

## RBA Minutes of the July Meeting

### Raising the Bar - Slightly

- The minutes of the RBA's July meeting provided some mixed signals on the outlook for monetary policy. However, on balance, the bar for another rate cut appears to have lifted a touch due to the falling Australian dollar. The RBA however, is still leaving the door open for further rate cuts.
- The RBA discussed the Australian dollar's depreciation having a positive impact on commodity export earnings and adding a little to inflation. However, inflation was still expected to remain within the RBA's 2 to 3 percent per annum target and that the inflation outlook "could still provide some scope for further easing".
- On the domestic front, while "below trend growth" remained in prospect, the RBA appeared more pessimistic on the outlook for mining investment. The RBA is still waiting for the lag effect of earlier rate cuts on the broader economy, where its impact to date has been largely limited to housing.
- Below trend growth, subdued labour market conditions and well-contained inflation, suggest another rate cut cannot be ruled out, particularly if the Australian dollar does not decline further as the RBA expects. We continue to expect the RBA to cut rates by another 25 basis points when it next meets in August. The Australian dollar, domestic growth, along with inflation data, which will be released on 24 July, will be key factors in the near-term outlook for rates.

The minutes of the RBA's July meeting provided some mixed signals on the outlook for monetary policy, but on balance, the bar for another rate cut appears to have lifted a touch.

The RBA highlighted a number of influences the lower Australian dollar had on the economy. This included a boost to commodity prices, which are priced in USD terms, upward pressure on inflation, and easing financial conditions. However, even taking into account higher inflation, there was still "scope for further easing, should that be required to support demand." Therefore, the RBA is still leaving the door open for further easing, although it appears the bar for another cut may have been raised slightly due the Australian dollar's recent fall.

The commentary surrounding the domestic economy was broadly similar in comparison to earlier remarks, and continued to grow "at a below trend pace." However, the RBA's discussion on mining investment appeared to be more pessimistic. Work was now "close to, if not past, its peak", providing an acknowledgement that the peak in mining investment may have already passed and

that at some time, mining investment was expected to “decline more rapidly”. This compares to an “uncertain” outlook in the RBA’s earlier minutes published in June.

There was again, little mention of the decline in domestic demand in Q1 GDP, which was omitted from the accompanying Statement. This continues to suggest that the RBA is focused on the broader growth measure, which includes the traded sector. While consumption, business investment and dwelling investment were weak, exports increased, and imports declined.

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On the international front, the RBA remained quite upbeat on the Chinese economy, but recognised the uncertainty regarding the impact of tighter financial conditions.

Below trend growth, subdued labour market conditions and well-contained inflation, suggest another rate cut cannot be ruled out. We continue to expect the RBA to cut rates by another 25 basis points when it next meets in August, even though a weaker Australian dollar may have raised the bar slightly. The Australian dollar, domestic growth, along with inflation data, which will be released on 24 July, will be key factors in the near-term outlook for rates.

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#### The Detail

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