-23	MoM (%)	YoY (%)
CRB Index	405.3	1.4%	-6.9%
RBA Commodity Price Index	104.1	-4.3%	-11.8%
Brent Crude	\$122.88	3.3%	-18.3%
Singapore Gasoil 10 ppm	\$135.67	-7.9%	-39.4%
Gold	\$3,007.40	2.3%	12.3%
Singapore Iron Ore Futures (62% Fe)	\$158.40	-16.2%	-23.3%
Nickel	\$36,601.18	2.9%	-18.4%
Copper	\$12,990.03	-3.2%	-5.8%
Aluminium	\$3,560.53	-1.2%	-17.4%

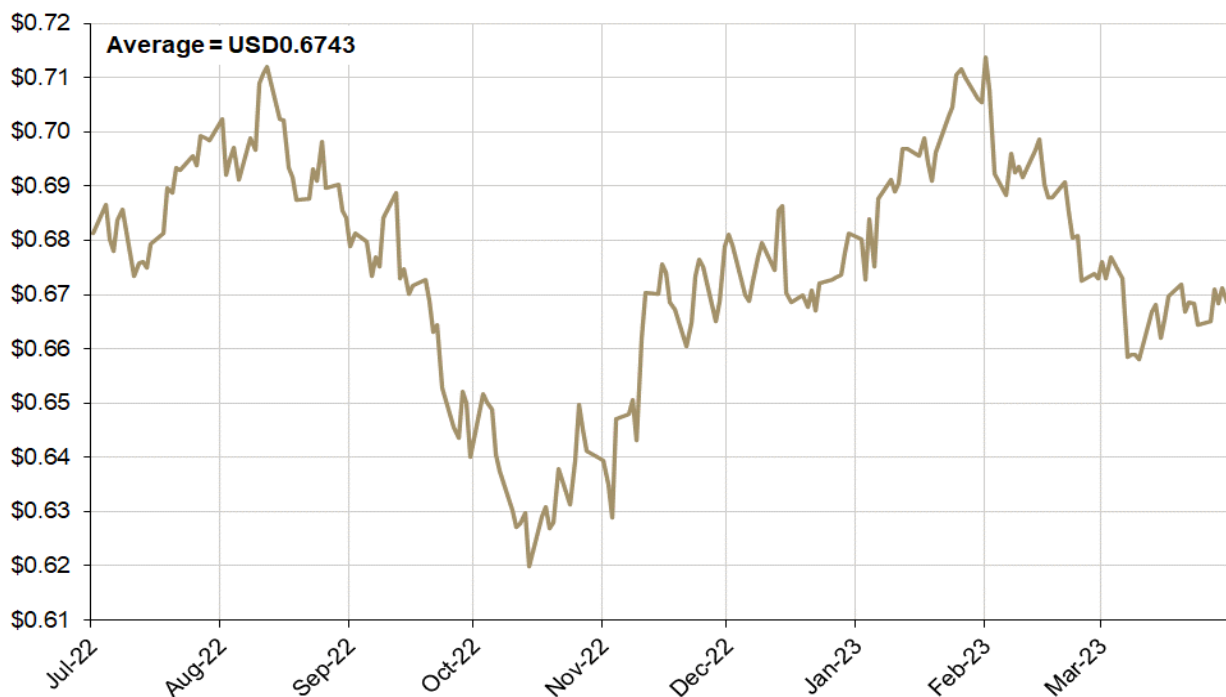
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