

Macro + FX Strategy

RBA: How Low Can You Go?

Tuesday, 01 October 2019

Lee Sue Ann

Economist

Lee.SueAnn@uobgroup.com

Peter Chia

Senior FX Strategist

Peter.ChiaCS@uobgroup.com

The Reserve Bank of Australia (RBA) slashed its official cash rate (OCR) by 25bps to a new record-low of 0.75%. Compared to the [accompanying statement in September](#), the concluding paragraph of [today's accompanying statement](#) was slightly different: "It is reasonable to expect that an extended period of low interest rates will be required in Australia to reach full employment and achieve the inflation target". The Board will continue to monitor developments, including in the labour market, and is prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target over time".

The new record-low OCR of 0.75% is the third cut this year as the central bank tries to push the unemployment rate lower, and inflation and wage growth higher. RBA Governor Phillip Lowe explained that although the "outlook for the global economy remains reasonable, the risks are tilted to the downside", with the US-China trade dispute affecting global trade and businesses scaling back their investment. Lowe added that it was "reasonable to expect that an extended period of low interest rates will be required", and that the RBA is "prepared to ease monetary policy further".

We had thought the RBA would prefer more time to evaluate the impact of the rate cuts in June and July, and wait out for further developments on the economic front. However, Australia's labour market had weakened slightly in August. The unemployment rate rose to 5.3% from 5.2% in July, above expectations for 5.2%. Underutilization and underemployment rates also rose for the month, to 13.8% and 8.6%, respectively. Nonetheless, the participation rate continued to rise, and hiring momentum remained supportive.

By the next RBA meeting on 5 November, the RBA will have received more data on inflation (3Q19 data will be due on 30 October), as well as additional labour market information (September data will be due on 17 October). For now, there are good reasons for the RBA to remain on a "wait-and-see" approach, especially since there are only three quarter-point cash rate cuts left before Australia joins the "exclusive" group of central banks in the world with zero and negative interest rates.

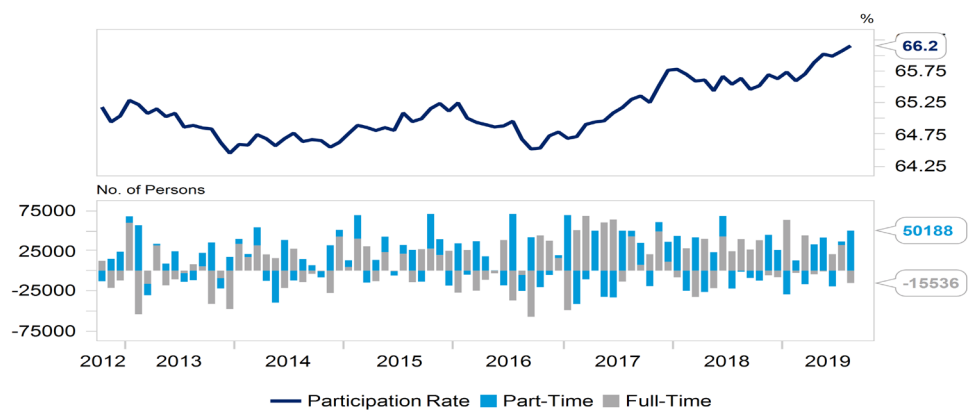
We are still of the view that the RBA is on a "wait-and-see" approach. Following today's cut, we are now revising our forecast for a steady OCR of 0.75% for the rest of this year. That said, further easing cannot be ruled out. We will, as such, keep watch on global trade tensions; whilst on the domestic front, soft consumer spending, undershooting inflation, and mediocre wages, will be factors that may prompt us to revise our view further ahead.

AUD/USD May Dip Below 0.67 In The Near Term, Before A Modest Recovery Toward 0.69 By End-2019

AUD/USD dropped to 1-month lows near 0.67 even as the 25bps rate cut today was largely expected by financial markets. With Governor Lowe keeping the door open to further easing subject to uncertainty in US-China trade conflict and broad USD strength, it will not be surprising if AUD/USD dip below its key support level of 0.67 in the near term. However, steep losses in AUD are not expected as most of the bad news may already been in the price of the AUD. Together with a "gentle turning point" (as cited by Lowe on 24-Sep) in the Australian economy and our expectations of 2 more Fed rate cuts (of 25bps each) from here, we maintain our view of a gradual turnaround in AUD/USD, towards 0.69 in 4Q19 and 1Q20, followed by 0.70 in 2Q20 and 0.71 in 3Q20.

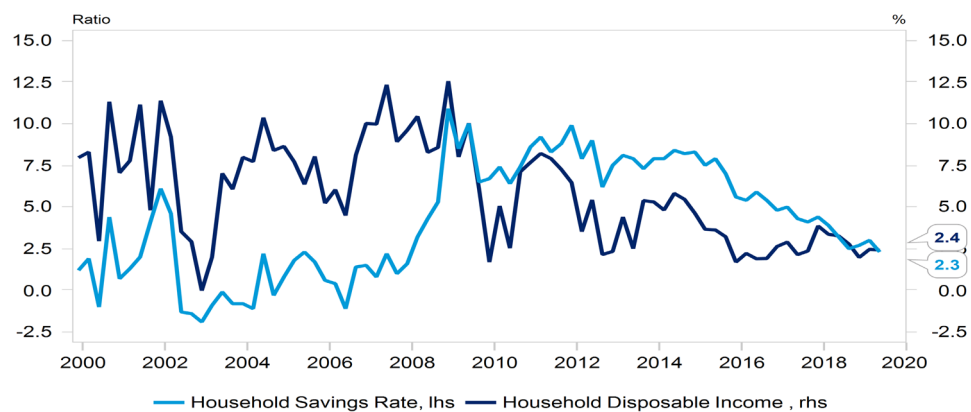
Participation Rate Higher But Full Time Employment Falls

Source: Macrobond, UOB Global Economics & Markets Research



Household Savings Ratio At Lowest Level Since Global Financial Crisis

Source: Macrobond, UOB Global Economics & Markets Research



Recent Publications

[The Central Bank Watch](#), 01 Oct 2019

[China: More Upbeat September Manufacturing PMIs](#), 30 Sep 2019

[Vietnam: 3Q GDP Growth Accelerates To 7.3%, Beating Expectations](#), 30 Sep 2019

[Malaysia: FTSE Russell Retains Malaysia But Still On Watch List](#), 27 Sep 2019

[Philippines: A 25bps Back-To-Back Rate Cut To 4.00%](#), 27 Sep 2019

[Singapore: Dismal Manufacturing Pace Raises Risk Of Technical Recession](#), 26 Sep 2019

[Month In Review](#), 26 Sep 2019

[Thailand: BoT Keeps Policy Rate Unchanged At 1.50% In Sep](#), 25 Sep 2019

[RBNZ On Hold But Leaves Door Open For Cuts](#), 25 Sep 2019

[Malaysia: August Inflation Inched Up To 1.5%](#), 25 Sep 2019



Scan the QR Code for a list of all our reports

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.