

RBA's Dovish Tone Set to Reignite Aussie Yield-Curve Steepening
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(Bloomberg) -- The Reserve Bank of Australia's dovish policy statement and downplaying of the inflation threat is likely to reignite a steepening of the yield curve from near the flattest in a year.

The spread between three- and 10-year yields jumped as much as 10 basis points on Tuesday after central bank Governor Philip Lowe cooled expectations for any near-term interest-rate increase even though the RBA scrapped its yield-curve control policy.

The yield difference had narrowed to just 65 basis points last week, the least since November 2020, as traders anticipated quicker inflation would prompt policy makers to signal on Tuesday they were moving toward hiking rates.

"The RBA is clearly more dovish than the market anticipated," said Jeffrey Halley, a senior market analyst at Oanda Asia Pacific in Singapore. "The market was clearly short and now they are taking some of it back after bit of a disappointing decision by the RBA."

Australia's underlying inflation is forecast to be no higher than 2.5% at the end of 2023, with only a gradual increase in wages growth, the RBA said in its policy statement.

The central bank said last month its central scenario was that conditions for a rate hike wouldn't be met before 2024.

The RBA's policy statement means traders are likely to dial back some of their expectations for higher rates and that should pave the way for a steeper yield curve, according to Westpac Banking Corp.

"We expect that the market will be satisfied with the shift in the RBA's approach, and will continue to pare back some of the aggressive front-end pricing," Damien McColough, head of fixed-income research at Westpac in Sydney, wrote in a research note.

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