

RBA cuts - statement very balanced

If we were hoping to see evidence of further cuts ahead, then this was notable by its absence in Governor Philip Lowe's statement. We are happy to have one more cut penciled in for August, but the market may have gone too far.



1.25%

RBA Cash rate

Down 25bp

As expected

Cash rate cut from 1.5% to 1.25%

After more than 3 years, the Reserve Bank of Australia has cut policy cash rates from 1.5% to 1.25%. The cut was almost universally expected. Data since the last meeting has been on the softer side, with weaker PMI indices, and soft retail sales today notable downside misses. Though on the plus side, it does look as if there may be some tentative signs of stabilisation in the Sydney housing market.

Statement very balanced

The full statement of Governor Philip Lowe that accompanied the cut was very balanced. Indeed, it is hard to view the easing bias to policy remaining from reading the text. Global trade tensions, soft consumer spending, undershooting inflation, and mediocre wages growth were given as factors supporting the easing. But there were plenty of positives highlighted as well. These included the strength of the labour market, increased investment in infrastructure, declines in money market rates and improvements in the resources sector were some of the high spots.

Maybe one more cut

Our forecast is for just one more policy rate cut of 25bp in August taking the cash rate down to 1.0%. Given the race by other forecasters to be the most aggressive in penciling in cuts in recent weeks, this feels a good position to be in. But even our forecast cut is now data dependent and may prove to be too aggressive.

The AUD has responded as you might imagine to this statement by rallying to the higher end of 0.69. We might not have a 0.6-something exchange rate for too much longer if the data firms.

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>.