Tuesday, 7 July 2016

Bank of Melbourne

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/

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