Data Snapshot

Tuesday, 7 June 2016

Bank of Melbourne

RBA Still Tight-Lipped

- **The RBA left the official cash rate unchanged at 1.75% at its June board meeting as widely expected.**
- **Again, there was no guidance on the future direction on monetary policy, which may have disappointed those who were hoping for a clear easing bias. There was little hint that the RBA would be inclined to cut rates again.**
- **Nonetheless, today's statement struck a cautious tone. The RBA downplayed recent strong GDP data, although the RBA noted that areas of domestic demand, other than business investment have been "expanding at a pace at or above trend."**
- **The RBA was similarly unperturbed about the recent jump in dwelling prices. It hinted that a lift in supply would put a lid on prices and noted that lending standards had strengthened. While the housing market had prevented the RBA from cutting rates in the past, concerns about risks to financial stability have abated.**
- **The RBA remains concerned about inflation, which was "quite low" and expected to "remain the case for some time". The next CPI data, published by the ABS, will be released on 27 July, and will play a critical role in the RBA's thinking in early August.**
- **The lack of guidance, and the decision to lower rates last month in May, suggests that the RBA is not poised for an imminent cut to the cash rate without further information. However, there is a high risk that the June quarter inflation data will be another weak print and could 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 June board meeting. The decision was widely expected by ourselves and markets given the close call to cut rates in May, stronger-than-expected GDP data last week and a renewed lift in dwelling prices over the past few months.

Again, there was no guidance on the future direction of monetary policy, which may have disappointed those who were looking for a clear easing bias. There was little hint that the RBA would be inclined to cut rates again.

Nonetheless, today's statement struck a cautious tone.

The RBA appeared to downplay the above trend economic growth of 3.1%, only noting that "overall growth is continuing", although areas of domestic demand, other than business investment, have been "expanding at a pace at or above trend."

On the housing market, the RBA was similarly unperturbed about the recent jump in dwelling prices and hinted that the supply of apartments due to come online would place a lid on prices. Moreover, lending standards had "strengthened", suggesting that the RBA was not too concerned about the risks to financial stability.

The RBA remains concerned on inflation, which was "quite low" and expected to "remain the case for some time". Developments about over the past month suggests that inflation pressures remain weak, including soft wage growth and monthly inflation data from the Melbourne Institute. The next CPI data published by the ABS will be released on 27 July.

The RBA has an eye on the global growth outlook, which is growing "at a lower than average pace". The RBA has highlighted some "particular event risks" for financial markets, likely alluding to the UK "Brexit" referendum, interest rate decisions by the Federal Reserve and/or the US elections.

On the Australian dollar, the RBA continued to state that "an appreciating exchange rate could complicate" the adjustment in the economy. This is despite the AUD's drop, although it is now only 2.5% lower against the USD, and 2.1% lower in trade-weighted terms since 3 May (the previous RBA meeting).

Outlook for Monetary Policy

The lack of guidance, and the decision to lower rates last month in May suggests that the RBA is not poised for an imminent cut to the cash rate without further information.

However, the 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.

There is a high risk that the June quarter inflation data will be another weak print and could 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 <u>one page</u> text of the Governor's Statement can be found at http://www.rba.gov.au/

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