



PREVIEW: RBA Rate Decision due Tuesday 7th June 2022

- RBA is expected to hike the Cash Rate Target by 25bps to 0.60% with OIS swaps fully pricing in a rate increase and had even suggested a nearly 40% chance for a more aggressive move of 50bps.
- This would be the central bank's first back-to-back rate hike in 12 years although there are differing views regarding the magnitude of the rate increase with Goldman Sachs calling for 50bp hikes in the June and July meetings, while Westpac sees a 40bps move.
- RBA noted at the last meeting that it will require a further lift in interest rates during the period ahead and the board had considered three options at that meeting which were 15bps, 25bps and 40bps rate increases.

OVERVIEW : The Reserve Bank of Australia is expected to continue hiking rates at its meeting on Tuesday with a Reuters survey showing the median forecast is for a 25bps increase in the Cash Rate Target to 0.60% from the current level of 0.35%, while OIS have fully priced in a 25bps increase and suggest a nearly 40% chance for a more aggressive move of 50bps.

PREVIOUS HIKE AND RHETORIC: RBA surprised markets at last month's meeting by delivering a larger than expected increase of 25bps (exp. 15bps), while it stated that it will require a further lift in interest rates during the period ahead and is committed to doing what is necessary to ensure that inflation in Australia returns to the target over time. The minutes from that meeting noted that the board considered three options which were 15bps, 25bps and 40bps rate increases, whereby it deemed that a 15bps increase would have been inconsistent with the historical practice of changing the Cash Rate in 25bps increments and noted that an argument for a 40bps increase could be made given the upside risks to inflation and the current very low level of interest rates. Furthermore, RBA Governor Lowe has kept the door open regarding the pace of rate increases as he stated that he does not preclude a bigger or smaller rate move in the future and noted that the Board is not on a pre-set path.

MIXED EXPECTATIONS AND DATA: There are differing views regarding the magnitude of a rate increase with Goldman Sachs anticipating the RBA to increase rates by 50bps at each of the next two meetings and Westpac have upgraded their call for June to a 40bps hike from a prior view of 25bps, while AMP Capital expects the RBA to stick with a 25bps move and ANZ Bank had suggested that a 40bps RBA hike in June will likely be discussed but caveated that a Wage Price Index of +1.0% would be needed to trigger a 40bps move, although this failed to materialise with Wage Price Index softer than expected at 0.7% vs. Exp. 0.8%. Other data releases have been mixed with Q1 GDP growth stronger than expected at 3.3% vs. Exp. 2.9% (Prev. 4.2%) albeit at a slower pace than the prior quarter and although Employment Change disappointed for April at 4.0k vs. Exp. 30.0k, Full-Time Employment actually increased by 92.4k and the Unemployment Rate declined to 3.9% from 4.0%, while Private Capital Expenditure for Q1 printed at a surprise contraction of -0.3% vs. Exp. 1.5% but yearly Capex estimates were revised higher.

ANNOUNCEMENT: The policy announcement is scheduled for Tuesday at 05:30BST/00:30EDT with the initial focus to be on the decision on rates in which a 25bps increase is likely to be viewed as a reserved hike and a more aggressive move will likely be supportive of AUD. Attention will then turn to the statement for any clues on the RBA's rate path as a more hawkish tone would likely reinforce views for a steeper rate path ahead.

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