Maybank

FX Flash

AUD - A More Confident RBA Pivots Dovish

FX

Global

“Upside Risks (to Inflation) Appear to Have Diminished”

RBA cut cash target rate by 25bps, in line with expectations including our own, taking the policy rate from 4.10% to 3.85%. There were quite a number of calls for a hawkish cut but we had warned in our GM daily (20 May) and FX Monthly Issue 4 that this is a cut that is unlike the one in Feb. With underlying inflation back within the 2-3% target range, deterioration in business conditions and a flat growth for retail sales in 1Q, we had looked for the RBA to make a more decisive dovish pivot this time and this dovish pivot is unlikely to be priced in and that in turn posed downside risks to the AUD.

Global Trade Policy Uncertainty Has Risen Substantially

GDP forecast was downgraded to 1.8% for year ending Jun 2025 and then to 2.1% for Dec 2025 from 2.0% and 2.4% respectively. Trimmed mean inflation is shaved to 2.6% for Jun 2025-Jun 2027 vs. 2.7% seen before. Unemployment rate is now expected to rise further to 4.3% by end 2025 compared to 4.2% seen in Feb. Taking into consideration the downside revision for GDP growth and inflation metrics, we see this as a dovish pivot and that RBA is now ready to cut more if necessary. This was a dovish cut, in line with our call.

Outlook Remains Uncertain - And so a Worst Case Scenario is Devised Amongst Others

Based on the worst case scenario (where US imposes all of Liberation Day tariff rates and retaliations by all countries), GDP would be more than 3% below baseline, unemployment rate would rise to nearly 6%.

Bullock’s Presser - A Confident Cut and the Discussion of a Bigger 50bps

The governor spoke about this cut being a “confident cut”, noting that the board is confident that this is the right course of action at this time. She said that this decision to cut was reached via consensus” and the option of a 50bps cut was discussed, triggering further AUD decline.

The Hurdle to Cut More Is Lowered

The hurdle for future rate cuts is lowered at the meeting today with the mention of a bigger cut of 50bps and RBA’s projection (and confidence) that underlying inflation would remain near the middle of the target range over the 2Y forecast period (2025-2027). These factors suggest that the central bank is ready to react to further growth shocks. As such, markets now look for more rate cuts this year (-67bps today), shifting from another 50bps cut seen to a greater probability of a third cut for this year.

Near-term AUD Underperformance Before Recovery

We see a possibility that AUDUSD may continue to trend lower towards the 0.63-figure in the near-term before making a gradual recovery for the rest of the year. Much of AUDUSD price action could be two-way trade this year, caught between opposing forces of USD weakness and global growth slowdown.

Before this, RBNZ had been the more aggressive rate cutter while RBA was the unwilling one. We see potential for AUDNZD to head lower toward 1.0690 as markets continue to adjust to the policy convergence between two antipodean central banks.

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RBA Cuts Cash Target Rate for the Second Time This Cycle

RBA cut cash target rate by 25bps, in line with expectations including our own, taking the policy rate from 4.10% to 3.85%. A number of economists had expected this to be a hawkish cut but we had forewarned in our GM daily that this is a cut that is unlike the one in Feb. With underlying inflation back within the 2-3% target range, deterioration in business conditions and a flat growth to retail sales in 1Q, we had looked for the RBA to make a more decisive dovish pivot this time and this dovish pivot is unlikely to be priced and that in turn poses downside risks to the AUD.

Global Trade Policy Uncertainty Has Risen Substantially

Of note, the RBA highlighted in its quarterly Statement on Monetary Policy that the trimmed mean CPI has slipped under the 3.0%. With headline inflation at 2.4% in 1Q, inflation is now within target 2-3% range and there are signs that people are more cautious in their spending. Despite the positive developments on the trade front of late, global trade policy uncertainty has “risen substantially” since the early Apr. RBA seems to have become more confident on the inflation outlook than before. Underlying inflation is now expected to be around the midpoint of the 2-3% range throughout much of forecast period.

There was quite a bit of calibrations done for its macro outlook by the RBA. GDP forecast was downgraded to 1.8%y/y for year ending Jun 2025 and then to 2.1% for Dec 2025. Trimmed mean inflation is shaved to 2.6% for Jun 2025-Jun 2027 vs. 2.7% seen before. Unemployment rate is now expected to rise further to 4.3% by end 2025 compared to 4.2% seen in Feb. CPI inflation is now expected to fall to 2.1% in Jun 2025 before rising again due to temporary measures and the central bank is prepared to look past that. In the statement accompanying the decision, RBA noted that a severe downside scenario was considered and assured that the central bank is able to ease monetary policy further to respond to “international developments” that have adverse effects on activity and inflation in Australia. Taking into consideration the downside revision for GDP growth and inflation metrics, we see this as a dovish pivot and that RBA is now ready to cut more if necessary. This has panned out to be a dovish cut, in line with our expectations!

