Citi Wealth

Asia Pacific *Regional Publication*

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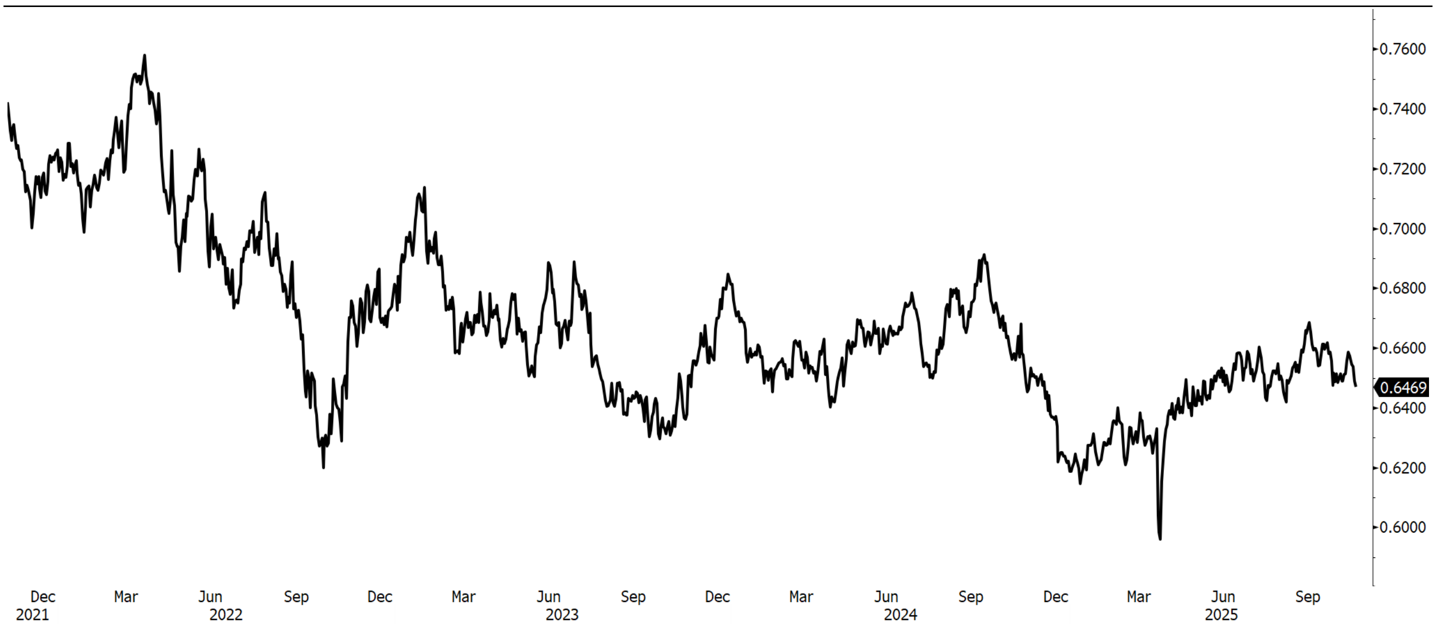
13 November, 2025

FX Focus: Broad-based AUD resilience may Continue

AUD is finding renewed support especially on non-USD crosses from the hawkish tone of the Reserve Bank of Australia's (RBA) Statement on Monetary Policy (SMP) following the November board meeting. The more hawkish tone is not surprising given the strength of the recently released Australian Q3 CPI and suggests the RBA's rate cut cycle may be done this year.

- The AUD has been the best performer on non-USD crosses in 3Q25 for three key reasons:
    - A limited RBA rate cut cycle relative to its G10 peers (just two 25bp cuts) amid signs that Australia's growth has troughed and underlying inflation is not moving as expected towards the middle of the target band due to a tight labor market
    - Strong terms of trade support from stable iron ore prices. Iron ore is Australia's largest commodity export to China and accounts for ~20% of total exports
    - AUD's correlation with a strengthening CNY
- The RBA SMP isn't surprising because of Australia's Q3 CPI and its tight labor market, accelerating house prices and its feed-through to inflation and ongoing supply side issues. RBA forecast revisions in November show Australia's underlying inflation now running at 3.2% to year-end 2025, above the RBA's 2-3% tolerance band with the increase reflecting "slightly more capacity pressure in the economy than previously thought".
- The RBA SMP also notes that, taking financial conditions into account, cash rates are "closer to neutral estimates". This is a shift from the Bank's previous view that policy rates were slightly restrictive. Following RBA's November board meeting, AUD rates now (belatedly) discount a 60% probability of just one more 25 basis point cut from 3.60% and that too by mid-2026. However, several market analysts expect no further rate cuts from the RBA.
- The more hawkish RBA rates outlook has translated to stronger support for AUD especially against its non-USD peers such as NZD, CAD, GBP, EUR and SGD, many of whom still look toward a further easing in financial conditions against the backdrop of continuing disinflationary headwinds from both domestic and external sources. Against NZD for example, AUD now trades at a 12-year high near 1.1500.
- But against the USD, its gains have recently stalled after a late October high of 0.6618. This is largely due to the tactical bid flowing into USD following a slightly more hawkish Fed Chair Powell at the November FOMC meeting which has led markets to revise up Fed rate cut forecasts (albeit modestly). This has led to USD facing fewer headwinds than earlier this year with markets also having become more sensitized to the Trump administration's global tariff policy and the US budget gap.
- Still, expectations for a deeper Fed rate cut cycle (100bp of cuts to end-2026) compared to its peers remain even if they have been culled somewhat at the margin. Should the Fed follow through with such cuts, the resulting narrowing in rate differentials will likely make AUD even more resistant to renewed weakness against USD. On the flip side though, further gains in AUDUSD from the current 0.6450 – 0.6650 area will likely need the support of more strengthening in CNY and resilience in Australia's terms of trade.
- CNY has strengthened by ~2.5% against USD since the start of 2025 under the PBoC's guidance which is to maintain stability of capital flows amid an anemic domestic recovery and trade and tariff uncertainty. This suggests gains in CNY may continue but likely at a slower pace than earlier in the year as USDCNY approaches the key 7.00 level.
- For AUDUSD to rise above 0.70, it would likely require the combination of – (1) the RBA maintaining its "no change" stance on rates, (2) the Fed to follow through with the deeper rate cut cycle discounted into USD rates, (3) resilience in Australia's terms of trade, and (4) AUD retaining its strong correlation with a strengthening CNY even if the pace of gains are slower than earlier in the year.

FIGURE 2: AUDUSD appears to have bottomed since early 2025



Source: Bloomberg, November 3, 2025. **Past performance is no guarantee of future results.** Real results may vary.

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