



## PREVIEW: RBA Rate Decision Scheduled on Tuesday 6th June 2023 at 05:30BST/00:30EDT

- The RBA is expected to keep the Cash Rate Target unchanged at 3.85% at its meeting on Tuesday as forecast by 21 out of 32 economists surveyed by Reuters, while money markets price in a 67% chance of rates staying at the current level.
- The central bank surprised markets last month with an unexpected hike, while its language remained hawkish as the Board expects that some further tightening of monetary policy will be needed.
- Recent data releases have weakened which supports the case for a patient approach, although another surprise hike cannot be ruled out due to elevated inflation.

**OVERVIEW:** The Reserve Bank of Australia is expected to keep rates unchanged at its meeting on Tuesday according to 21 out of 32 economists surveyed by Reuters, while money markets are pricing in a 67% probability for the Cash Rate Target to be maintained at the current level of 3.85% and a 33% chance of a 25bps hike.

**RBA SURPRISED MARKETS WITH A HIKE LAST MONTH:** The RBA surprised markets at last month's meeting when it delivered an unexpected rate increase to resume the policy tightening cycle with an 11th hike in 12 meetings, while its language remained hawkish as the Board expects that some further tightening of monetary policy will be needed and remains resolute in its determination to return inflation to target with the central bank to do what is necessary to achieve that. Furthermore, its central forecast is that it will take a couple of years before inflation returns to the top of the target range and it noted that although inflation has passed its peak, it is still too high at 7%. Governor Lowe also commented shortly after the meeting that the Board had a strong consensus to raise rates and is deadly serious about bringing inflation back down, while the RBA's quarterly Statement on Monetary Policy stuck with the hawkish tone in which it reiterated that it will do what is necessary to return inflation to target and some further tightening may be required to do that over a reasonable timeframe.

**RECENT DATA RELEASES HAVE WEAKENED, ALTHOUGH A SURPRISE HIKE CAN'T BE RULED OUT DUE TO ELEVATED INFLATION:** The language from the central bank clearly points to further rate increases, although some recent data releases have disappointed which supports the case for a patient approach after Manufacturing PMI returned to contraction territory last month and with Retail Sales sluggish, while jobs data showed a surprise contraction in the Employment Change and an increase in the Unemployment Rate to 3.7% from 3.5%. Nonetheless, another surprise rate hike cannot be ruled out given that inflation remains far from the central bank's 2%-3% target range as the latest monthly CPI rose to 6.8% vs. Exp. 6.4% (Prev. 6.3%) which boosted some tightening calls including from Goldman Sachs that raised its terminal rate forecast to 4.35% from 4.10% and now expects the RBA to hike by 25bps at both the June and July meetings.

**ANNOUNCEMENT:** The announcement is scheduled this Tuesday at 05:30BST/00:30EDT and aside from the decision on rates, attention will be on the statement and any changes to the central bank's language which is likely to remain hawkish given the high-inflationary environment, while participants will also be eyeing comments to validate the latest bout of upward adjustments in analysts' peak rate calls.

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