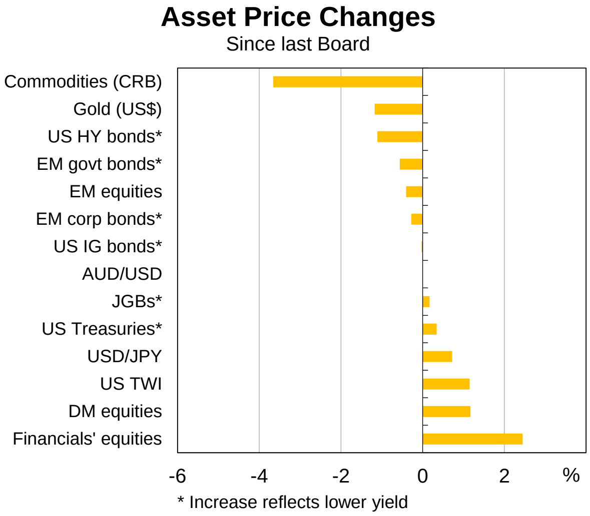
Summary



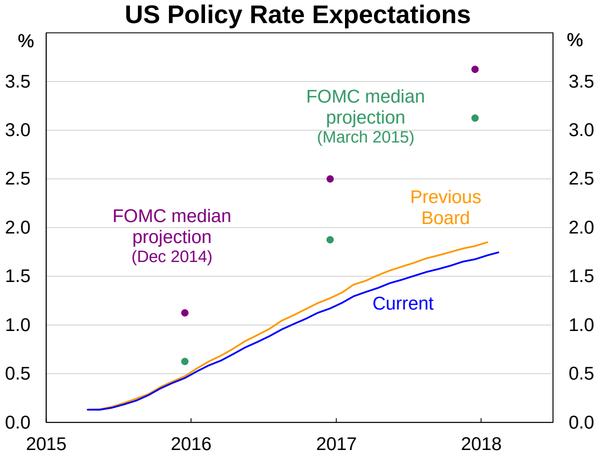
- At its March meeting the Federal Reserve removed its assurance that it will be 'patient' in beginning to normalise the stance of monetary policy. This opens up the option of a rate rise at any future meeting, although it was noted that this was unlikely to occur at the April meeting. There were notable downward revisions to FOMC member projections for the federal funds rate, reflecting lower forecasts for the natural rate of unemployment, inflation and GDP. Nevertheless, the market-implied path of the federal funds rate remains well below the median FOMC projection.
- The European Central Bank (ECB) began its sovereign bond purchase program this month. These and its other asset purchases, combined with a larger-than-expected TLTRO disbursement, have resulted in a significant expansion of the ECB's balance sheet over March to date. Yields on (non-Greek) euro area government debt fell following the launch of sovereign bond purchases, with German bonds outperforming, while yields on euro area quasi-government debt are currently below zero.
- A number of other central banks eased policy in the month. Most notably, Sweden's Riksbank lowered its policy rate to −0.25 per cent and announced that it would purchase a further SEK30 billion of government bonds by mid May; the central banks of India, South Korea, Thailand and Russia also eased policy.
- Yields on Greek government debt increased as little visible progress has been made on implementing its required reform agenda. The Greek government also introduced anti-poverty legislation without consultation and against its agreement with the Institutions. It looks increasingly likely that Greece will not receive assistance funds soon, heightening concerns that it may not be able to meet its creditor and expenditure commitments later this month or in early April. Deposit outflows from Greek banks continue, with reliance on emergency liquidity assistance (ELA) from the Eurosystem around €4 billion below the current cap set by the ECB.
- European and Japanese equities have risen considerably over the month, to be at multi-year highs. The increase in share prices in the euro area has been driven by declines in euro area sovereign bond yields and a marked depreciation in the euro, while strength in Japanese share prices has occurred following generally better-than-expected corporate earnings. Meanwhile, US share prices were little changed as energy stocks underperformed alongside a further fall in oil prices.
- The US dollar has appreciated by around 1 per cent on a trade-weighted basis over the month while the Japanese yen has been little changed. The commencement of the ECB's sovereign bond purchase program has seen the euro depreciate by around 2 per cent on a trade-weighted basis over the month and has been accompanied by the depreciation of a number of other European currencies against the US dollar. Volatility in the main developed market currencies has increased over the month.
- Most other Asian and emerging market currencies have depreciated against the US dollar over the month. The depreciation has been most pronounced for the Brazilian real, while Eastern European currencies have generally depreciated in line with the euro with the key exceptions of the Russian rouble and Ukrainian hryvnia. The Chinese renminbi was another notable exception, appreciating by around 1 per cent against the US dollar over the month.
- The Australian dollar has been little changed against the US dollar and on a trade-weighted basis over the month, notwithstanding further declines in key commodity prices.

Central Bank Policy

At its March meeting the Federal Reserve removed its assurance that it would remain 'patient' in beginning to normalise the stance of monetary policy, opening up the option of a rate rise at any future meeting. However, it stressed that the change in forward guidance is not an indication that the timing of the first rate increase has been decided, and highlighted that this was unlikely to occur at the April meeting.

Federal Open Market Committee (FOMC) members' projections for the path of the federal funds rate were revised down notably in March, reflecting lower forecasts for the natural rate of unemployment, inflation and GDP. The future path of the federal funds rate implied by market pricing flattened modestly in response, though the first rate rise is still priced in for around September this year. Market expectations for the federal funds rate beyond this remain well below the median FOMC projection, particularly in 2017 where the market-implied level is below the most pessimistic FOMC member's projection.

