

The Aussie dollar got off to a strong start in the month of June, boosted by strong commodity prices and the RBA's first 50 basis point interest rate hike in over 20 years.

The environment soon turned sour, however, as higher-than-expected US inflation and hawkish commentary from the US Federal Reserve that they will do what it takes to bring inflation under control, raised concerns that sharp rate hikes could push the US economy into recession. Global equity markets saw a sharp selloff as a result dragging the Aussie dollar lower, with the currency falling to close to its lowest levels against the greenback since mid-2020.

More broadly, the Aussie was middle of the road over the month among the G10 currencies. All of the members of the basket fell against the stronger greenback, with the exception of the Swiss franc which was boosted by not only its safe haven status but also a surprise interest rate increase from the Swiss National Bank.

Model Expected Value	Present Rate	Expected Value Band
0.6950	0.6903	0.7100 – 0.6800

The AUD traded between USD0.6871 and USD0.7265 on a close-of-day basis in June and averaged USD0.7023 before closing the month at USD0.6903. The AUD/USD 2-year Treasury bond yield spread opened the month at -9pts and moved into positive territory mid-month following a sharp rise in Aussie 2-year yields. However, the spread has since fallen once again into negative territory as Aussie yields fell further than their US counterparts and was -32pts at month end.

The RBA Board increased the cash rate target by 50 basis points to 0.85% at its meeting in June, the first 50 basis point increase since February 2000. The interest rate on the \$420 billion of exchange settlement balances held at the Bank was also raised 50 basis points to 0.75%. 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 Board is expected to raise the cash rate by a further 50 basis points at its July meeting.

A series of cash rate increases are priced in for this year and the first half of next year, with the cash rate futures market currently pricing in a 3.0% cash rate by the end of 2022 and 3.75% by the middle of 2023.

Elsewhere, the US Federal Reserve raised the fed funds rate corridor by 75 basis points to 1.50%-1.75% at the FOMC meeting in June, with a 3.25% fed funds rate priced in for the end of 2022. The ECB is also expected to start raising interest rates in July, with 125 basis points of increases to 0.75% priced in over the next six months.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6903	0.7265	0.6871	-3.8%	0.7579	0.6856
AUD/EUR 	0.6586	0.6759	0.6544	-1.5%	0.6948	0.6647
AUD/GBP 	0.5669	0.5776	0.5623	-0.4%	0.5796	0.5217
AUD/JPY 	93.70	96.54	93.04	1.4%	96.54	78.37
AUD/CNY 	4.6154	4.8285	4.6066	-3.5%	4.8679	4.4463

