



PREVIEW: RBA Rate Decision Scheduled for Tuesday 1st November 2022 at 03:30GMT/23:30EDT

- The RBA is expected to hike the Cash Rate Target by 25bps to 2.85% at its meeting on Tuesday, although there are outside calls for a more aggressive increase of 50bps.
- The central bank surprised markets at the last meeting whereby it slowed the pace of rate hikes, while it reiterated that future rate increases will be determined by data and the Board's assessment of the outlook for inflation and the labour market.
- The latest inflation data continued to move further above the 2%-3% target which increases the pressure on the RBA to revert to a more aggressive path.

OVERVIEW: The RBA is expected to continue hiking rates at its latest policy meeting on Tuesday with 28 out of 32 respondents surveyed by Reuters forecasting a 25bps increase in the Cash Rate Target to 2.85% from the current 2.60% and with the rest calling for a 50bps increase, while money markets are pricing in around 80% and 20% probabilities for 25bps and 50bps moves, respectively.

SURPRISE SLOWDOWN IN THE PACE OF RATE HIKES LAST MONTH: The RBA surprised markets at the last meeting in October with a smaller-than-expected rate hike of 25bps instead of the market consensus for a 50bps rise, although there were several hints made by the central bank beforehand regarding a future slowdown in the pace of tightening. The statement from that meeting suggested further upcoming hikes with the Board committed to returning inflation to the 2%-3% target range over time and it expects to increase interest rates over the period ahead, while it also reiterated that the size and the timing of future interest rate increases will continue to be determined by incoming data and the Board's assessment of the outlook for inflation and the labour market.

HIGHER INFLATION ADDS TO THE PRESSURE ON RBA: The latest annual inflation data from Australia increased with headline CPI YY for Q3 at 7.3% vs. Exp. 7.0% (prev. 6.1%) and the RBA's preferred Trimmed Mean CPI YY at 6.1% vs. Exp. 5.6% (prev. 4.9%), while PPI also accelerated in Q3 to 6.4% from 5.6% previously. Therefore, with inflation remaining firmly above the RBA's 2%-3% target band and as the central has reiterated that the size and timing of rate increases will depend on incoming data, this has stoked some expectations for a more aggressive approach with Westpac forecasting a 50bp rate hike from the RBA this week and CBA now seeing consecutive 25bps increases in November and December in the wake of the inflation data vs a prior view for a hold in December. Furthermore, NAB anticipates a 25bps hike on Tuesday, but believes that the inflation metrics mean the Board will likely debate a 50bps hike and NAB also noted that "In these circumstances, the RBA will need to move monetary policy into more clearly restrictive territory to ensure inflation returns to target".

ANNOUNCEMENT: The rate decision is set for 03:30GMT/23:30EDT in which the initial focus will be on the magnitude of the rate increase as an unexpected return to a 50bps move or a more aggressive tone in the statement will likely boost the AUD, while the currency could be pressured should the central bank opt to maintain the slower 25bps pace and refrain from any hawkish surprises in its rhetoric.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("Newsquawk") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.