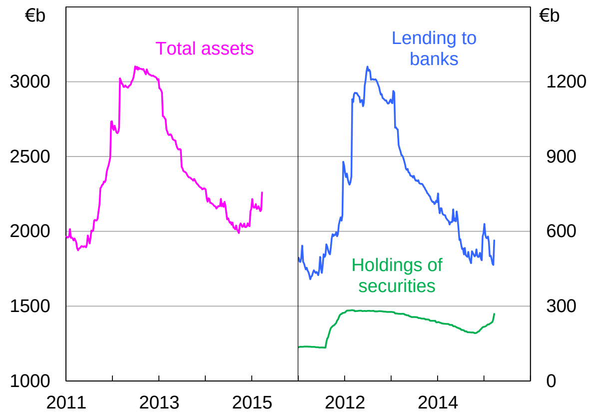
US Policy Rate Expectations



Sources: Bloomberg; Board of Governors of the Federal Reserve System; RBA

The European Central Bank's (ECB) balance sheet has expanded significantly over March to date, completely reversing the contraction over the first two months of this year. The increase this month was primarily driven by a much larger-than-expected €98 billion disbursement of TLTRO funds, bringing the total extended to date under this program to €310 billion. The ECB's holdings of securities also increased by around €35 billion as it commenced sovereign and supranational bond acquisitions under the Public Securities Purchase Program (PSPP) and continued to purchase covered bonds and asset-back securities. The ECB also provided additional details of the PSPP, noting that it will not purchase bonds with yields below −0.2 per cent (the rate it pays on deposits).

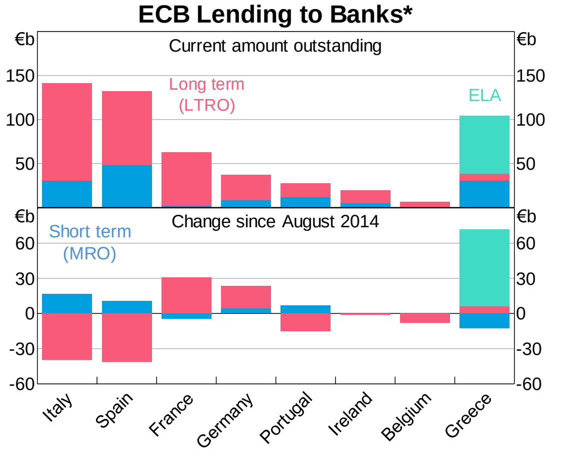
European Central Bank Balance Sheet



Source: European Central Bank

Partial country-level data show that Italian and Spanish banks appear to have largely rolled maturing 3-year LTRO funding into TLTROs and other facilities, while French and German banks were also large borrowers at the December TLTRO. As a result, borrowing by Italian and Spanish banks declined by just €50 billion from end-August to end-February, while borrowing by French and German banks increased by €25 billion each. Lending to Greek banks, mostly in the form of emergency liquidity assistance (ELA), has increased markedly in response to a shortage of funding from private sources, rising by €60 billion over the past three months (see Greek Financial Markets).

ECB Lending to Banks*



* End February
Sources: Central banks; RBA

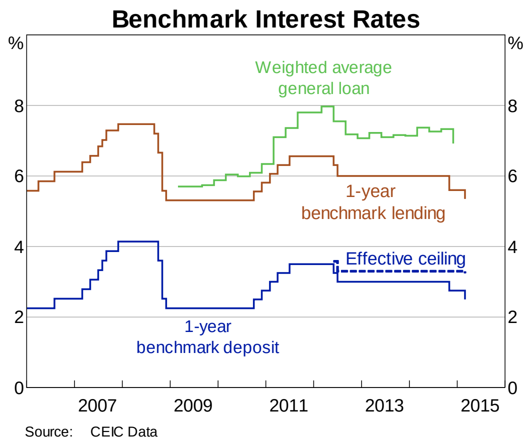
The Bank of Japan's (BoJ) balance sheet continues to expand rapidly, in line with its projections. BoJ holdings of Japanese government bonds have increased by around ¥15 trillion over the year to date, to around 26 per cent of the stock outstanding.

At an unscheduled meeting, Sweden's Riksbank lowered its policy rate by a further 15 basis points to −0.25% and announced that it will purchase SEK30 billion of government bonds by mid May, in addition to the SEK10 billion of bonds already bought over the past month. Together these purchases amount to 7 per cent of the stock of nominal bonds outstanding and far outstrip the SEK12 billion of net issuance planned by the Swedish National Debt Office this year. The decision to further ease policy came despite solid domestic economic growth and a forecast for inflation to return to target by early next year, with the Riksbank citing a desire to insure against downside risks to inflation, in particular from a further strengthening of the krona (see Foreign Exchange). It reiterated its preparedness to ease policy further if needed.

The central bank of Denmark reduced the quantity of reserves subject to its negative deposit rate in March, by increasing by almost fivefold the threshold above which banks are charged. The decision largely reflected that banks' total deposits at the central bank have increased sharply due to currency intervention (see Foreign Exchange) and the suspension of government bond sales. Despite the change, the −0.75 per cent rate on deposits will still drive money markets, as over half of total deposits are above this threshold and any new excess reserves are still subject to the charge.

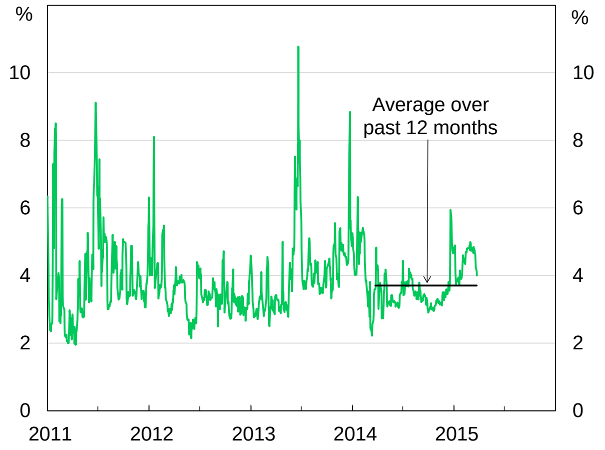
The People's Bank of China (PBC) announced a 25 basis point reduction to most benchmark lending and deposit rates in late February. This followed a 40 basis point cut to most lending rates and a 25 basis point cut to most deposit rates in November. As in November, the PBC also simultaneously increased the margin above the benchmark that banks can offer on deposits (from 20 per cent to 30 per cent), leaving the maximum permissible rate little changed. Increasing real interest rates due to lower inflation was cited as a key reason for the cut.

The November and February reductions in benchmark rates appear to have had a larger impact on retail rates than anticipated. On lending, the average general loan rate declined by around 40 basis points in the December quarter. For deposits, most headline term deposit rates offered by most of the large banks have declined by 50 basis points since November and a number of smaller banks have also lowered their rates, though to a lesser extent; this reportedly reflects (at least in part) directives from the PBC. However, rates on wealth management products, which more closely follow money market rates, increased by 30 basis points between November and January.



