

PREVIEW: RBA Rate Decision Scheduled for Tuesday 1st February 2022 at 03:30GMT/22:30EST

- RBA is expected to keep the Cash Rate Target at 0.10% and announce an end to bond purchases at its meeting on Tuesday
- Strong employment data and firm inflation has spurred several banks to bring forward rate hike expectations to this year
- Focus will also be on any change in language from RBA Governor Lowe who previously expected conditions for a rate hike will not be met this year

OVERVIEW: The Reserve Bank of Australia is expected to keep the Cash Rate Target at 0.10% at its meeting on Tuesday, although focus will be on what the central bank does regarding its bond purchases as the current program of AUD 4bln a week is due to expire in mid-February and likely to be scrapped after that, according to 17 out of 22 analysts surveyed by Reuters.

RBA RHETORIC SUGGESTS POTENTIAL END TO QE: RBA Governor Lowe had previously stated that they could end buying in February if economic progress is better than expected, but may review bond buying again in May if data disappoints. The minutes from the prior meeting also noted that among the options the Board discussed aside from ceasing purchases altogether, were to reduce the pace of buying from mid-February with an expectation of a likely end point in May 2022 or reduce the pace of purchases and review it again in May 2022.

FIRM DATA BROUGHT FORWARD RATE HIKE EXPECTATIONS: There have been increasingly hawkish views lately after strong data from Australia including the Unemployment Rate which fell to 4.2% vs. Exp. 4.5% (Prev. 4.6%) in December and with CPI YY firmer than expected for Q4 at 3.5% vs. Exp. 3.2% (Prev. 3.0%), while the RBA's annual trimmed mean inflation surpassed the mid-point of the its 2-3% target at 2.6%. As such, Goldman Sachs now anticipates the RBA to end QE at the upcoming meeting and hike rates in May citing the unemployment data. Meanwhile, others including CBA, Westpac, RBC, AMP and TD Securities all expect the first hike in August which for the majority represents bringing forward tightening views from next year, although a recent Reuters poll showed the median expectation was for the first hike to occur in November.

ANNOUNCEMENT: The RBA will announce the conclusion of the meeting at 03.30GMT/22:30EST in which the initial focus will be on the decision on rates and QE with an end to bond purchases likely to pressure Australian bonds and lift yields, while any surprise extension would underpin bonds and could see some backtracking of recent hawkish forecasts which in turn, would pressure AUD. Furthermore, participants will also be eyeing the statement for any changes in language from the RBA Governor who previously expected conditions for a rate hike will not be met this year and noted that they are "still a fair way" from a hike with the Board prepared to be patient.

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