Franklin Says Aussie Bonds to Rally as RBA May Ease Four Times
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By Ruth Carson
(Bloomberg) -- Australia's bonds are set to rally further as the central bank will probably cut interest rates three or four times to stimulate the faltering economy, according to Franklin Templeton Investments.
Three-year yields at around 1.20% are attractive and will probably fall further, said Andrew Canobi, director of Australia fixed income in Melbourne. "We expect that part of the curve to outperform," he said.
The Reserve Bank of Australia will consider cutting its cash rate next month to bolster the labor market and help return inflation to target, Governor Philip Lowe said Tuesday. Yields on the three-year bonds have dropped by around a third to just 1.19%, under the cash rate of 1.50%, as investors piled into the debt in anticipation of an easing cycle.
Australia's economic growth has stuttered amid a property slump and as a worsening U.S.-China trade war saps demand for its commodities. The Australian dollar has dropped around 2.4% this year, and is trading at a four-month low.
Overnight swap markets are currently pricing in two RBA cuts by November. Westpac Banking Corp. economist Bill Evans on Tuesday brought forward his forecast for the first reduction in the cash rate to June, with a second to follow in August. Commonwealth Bank of Australia and Royal Bank of Canada expect the same.
JPMorgan Chase & Co. though says two cuts may not be enough. "From where we are today, this is still not sufficient to fully neutralize risks to the RBA staff's current forecasts, suggesting risks to a sub-1% cash rate," economist Ben Jarman wrote in a note.
Franklin Templeton's Canobi expects the RBA to lower borrowing costs three to four times over the next nine to 12 months as tepid inflation weighs. "We never felt that inflation has really had a grip since the RBA started easing in 2016, and it still looks pretty weak," he said.

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