Liquidity conditions in Chinese money markets have been relatively tight, with the 7-day repo rate currently trading around 30 basis points above its average over the past 12 months. Partly to relieve this tightness, the PBC extended a further RMB100-150 billion to banks under the Medium-term Lending Facility.

China - 7-day Repo Rate

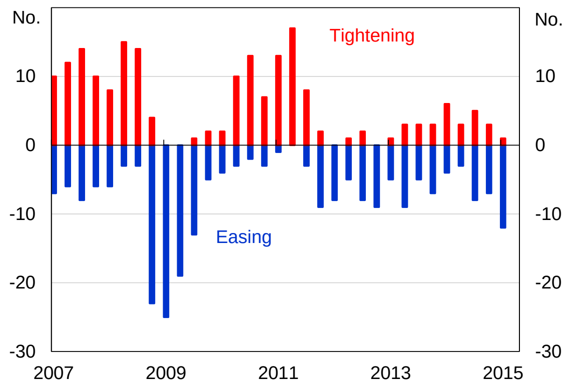


Source: CEIC Data

A number of other central banks have eased monetary policy in March, though the recent incidence of policy easing has not been historically unusual.

Global Monetary Policy Easing and Tightening

Number of central banks, quarterly*



* Based on a sample of 30 central banks
Sources: RBA; Thomson Reuters

The Reserve Bank of India further reduced its policy rate by 25 basis points at an unscheduled meeting, reflecting continuing disinflationary pressures and an assessment that impending fiscal consolidation is of an improved 'quality'. The central banks of South Korea and Thailand also reduced their policy rates by 25 basis points, reflecting weaker outlooks for domestic demand. The central bank of Russia continued to unwind its earlier tightening, reducing its policy rate by 100 basis points to reduce the risk of a more significant weakening of economic activity amid a lower oil price and ongoing sanctions. However, its policy rate remains almost 10 percentage points higher than a year ago.

In contrast, the central bank of Brazil continued to tighten policy in response to elevated inflation, while the central bank of Ukraine increased its policy rate by 10.5 percentage points to 30 per cent, as a temporary measure aimed at stemming the hryvnia's recent decline (see Foreign Exchange).

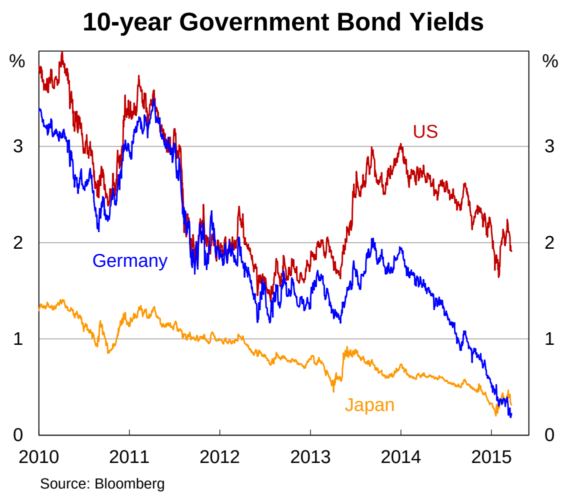
Monetary Policy

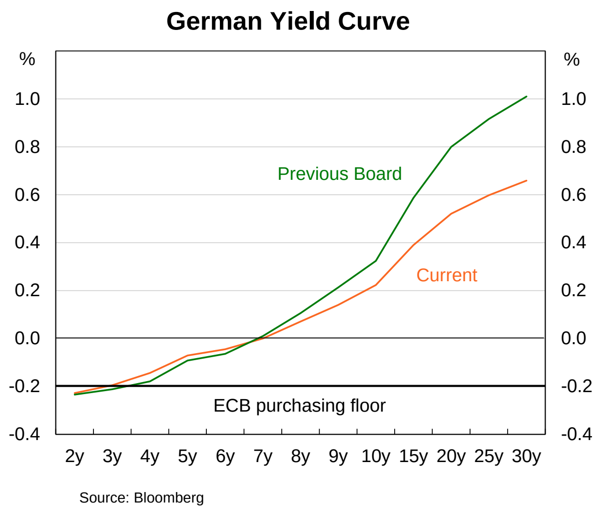
	Policy rate (per cent)	Most recent change		Cumulative change in current phase (bps)[a]
Euro area	0.05	↓	Sep 14	-145
Japan[b]	n.a.	-	n.a.	-
United States[c]	0.125	↓	Dec 08	-512.5
Australia	2.25	↓	Feb 15	-250
Brazil	12.75	↑	Mar 15	550
Canada	0.75	↓	Jan 15	-25
Chile	3.00	↓	Oct 14	-225
India	7.50	↓	Mar 15	-50
Indonesia	7.50	↓	Feb 15	-25
Israel	0.25	↓	Aug 14	-300
Malaysia	3.25	↑	Jul 14	125
Mexico	3.00	↓	Jun 14	-525
New Zealand	3.50	↑	Jul 14	100
Norway	1.25	↓	Dec 14	-100
Russia	14.00	↓	Mar 15	-300
South Africa	5.75	↑	Jul 14	75
South Korea	1.75	↓	Mar 15	-150
Sweden	-0.25	↓	Mar 15	-225
Switzerland[c]	-0.75	↓	Jan 15	-350
Taiwan	1.875	↑	Jun 11	62.5
Thailand	1.75	↓	Mar 15	-175
Turkey	7.50	↓	Feb 15	-250
United Kingdom	0.50	↓	Mar 09	-525

(a) Current rate relative to most recent trough or peak
(b) Since April 2013, the Bank of Japan's main operating target has been the money base
(c) Mid-point of target range
Source: RBA; Thomson Reuters; central banks

