

January FX Markets Monthly Review

Month in review

Key developments

- The US dollar strengthened against all the G10 currencies over January as US bond yields rose on expectations that the US Federal Reserve (the Fed) may not start easing policy as early as the markets had initially expected.

Australian Dollar (AUD)

The AUD/USD exchange rate depreciated 2.99 per cent in January to 0.6609, though did fall as low as 0.6525 mid-way through the month. The weakness in the Australian dollar was largely driven by the broad-based strength in the US dollar (details below) as well as a softer inflation report. The Q4 Consumer Price Index report saw headline inflation ease to 4.1 per cent year-on-year (from 5.4 per cent year-on-year), while underlying inflation (as measured by the RBA's preferred inflation gauge, the trimmed mean) slowed to 4.2 per cent (from 5.2 per cent). This marks a fourth consecutive quarter of lower annual inflation, with headline inflation down notably from its Q4 2022 peak of 7.8 per cent.

US Dollar (USD)

The US Dollar strengthened against all major currencies during the month. US government bond yields rose across the curve from the middle of the month as market pricing for the Fed to start cutting policy rates eased. Markets had priced the first 25-basis point cut from the Fed as early as March, though this has now shifted to May. The change in pricing came following numerous comments from various Fed officials that rate cuts in the first quarter were too soon, citing the uncertain inflation outlook.

Euro (EUR)

The EUR/USD exchange rate depreciated 1.68 per cent in January. Commentary from European Central Bank (ECB) officials has been particularly mixed over the month, with some policymakers calling for rate cuts as early as Q1, while others (including ECB President Lagarde) have suggested it was premature to discuss rate cuts at this stage.

Great British Pound (GBP)

The GBP/USD exchange rate depreciated 0.1 per cent over the month, making it the *least worst* performer against the US dollar among the major currencies. The relative strength of the GBP (compared to other non-US dollar G10 currencies) came as the annual pace of UK inflation remained elevated (and even accelerated by some measures), surprising the market which had expected price increases to ease. The persistence of higher inflation in the UK could see the Bank of England keep rates higher for longer.

Japanese Yen (JPY)

The Japanese Yen was the worst G10 performer against the US dollar, depreciating 3.73 per cent in January. The weakness in the Yen was driven by the on-going commitment of the Bank of Japan to maintain its ultra-easing policy settings at its January policy meeting, with this supported by an easing in the annual pace of Japan's Core CPI.

Market data

	SPOT RATE	ONE MONTH % CHANGE	ONE YEAR % CHANGE
AUSTRALIAN DOLLAR			
AUD/USD	0.6609	-2.99%	-2.56%
AUD/EUR	0.6086	-1.33%	-4.26%
AUD/JPY	96.68	0.63%	8.03%
AUD/GBP	0.5192	-2.89%	-7.91%
AUD/NZD	1.0741	-0.21%	0.15%
AUD/CAD	0.8835	-1.60%	-3.86%
AUD/CHF	0.5674	-1.16%	-9.57%
AUD/SEK	6.8335	-0.18%	-3.32%
AUD/HKD	5.1668	-2.89%	-2.41%
AUD/SGD	0.8836	-1.74%	-2.88%
AUD/INR	54.88	-3.23%	-2.26%
AUD/KRW	880.11	-0.38%	3.16%
AUD/TWD	20.62	-1.29%	-1.18%
AUD/IDR	10414	-0.81%	-0.87%
AUD/CNY	4.6889	-2.77%	0.23%
MAJOR CURRENCIES			
EUR/USD	1.0860	-1.68%	1.78%
GBP/USD	1.2729	-0.10%	5.82%
USD/JPY	146.28	3.73%	10.87%
USD/CHF	0.8585	1.89%	-7.20%
USD/CNY	7.0943	0.22%	2.86%

Central bank policy rates

	CURRENT RATE	ONE MONTH CHANGE	ONE YEAR CHANGE
Reserve Bank of Australia	4.35%	0 bps	125 bps
US Federal Reserve	5.50%	0 bps	100 bps
European Central Bank	4.00%	0 bps	200 bps
Bank of England	5.25%	0 bps	175 bps
Bank of Japan	-0.10%	0 bps	0 bps
Reserve Bank of New Zealand	5.50%	0 bps	125 bps

