

RBA hints at longer rate rise delay

June 21, 2011 - 9:54AM

<http://www.watoday.com.au/business/rba-hints-at-longer-rate-rise-delay-20110621-1gcrg.html>

Another interest rate rise is still on the agenda, but its timing has been pushed back, the minutes of the RBA's June 7 monetary policy meeting indicate.

The Reserve Bank of Australia is sticking with its central forecast of a pickup in economic growth to an "above trend" pace, which would be expected to cause a "gradual pick-up in inflation".

"This outlook suggested that a further tightening in monetary policy would be necessary at some point", the RBA said in the minutes of the meeting of its board, released today.

The dollar fell about half a US cent to \$US1.0567 after the release of the minutes.

The mention of a rate rise probably being necessary "at some point" was a repetition of the phrase used twice last month - in the quarterly monetary policy statement and the minutes of the May 3 policy meeting - and again last week in a speech by RBA governor Glenn Stevens in Brisbane.

But the minutes indicate a rate rise may not come as quickly as previously supposed.

"Members considered, however, that the flow of data over the past month had not added any urgency to the need for an adjustment of policy," according to the minutes.

Still two rate rises possible

Nomura chief economist Stephen Roberts said the timing of the next rate hike has been largely suspended.

"That implies it is unlikely there will be a cause for them to raise rates in for example July, the next potential live meeting would be August after the release of the CPI (consumer price index) figures in July."

Mr Roberts said he still expects the RBA to raise the cash rate at least twice before the end of the year.

"The only issue is determining when that cycle will start. "It has become a meeting by meeting proposition," he said.

Global uncertainty

The motivation for this apparent softening of the RBA's line on a rate rise seems to have come partly from abroad, with economic data indicating slower growth in activity globally.

The RBA detailed the rising tide of uncertainty surrounding Greece's sovereign debt problems, its effect on share prices and foreign exchange market volatility, and a softening of momentum in the US economy, albeit against a background of still-strong growth in Asia.

There was also a familiar list of negatives from the domestic economic front. They included weakening investment plans outside mining, caution among households, a weak housing market and a slowdown in employment growth from the rapid pace of late 2010.

The background was still strong, with further evidence of strength in mining-sector investment, notably in mining and the terms of trade - the ratio of export prices to import prices - expected to peak in the current quarter.

But the signs of a softer outlook, both locally and internationally, were enough to soften the RBA's line as well.

"Accordingly, members judged that it would be prudent to leave the stance of monetary policy unchanged, pending further data on the strength of the international economy and on the strength of domestic demand and inflationary pressures," the minutes concluded.

The catch-all nature of that comment suggests there will be more to the next interest rate decision than the just the official Australian inflation data on July 27, casting more doubt on the possibility of a rate rise at the coming meeting of the RBA on August 2.

Eyes on Greek crisis

JPMorgan economist Helen Kevans said there appeared to be little chance of a rate hike in July, while any move in August would depend on how the Greek debt crisis played out.

"We are still looking at August, provided the troubles offshore, mainly those in the Euro area, do start to subside," she said. "If we are seeing continuing problems in Greece and surrounding areas, and they do start to impact financial markets, that might leave the RBA preferring to sit on the sidelines in August."

Ms Kevans said the minutes suggested the RBA's medium term outlook had not changed.

"We are still going to have this massive terms of trade and investment boom that will mean interest rates do have to go higher," she said.

The RBA board next meets on Tuesday, July 5.