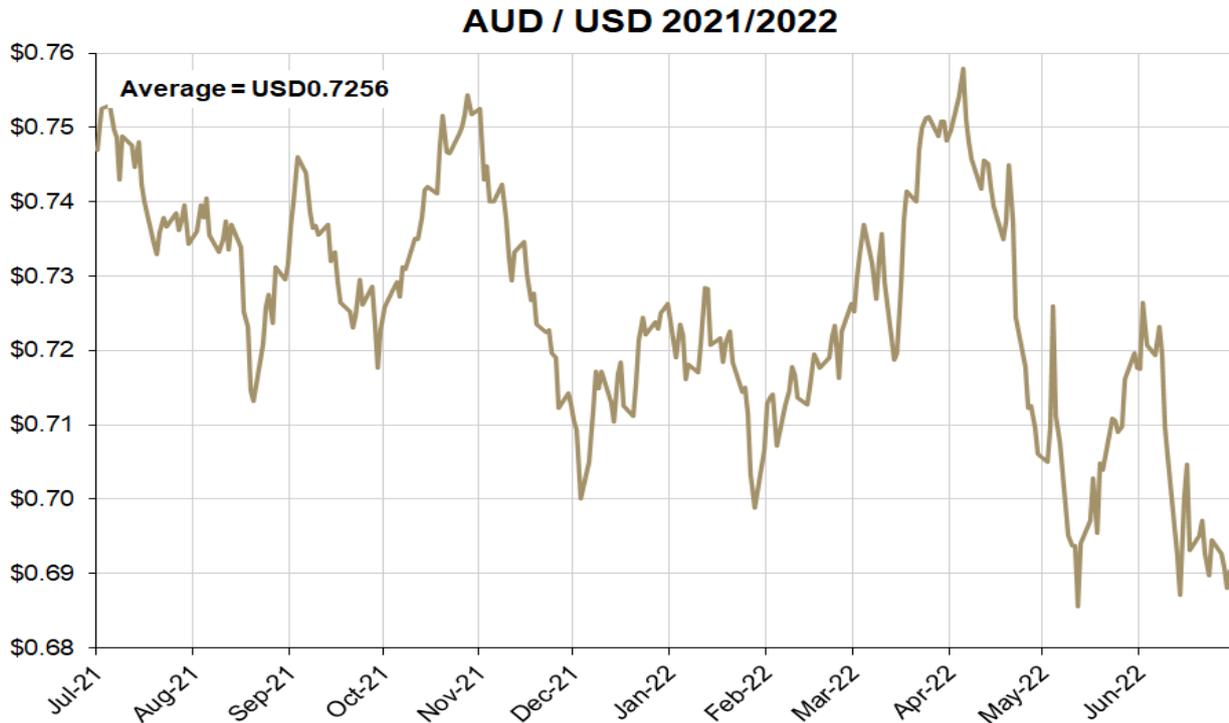
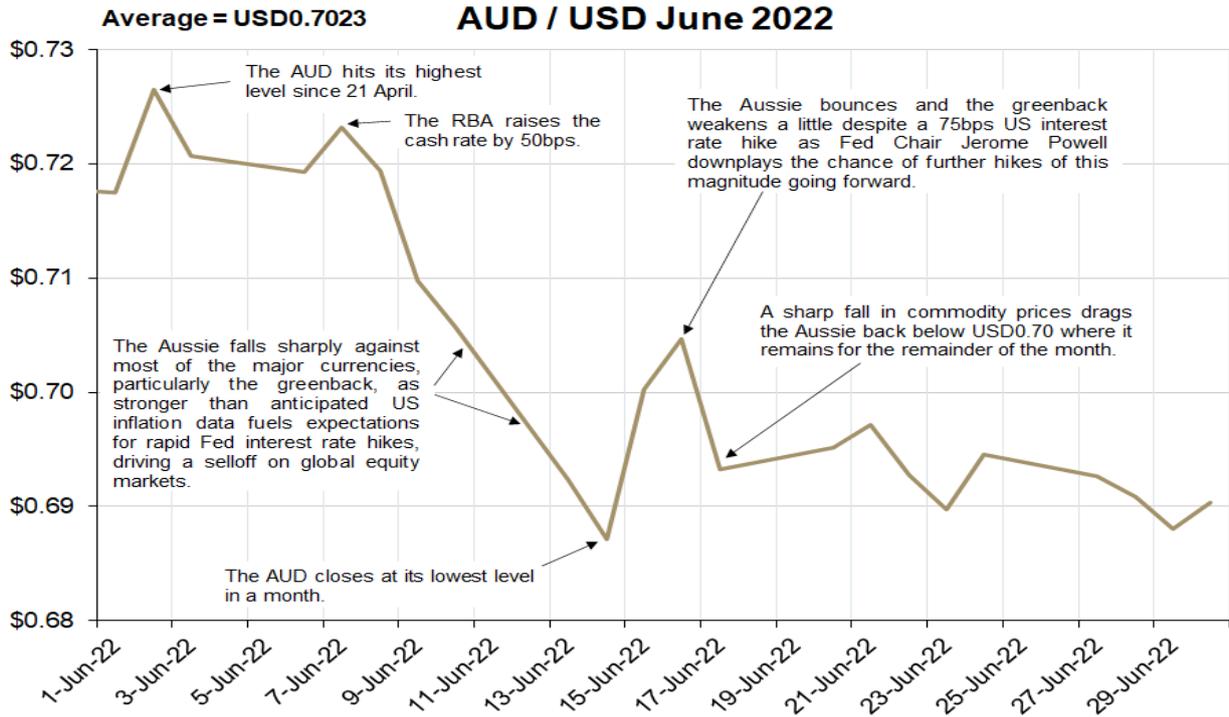
The AUD averaged USD0.7023 in June after averaging USD0.7055 in May, USD 0.7361 in April and USD 0.7376 in March. The AUD averaged USD0.7256 in 2021/22 after averaging USD0.7471 in 2020/21.

The RBA commodity price index, which is designed as an indicator of prices received by Australian commodity exporters, fell for the second month in a row in June, but was still 26.2% higher than it was a year ago. The rural goods component fell 4.5% from a record high in May, while the bulk commodity price index based on spot prices fell 9.1% in the month. Petroleum prices remain elevated due to supply constraints, largely as a result of the ongoing war in Ukraine.

Commodity AUD	30-Jun-22	MoM (%)	YoY (%)
CRB Index	421.2	-4.4%	48.0%
RBA Commodity Price Index	157.7	-1.6%	26.2%
Brent Crude	\$166.44	-0.2%	66.1%
Singapore Gasoil 10 ppm	\$229.32	0.1%	113.6%
Gold	\$2,614.68	2.3%	10.7%
Singapore Iron Ore Futures (62% Fe)	\$172.80	-8.0%	-38.7%
Nickel	\$32,838.54	-16.9%	35.2%
Copper	\$11,947.34	-9.1%	-4.5%
Aluminium	\$3,538.05	-8.8%	5.1%

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