Sovereign Debt Markets

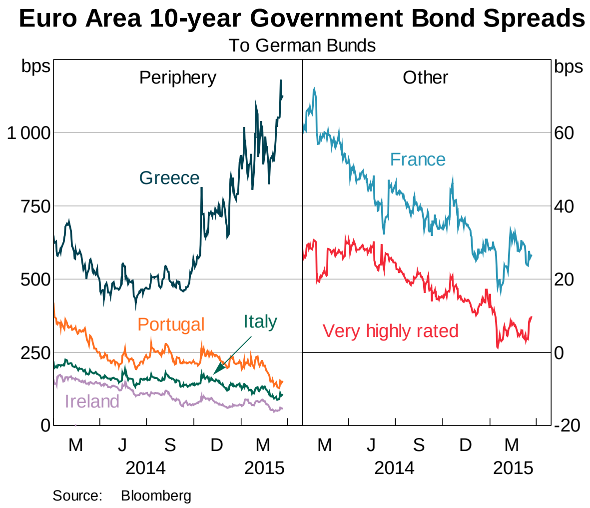
Ten-year US and Japanese government bond yields are broadly unchanged over the month. In the United States, the response to lower-than-expected FOMC projections for the federal funds rate offset the impact of better-than-expected payrolls data.





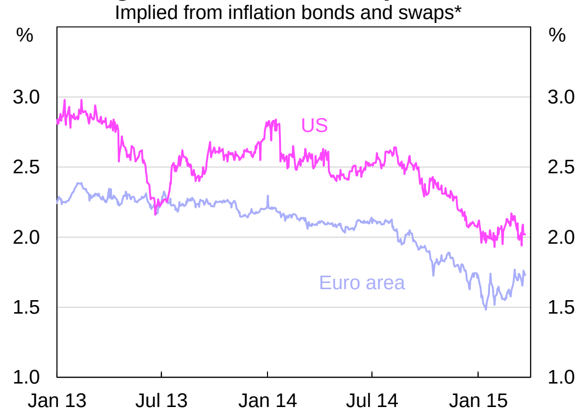
In Germany, long-term government bond yields have continued to fall over the month. Ten-year yields fell by around 20 basis points in the days immediately after the ECB's sovereign bond purchasing program was launched, and are now around 10 basis points lower over the month. The associated flattening of the yield curve in large part reflected an assessment that the –0.2 per cent floor the ECB set on its purchases would lead the ECB to adopt a long-duration portfolio, since German bonds with a maturity of up to 4 years have traded at or below the ECB's floor. Consistent with this, the ECB disclosed that the average maturity of its Bund purchases in the first week was around 9 years. This has also led to some concern about the feasibility of German bond purchases at the pace announced by the ECB if the purchasing limits it has set are maintained (including the 25 per cent issue limit on euro system holdings and the yield floor). In the event that these limits prevent acquisitions as per original intentions, there is the possibility within existing rules to substitute other in-scope bonds.

Yields on other euro area 10-year government bonds have declined since the start of the purchasing program, though by less than those on equivalent-maturity German bonds, leaving spreads to Bunds slightly wider. Nonetheless, spreads are notably below levels of late last year, particularly in Portugal.



In line with the aim of the ECB's purchasing program, long-term inflation compensation in the euro area has increased over the month, but remains at low levels. In contrast, long-term inflation compensation has declined in the US, after drifting higher over the start of the year.

Long-term Inflation Compensation
Implied from inflation bonds and swaps*

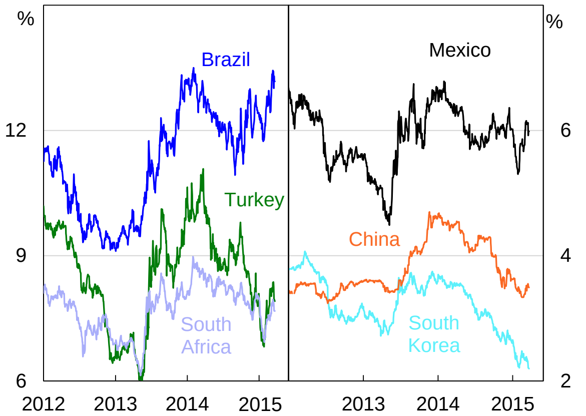


* 5-year, 5-year forward breakeven inflation rates; US rate implied from bonds and euro area rate implied from swaps
Sources: Bloomberg; Federal Reserve Bank of St. Louis; RBA

Elsewhere in Europe, yields on 10-year Swedish government bonds declined by 25 basis points over the month in response to the Riksbank's policy easing. Swedish and Danish long-term government bonds have fallen by around 50 basis points since the start of the year, as have Swiss government bonds, to be around 150 basis points lower since mid 2014.

Emerging market local-currency sovereign bond yields have increased over the month, though most increases have been moderate. However, recent increases have been large in the high-yielding markets of Brazil (see Foreign Exchange) and South Africa, mainly in response to recent exchange rate weakness. Emerging market bond fund assets under management have been unchanged over the month.

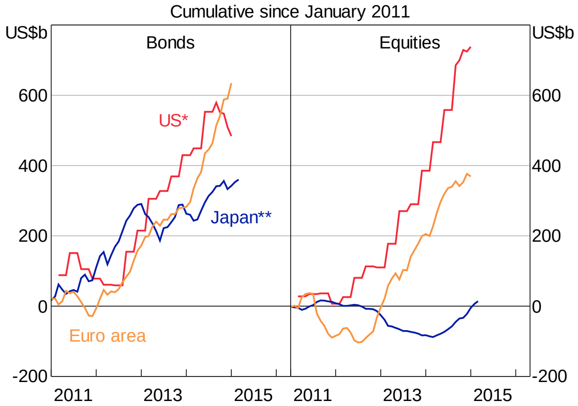
10-year Government Bond Yields
Local-currency denominated



Sources: Bloomberg; Thomson Reuters

Japanese and euro area residents have continued to buy large quantities of foreign bonds. In contrast, US residents have sold foreign bonds since mid last year. Residents of all three countries continue to make sizeable purchases of foreign equities.