Outlook Remains Uncertain - And so a Worst Case Scenario is Devised Amongst Others

There were plenty of reminders throughout the decision statement as well as the SoMP that the RBA would continue to monitor data and even as risks to inflation has become more balanced, **the central bank is still mindful of the considerably uncertainty about the outlook due to potential shocks to demand and supply.** The assumption is for cash rate to end the year around 3.4% from the current level of 3.85% but that does not mean that RBA cannot cut deeper to 3.10%.

Due to the sheer uncertainty clouding the outlook for Australia’s economy, there was a study dedicated to the impact of tariffs on Australian trade and key takeaways noted that higher tariff and trade policy uncertainty will slow growth, lower global prices for traded goods along with potential shifts in trade patterns. Higher US tariff on China could result in trade redirection to Australia and that would weigh on import prices. Meanwhile, higher inflation in the US is not expected to have much impact on Australian’s import prices. The key factor that could pose upward risks on world export prices is the “re-orientation” of supply chains. Based on the worst case scenario (where US imposes all of Liberation Day tariff rates and retaliations by all countries), GDP would be more than 3% below baseline, unemployment rate would rise to nearly 6%.

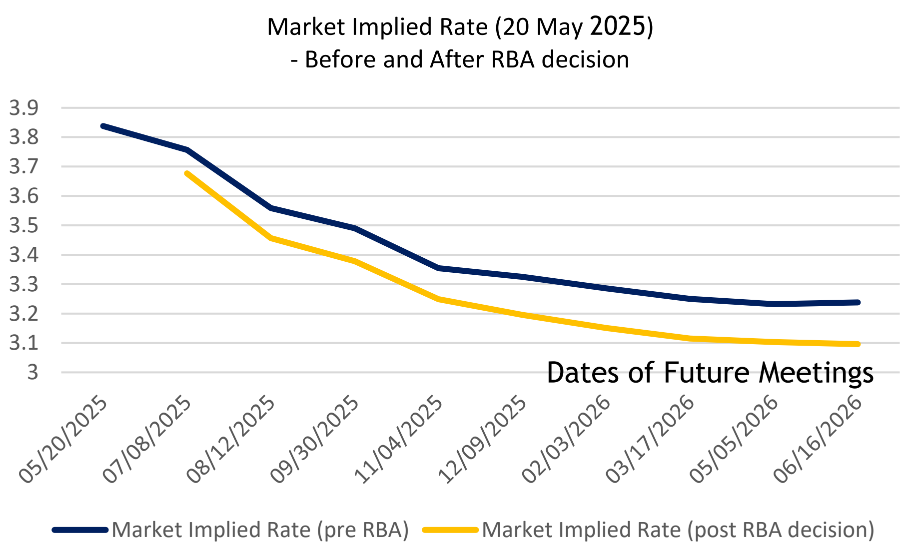
Bullock’s Presser - A Confident Cut and the Discussion of a 50bps Cut

Now, RBA Bullock has been a central banker that refused to pivot dovish long after her peers did. She preferred to keep all options on the table. Even as Liberation Day was upon the world (on 2 Apr), the central bank governor continued to sound neutral at the decision on 1 Apr. At her presser today, the governor spoke about this cut being a “confident cut”, noting that the board is confident that this is the right course of action now. She said that this decision to cut was reached via consensus" - a sign that the board is not ready to publish the votes of each board member that could provide greater transparency (somewhat like BoT and BoE). She also mentioned that the option of a 50bps cut was discussed, spurring the AUD to fall further during her presser.

The Hurdle to Cut More Is Lowered

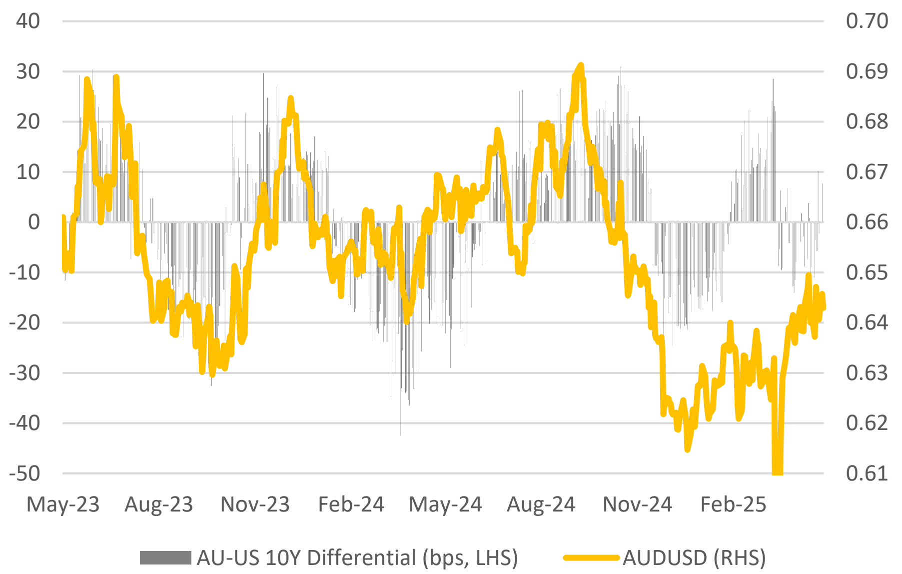
The hurdle for future rate cuts is lowered at the meeting today with the mention of a bigger cut of 50bps, RBA's projection (and confidence) that underlying inflation would remain near the middle of the target range over the 2Y forecast period (2025-2027). As such, markets had initially looked for cash target rate to end the year at 3.3%, implying another 50bps cut. However, the market had swung dovish alongside Bullock and now looks for cash rate to end the year a tad lower around 3.20%, pricing in a greater possibility of a third cut this year. **We look for 2 more cuts this year.**

