



## PREVIEW: RBA Rate Decision Scheduled on Tuesday 2nd May 2023 at 05:30BST/00:30EDT

- The RBA is expected to keep the Cash Rate Target unchanged at 3.60% as forecast by 26/34 economists surveyed by Reuters, while money markets price in a 91% probability of a pause and a 9% chance for a 25bps hike.
- The central bank kept rates unchanged at the last meeting which was the first time it paused after 10 consecutive rate hikes, although remained hawkish and kept the door wide open for a future resumption of rate hikes.
- Recent inflation data was mostly softer than expected which slightly favours a pause but a future resumption of rate hikes cannot be ruled out as CPI remains firmly above the central bank's target.

**OVERVIEW:** 26/34 economists surveyed by Reuters are forecasting the Cash Rate Target to remain unchanged at the current level of 3.60%, while money markets recently price in a 91% likelihood of a pause and just a 9% chance for a 25bps increase.

**RBA KEPT RATES UNCHANGED LAST MONTH BUT LEFT THE DOOR OPEN FOR A RESUMPTION OF HIKES:** As a reminder, the RBA kept rates unchanged at the last meeting in April which was the first time it paused after 10 consecutive rate increases, with the decision to keep rates steady to provide additional time to assess the impact of the increase in interest rates to date and the economic outlook. Despite the pause in rates, the central bank's rhetoric was hawkish as it stated that the Board expects some further tightening of monetary policy may well be needed and it remains resolute in its determination to return inflation to the target and will do what is necessary to achieve that. The minutes from the meeting also noted that the board considered a rate hike before deciding to pause and that it is important to be clear policy may be tightened again to curb inflation in a timely manner with inflation still too high, while RBA Governor Lowe stated during a speech the following day that the decision to hold rates steady does not imply interest rate rises are over and although he was not 100% certain they will have to hike rates again, he added that the balance of risks lean towards further rate rises.

**INFLATION DATA FOR Q1 WAS MOSTLY SOFTER THAN EXPECTED AND SLIGHTLY FAVOURS A CONTINUED PAUSE:** In terms of the recent data releases, inflation figures for Q1 were somewhat mixed and slightly favoured the likelihood of a pause as the headline CPI readings topped forecasts (QQ 1.4% vs. Exp. 1.3%, YY 7.0% vs. Exp. 6.9%) but all other components were softer than expected and supported the view that the economy had passed peak inflation. Nonetheless, a future rate hike cannot be ruled out given that inflation remains firmly above the central bank's 2-3% target.

**ANNOUNCEMENT:** The policy announcement is scheduled for 05:30BST/00:30EDT where the initial focus will be on the decision on rates, while the focus will then turn to the statement for clues regarding future policy and whether the central bank maintains its hawkish rhetoric which could provide tailwinds for AUD.

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