Market Data Source: *Macrobond*

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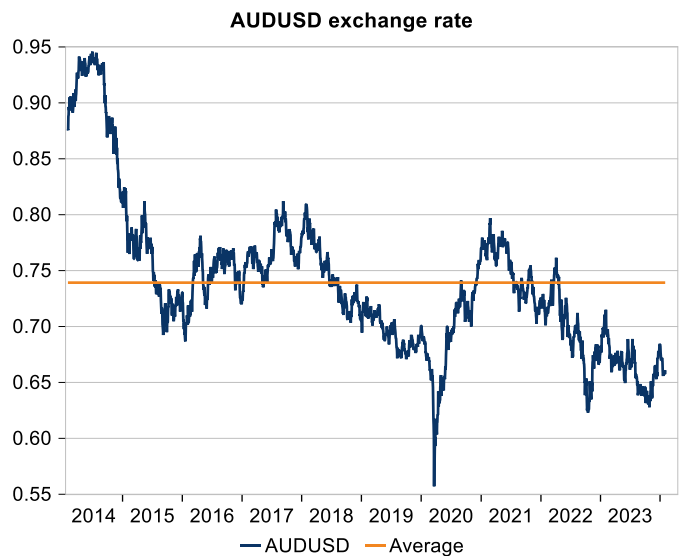
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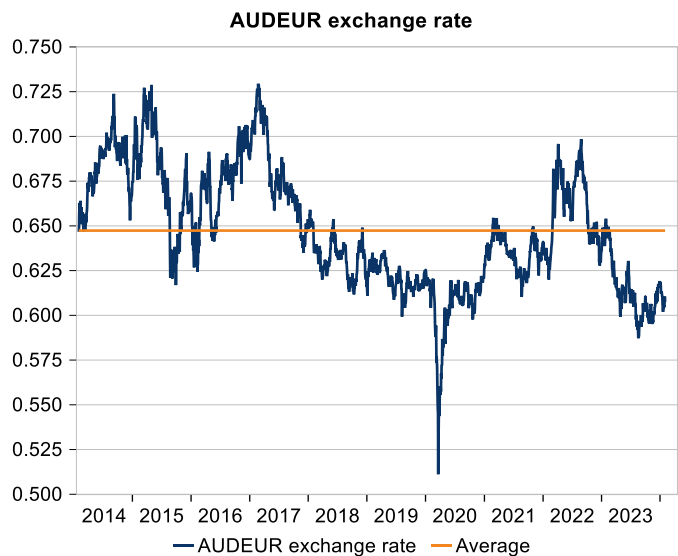
Foreign Exchange Market Charts

AUD/USD



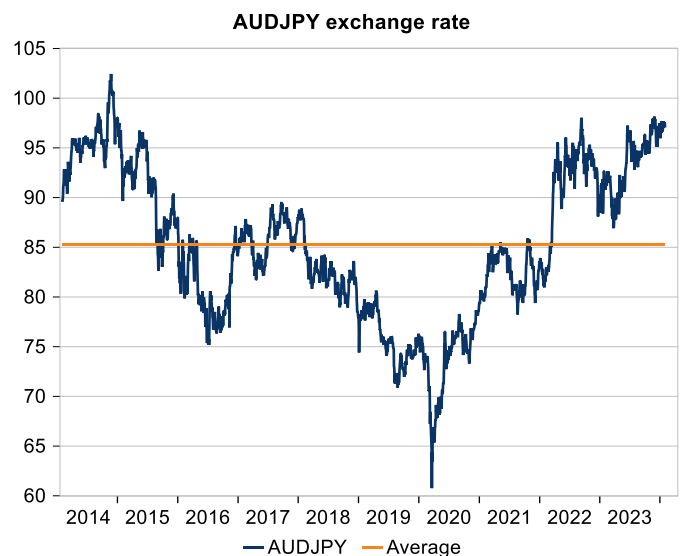
Source: Reserve Bank of Australia, QTC, Macrobond

AUD/EUR



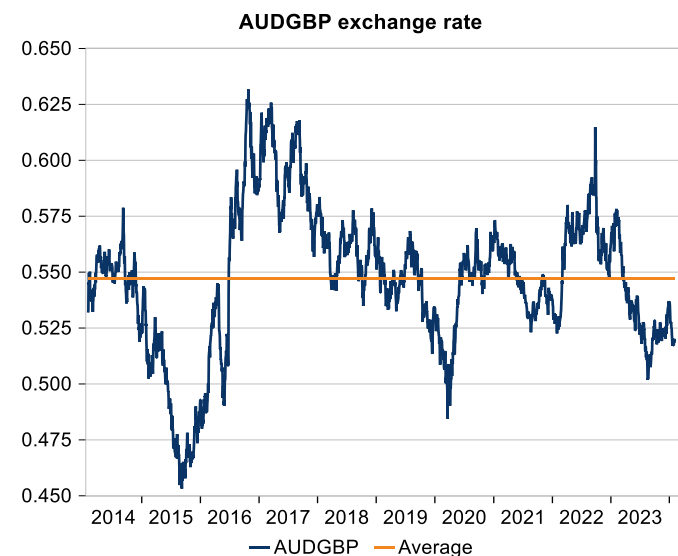
Source: Reserve Bank of Australia, QTC, Macrobond

AUD/JPY



Source: Reserve Bank of Australia, QTC, Macrobond

AUD/GBP



Source: Reserve Bank of Australia, QTC, Macrobond

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