G3 Purchases of Foreign Portfolio Assets
Cumulative since January 2011



* Balance of payments data to September 2014; monthly Treasury data thereafter
** Balance of payments data to January 2015; provisional thereafter
Sources: ECB; Japanese Ministry of Finance; RBA; US Treasury

Greek Financial Markets

Spreads on Greek government bonds have increased by 270 basis points over the month due a perceived lack of effort by the Greek government in implementing a reform agenda and the introduction of legislation aimed at addressing Greece's 'humanitarian crisis', without consultation and against its agreement with the Institutions. As a result, it looks increasingly likely that Greece will not receive assistance funds soon, heightening concerns that it may not be able to meet its creditor and expenditure commitments later this month or in early April. Greece's situation has been exacerbated by a deterioration in the near-term fiscal situation, with the estimated primary budget surplus missing targets in December, January and February, to be cumulatively lower by €4 billion (half the shortfall is due to Securities Market Program profit transfers that were not collected in December).

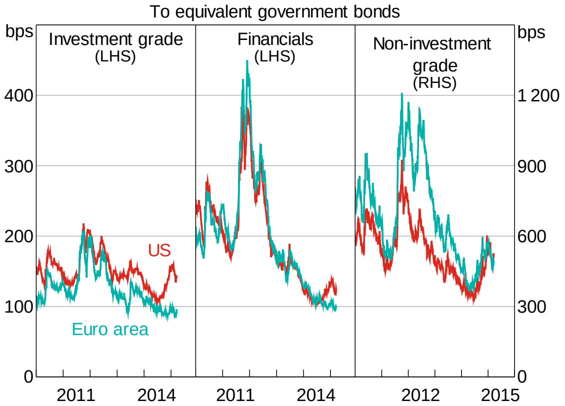
The government appears to be resorting to unusual methods in its attempt to cover liquidity needs. Any government expenditure not related to salaries and pensions has reportedly been blocked and there are also plans to eliminate fines on those who submit overdue taxes by the end of March to encourage payment. The country has also asked for the €15 billion T-bill cap to be lifted, though this request has been rejected over concerns about monetary financing.

Deposit outflows from Greek banks are estimated to have totalled €6 billion in February, though are reported to have slowed in March. Recent data also show that banks lost access to funding from private repo markets in January, though they were able to substitute this with funding from standard ECB lending operations by rolling over eligible collateral. These changes have seen Greek banks' reliance on Eurosystem funding increase by a larger-than-expected €31 billion in January and a further €17 billion in February, to reach €104 billion. Greek banks appear to have used all but €4.2 billion of the current cap on ECB funding, which the ECB increased by €1.5 billion in March.

Credit Markets

Spreads on US non-investment grade bonds have widened by 30 basis points – partly reflecting an increase in energy companies' yields alongside the decline in oil prices – to be 185 basis points higher than their trough in late June 2014. Spreads on US investment grade and bank bonds have been little changed.

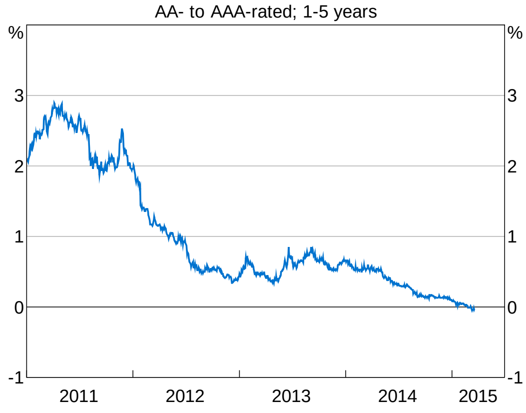
Corporate Bond Spreads
To equivalent government bonds



Sources: Bank of America Merrill Lynch; Bloomberg; RBA

In the euro area, spreads on investment grade corporate and bank bonds remain at record lows, while those on euro area quasi-government debt have fallen below zero alongside the ECB's asset purchase programs. Spreads on euro area non-investment grade corporate bonds have widened by 30 basis points since the previous Board.

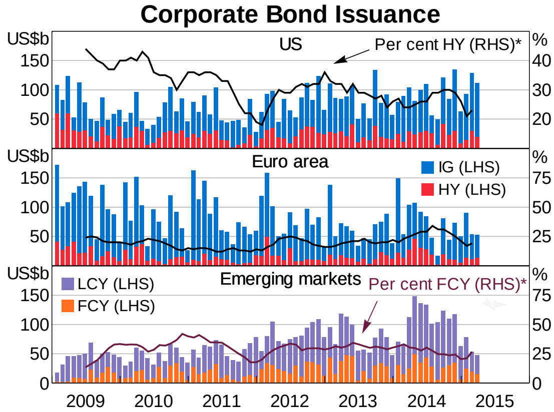
Euro Area Quasi-government Bond Yields*
AA- to AAA-rated; 1-5 years



* Includes agency, government-guaranteed, local authority and supranational debt.
Source: Bank of America Merrill Lynch

US corporate bond issuance has picked up noticeably in the year to date, and is running ahead of the pace recorded in early 2014. The pick-up reflects an increase in issuance of investment grade debt by both financial and non-financial corporations, including a US$21 billion issuance of investment grade bonds in early March by US pharmaceutical company Actavis. (The debt raising, which attracted over US$90 billion in orders, is the second-largest in history.) In contrast, issuance by euro area corporations has been below the pace recorded over the same period in 2014.

Corporate Bond Issuance



* 6-month moving average
Sources: Dealogic; RBA

Foreign currency-denominated corporate bond issuance appears to be shifting a little from US dollars to euros. There has been a noticeable increase in the pace of euro-denominated bond issuance by non-euro area corporations since mid 2014, while euro area corporations have increased the share of issuance in euros since the start of the year. In addition, US-dollar bond issuance by corporations domiciled outside the US has slowed a little since the start of the year.

Foreign Currency-denominated Bond Issuance All countries, US$ billion		
	US dollar	Euro
2007 Q1	124	215
2008 Q1	86	101
2009 Q1	116	80
2010 Q1	163	104
2011 Q1	232	73
2012 Q1	241	88
2013 Q1	211	53
2014 Q1	197	95
2015 Q1[(a)]	172	119

(a) Quarter-to-date
Sources: Dealogic; RBA

Issuance by emerging market corporates has continued to trend down since its mid 2014 peak, though it remains at the average level recorded over the past three years. Both the recent decline and the preceding increase have largely been driven by Chinese non-financial corporations. The share of foreign-currency denominated debt issued by emerging market corporates has picked up slightly since the start of the year, but it remains at around the level recorded over the past three years.

