

## RBA Preparing to “Refine” Rates?

- The RBA left the official cash rate unchanged at 1.75% at its July board meeting as widely expected.
- For the first time in three months, we had some hint of the future direction of official interest rates. It was probably not the explicit easing bias that some market participants were looking for, but it does suggest that a movement in rates is possible and it would be based on “further information”.
- While the RBA did not say which way it would be likely to adjust rates, if the RBA were to move interest rates in the near term, the most likely direction would be down.
- The RBA has acknowledged the lift in volatility as a result of the UK referendum, however it does not seem especially concerned at this stage. The RBA noted that markets had “continued to function effectively”. On the impact to the global and UK economy, the RBA has said that it was “hard to discern.”
- On the global and domestic economy, the RBA stuck to cautious tone on the outlook, similar to its statement in July.
- A critical piece of data, CPI, will be released later this month on 27 July. A weak outcome could further put inflation below the RBA’s 2-3% inflation target band for longer than the RBA had been expecting. We believe that inflation could be the “further information” that would convince the RBA to ease monetary policy further. We continue to favour August as a strong possibility for another cut to official interest rates.

The RBA left the official cash rate unchanged at 1.75% at its July board meeting. The decision was widely expected by ourselves and markets.

For the first time in three months, we had some hint of the future direction of official interest rates. The RBA said that “further information should allow the Board to refine its assessment of the outlook for growth and inflation and to make any adjustment to the stance of policy that may be appropriate”. It might not be the explicit easing bias that some market participants were looking for, but it does suggest that a movement in rates is possible and it would be based on “further information”. If the RBA were to adjust interest rates in the near term, the most likely direction would be down.

The RBA has acknowledged the lift in volatility as a result of the UK referendum, however it does not seem especially concerned at this stage. The RBA noted that markets had “continued to function effectively”. On the impact to the global and UK economy, the RBA has said that it was “hard to discern.”

On other domestic and international factors, the RBA’s assessment was very similar to June. The Australian economy has continued to grow, but the outlook continues to be for low inflation. The

RBA remains cautious on the global economic outlook.

On the Australian dollar, the RBA continues to be watchful for any appreciation which “could complicate” the current necessary adjustments in the economy.

### **Outlook for Monetary Policy**

Today’s statement is enough to reinforce calls for the RBA to lower rates once again, although it does not explicitly provide an easing bias.

The RBA’s ongoing cautious assessment on the global and domestic outlook, in addition to the concerns regarding very low inflation, suggest that further rate cuts cannot be ruled out.

A critical piece of data, CPI, will be released later this month on 27 July. A weak outcome could further put inflation below the RBA’s 2-3% inflation target band for longer than the RBA had been expecting. We believe that inflation could be the “further information” that would convince the RBA to ease monetary policy further. We continue to favour August as a strong possibility for another cut to official interest rates.

The one page text of the Governor’s Statement can be found at <http://www.rba.gov.au/>

**Janu Chan, Senior Economist**  
Ph: 02-8253-0898

## Contact Listing

### Chief Economist

Besa Deda  
[dedab@bankofmelbourne.com.au](mailto:dedab@bankofmelbourne.com.au)  
(02) 8254 3251

### Senior Economist

Hans Kunnen  
[kunnenh@bankofmelbourne.com.au](mailto:kunnenh@bankofmelbourne.com.au)  
(02) 8254 8322

### Senior Economist

Josephine Horton  
[hortonj@bankofmelbourne.com.au](mailto:hortonj@bankofmelbourne.com.au)  
(02) 8253 6696

### Senior Economist

Janu Chan  
[chanj@bankofmelbourne.com.au](mailto:chanj@bankofmelbourne.com.au)  
(02) 8253 0898

## The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.