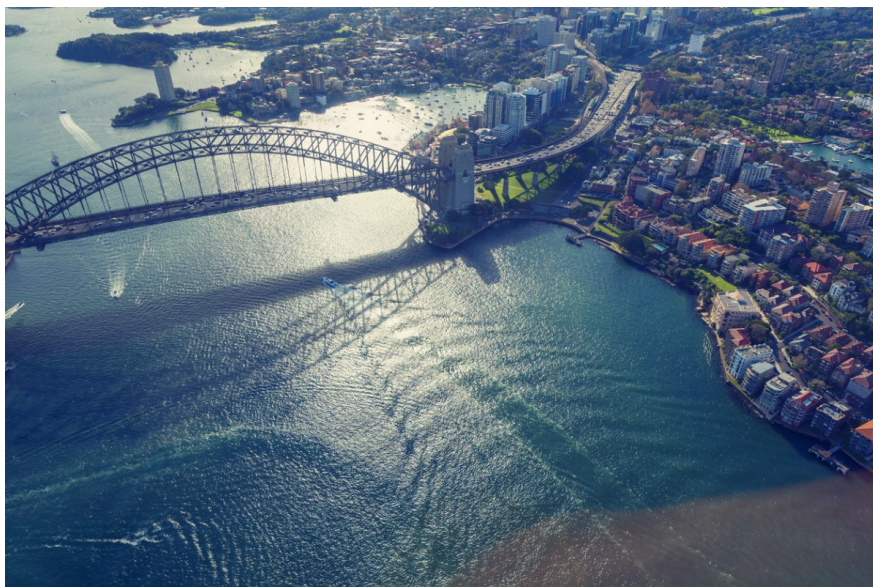


Australian 2Q19 CPI takes pressure off Reserve Bank

Despite recent dovish remarks from Reserve Bank (RBA) Governor Lowe, the improved CPI figures for 2Q19 take the pressure off any need for an imminent follow-up to recent back-to-back easing.



1.6% YoY

2Q19 inflation

Up from 1.3% in 1Q19

Higher than expected

Higher inflation, but still way below target

Australia's Central Bank (the Reserve Bank, RBA) has a tougher job than most central banks around the world, given that it targets an inflation range with a mid-point half a percentage point above most other developed-market central bank inflation targets .

So today's rise in the headline inflation rate to 1.6% in 2Q19, represents a welcome directional shift given the steep drop to 1.3% in 1Q19, but leaves a still substantial gulf to be filled to get inflation

closer to the medium-term target.

RBA outlook - nothing for now

So what does this mean for RBA policy?

In the short term, it means that the back-to-back cuts, with the most recent at this July's meeting, are probably enough for now. The government's tax cut package passed parliament this month too, which will deliver a tax rebate of AUD255 to AUD1,080 for many earners on tax returns now being filed. That should provide a lift to spending, and hopefully, in time, employment, wages and inflation. That said, these transmission channels are a lot weaker than they used to be, so the full extent of the outcome remains uncertain.

The RBA has not been silent on its view that fiscal policy needs to do its share of the heavy lifting to bring economic growth, employment and inflation back to a more reasonable path, and whilst it waits to see how this pans out, there seems little prospect that the RBA will need to provide any further monetary stimulus.

Longer term - possibly another cut

We still have a further cut penciled in for 4Q19. This isn't a particularly strong conviction call, especially in terms of the timing. But recent dovish comments by Governor Lowe indicate that the RBA may not have quite finished its easing yet. While we wait for the impact of the earlier monetary easing and the forthcoming tax rebates, we will retain a cautious outlook for policy, though it may be that we end up shifting this cut back into 2020, or even removing it entirely if the economic backdrop improves sufficiently.

Markets are still fully pricing in a further rate cut by the year-end, with a further cut of the cash rate to 0.5% partly priced in. This sounds too much for us.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central

Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.