

Economic Analysis

AUD Monthly August 2021

August was a month of fluctuating fortunes for the Australian dollar. The currency started the month in a relatively positive manner and closed above USD0.74 for the first time in three weeks on 5 August. However, that was to be the only close above that level during the month as sentiment was hit by worsening COVID-19 outbreaks both at home and abroad. The Aussie tumbled to its lowest close since November 2020 on 20 August, before rebounding over the last 10 days of the month.

The recovery was partly driven by a fall in the US dollar after global sentiment picked up and comments from Fed Chair Jerome Powell that, even if the Fed starts tapering its QE program later this year, they are a long way from raising interest rates.

Central Model Value	Present Rate	Expected Value Band
0.7850	0.7316	0.7625 – 0.8075

- The AUD traded between USD0.7132 and USD0.7405 on a close of day basis in August and averaged USD0.7303 before closing the month at USD0.7316. The AUD/USD 2-year treasury bond spread opened July at -15 basis points and widened to as much as -22 points before closing at -20 points. The spread averaged -18 points over the month.
- Our Aussie dollar model suggests the AUD / USD exchange rate continues to trade well below its expected value given the level of commodity prices and the positive sentiment on financial markets.
- The RBA cash rate target remains at 0.10% and the Bank continues to pay zero interest on the A\$384.4 billion of exchange settlement balances that have accumulated at the central bank. The RBA continues to target a 0.10% yield for the April 2024 Commonwealth bond. The RBA purchased \$20 billion of Commonwealth and semi-government bonds in August, including A\$469 million of WATC bonds. As of the end of August, the RBA had purchased A\$96 billion of bonds under its second bond buying program and will commence a third program when the current A\$100 billion program concludes in early September. The third program will see purchases cut from A\$5 billion to \$4 billion a week and will be made at the same 80/20 ratio between Commonwealth and semi-government bonds. The new program will be reviewed in November.
- Elsewhere, central bank policy interest rates remain at record lows with the ECB maintaining a negative deposit rate. The major global central banks continue to purchase bonds and other assets in support of the economy and financial markets.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.7316	0.7405	0.7132	-0.4%	0.7968	0.7028
AUD/EUR 	0.6195	0.6282	0.6100	0.1%	0.6548	0.5961
AUD/GBP 	0.5319	0.5319	0.5240	0.7%	0.5734	0.5240
AUD/JPY 	80.47	81.44	78.37	-0.1%	85.21	73.49
AUD/CNY 	4.7206	4.7883	4.6369	-0.5%	5.1428	4.6369

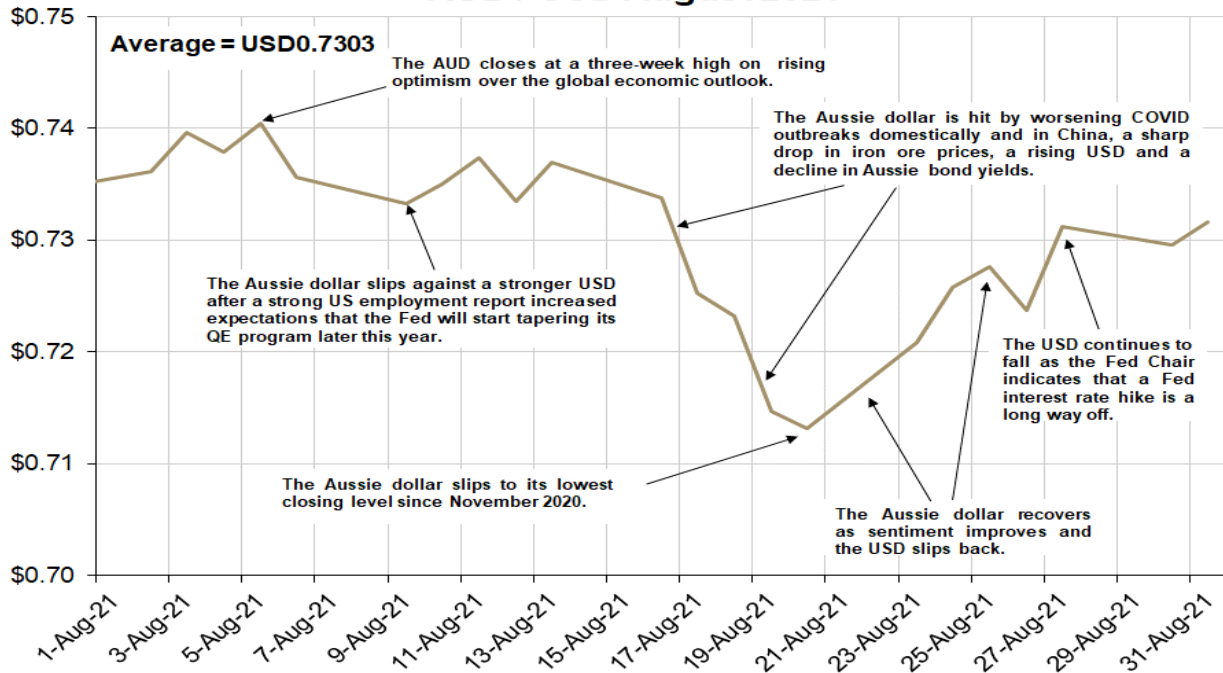
- The AUD averaged USD 0.7363 in the first two months of 2021/22 after averaging USD0.7471 in 2020/21 and USD0.6714 in 2019/20.
- Commodity prices were mixed in August, as rising COVID infections in China and the US raised concerns over the demand outlook. Iron ore prices posted particularly sharp falls as Chinese authorities continued to signal a determination to limit steel production. The benchmark Singapore futures price fell to as low as A\$182.33 before recovering some of its losses later in the month. The RBA commodity price index, which is designed as an indicator of the prices received by Australian commodity exporters, fell back after hitting a record high in AUD terms in July.