Chart 1: Markets Swing Dovish



Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: AUDUSD Could Be Dragged Lower if AU-US Yield Gap Flips into Discount



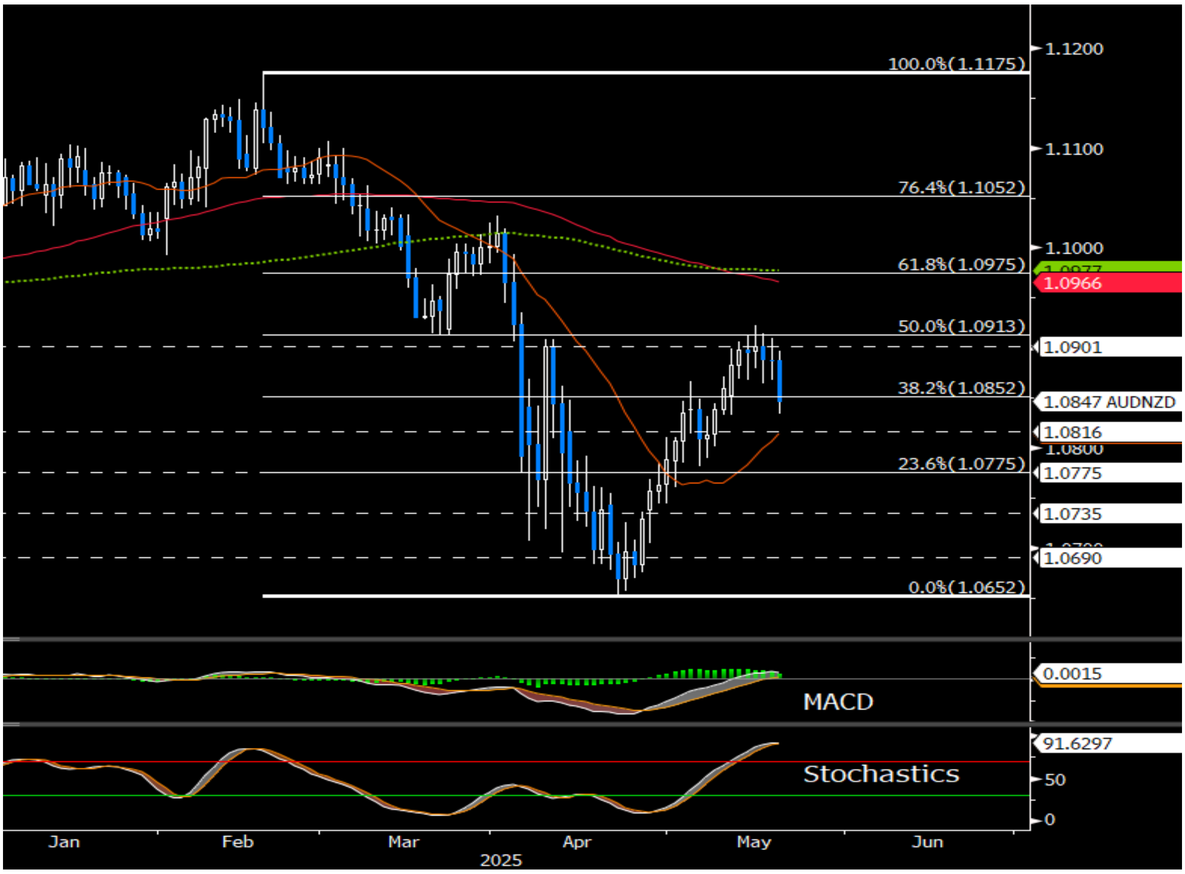
Source: Bloomberg, Maybank FX Research & Strategy

Near-term AUD Underperformance before Recovery

We see a possibility that AUDUSD may continue to trend towards the 0.63-figure in the near-term before making a gradual recovery for the rest of the year. Much of this year, we are looking for AUDUSD to remain caught between opposing forces of weaker USD and broader growth concerns.

Before this, the RBNZ had been the more aggressive rate cutter while RBA was the unwilling one. We see potential for AUDNZD to head lower toward 1.0690 as markets continue to adjust to the policy convergence between two antipodean central banks.

AUDNZD Daily - To Fall Further Towards 1.0775 and then Towards 1.0690.



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