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## RBA rate cut and what lies ahead

Written by Darryl Bruce

As predicted by the market, and not so much by your friendly bond correspondent, the RBA cut the cash rate in February. Given it was already priced in, there wasn't much of a market reaction to discuss. Since the decision, there has been a lot of discussion about whether it was a political move or whether the RBA was simply wary of not disappointing the market.

Either way, the cut happened, and it is time to look forward. In that regard, the accompanying statement from the RBA always makes for interesting reading. This time the statement was quite balanced and aimed to temper expectations that it might be the start of a succession of cuts with comments like... *"So, while today's policy decision recognises the welcome progress on inflation, the Board remains cautious on prospects for further policy easing"*.

The RBA also addressed the elephant in the room stating that *"Uncertainty about the outlook abroad also remains significant. Geopolitical and policy uncertainties are pronounced and may themselves bear down on activity in many countries if households and firms delay expenditures pending greater clarity on the outlook"*.

Finally, the statement went on to say *"The Board's assessment is that monetary policy has been restrictive and will remain so after this reduction in the cash rate. Some of the upside risks to inflation appear to have eased and there are signs that disinflation might be occurring a little more quickly than earlier expected. There are nevertheless risks on both sides"*.

So perhaps an easing bias, especially given comments about policy remaining restrictive post the cut and the progress made on inflation, but on the whole a foot firmly on either side of the fence. As it stands, the market is projecting that the cash rate will be 3.6% at the end of the year. Meaning that a further two 0.25% cuts are priced in, with the next one potentially around July.

As ever, economic dataflow will be keenly watched by the RBA and other market participants. The latest monthly CPI data, for January, came in at 2.5% which is the mid-point of the RBA's 2% - 3% target range. The trimmed mean, which excludes some of the more volatile items, was also in the range albeit slightly higher at 2.8%. The RBA will surely be happy with these readings following an extended period, going back to mid 2021, where inflation has been >3%.

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