



PREVIEW: RBA Rate Decision Scheduled for Tuesday 3rd May at 05:30BST/00:30EDT

- RBA is expected to hike the Cash Rate Target by 15bps to 0.25% at its meeting on Tuesday.
- Australia's highest annual inflation in more than two decades and above target Preferred Trimmed Inflation spurred calls for a sooner lift-off, while the RBA also dropped its 'patient' reference at the last meeting
- Some expect the RBA to wait for more wage data and after the election before hiking with Australia's largest bank CBA, Goldman Sachs and HSBC among those calling for a hold.

OVERVIEW: The RBA will decide on rates on Tuesday in what is widely viewed as a live meeting as swaps traders have fully priced in a 15bps hike in the Cash Rate Target to 0.25% from the current record low of 0.10% and with a 25% chance of a greater 40bps move. Furthermore, a recent Reuters survey of 32 economists showed that 16 anticipated a 15bps hike, 4 called for a 40bps increase, while 12 saw no change to rates.

HIGH INFLATION BROUGHT FORWARD RATE HIKE CALLS: Expectations for a sooner lift-off were spurred after the mostly firmer than expected inflation data for Q1 which showed headline annual inflation at 5.1% vs. Exp. 4.6% (Prev. 3.5%) for the fastest pace of increase in more than two decades and the RBA's preferred trimmed mean inflation also surpassed the central bank's 2-3% target at 3.7% vs. Exp. 3.4% (Prev. 2.6%). This prompted an adjustment of rate hike expectations with JPMorgan anticipating the RBA to hike by 15bps in May and Westpac also bringing forward its rate hike call in which it now expects a 15bps increase at Tuesday's meeting followed by a 25bps move in June from a previous forecast of a 40bps increase in June.

RBA'S RECENT HAWKISH PIVOT VS. UPCOMING FEDERAL ELECTION: The RBA opened the door for an earlier hike after having dropped its reference to the Board being "patient" from the statement at its last meeting and noting that developments have brought forward the likely timing of the first rate hike, while it also stated in the recent semi-annual Financial Stability Review that it is important borrowers are prepared for an increase in interest rates. Conversely, others are not convinced of a move at the upcoming meeting with Goldman Sachs and Capital Economics in the June lift-off camp, while CBA and HSBC also anticipate no change in rates at this meeting in which the arguments for a pause include the RBA's previous desire to wait for wage data in coming months and with Australians set to go the polls for the election on May 21st.

ANNOUNCEMENT: The announcement is scheduled for 05:30BST/00:30EDT where the focus will be centred on the actual decision on rates with a 15bps hike likely to be supportive for AUD/USD and even more so if there is an aggressive move of 40bps, while a surprise hold in rates would pave the way for AUD selling unless the central bank counterbalances it with hawkish remarks for an impending rate increase. Attention will also be on the statement for the latest clues on central bank policy and if the RBA makes any announcement regarding its government bond holdings as ANZ Bank previously suggested the RBA may allow government bond holdings to mature without reinvesting them.

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