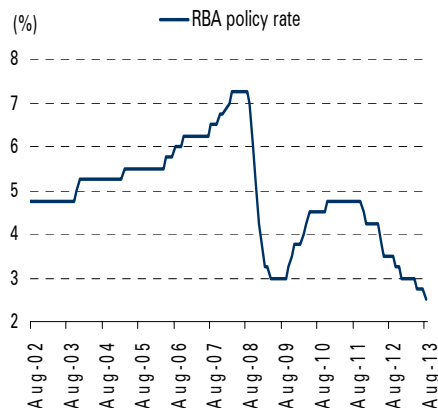


Australia: RBA cut policy rate by 25 bps to historic low of 2.50%

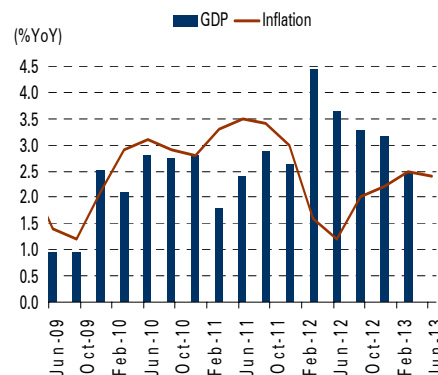
- The Reserve Bank of Australia (RBA) reduced the benchmark rate by 25 bps in line with expectations
- The RBA noted that domestic growth has remained below trend while inflation is well within the target
- The Central Bank expects further depreciation in the Aussie, which would foster economic rebalancing
- The RBA said that going ahead it would carefully assess economic outlook and adjust policy accordingly
- We expect the RBA to remain on status quo for the rest of 2013 and save policy ammunition for future

RBA cut policy rate to historic low of 2.50%



Source: Bloomberg, ICICI Bank Research

Domestic growth weakened while inflation remained well targeted



Source: Bloomberg, ICICI Bank Research

The Reserve Bank of Australia (RBA) reduced the cash rate target by 25 bps to 2.5%. With today's cut, the cumulative reduction in rates for the current easing cycle stood at 225 bps.

Global growth remained "a bit below average"

The RBA noted that that recent data has signaled global growth at "bit below average", with "reasonable" pick up expected next year. Meanwhile, inflation has moderated in several countries. Financial conditions across the globe remained "very accommodative" though volatility in the financial markets increased recently amidst hawkish outlook on US monetary policy.

Domestic economy grew "a bit below trend"

The RBA acknowledged that domestic growth has been "below trend" and similar momentum is expected in the near term as the economy faces lower levels of mining investment. Unemployment rate has also headed higher recently with the June print at 5.7%.

On the inflation front, the RBA noted that headline CPI (Q2: 2.4% YoY) is consistent with its 2-3% medium term target and is expected to remain within target in the "next one to two years", despite the recent sharp depreciation in the Australian Dollar.

The Central Bank acknowledged that policy stimulus currently in place aided recovery in interest sensitive sectors and it is likely to boost growth further going ahead. It also noted that despite the AUDUSD depreciating by 15% since April, remains at a higher level and further weakness in the Aussie is likely, which would aid growth rebalancing in the economy.

The RBA said that policy easing was appropriate given the recent information on economic activity and prices.

RBA likely to remain on pause for the rest of 2013

The policy guidance was relatively hawkish, with the RBA saying that it would assess economic outlook and adjust policy accordingly to achieve sustained growth consistent with its inflation target.

Following the 50 bps of rate cut delivered so far in 2013, which was in line with our expectations, the RBA is likely to remain on pause for the rest of the year and save policy ammunition for future.

Market Reaction: Despite the rate cut and guidance regarding at the need for further currency weakness, the Aussie rose from over 0.8907 levels in the early trade to 0.8984 post the policy announcement as the RBA restrained from providing any cues on further rate cuts.

ICICI Bank: ICICI Bank Towers, Bandra Kurla Complex, Mumbai- 400 051. Phone: (+91-22) 2653-1414

Treasury Research Group			
Economics Research			
Sunandan Chaudhuri	Senior Economist	(+91-22) 2653-7525	sunandan.chaudhuri@icicibank.com
Kamalika Das	Economist	(+91-22) 2653-1414 (ext 6280)	kamalika.das@icicibank.com
Kanika Pasricha	Economist	(+91-22) 2653-1414 (ext 2260)	kanika.pasricha@icicibank.com
Samir Tripathi	Economist	(+91-22) 2653-7233	samir.tripathi@icicibank.com
Tadit Kundu	Economist	(+91-22) 2653-1414 (ext 2087)	tadit.kundu@icicibank.com
Rupali Sarkar	Economist	(+91-22) 2653-1414 (ext 2023)	rupali.sarkar@icicibank.com
Pooja Sriram	Economist	(+91-22) 2653-1414 (ext 2023)	pooja.sriram@icicibank.com
Nikhil Gupta	Economist	(+91-22) 2653-1414 (ext 2180)	nikhil.gupta@icicibank.com
Shanjukta Nath	Economist	(+91-22) 2653-1414 (ext 2085)	shanjukta.nath@icicibank.com

Treasury Desks			
Treasury Sales	(+91-22) 2653-1076-80	Currency Desk	(+91-22) 2652-3228-33
Gsec Desk	(+91-22) 2653-1001-05	FX Derivatives	(+91-22) 2653-8941/43
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