

Reserve Bank of Australia raises rates again

Australia's Reserve Bank raised its cash rate target a further 50bp to 2.35% at its meeting today. Rates may now increase at a slower pace over the remainder of the year, and AUD may struggle to recover amid external challenges



The Reserve Bank of Australia today hiked rates by 50bp

2.35%

Cash rate target

+50bp

As expected

A hike today was never in doubt

Today's 50bp hike in the cash rate target to 2.35% was comfortably the median expectation of forecasting analysts, though there were still a few who thought the Reserve Bank of Australia (RBA) might deliver a smaller 25bp hike. The logic for the smaller rate hike view stemmed from the language in the [previous meeting's statement](#) that there was no predetermined path for rates,

though as it turned out, while that is probably true, it was not code to indicate a slowdown in the pace of tightening.

Now what?

But now we are at 2.35%, which by some reckoning is close to a "neutral" rate that neither stimulates nor restricts the economy, there is a greater chance that rates may now continue to be raised at a slower pace.

[The latest statement](#) to accompany today's decision repeats much of the text from the pivotal paragraph from August's meeting on future rate decisions. Namely: "The Board expects to increase interest rates further over the months ahead, but it is not on a pre-set path. The size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market." This doesn't give much away and is essentially no change from August.

But one factor that may enable the RBA to tighten at a more moderate pace from now on is the fact that unlike some other central banks, such as the US Federal Reserve, the RBA meets monthly, so 25bp hikes at each of the remaining meetings this year will still take policy rates to the lower end of a restrictive setting by the year-end. And given the lags from policy changes to the real economy and inflation, tightening in 25bp increments from now on may be viewed as prudent and limiting the risks of over-tightening and damaging the economy unnecessarily. Such an approach would give more time for the economy to show signs that it is beginning to respond to the RBA's tightening "medicine", though of course, if the economy and inflation do not respond satisfactorily, there is nothing to stop further 50bp hikes.

AUD remains vulnerable

The RBA policy has not been a major driver of AUD moves since the start of the year and today's quite muted reaction to the 50bp rate hike is another case in point. Incidentally, a switch to 25bp rate increases from now on may force some dovish re-pricing in the RBA rate expectation curve.

As external factors – in particular risk sentiment and China's outlook – remain key for the AUD outlook in the near term, downside risks are still quite elevated. Our forecasts for AUD/USD still embed a small recovery by year-end but are mostly justified by USD seasonal weakness in December and any rally may still struggle to go far beyond the 0.70 mark.

Authors

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Francesco Pesole

FX Strategist

francesco.pesole@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>.