

## 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.

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