

The Australian dollar fell against the US dollar for the third month in a row in December, closing the month at its lowest level since the pandemic selloff in early 2020.

Trade in the AUD/USD was heavily influenced by central bank communication. The RBA Board kept the cash rate unchanged in December but took a surprisingly dovish turn in its post-meeting media statement and Board meeting minutes, acknowledging that some of the upside risks to inflation appear to have eased and the downside risks have strengthened. In the US, the Fed cut the fed funds rate as expected but FOMC participants revised their 2025 inflation and interest rate projections higher.

The AUD/USD exchange rate remains well below our model expected value, having parted ways with it in the aftermath of Donald Trump's win in the US presidential election, which has driven a sharp increase in economic uncertainty as we move into 2025. This has been especially hard on the Australian dollar, given President-elect Trump's threats to increase tariffs on imports, particularly on Chinese goods, and the Aussie dollar's status among some market participants as a proxy for exposure to the Chinese economy.

While part of the decline in the AUD/USD was driven by US dollar strength which saw the USD index close the month at a two-year high, the Aussie was also weaker against almost all the other members of the G10 trading basket, except for the New Zealand dollar, which continues to be weighed down by a soft Kiwi economy and expectations for a further 125bps of cash rate cuts in 2025.

Model Expected Value	Present Rate	Expected Value Band
<b>0.6600</b>	0.6188	0.6450 – 0.6750






The Australian dollar traded between US\$0.6188 and US\$0.6486 on a close-of-day basis in December, and averaged US\$0.6325, before closing at its low. The AUD has averaged US\$0.6610 over the first six 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 to -38bps at the end of December, after starting the month at -20bps, as the two-year Aussie yield fell 9bps while the two-year US yield rose 9bps, reflecting the change in central bank interest rate expectations in both countries.

The RBA Board kept the cash rate target unchanged at 4.35% and the rate it pays on exchange settlement balances at 4.25% at its December meeting. As well as saying that the upside risks to inflation have diminished, the minutes also highlighted that employment growth has been driven by the non-market sector (those areas dominated by government spending) in recent quarters and the risks to employment and wages growth if non-market sector hiring slowed more sharply than anticipated.

