

[RBA leaves rates unchanged, on a neutral footing - economists](#)

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The Reserve Bank of Australia (RBA) has left interest rates on hold for the fourth month in a row and signaled the end to its recent rate cutting cycle, economists say. The central bank left the cash interest rate at three per cent after its board meeting on Tuesday in a decision that was widely expected. In a statement accompanying the decision, RBA governor Glenn Stevens indicated monetary policy was now on a neutral footing. "The board's judgment is that the present accommodative setting of monetary policy is appropriate given the economy's circumstances," Mr. Stevens said. "The board will continue to monitor how economic and financial conditions unfold and how they impinge on prospects for sustainable growth in economic activity and achieving the inflation target." Nomura Australia chief economist Stephen Roberts said the absence of any commentary referring to the potential for rates to be cut further meant the RBA had ended its easing cycle. "They have brought back a policy bias, from an easing bias back to neutral," Mr Roberts said. "They've taken out all wording referring to a capacity to lower rates further. "But it could be quite a lengthy period on hold because inflation is coming down and the outlook on the economy is still fairly mixed." The RBA had cut the cash rate by 425 basis points between September last year and April this year to its current three per cent. Mr Stevens said economic conditions in Australia have been stronger than expected a few months ago, with both consumer spending and exports showing resilience. "Measures of confidence have recovered a good deal of ground," he added. "This suggests that the risk of a severe contraction in the Australian economy has abated." Mr Stevens said while the risks to the global economic outlook had diminished, they had not disappeared. "There is tentative evidence that the US economy is approaching a turning point, but conditions in Europe are still weakening. "Growth in China, in contrast, has been very strong in recent months, which is having an impact on other economies in the region and on commodity markets." Colonial First State head of investments markets research Stephen Halmarick said the chance of more rate cuts had diminished. "It seems they have gone back to a neutral bias," Mr. Halmarick said. "They say current settings are appropriate given the circumstances and that is consistent with the message the governor has been sending out in the past few weeks." I read this statement as a continuation of what he told us at the ABE (Australian Business Economists) speech last Tuesday." The RBA governor was cautiously optimistic about the outlook Australian economy, saying growth was likely to firm into 2010. "It is pleasing the RBA has says there is more hope for improved conditions in the months ahead, but there are a few notes of caution, which I think is warranted," Mr Halmarick said. Financial markets will now be looking ahead to the next set of forecasts for growth and inflation in the RBA's

quarterly statement on monetary policy to be released on Friday, August 7. "That will probably give us an idea on timing on when they might adjust policy outwards," Mr Halmarick said. "For the moment, they will pretty happy to let the recovery run for a couple of months." Head of research at financial markets research group 4Cast, Ray Attrill, said the statement indicated the RBA had shifted to a neutral stance for monetary policy. Mr Attrill said there were fears, reflected in market pricing, that the central bank would shift immediately to a tightening bias. "That evidently hasn't happened," Mr Attrill said. "It's distinctly neutral, which is inconsistent with where the market is priced. "The market had a better than 50 per cent chance of a 50 basis point rate rise by Christmas. "I don't think there is anything in the statement to encourage the view that the RBA could be tightening as early as late 2009." Mr Attrill said money markets had rallied slightly as an immediate, "knee-jerk" reaction to the RBA statement. He said market players would be cautious ahead of Friday's RBA quarterly statement on monetary policy, where the central bank will publish its updated forecasts on inflation and growth. "I think the market is very cautious about pricing out too much in terms of future tightening until it sees both the revised forecasts on Friday and the explicit narrative," Mr Attrill. "I think we are going to see both upward revisions both to growth numbers and to the inflation numbers. "On inflation, probably what is key is the out-years forecasts, those for two years' time."