

The Australian dollar posted its first monthly gain against the US dollar in four months in January and was one of the strongest members of the G10 currency basket behind only the Japanese yen and the New Zealand dollar.

The AUD/USD exchange rate experienced several bouts of volatility in January. Much of the positivity was driven by easing concerns over an immediate increase in US trade tariffs as US President Donald Trump indicated a more careful approach to import tariffs than his previous rhetoric had indicated. Although, since the end of the month, President Trump has implemented a snap increase in tariffs on Canada, Mexico, and China, which pushed the exchange rate sharply lower on the first trading day of February.

It was the economic news that weighed on the AUD/USD at various stages during January. Initially, the Australian monthly CPI increased November, saw an increase in expectations for a February interest rate cut by the RBA, while a solid US employment report saw traders wind back their pricing for Fed rate cuts in 2025, pushing the US dollar index to a two-year high.

A mid-month recovery was followed by a renewed fall late in the month as the soft Aussie Q4 CPI saw traders almost fully price in a cash rate cut in February, pushing the Aussie dollar lower again.

Model Expected Value	Present Rate	Expected Value Band
0.6650	0.6218	0.6475 – 0.6825






The Australian dollar traded between US\$0.6147 and US\$0.6314 on a close-of-day basis in January, and averaged US\$0.6229, before closing the month at US\$0.6218. The AUD averaged US\$0.6554 over the first seven months of 2024-25, after averaging USD0.6557 in 2023-24.

The spread between the Australian 2-year Treasury bond yield and the US 2-year Treasury bond yield widened a little to -40bps at the end of January, after starting the month at -38bps, averaging -38pts through the month.

The RBA Board did not meet in January, however, the change to a more dovish message in its December communication and softer-than-expected Q4 CPI figures saw traders move to price in over a 90% expectation for a 25 basis point cash rate cut at its February meeting, from 70% at the end of December. Pricing for the total amount of cash rate cuts in 2025 remained relatively steady at around 80 basis points.