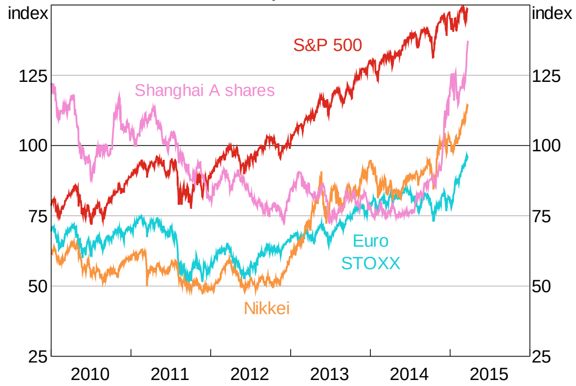
Equities

Equity prices in advanced economies have increased slightly over the month, driven by considerable strength in European and Japanese markets. The marked rise in European and Japanese equity prices since the start of the year has brought local indices to multi-year highs (German equities reached an all-time high, while Japanese share prices are at their highest level since 2000). The share prices in the euro area increased alongside declines in euro area sovereign bond yields and a marked depreciation in the euro, while strength in Japanese share prices has occurred following generally better-than-expected corporate earnings. In contrast, US share prices were little changed over the month as energy stocks underperformed alongside a further fall in oil prices. Greek share prices have fallen significantly over the period, driven by the banking sector. Volatility implied by options in major markets declined slightly over the month, but remains below historical averages.

Changes in International Share Prices Per cent		
	Since previous Board	Since end 2014
United States – S&P 500	0	2
Euro area – STOXX	4	18
United Kingdom – FTSE	1	7
Japan – Nikkei	6	13
Canada – TSE 300	-2	2
Australia – ASX 200	0	10
China – MSCI All China	10	11
MSCI indices		
– Emerging Asia	1	5
– Latin America	-1	1
– Emerging Europe	-5	5
– World	**1**	**6**

Source: Bloomberg

Major Share Price Indices
1 January 2007 = 100



A number of banks have agreed to settle misconduct claims over the month. Morgan Stanley agreed 'in principle' to a US$2.6 billion settlement with the Department of Justice for claims related to mortgage-backed securities, Commerzbank was fined US$1.5 billion by five US agencies for facilitating money laundering and breaching US sanctions, while Bank of New York Mellon was fined US$714 million by three US agencies to resolve foreign exchange lawsuits.

The results of the Fed's stress tests were released in early March, with all 31 participating banks meeting key capital thresholds. However, the Fed objected to the capital plans of Deutsche Bank and Santander on qualitative grounds, preventing these banks from distributing capital to their overseas parent companies.[1] Bank of America received conditional approval and is required to submit a new plan by end September.

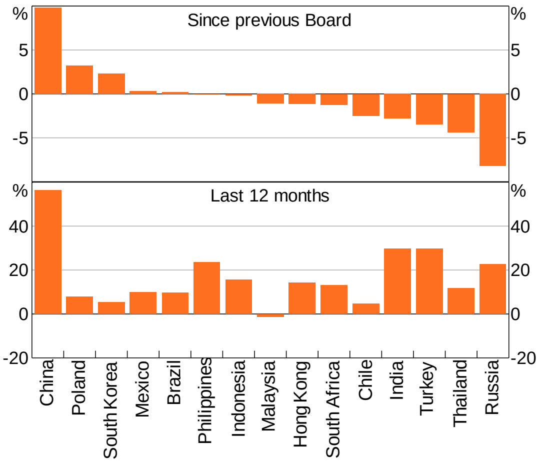
The Federal Reserve Board and Federal Deposit Insurance Corporation identified shortcomings with the 2014 resolution plans of BNP Paribas,

1 For more information, see (2015).

HSBC and the Royal Bank of Scotland, with common shortcomings including: (a) unrealistic or inadequately supported assumptions about the likely behaviour of various agents; and (b) inadequate analysis regarding interconnections within the firms. Similar issues were raised last year for the living wills of 11 large US banks.

Emerging market share prices in aggregate were also little changed over the month, with strength in some Asian markets outweighing declines in Russia. Russian equity prices fell by 8 per cent over March, but remain more than 15 per cent above end-2014 levels. In contrast, Chinese equities have increased strongly amid expectations of potential government stimulus and reform measures, with mainland share prices now at their highest level since 2008. Prices of Chinese companies listed on both mainland and Hong Kong exchanges have continued to increase more rapidly on the mainland, contributing to a widening of the A-share premium, despite the launch of a short-selling service for mainland A shares through the Shanghai-Hong Kong Stock Connect. Investors are yet to participate in the short selling service to date, though this may be due to ongoing regulatory barriers.

Change in Emerging Market Equity Price Indices



Source: Bloomberg

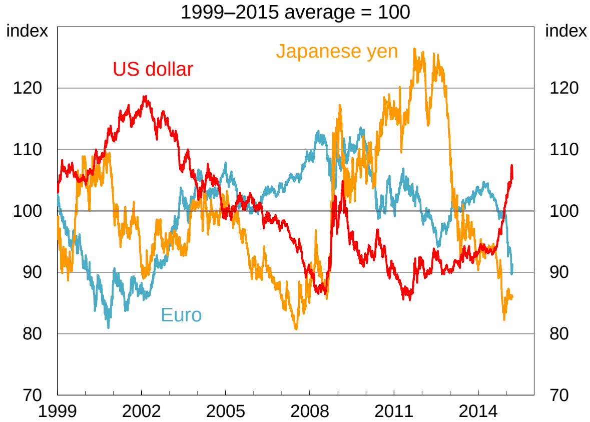
Foreign investment in emerging equity markets has been little changed in March. India is the notable exception, receiving further inflows.

Foreign Exchange

The US dollar has appreciated by 1 per cent on a trade-weighted basis over March, with broad-based appreciation early in the month partly unwound following the downward revision to the FOMC's median expectation for the path of the federal funds rate (discussed above). On a nominal trade-weighted basis, the US dollar is now around 13 per cent higher than its recent low in mid 2014, although on a real trade-weighted basis it remains a little below its long-run average.

