

RBA cuts 25bp to 0.75%

Despite the many arguments for not easing, the RBA has cut rates again by 25bp, taking the official policy rate down to 0.75%.



Reserve Bank of
Australia Governor
Philip Lowe

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0.75% Policy rates
Down 25bp

As expected

A cut in line with consensus

Although this cut was in line with the consensus view, there was, in our opinion, still a very strong case for not moving at this meeting. The RBA now has only three (or possibly even fewer) more conventional cuts available to them before they will have to venture into unconventional monetary easing territory - negative rates, QE, or bond yield targeting.

With the economy, according to Governor Lowe, at a turning point, this latest cut may turn out to have been unnecessary. If so, the comment in the statement that it would be reasonable to "expect an extended period of low rates", might need the qualifier "but they may also have to go

up a little bit too if we are right about the economy turning".

RBA could still ease some more

The statement also noted that further easing was possible - of course - to have said otherwise would have been to turn this into a hawkish cut and undo any good it might have done. but that doesn't mean this comment needs to be taken strictly at face value.

The statement adds that inflation was likely to remain subdued for some time, which may be a problem for a central bank that is running out of room to ease. But it also noted also that the main uncertainty for policy was the outlook for consumption. This is where the modest, albeit positive upturn in wages, and the apparent stabilization of the housing market could prove very handy in the months ahead. Although they clearly weren't persuasive enough this time to stay the hand of the RBA.

AUD not much moved

The AUD had been running stronger into this release but gave back most of that in the minutes following. It is currently closer to 0.67 than 0.68, but looks reluctant to move conclusively lower, probably because so much easing (80% of the cut) had already been priced into today's decision. Further price movements may depend on Governor Lowe's remarks at a dinner in Melbourne later today, in which he may choose to finesse expectations for future rate movements or provide more clarity on the focus on consumer spending, as opposed to the recent focus on the labour market.

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