



Preview: RBA Rate Decision Scheduled for Tuesday 7th February 2023 at 03:30GMT/22:30EST

- RBA is expected to hike the Cash Rate with 30/31 economists expecting a 25bps hike to 3.35% and money markets also suggest a 92% chance of such a move.
- Hot inflation saw market pricing leaning heavily towards a rate increase vs. a prior near-balanced view between a hike and a pause.
- Participants will be on the lookout for clues on future policy intentions with a recent Reuters poll forecasting the Bank hiking again in March before pausing for the rest of the year.

OVERVIEW: The RBA is to conduct its first policy meeting of the year on Tuesday where the central bank is likely to continue hiking rates with 30 out of 31 economists surveyed by Reuters expecting a 25bps rate increase to 3.35%, while money markets are pricing a 92% chance of such a move and just an 8% likelihood of a pause, although this was more balanced around two weeks ago when markets were pointed to near-even odds between a 25bps hike and keeping rates unchanged.

PRIOR MEETING AND RHETORIC: As a reminder, the RBA raised rates by 25bps at the last meeting in December which was as expected and it reiterated that the board expects to increase interest rates further over the period ahead but it is not on a pre-set course with the size and the timing of interest rate increases to depend on data and the assessment of the outlook for inflation and the labour market. The central bank also noted that inflation is too high and that the board's priority is to re-establish low inflation, as well as return inflation to the 2%–3% target over time, while the options it considered at that meeting were either a 50bps hike, a 25bps hike, or no change in the Cash Rate. Furthermore, the central bank's rhetoric was largely a reiteration and pointed to additional rate hikes ahead to contain inflation which spurred some adjustments to market forecasts as some had previously anticipated rates to peak at 3.10%.

HOT INFLATION SUPPORTS THE LIKELIHOOD OF FURTHER RATE HIKES: The recent data releases have continued to support the likelihood of a hike as inflation remained red hot for Q4 with CPI Y/Y at 7.8% vs. Exp. 7.5% (Prev. 7.3%) which was the highest since 1990. This boosted hawkish bets, resulting in money markets now heavily leaning towards a continuation of the rate hike cycle at the upcoming meeting and overshadowed the disappointing jobs data that showed Employment Change at a surprise contraction at -14.6k vs. Exp. 22.5k and the Unemployment Rate rose to 3.5% vs. Exp. 3.4% (Prev. 3.4%), despite a 20bps decline in the Participation Rate.

ANNOUNCEMENT: The rate decision is scheduled for 03:30GMT/22:30EST, while participants will be eyeing the language and if the central bank continues to point to further rate increases as there is debate regarding the central bank's next actions with Australia's largest bank CBA among those calling for a pause after this meeting. However, this goes against the median view from a recent Reuters poll for rates to continue increasing to 3.60% before the RBA pauses for the rest of 2023.

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