Nominal Trade-weighted Indices

1999–2015 average = 100

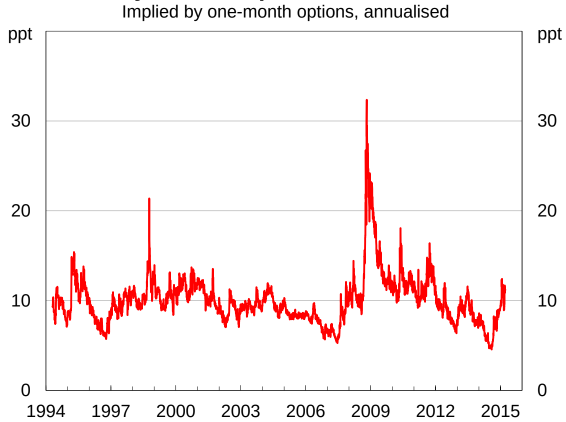


Sources: BIS; Bloomberg; Board of Governors of the Federal Reserve System

The adjustment in the expected path of the federal funds rate was also associated with an increase in volatility in the main developed market currency pairs over the month.

Volatility in Developed Market Currencies*

Implied by one-month options, annualised



* EUR/USD; USD/JPY; GBP/USD; AUD/USD; USD/CAD; USD/CHF; EUR/JPY; EUR/GBP; EUR/CHF weighted by turnover

Source: Bloomberg

US Dollar against Selected Currencies
Percentage change

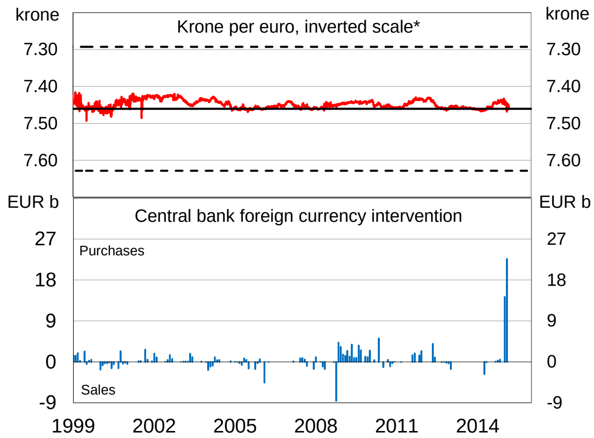
	Past year	Since previous Board
Brazilian real	35	9
South African rand	9	4
UK pound sterling	10	4
European euro	26	4
Swedish krona	32	2
Swiss franc	9	2
Malaysian ringgit	11	2
South Korean won	3	1
Philippine peso	-1	1
Indonesian rupiah	14	1
Singapore dollar	7	1
Japanese yen	17	1
Canadian dollar	11	1
Indian rupee	2	0
Mexican peso	13	0
Australian dollar	15	0
Thai baht	0	0
New Taiwan dollar	2	-1
Chinese renminbi	0	-1
New Zealand dollar	11	-1
TWI	**11**	**1**

Sources: Bloomberg; Board of Governors of the Federal Reserve System

The Japanese yen has been little changed on a trade-weighted basis and against the US dollar over the month. In contrast, the commencement of the ECB's sovereign bond purchase program (discussed above) has been accompanied by some sizeable movements in a number of European currencies. Most directly, the euro has depreciated by a further 2-4 per cent on a trade-weighted basis and against the US dollar over the month. On a trade-weighted basis, the euro is now around 13 per cent lower than its recent peak in early May 2014.

Both the Norwegian krone and Danish krone have moved broadly in line with the euro to be around 4 per cent lower against the US dollar over the month. Partial data suggest that the Danish central bank has not made sizeable purchases of foreign currency in March to date, after having purchased the equivalent of €37 billion (15 per cent of GDP) worth of foreign currency in January and February to curb appreciation pressure and maintain the krone's peg to the euro.

Danish Krone and Foreign Currency Intervention

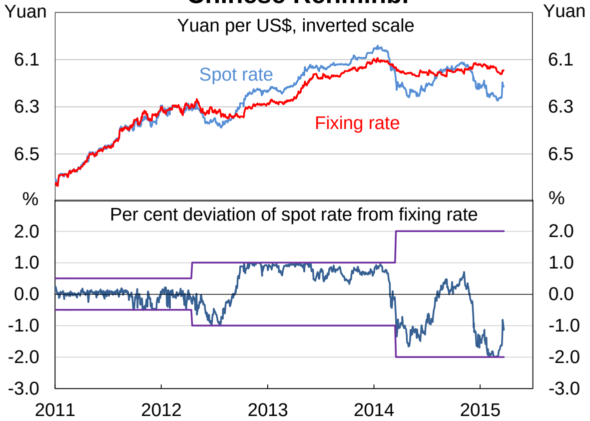


* Krone band is 7.46 DKK per EUR +/- 2.25 per cent
Sources: Danmarks Nationalbank; Bloomberg

Elsewhere in Europe, the Swedish krona and Swiss franc have both depreciated by 2 per cent against the US dollar over the month, but have appreciated by 1-2 per cent against the euro. Sweden's Riksbank has expressed concern about the Swedish krona's recent appreciation against the euro and, in addition to easing monetary policy further (discussed above), has said that it is prepared to intervene in the foreign exchange market if necessary. While the krona had appreciated by around 6 per cent against the euro between early February and early March it is currently around 5 per cent lower than its level a year ago. The Swiss National Bank (SNB) has reiterated that the Swiss franc is overvalued and that it will 'remain active' in the foreign exchange market as required. Nevertheless, preliminary data suggest the SNB has not intervened in the foreign exchange market since late January.

The Chinese renminbi (RMB) has appreciated by around 1 per cent against the US dollar over the month, but remains in the bottom half of its +/-2 per cent trading band against the US dollar. Anecdotal reports suggest that the appreciation was at least in part the result of sales of foreign exchange by (or on behalf of) the Chinese authorities in an attempt to discourage one-way speculation and move the RMB away from the lower bound of its trading band. On a nominal trade-weighted basis, the RMB has appreciated by a further 2 per cent over the month, primarily reflecting appreciation against the euro.

