

THE CASH RATE OUTLOOK

RBA Board Decision – The Waiting Game

Tuesday, 6 September 2011

- Some more strokes of dovish language crept in to the Reserve Bank’s statement today, largely in relation to the world economy.
- The RBA remains worried about the uncertainty and volatility in global financial markets and the world economy and how this uncertainty will play out. At the same time, the RBA is still concerned about the medium-term inflation outlook.
- The competing worries continue to suggest to us the RBA remains on the sidelines. We continue to forecast no change in rates this year unless global developments deteriorate markedly.

Another meeting and some more dovish language crept in to the Reserve Bank’s statement. But the dovish language was largely in relation to the world economy.

The Reserve Bank (RBA) remains worried about the uncertainty and volatility in global financial markets and the global economy. At the same time, it also remains worried about the medium-term inflation outlook. While it remains concerned about the inflation outlook, the RBA questions the extent to which softer global and domestic growth will work over time to contain inflation.

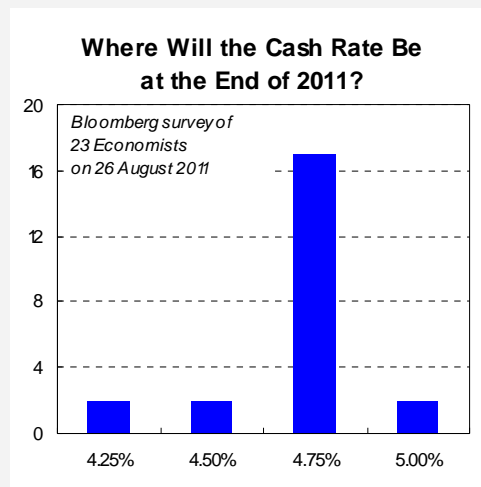
Clearly, the RBA is grappling with the higher than usual uncertainty in the global economy and what it means for the domestic growth and inflation outlook. In the previous statement published in early August, the RBA noted that the “central scenario for the world economy over the next couple of years envisaged by most forecasters remains one of growth...above long-term averages”. In today’s statement, the RBA omitted this sentence and instead chose to acknowledge that a number of forecasters have scaled back their global growth estimates.

The RBA notes that at this stage there is little evidence to gauge any effects of the European and US problems on other regions and so far growth in China is continuing to look solid. However, it suggests further to us that the RBA would like a clearer picture of the world economy and is unlikely to alter rates until a clearer picture is evident.

Another stroke of dovishness appeared in the final paragraph of the statement where the RBA removed the critical sentence “...the Board considered whether the recent information warranted further policy tightening.” So the Board might now be more open to the possibility of rates moving down.

Overall, however, the testimony to us continues to suggest one of the RBA staying on the sidelines, waiting and assessing coming data and developments.

A move before the next CPI report due on October 26 is unlikely and we suspect that for rate cuts to become reality we would need to see some evidence in this CPI report of an easing in underlying inflation pressures as a result of softer global and domestic growth. We suspect that this CPI report will not do so and that the RBA will continue to sit pat on rates for the rest of this year unless the global situation deteriorates markedly.



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