



PREVIEW: RBA Rate Decision Scheduled for Tuesday 1st August 2023 at 05:30BST/00:30EDT

- There are mixed views for Tuesday's RBA meeting with most analysts expecting a hike but money markets are pricing a pause.
- RBA kept rates unchanged at 4.10% last month but maintained a hawkish tone.
- Softer inflation data shifted pricing towards a pause, while the looming change of governor favours a patient approach.

OVERVIEW: There are mixed views regarding the RBA meeting on Tuesday as a recent Reuters poll showed 20 out of 36 economists surveyed expect the RBA to raise the Cash Rate by 25bps to 4.35% and the remaining 16 are calling for rates to be maintained at 4.10%, while money markets had priced in a 79% probability for the central bank to continue pausing on rates and just a 21% chance for a 25bps hike.

RBA PAUSED AT THE PRIOR MEETING BUT THE LANGUAGE REMAINED HAWKISH: As a reminder, the central bank kept rates unchanged at the previous meeting vs near-evenly split analysts' expectations between a 25bps hike and a hold, while the language remained hawkish as it noted that the Board remains resolute in its determination to return inflation to the target and further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but added that it will depend upon how the economy and inflation evolve. Furthermore, the minutes from that meeting revealed that the Board considered holding rates steady or hiking by 25bps and there was a strong case for both but it judged arguments for holding steady were stronger, while it agreed some further tightening may be required and would reconsider at the August meeting.

SOFTER-THAN-EXPECTED INFLATION TILTED MONEY MARKET PRICING TOWARDS A PAUSE WHILE THE LOOMING RBA GOVERNOR CHANGE ALSO FAVOURS A PATIENT APPROACH: Money markets had been pricing a near coin-flip between a 25bps hike and a pause for the upcoming meeting, although this has since shifted with market pricing now leaning heavily towards a pause following the release of softer than expected CPI data for Q2 which printed at the slowest quarterly pace of increase since September 2021 at 0.8% vs. Exp. 1.0% (Prev. 1.4%) QQ and at 6.0% vs. Exp. 6.2% (Prev. 7.0%) YY. However, a resumption of the hiking cycle cannot be ruled out given that inflation remains well above the central bank's 2%-3% target and Governor Lowe has stressed seriousness about getting inflation back to the target. Another key development that will also need to be considered is the government's recent decision to appoint Deputy Governor Bullock as the next central bank chief to replace Governor Lowe when the latter's term ends around mid-September, which leaves just two meetings under Governor Lowe's stewardship and could compel the central bank to wait for the incoming Governor to take charge before resuming its heavy lifting especially given that Lowe had faced fury over the RBA's past decisions to repeatedly hike interest rates.

ANNOUNCEMENT: The announcement is scheduled on Tuesday at 05:30BST/00:30EDT where the decision on rates is likely to spur the domestic currency given the disparity between analysts' expectations and market pricing. Focus will then turn to the statement for any clues regarding future policy and if the central bank continues to keep the door open for further tightening.

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