



UOB Investment Insights

FX Insights

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Don't give up on the AUD yet

- The decline in Australian dollar (AUD) is spurred mainly by a broad-based rally in the US dollar (USD)
- AUD may draw support from Reserve Bank of Australia (RBA) and commodity prices
- We continue to maintain a positive outlook on AUD/ USD

The AUD has slumped over 5% against the USD in April to finish the month at around 0.71, the lowest in three months. The weakness is spurred mainly by a broad-based rally in the USD as the Federal Reserve (Fed) signaled larger-than-usual rate hikes of 50 bps, together with risk aversion which dented sentiments on risk currencies such as the AUD.

Going forward, AUD may draw support from an increasingly hawkish Reserve Bank of Australia (RBA) and commodity prices. Once considered one of the Developed Markets' remaining doves, the RBA surprised markets with a larger than expected rate liftoff of 25 bps to 0.35% in early May in a bid to tame surging inflation. More rate hikes are probably on the way as interbank cash rate futures are pricing for the RBA to raise cash rate to 2.75% by year's end. If this comes to pass, the RBA will match the Fed's pace of monetary tightening and AUD/USD may start to pare recent declines. Another factor underpinning AUD/USD is commodity prices which are expected to stay high given the supply side disruptions caused by the Russia-Ukraine conflict.

Overall, we keep to our positive outlook of AUD/USD and expect the currency pair at 0.75 by year's end. A strong support level in the near term is at 0.70 which had held declines in last December and January.



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