Chinese Renminbi

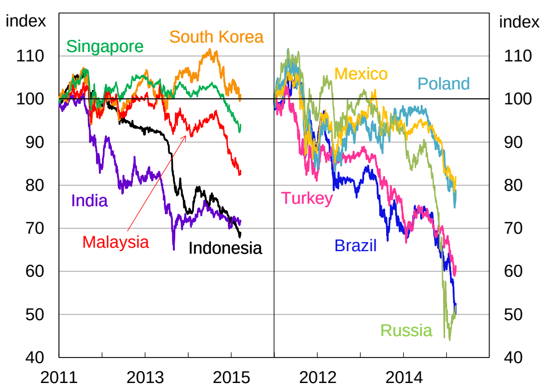


Sources: Bloomberg; China Foreign Exchange Trade System; RBA

In contrast, most other Asian and emerging market currencies have depreciated against the US dollar over the month. The depreciation was most pronounced for the Brazilian real, while Eastern European currencies tended to depreciate in line with the euro. Consistent with the developments in the main developed market currencies, volatility in emerging market currencies has increased over the month to be noticeably higher than its average since 2010.

Asian and Emerging Market Currencies

Against the US dollar, 3 January 2011 = 100



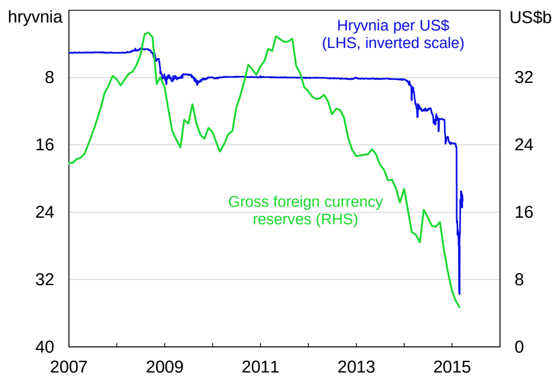
Source: Bloomberg

The Brazilian real has depreciated by a further 8 per cent against the US dollar over the month to be a little more than 30 per cent lower than its recent peak in late June 2014. The depreciation has occurred in response to increasing domestic political tensions and ongoing concerns about the domestic economic outlook. Uncertainty over whether the Brazilian central bank will continue with its daily foreign exchange market intervention program – which is due to end on 31 March and has been in place since August 2013 – has also likely contributed.

Elsewhere in Latin America, the Mexican peso has been little changed against the US dollar over the month, with the central bank governor describing the currency as 'undervalued'. The central bank announced in early March that it will conduct daily auctions of US dollars to 'curb volatility' in the peso, with the program scheduled to finish in early June.

In Emerging Europe, two notable exceptions to the broader depreciation trend have been the Russian rouble and Ukrainian hryvnia, which have appreciated by around 4 and 24 per cent, respectively, against the US dollar over the month. Nevertheless, these currencies remain 45 –65 per cent lower than their levels in early 2014. The sharp appreciation in the hryvnia has been attributed to an unexpected increase in Ukraine's policy rate (discussed above), the introduction of some additional capital controls and confirmation of a loan package from the IMF.

Ukrainian Exchange Rate and Reserves



Sources: Bloomberg; IMF; National Bank of Ukraine

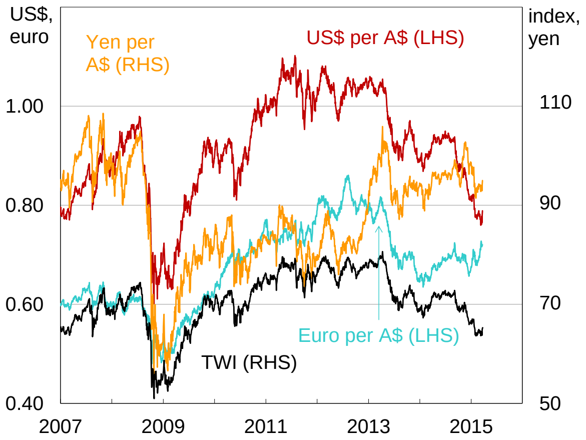
Australian Dollar

The Australian dollar has been little changed against the US dollar and on a trade-weighted basis over the month. This is in contrast to the depreciation experienced by most other currencies against the US dollar and has occurred notwithstanding further declines in the prices of Australia's key commodity exports. This could partly reflect some scaling back in market participants' expectations of the timing of an additional reduction in the domestic cash rate.

Nevertheless, the Australian dollar remains around 16 per cent lower against the US dollar since its recent peak in early September 2014 and

10 per cent lower on a trade-weighted basis over the same period.

Australian Dollar



Sources: Bloomberg; RBA

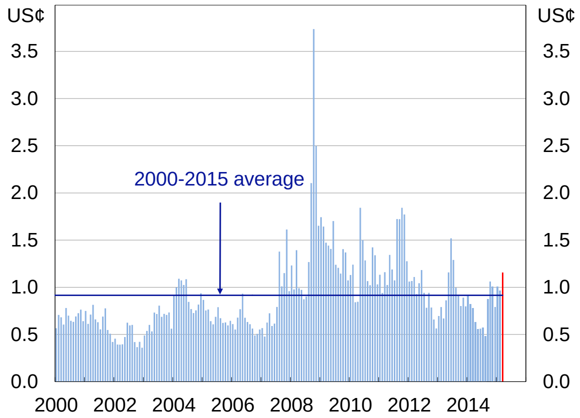
Australian Dollar against Selected TWI Currencies
Percentage change

	Past year	Since previous Board
South African rand	-5	4
UK pound sterling	-4	4
European euro	9	4
Swiss franc	-5	2
Malaysian ringgit	-4	2
South Korean won	-10	1
Indonesian rupiah	-1	1
Singapore dollar	-7	1
Japanese yen	2	1
Canadian dollar	-3	1
Indian rupee	-12	0
US dollar	-13	0
Thai baht	-13	0
Chinese renminbi	-13	-1
New Zealand dollar	-3	-1
TWI	**-7**	**0**

Sources: Bloomberg; RBA

Consistent with developments in other currencies, volatility in the Australian dollar has increased over the month, with the average intraday range for the AUD/USD exchange range now higher than its average since 2000.

Intraday Range in AUD/USD
Average daily range in month



Sources: Bloomberg; RBA

International Department
24 March 2015