RBA tipped to sit tight

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BORROWERS are set to be spared a rate rise for at least another month, with economists tipping the Reserve Bank will leave monetary policy unchanged next Tuesday. All 16 economists surveyed by AAP forecast that the RBA would leave the overnight cash rate at 4.5 per cent for a second consecutive month at the board's meeting on Tuesday, July 6. Concerns about sovereign debt in Europe and weak economic data in the US recently have sent jitters through financial markets because the recovery in the world economy is looking slower than had previously been expected. RBC Capital Markets senior economist Su-Lin Ong said the RBA would stay on hold next week. "It is a combination of the very uncertain global backdrop and increasing downside risk to global growth," Ms Ong said. "Coupled with some very clear signs that the rate hikes are working their way through the system with some patchy local data as well." But nine of the economists predicted that the RBA would lift the cash rate by a quarter of a percentage point to 4.75 per cent after inflation data for the June quarter is released on July 28. This would increase monthly repayments on an average $300,000 mortgage for 25 years by $69. UBS senior economist George Tharenou forecast that the RBA would lift the cash rate in August. "Recent comments from the RBA clearly indicated a desire to see the next CPI [consumer-price index] point to assess the inflation outlook," Mr Tharenou said. The central bank uses monetary policy to keep inflation between 2 and 3 per cent over the economic cycle. Inflation, as measured by the CPI, was an annual 2.9 per cent to March 31, Australian Bureau of Statistics data showed. Underlying inflation, the RBA's preferred measure as it excludes volatile prices, was at a yearly rate of 3.05 per cent in the March quarter. Despite inflation being at the top of the RBA's target band, debt futures markets are pricing a 40 per cent chance of a 25 basis points cut to 4.25 per cent by the end of 2010 and no rate rises over the subsequent year. TD Securities senior strategist Annette Beacher said the likelihood of the RBA cutting interest rates was remote unless there was another financial crisis. "With inflation hugging 3 per cent, and the RBA is an inflation targeting bank, yes, they may stay on hold. But, will they cut? Absolutely not," Ms Beacher said from Singapore. "The only way they will cut is if there is another travesty in the global market." She forecast the RBA to lift the cash rate to 5.25 per cent by year end and to 5.5 per cent by the March quarter of 2011. National Australia Bank senior economist David de Garis said the boost to national income from increases in contract prices for iron ore and coal exports was still to filter through the economy. "We have not really seen the economic effects of that yet," he said. He said NAB forecast the central bank to lift the cash rate twice in the December quarter to 5 per cent.