

# Reserve Bank of Australia drops its tightening bias

The Reserve Bank of Australia (RBA) is still not ruling out hikes, but it has moved to a more neutral setting as far as its guidance is concerned



Source: Shutterstock

## What has changed?

The RBA met today to discuss policy, but there was no expectation of any rate change today, and the entire focus of the market was on the RBA's statement and guidance.

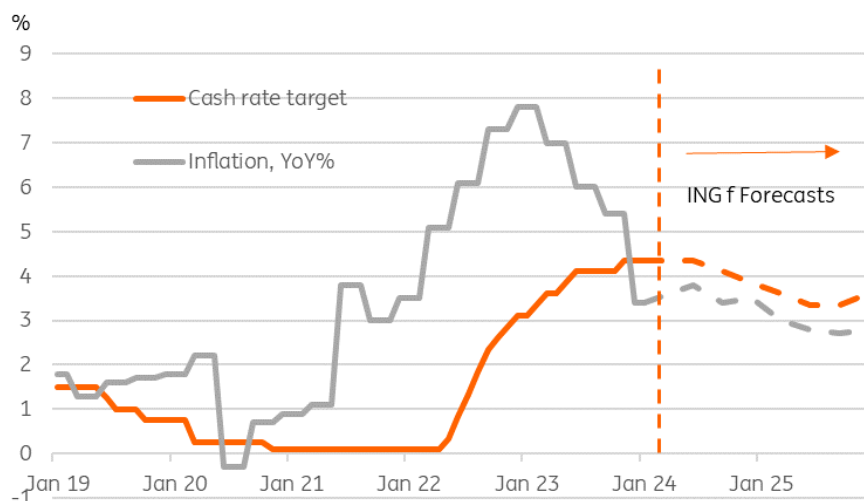
The sum-total of what markets are reacting to today amounts to eleven words, these are "...and a further increase in interest rates cannot be ruled out". These eleven words were in the February RBA statement. but were replaced in the March statement by "...and the Board is not ruling anything in or out".

In central-bank-speak, this means that the RBA is signalling that it has a neutral outlook on rates, whereas before, it had a tightening bias.

This isn't much of a change and such a tweak to the statement looked quite likely following the recent run of data, which has included confirmation that the economy is slowing according to

recent GDP data, as well as some softer labour market data. The inflation outlook has also improved considerably, with the big drop in inflation in December not reversing as was widely expected in January, though the February data point looks likely to show some back-slippage, which is maybe why the RBA is keeping its options open for now, rather than moving straight to an outright easing bias.

## Cash rates and inflation forecasts



## Markets have moved a bit but this was not totally unexpected

The impulse response to this development was for the AUD to weaken slightly, though it remains above 65 cents against the USD, and the market moves have, so far, been quite modest.

Cash rate futures are now more fully pricing in two cuts before the end of this year, whereas before, the second cut was only about 61% priced in. Markets are still not totally convinced about the second cut though.

Australian government bond yields have declined along the curve. 2Y yields are down about 6 basis points, while the 10Y bond yield has declined by about 5bp relative to its pre-RBA decision yield and is now down to 4.08%

## Two cuts this year seems a reasonable guess

Although the near-term inflation path still presents a slight risk to the rate outlook, we think that inflation will have fallen sufficiently far by the third quarter of this year to enable the RBA to cut the cash rate target by 25bp. We also think that by the year-end, slowing growth and further inflation declines will be enough to deliver a second rate cut. Where this leaves bond yields and the AUD will probably be more influenced by the US and Fed rate policy than local developments, and there are still huge question marks hanging over that.

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto: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>.