

Reserve Bank of Australia's Lowe talks up rate cuts

At a speech to the Queensland branch of the Economic Society of Australia, Governor Lowe said the RBA would discuss rate cuts at their next meeting.

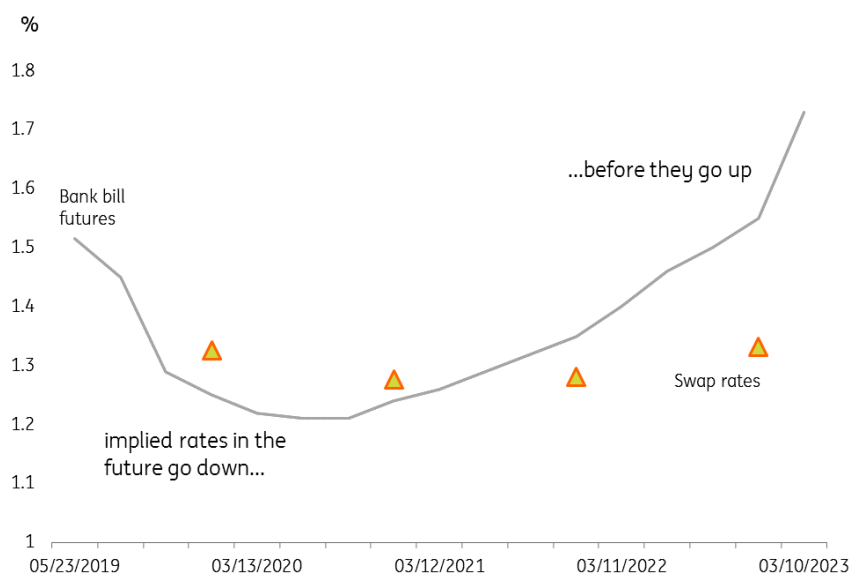


We are already looking for 2 cuts this year

We penciled in two 25bp rate cuts by the RBA this year at [our last forecast update](#), following on from the very weak 1Q19 inflation figures (1.3%YoY). RBA Governor, Lowe seems to agree, noting at his speech on Tuesday that inflation would not likely reach its 2-3% target range without further falls in the unemployment rate, and that achieving this would be easier with some additional monetary support.

"Given this assessment, at our meeting in two weeks time, we will consider the case for lower interest rates".

Implied future policy rates from bank bill futures



Source: Bloomberg
Bank bill futures

RBA now has a clear easing bias

Why two 25bp cuts? Well, if the argument is strong enough for one, then we figure it is probably strong enough for at least two. There are some in the market now calling for a total of 100bp of easing, though we don't believe things have come to that just yet.

Our 2Q19 forecast of AUD/USD 0.69 has already been achieved, and now exceeded, with the AUD trading below 0.69 today. We clearly have to re-look at that forecast with a view to a lower trough should we get the two rate cuts we now expect. That said, markets are already aggressively pricing easing, so the additional AUD weakening may not be substantial.

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