

After getting the month off to a rocky start, the Australian dollar rose against almost all the major currencies in May.

The Aussie initially rose after the RBA raised rates, however, it soon slipped close at a near two-year low on 12 May, as commodity prices fell and there was a selloff on global share markets. A turnaround in financial market sentiment and commodity prices, as well as a slide in the USD index from a near 20-year high, saw a rebound in the AUD / USD exchange rate in the second half of May to close 1.6% higher than it started.

The euro was the strongest of the major currencies, driven by a rapid change in market expectations for ECB policy. The European Central Bank is now expected to raise its deposit rate into positive territory in the coming months. This will be the first time the key ECB policy rate has been above zero since 2012.

| Model Expected Value | Present Rate | Expected Value Band |
|----------------------|--------------|---------------------|
| 0.7350 | 0.7177 | 0.7525 – 0.7175 |

The AUD traded between USD0.6856 and USD0.7260 on a close-of-day basis in May and averaged USD0.7055 before closing at USD0.7177. The AUD/USD 2-year Treasury bond spread opened the month at -26pts and moved to +25pts early in the month as the Australian 2-year yield surged while the US 2-year yield fell. However, a fall in the Australian 2-year yield saw the spread move back into negative territory in the second half of May before closing the month at -9pts.

The RBA Board increased the cash rate target by 25 basis points to 0.35% at its meeting in May. The interest rate on the \$421 billion of exchange settlement balances held at the Bank was also raised 25 basis points to 0.25%. The RBA indicated that it will continue to lift interest rates in the period ahead, to ensure inflation returns to target over time. The current RBA forecast is that inflation won't return to the target until the first half of 2024. The RBA also announced it will not be reinvesting the proceeds of maturing government bonds held in its portfolio. This will drain surplus ES balances held at the central bank over time.

A series of cash rate increases are priced in for this year and next, with the cash rate futures market currently pricing in a 2.70% cash rate by the end of 2022 and 3.50% by the middle of 2023.

Elsewhere, the US Federal Reserve raised the fed funds rate corridor by 50bps to 0.75%-1.00% at the FOMC in May, with a 2.65% fed funds rate priced in for the end of 2022. The ECB is also expected to start raising interest rates in July, with 100 basis points of increases to 0.50% priced in over the next six months.

| | Current | Monthly High | Monthly Low | Monthly | 52wk High | 52wk Low |
|---|---------|--------------|-------------|---------|-----------|----------|
| AUD/USD  | 0.7177 | 0.7260 | 0.6856 | 1.6% | 0.7754 | 0.6856 |
| AUD/EUR  | 0.6687 | 0.6832 | 0.6582 | -0.1% | 0.6948 | 0.6100 |
| AUD/GBP  | 0.5695 | 0.5754 | 0.5619 | 1.4% | 0.5796 | 0.5217 |
| AUD/JPY  | 92.37 | 93.70 | 87.96 | 0.8% | 95.28 | 78.37 |
| AUD/CNY  | 4.7813 | 4.7952 | 4.6542 | 2.0% | 4.9665 | 4.4463 |