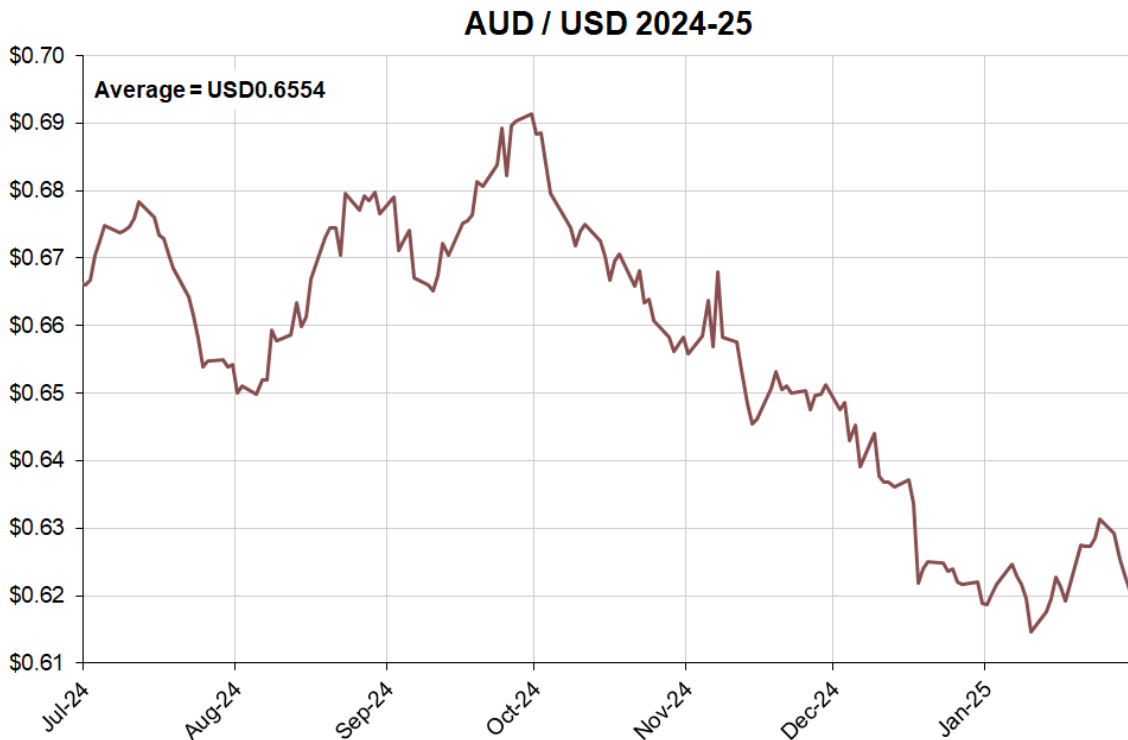
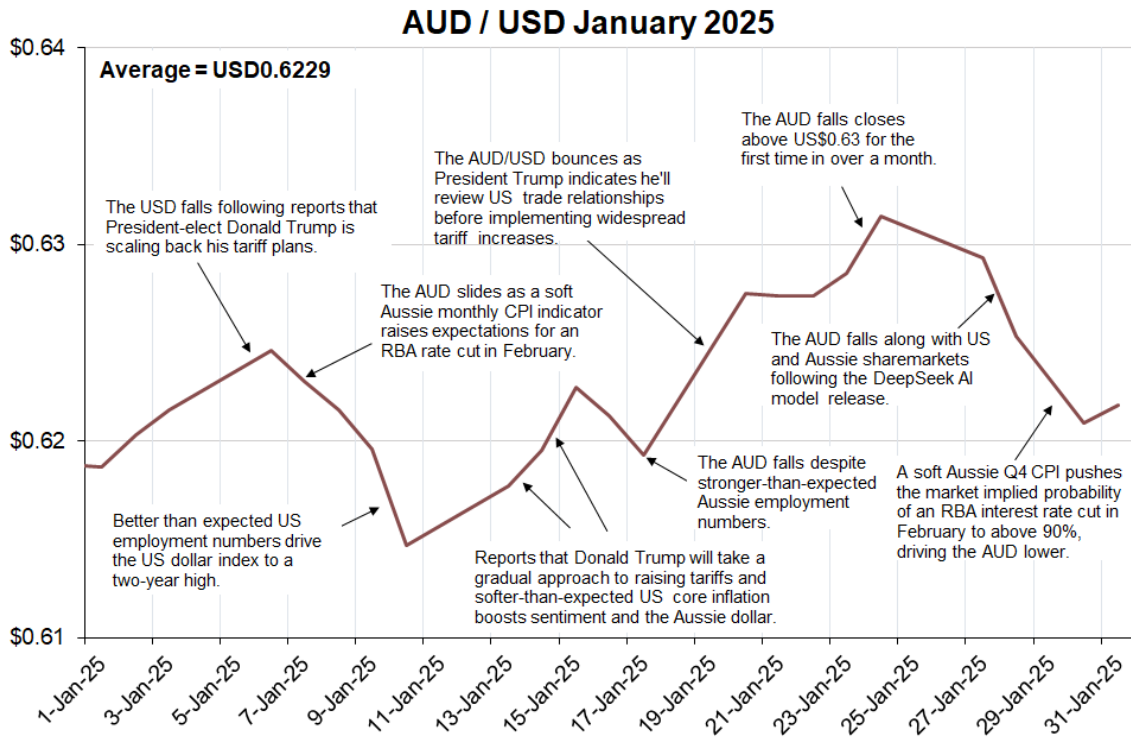
In the US, the Federal Reserve kept its fed funds rate corridor unchanged at 4.25-4.50% at the December FOMC meeting, after cutting rates by a total of 100 basis points over the previous three meetings. Current market pricing is for a further 47 basis points of cuts over the course of 2025.

Almost all G10 central banks are expected to continue cutting their policy interest rates in 2025, except for the Bank of Japan which is expected to continue raising interest rates from what are still very low levels.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6218	0.6314	0.6147	0.5%	0.6913	0.6147
AUD/EUR 	0.5994	0.6051	0.5976	0.3%	0.6240	0.5932
AUD/GBP 	0.5012	0.5094	0.4946	1.3%	0.5286	0.4942
AUD/JPY 	96.40	98.51	95.80	-0.9%	109.10	93.67
AUD/CNY 	4.5044	4.5785	4.5044	-0.2%	4.9219	4.5044

Commodity prices climbed in January, with the CRB Index - a broad indicator of commodity prices - climbing to a record high in Aussie dollar terms on 15 January before easing in the second half of the month. The RBA's commodity pricing index - designed as an indicator of prices received by Australian exporters - rose for the fourth month in January. The benchmark iron ore futures price closed January at a seven-month high, while Brent crude oil rose to its highest level since late April 2024 in Aussie dollar terms, before falling back.

Commodity AUD	31-Jan-25	MoM (%)	YoY (%)
CRB Index	487.5	1.6%	18.0%
RBA Commodity Price Index	83.3	1.1%	-8.2%
Brent Crude	\$122.70	1.7%	-4.7%
Singapore Gasoil 10 ppm	\$147.10	0.1%	-7.6%
Gold	\$4,473.16	5.4%	44.6%
Singapore Iron Ore Futures (62% Fe)	\$169.80	4.0%	-14.5%
Nickel	\$24,312.66	-1.9%	-1.4%
Copper	\$14,462.92	2.0%	10.8%
Aluminium	\$4,146.42	0.5%	19.9%



03 February 2025