

Australia: Reserve Bank disappoints with 25bp hike

The market consensus was overwhelmingly looking for the Reserve Bank of Australia (RBA) to hike by 50bp today and the AUD's slide immediately after this decision reflects the market's disappointment



Governor of the Reserve Bank of Australia, Philip Lowe

2.60%

Lower than expected

25bp rate increase

Cash rate target

Not much justification for the smaller hike

Dredging through the text of [Governor Lowe's statement](#) accompanying this 25bp rate hike, there isn't a great deal there to explain the smaller-than-expected hike.

Towards the end of the statement, there is some talk of "global uncertainty" and also uncertainty about how the household sector might respond to tighter financial conditions (hopefully by spending at a slower rate?). Other comments note that the full extent of earlier tightening has

not yet been felt by households.

The statement does note some more positive offsetting factors – large financial buffers of the household sector and the strong labour market, but the sense that the statement gives is that the overriding concern the RBA has currently, is not to overdo the tightening on the way up and to tread carefully.

Erring on the easy side...

In short, it looks as if the period of 50bp rate hikes in Australia has come to an end. Yes, there is flexibility in the current statement text to allow for the possibility of 50bp hikes in the future if the data on inflation, growth, employment, wages, etc comes in too strong, but we sense from this text and previous RBA hints, that they would be far more comfortable erring on the side of caution.

As a result, we are scaling back our cash rate target forecasts, removing 25bp from the end-year forecast which we now see rising to only 3.10%, and reducing the peak Cash Rate forecast in 1Q23 to 3.35% from 3.60%. With inflation likely to be easing down through the back-end of 2023, we anticipate that the RBA can begin trimming its tightening in small increments by the end of 2023.

The AUD slid in the immediate aftermath of this decision, though it recovered most of the last ground later on, and was roughly unchanged going into the European trading session.

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