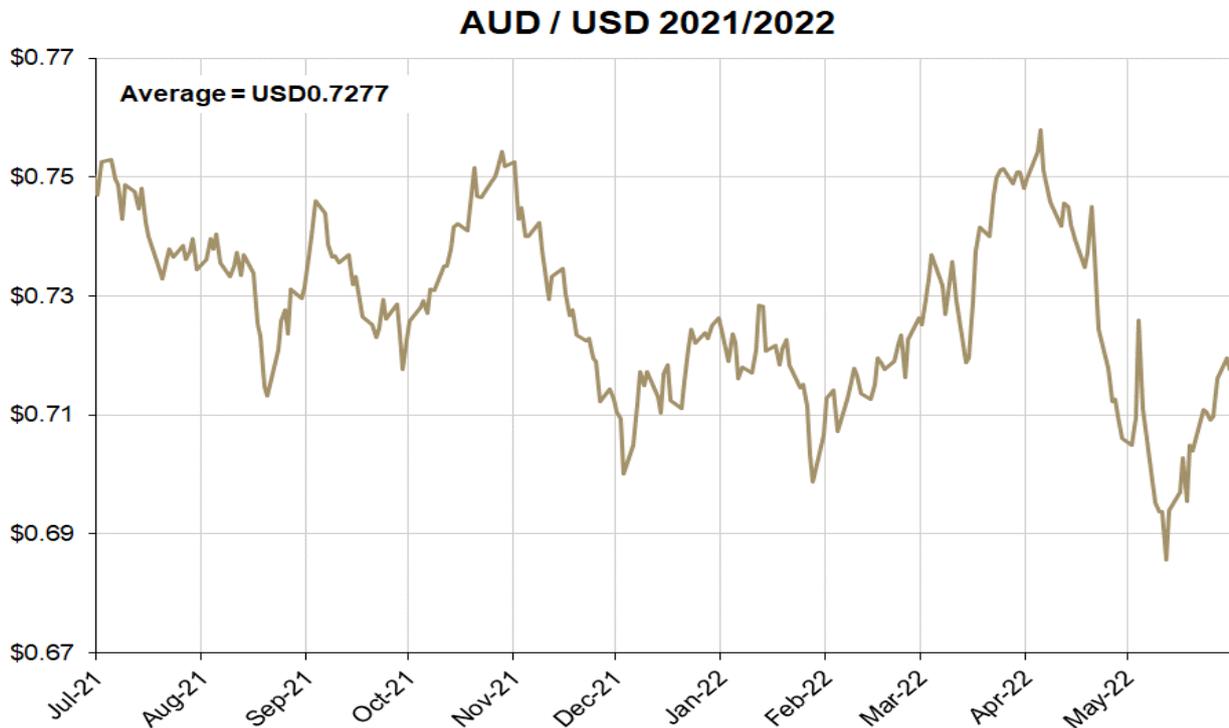
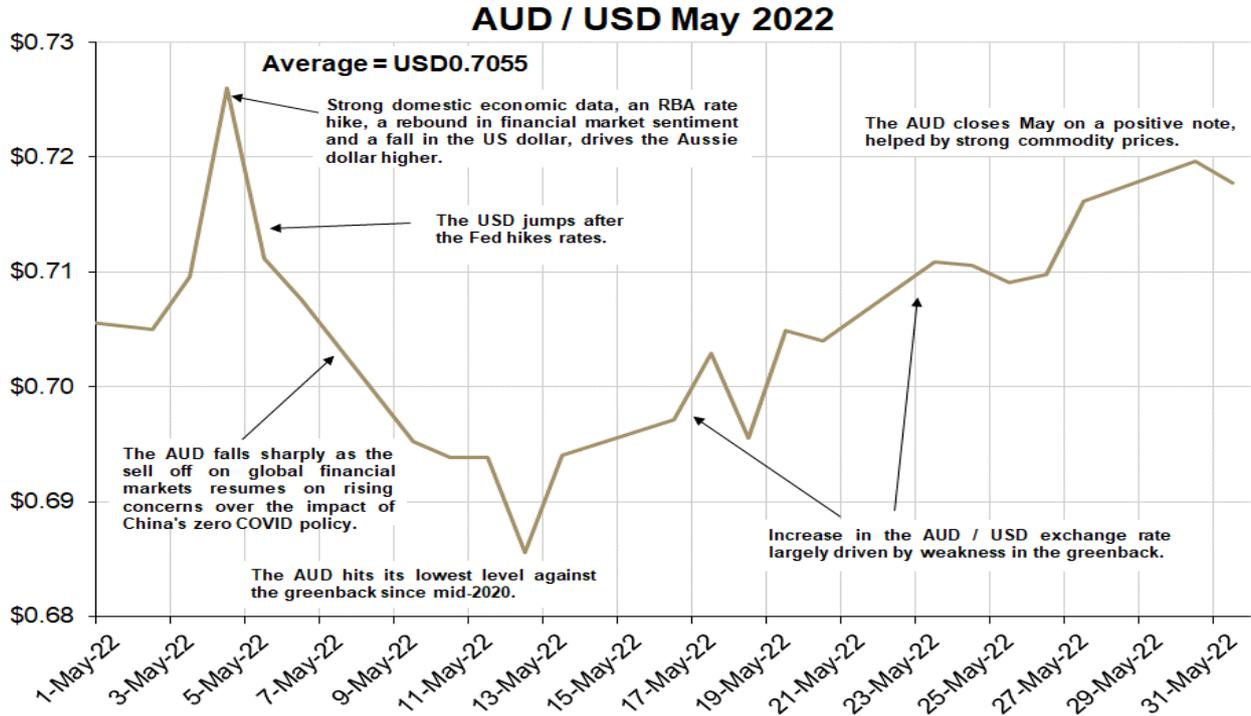
The AUD averaged USD0.7055 in May after averaging USD 0.7361 in April, USD 0.7376 in March and USD0.7168 in February. The AUD has averaged USD0.7277 over the first 11 months of 2021/22 after averaging USD0.7471 in 2020/21.

The RBA Commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, rose to a fresh record high in May. The rural component of the index gained 5.0% and was up 36.1% YoY. Crude oil prices saw strong increases, particularly toward the end of the month on reports the European Union was getting closer to agreeing on a plan to phase out Russian crude oil imports. A compromise agreement to ban seaborne crude oil imports from Russia was made at the end of the month.

| Commodity AUD | 31-May-22 | MoM (%) | YoY (%) |
|-------------------------------------|-------------|---------|---------|
| CRB Index | 440.4 | 1.2% | 65.2% |
| RBA Commodity Price Index | 155.0 | 1.0% | 33.6% |
| Brent Crude | \$166.76 | 10.8% | 87.8% |
| Singapore Gasoil 10 ppm | \$228.99 | 2.3% | 134.9% |
| Gold | \$2,556.50 | -4.5% | 3.7% |
| Singapore Iron Ore Futures (62% Fe) | \$187.87 | -9.0% | -25.4% |
| Nickel | \$39,504.66 | -11.9% | 68.2% |
| Copper | \$13,145.26 | -4.7% | -1.1% |
| Aluminium | \$3,877.84 | -10.0% | 20.5% |

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