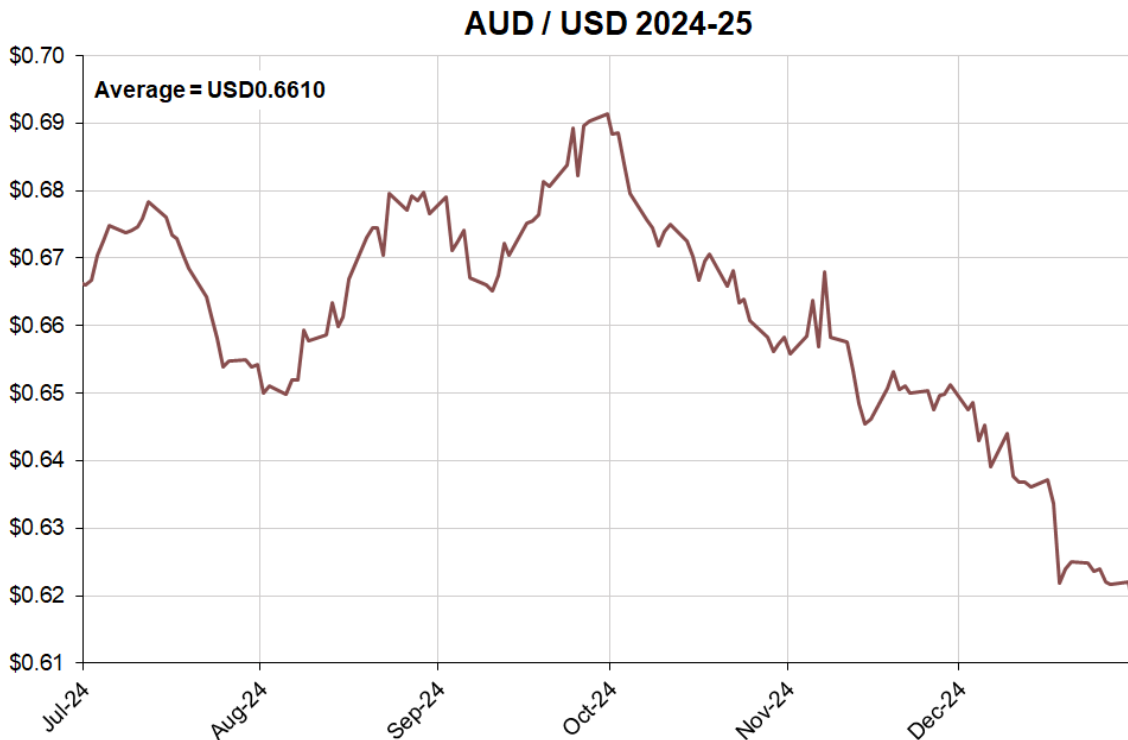
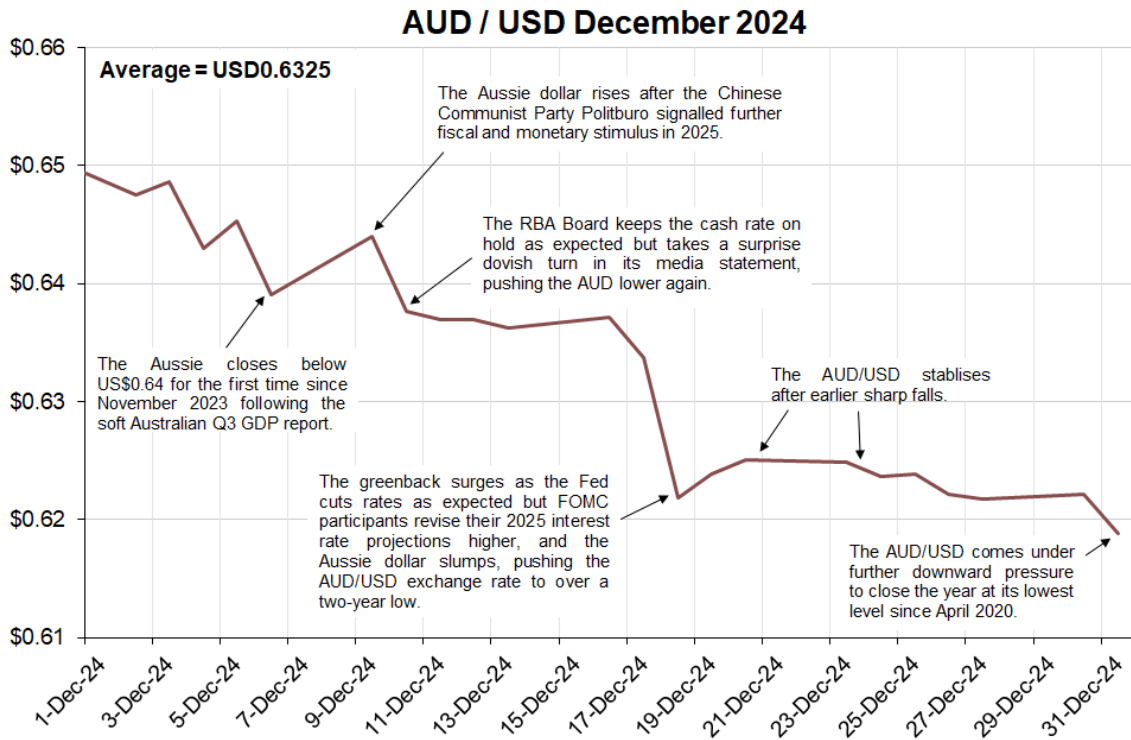
The futures market is currently pricing in a 70% implied probability of a 25bps RBA interest rate cut at the RBA Board's first meeting concluding 18 February, with a cut fully priced in for the following meeting at the beginning of April. There are 81bps of cuts priced in by the end of 2025.

In the US, the Fed cut its fed funds rate corridor by a further 25bps to 4.25-4.50% at the December FOMC meeting, however the market was surprised by upside revisions to the inflation and interest rate projections. The median FOMC projection is now for a further 50bps of cuts in 2025, down from a 100bps at the September meeting. The futures market is currently not fully pricing in the next 25bps cut until June and a total of 43bps of cuts are priced in by the end of 2025.

	Current	Monthly High	Monthly Low	Monthly	52wk High	52wk Low
AUD/USD 	0.6188	0.6486	0.6188	-5.0%	0.6913	0.6188
AUD/EUR 	0.5977	0.6171	0.5962	-3.0%	0.6240	0.5932
AUD/GBP 	0.4945	0.5118	0.4942	-3.3%	0.5359	0.4942
AUD/JPY 	97.29	98.28	95.87	-0.2%	109.10	93.67
AUD/CNY 	4.5128	4.7302	4.5128	-4.5%	4.9219	4.5128

Commodity prices climbed against the weaker Aussie dollar in December, with the RBA A\$ commodity price index climbing for the third month in a row. Iron ore futures rose for the fourth month in a row in AUD terms, largely due to weakness in the Aussie dollar. The AUD price of gold hit fresh record highs before easing and oil prices closed at the highest level since August.

Commodity AUD	31-Dec-24	MoM (%)	YoY (%)
CRB Index	479.7	9.0%	24.3%
RBA Commodity Price Index	82.1	3.1%	-7.4%
Brent Crude	\$120.68	7.9%	-2.6%
Singapore Gasoil 10 ppm	\$146.97	8.8%	1.9%
Gold	\$4,243.33	4.7%	40.6%
Singapore Iron Ore Futures (62% Fe)	\$163.25	1.7%	-20.3%
Nickel	\$24,782.54	1.6%	2.0%
Copper	\$14,176.23	2.6%	13.2%
Aluminium	\$4,125.30	3.7%	18.3%



02 January 2025