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Rate-Cut Bets Pared Most in World as Jobs Rise: Australia Credit
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By Kristine Aquino

Feb. 17 (Bloomberg) -- Australia's fastest jobs growth in 14 months has helped reduce the chances of a central bank interest-rate cut by the most among Group of 10 currencies amid concerns inflation will accelerate.

The Reserve Bank of Australia will lower its 4.25 percent overnight cash-rate target by 48 basis points within a year, interest-rate swaps show, down from 100 basis points forecast on Jan. 31. That's the biggest change among 10 central banks tracked by Credit Suisse Group AG indexes.

Employers added 46,300 workers in January, the most since November 2010, government data showed yesterday, as the biggest mining boom in a century drives a A$456 billion ($492 billion) pipeline of resource projects. Inflation-linked bonds show expectations for annual consumer-price increases over the next decade averaged 2.65 percent in the past month, the most after the U.K. among nine developed markets tracked by Bloomberg.

"The strength of the jobs data indicates rate cuts aren't likely to come as soon as some were expecting," said Michael Turner, a fixed-income strategist in Sydney at Royal Bank of Canada. "The fact that we've got some decent data recently makes it very difficult to argue for a rate cut in March."

The jobless rate fell to 5.1 percent, a six-month low, the statistics bureau said yesterday in Sydney. The number of full- time jobs climbed 12,300 in January, and part-time employment jumped 34,000.

Resources Bonanza

Eighty-six percent of the new jobs last month were created in Queensland and Western Australia, two states benefiting from a resources bonanza as China and India increase demand for minerals and energy.

RBA Governor Glenn Stevens defied the forecasts of 24 of 27 economists and kept interest rates unchanged Feb. 7 after quarter percentage-point cuts on Nov. 1 and Dec. 6.

"Financial market sentiment, though remaining skittish, has generally improved since early December," Stevens said after the decision last week.

Australian consumer confidence advanced 4.2 percent this month to the highest level since November, according to a Westpac Banking Corp. and Melbourne Institute survey of 1,200 consumers published Feb. 15. The outlook among businesses climbed to an eight-month high in January, a poll by National Australia Bank Ltd. of more than 400 companies showed Feb. 14.

Traders are forecasting a 32 percent chance the central bank will cut its benchmark to 4 percent at the next meeting on March 6, according to a separate Credit Suisse index. That's down from a 66 percent chance at the end of last week.

Underlying Inflation

The Reserve Bank sees average growth of 3.5 percent in 2012, down from a Nov. 4 forecast of 4 percent, according to its quarterly monetary policy statement released Feb. 10. The central bank, which targets annual price growth of 2 to 3 percent on average, left its forecast for underlying inflation unchanged at 2.75 percent.

The RBA is relying on slower wage growth and better productivity to contain inflation pressures, Deputy Governor Philip Lowe said. Prices of globally traded goods “are unlikely to continue to fall over the medium term, particularly as the effects of the exchange-rate appreciation dissipate,” Lowe said in a speech yesterday.

The so-called Aussie dollar, the world’s fifth most-traded currency, gained 0.3 percent to $1.0783 as of 1:32 p.m. in Sydney after rising as high as $1.0845 on Feb. 8, the most since Aug. 2.

Corporate Bond Risk

Elsewhere in credit markets, spreads on Australian dollar corporate notes over government bonds widened four basis points to 267 basis points yesterday. They reached 295 basis points on Dec. 29, the most since 2009, a Bank of America Merrill Lynch index shows.

The Markit iTraxx Australia index dropped 9 basis points to 146 basis points as of 12:17 p.m. in Sydney, according to Credit Agricole CIB. That’s set for the biggest daily decrease since Nov. 30, prices from data provider CMA show.

The nation’s sovereign debt has lost 1 percent this month, compared with a 0.9 percent decline for U.S. Treasuries and a 0.2 percent drop for German bunds, according to Merrill Lynch indexes.

Australia’s benchmark 10-year bond yield rose 11 basis points to 4.03 percent, or 204 basis points more than similar- maturity U.S. Treasuries.

The gap between yields on 10-year government bonds and similar-maturity inflation-linked debt, a measure of consumer price increases over the next decade, was at 2.70 percent today. That compares with 2.37 percent on Nov. 9, the lowest since at least 2009 based on closing levels.

‘Strong Signal’

“This is the market reaction to a general improvement in global economic outlook,” said Matthew Johnson, an interest- rate strategist at UBS AG in Sydney. “If the breakevens continue to push higher, I’d think it would be a pretty strong signal to the RBA that it shouldn’t cut its policy rate further.”

The 10-year breakeven rate for the U.K. was at 2.66 percent yesterday and averaged 2.70 percent in the past month. The average breakeven rate for the U.S. was 2.15 percent and 1.72 percent for Germany.

Australia & New Zealand Banking Group Ltd. predicts the RBA will cut its key rate by 25 basis points in March, “but that’s looking increasingly unlikely,” said Shane Lee, a Sydney-based senior interest-rate strategist.

“There’s generally been a pickup in risk appetite since the end of last year and we’ve just seen a strong labor force report for January,” he said. “The RBA acknowledged that globally things have stabilized. Reading between the lines, it appears the bank’s pretty comfortable with the current setting of monetary policy.”

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--With assistance from Garfield Reynolds and Candice Zachariahs in Sydney. Editors: Edward Johnson, Ben Purvis

To contact the reporter on this story:

Kristine Aquino in Singapore at +65-6212-1550 or kaquino1@bloomberg.net

To contact the editor responsible for this story:
Rocky Swift at +81-3-3201-2078 or
rswift5@bloomberg.net

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