Commodity AUD	31-Aug-21	MoM (%)	YoY (%)
CRB Index	298.4	0.5%	43.9%
RBA Commodity Price Index	137.9	-4.6%	49.2%
Brent Crude	\$97.44	-5.1%	62.2%
Singapore Gasoil 10 ppm	\$109.26	-1.6%	61.9%
Gold	\$2,480.67	0.4%	-6.8%
Singapore Iron Ore Futures (62% Fe)	\$208.12	-15.0%	26.1%
Nickel	\$26,736.42	0.4%	27.8%
Copper	\$13,021.47	-1.7%	43.5%
Aluminium	\$3,717.69	5.4%	51.7%

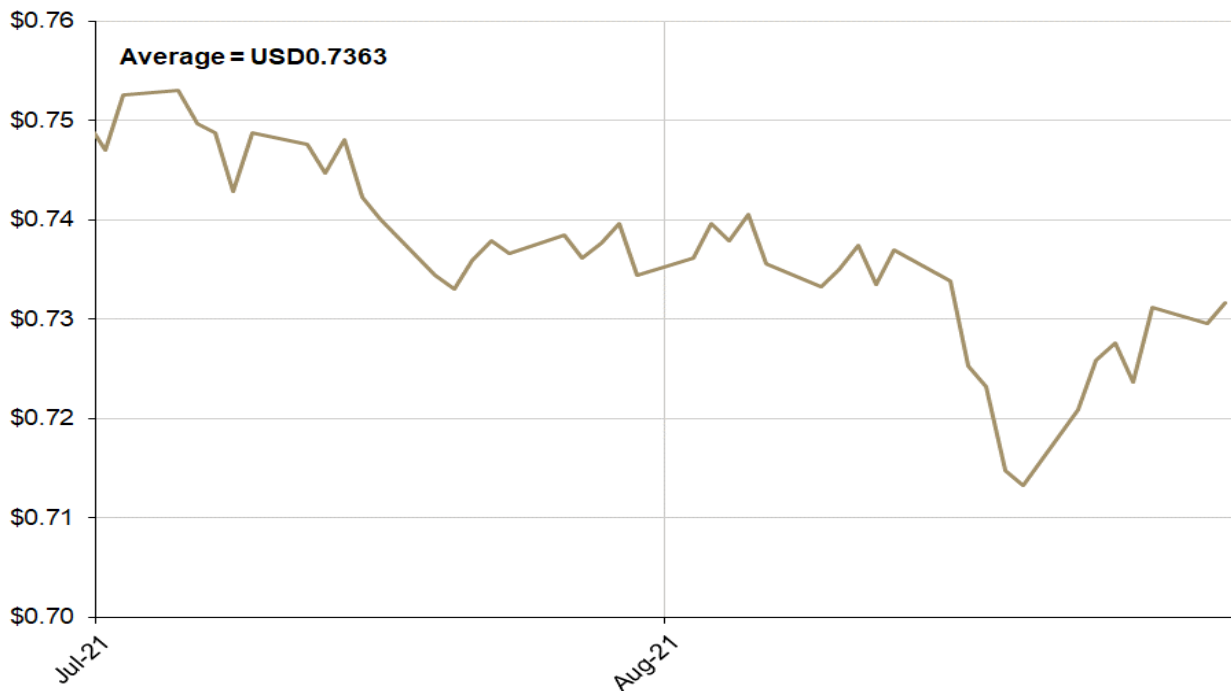
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