

Monday, 25 March 2024

# Will the RBA Follow its Global Peers?

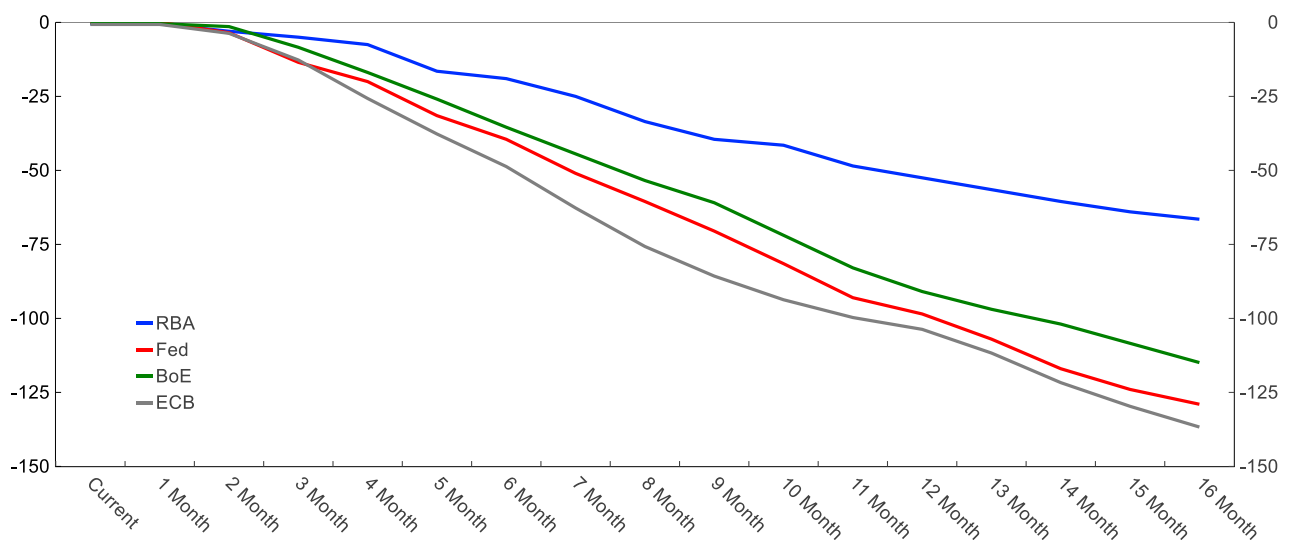
Several major global central banks met last week. The outcomes of the meetings were generally consistent with expectations, and diverged across jurisdictions, but largely reinforced the likelihood of near-term interest rate cuts. The US Federal Reserve and Bank of England have acknowledged that policy rates are restrictive and are weighing on economic activity. Moderating inflation means it's no longer a question of *whether* the next move will be down, but rather *when* policy rates will start coming down.

Some of these central banks, such as the US Fed, entertained expectations that cuts will be sooner rather than later but continued to acknowledge that ongoing economic resilience and any unforeseen surprises could see rates remain on hold for longer.

Enter the Reserve Bank of Australia (RBA). Unlike some of its global peers, the RBA has given limited explicit forward guidance over its next move. Last week's policy statement diluted the guidance even further by stating the Board won't rule anything in or out instead underscoring that further increases couldn't be ruled out. In fact, in the subsequent press conference the RBA Governor made it clear that the Board is not in a position to provide forward guidance.

This is likely because the RBA is cautious of the risk that the economy does not evolve as they expect. The fact our inflation cycle is lagging other advanced economies also means there is less evidence to draw on in assessing whether the inflation target will be sustainably achieved.

**Major Central Bank Market Pricing**  
 Relative to Current Rate, Basis Points



Sources: ICE, CME Group, RBA, BoE, ECB, Macrobond

We will receive some more of this evidence this week, particularly on inflation, in the latest monthly inflation gauge. In January, the gauge was softer than expected at 3.4% in annual terms. However, this was dominated by the prices of goods. The RBA is concerned with services inflation

which is predominantly driven by unit labour costs. Last week's strong labour force read could have left the RBA a little nervous. However, they will get another chance to reassess some of the services components of inflation in the monthly inflation gauge, which includes more updates on services prices this month.

Should the monthly inflation gauge surprise on the downside it could be the signal the RBA Board needs to pivot more towards an easing bias much like some of its global peers. However, should the services inflation surprise on the upside, the RBA's messaging is likely to remain murky. Westpac has pencilled in a 0.6% increase in February, which will see the inflation gauge increase by 3.8% in annual terms.

### **Economic data**

This week we will also get an updated read on retail trade and private sector credit. Retail sales have been very choppy around the turn of the year. Retail sales surged by 1.1% over January, following a fall of 2.1% over December. This volatility in part reflects shifting seasonal patterns which the ABS is having difficulties adjusting. The underlying trend remains that of soft retail sales, particularly given the strong population growth.

On the business side, investment and credit are proving more resilient than previously expected. Business credit grew by 0.7% over January to be 6.8% higher in annual terms. We expect credit growth to remain resilient as businesses look to transition to net zero emissions and expand capacity to cater for the larger population.

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## Group Forecasts

End Period:	2024				2025		
	Close (22 Mar)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
<b>Aust. Interest Rates:</b>							
RBA Cash Rate, %	4.35	4.35	4.35	4.10	3.85	3.60	3.35
90 Day BBSW, %	4.35	4.40	4.37	4.12	3.92	3.67	3.47
3 Year Swap, %	3.84	4.05	3.95	3.85	3.75	3.65	3.60
10 Year Bond, %	4.04	4.20	4.05	3.95	3.85	3.90	3.90
<b>US Interest Rates:</b>							
Fed Funds Rate, %	5.375	5.375	5.125	4.625	4.375	4.125	3.875
US 10 Year Bond, %	4.20	4.15	4.00	3.90	3.80	3.85	3.90
<b>USD Exchange Rates:</b>							
AUD-USD	0.6515	0.66	0.68	0.69	0.70	0.71	0.72
USD-JPY	151.41	147	144	141	138	135	132
EUR-USD	1.0808	1.09	1.11	1.13	1.14	1.15	1.16
GBP-USD	1.2601	1.27	1.27	1.28	1.29	1.30	1.30
NZD-USD	0.5992	0.62	0.63	0.64	0.64	0.64	0.65
<b>AUD Exchange Rates:</b>							
AUD-USD	0.6515	0.66	0.68	0.69	0.70	0.71	0.72
AUD-EUR	0.6028	0.61	0.61	0.61	0.61	0.62	0.62
AUD-JPY	98.66	97.0	97.2	97.3	96.6	95.9	95.0
AUD-GBP	0.5170	0.52	0.53	0.54	0.54	0.55	0.55
AUD-NZD	1.0871	1.06	1.07	1.08	1.09	1.11	1.11

	2022	2023 (f)	2024 (f)	2025 (f)
GDP, %	2.4	1.5	1.6	2.5
CPI (Headline), %	7.8	4.1	3.0	2.7
CPI (Trimmed mean), %	6.8	4.2	3.1	2.8
Unemployment Rate, %	3.4	3.8	4.5	4.6
Wages Growth, %	3.3	4.2	3.2	3.1

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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