mni

All Signal, No Noise

MARKET ANALYSIS

MNI RBA Preview – July 2020

Meeting Date: Tuesday July 7 2020

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Link To Statement Page: https://www.rba.gov.au/monetary-policy/int-rate-decisions/2020/

Contents

- **Page 2:** MNI POV: Nothing To See Here
- **Page 3:** RBA June 2 2020 Meeting Statement
- **Page 4:** MNI Policy Team Preview: RBA Set To Hold, Eyes September Policy Cliff
- **Page 5-9:** Sell-Side Analyst Views

mni Central Bank Watch - RBA

MNI RBA Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI (Q)	% y/y	2.2	1.8	↑	1.7	↑					1.41
CPI Trimmed Mean (Q)	% y/y	1.8	1.6	↑	1.6	↑					1.30
Import Prices (Q)	% q/q	-1.0	0.7	↓	0.4	↓					-1.34
Consumer Inflation Exp	% y/y	3.3	4.0	↓	4.0	↓					-1.42
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
AiG PMI	Index	51.5	53.7	↓	48.3	↑					0.18
GDP (Q)	% y/y	1.4	2.2	↓	1.8	↓					-1.16
Building Approvals	% y/y	-11.6	-4.5	↓	-2.0	↓					-0.85
Trade Balance	AUD m	8025	3968	↑	5638	↑					0.80
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Home Loans	% m/m	1.4	-0.8	↑	-2.1	↑					0.84
Private Sector Credit	% y/y	3.2	2.7	↑	2.4	↑					0.61
Private Capital Expend (Q)	% q/q	-1.6	-2.6	↑	-0.6	↓					-0.50
Commodity Prices	% SDR	-11.4	-10.6	↓	-2.8	↓					-0.90
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	16.9	0.6	↑	1.2	↑					3.04
Consumer Confidence	Index	93.65	91.94	↑	95.13	↓					0.34
Employment Change	k	-227.7	19.3	↓	29.5	↓					-0.59
Wage Price Index (Q)	% q/q	0.5	0.5	↓	0.5	↓					-0.87
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	6027.3	5076.8	↑	6684.1	↓					-0.68
AUD 10-Year Yield	%	0.93	0.76	↑	1.37	↓					-0.41
AUD Yield Curve (3s-10s)	bps	66.4	52.6	↑	46.6	↑					0.96
AUD TWI	Index	124.99	130.90	↓	135.89	↓					-1.75

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

MNI POV (Point Of View): Nothing To See Here

The upcoming meeting is set to be a pretty vanilla affair, with universal expectations for the Reserve Bank of Australia (RBA) to leave its monetary policy settings unchanged. Rhetoric from the Bank, most recently from Deputy Governor Guy Debelle, has reinforced the idea that the Bank remains comfortable with its monetary policy settings and the reaction of market forces to the Bank's foray into unconventional monetary policy (for example the cash rate trading well through target owing to excess liquidity), although it stands ready to do more, if needed.

The Bank remains of the view that the benefits of negative interest rates do not outweigh the costs, and has maintained that line when questioned across many different mediums in recent months, pushing back against the idea of negative rates frequently.

This has resulted in the curveball, at least in the minds of some market participants, which comes via the level of the AUD, with the Bank's pushback against negative rates not seen at the likes of the Bank of England and Reserve Bank of New Zealand, although the Federal Reserve seems to be well and truly against the idea.

This, coupled with Australia's relative management of COVID-19, has allowed the AUD Trade Weighted Index (TWI) to recover, with the latter moving to levels not seen since 2019. Indeed, the Bank made reference to this in the minutes of its June meeting:

"Members noted that the Australian dollar had appreciated further relative to the US dollar and on a trade-weighted basis, to be around levels previously recorded in January. This had followed the earlier depreciation up to the middle of March, which had been larger than that of most other advanced economy exchange rates. Movements in the Australian dollar over the course of this year had been closely correlated with global equity prices. While commodity prices and interest rate differentials between Australia and other advanced economies had increased in the recent period, they had generally been little changed since earlier in the year."

Some look for a reference to the level of the AUD at the July decision, but the inclusion in the minutes and broad TWI stability in the time since would suggest that won't be required. Still, Deputy Governor Debelle's reference to relative central bank approaches and FX valuation leaves the RBA with room to act down the line, if needed.

Indeed, this overall train of thought is inline with our most recent insight piece on the matter (MNI INSIGHT: RBA Unfazed By AUD Rally, Recovery On Track, run on June 10 2020), which noted that "the Reserve Bank of Australia is unconcerned by the sharp rally by the Australian dollar in recent months."

All in all, the Bank has pointed to a less downbeat view of the domestic economy when compared to what it provided just a few short months ago, while it continues to point to the risks to the recovery. One of the more recent developments on this front has seen localised lockdowns in some of the sprawling Melbourne suburbs, after COVID-19 clusters reared their head. This has resulted in a couple of state border closures, most notably between New South Wales and Victoria. Still the Bank is likely to maintain its glass-half full view, and point to the low number of cases and localised nature of the outbreak if it chooses to comment on the matter. Elsewhere, the spectre of Sino-Aussie tensions has garnered broader interest in recent times, although there has been little in the way of material fallout, as of yet. The Bank also continues to warn against a full pullback of the government's fiscal support packages, with the notable labour market bolstering measures set to roll off in September, as things stand.

Base Case: No change in monetary policy settings and the central line of rhetoric, which should reflect a glass half-full approach and a willingness to do more, if needed, accompanied by steady forward guidance. There will likely be a reference to risks surrounding the COVID-19 situation in Melbourne.

Dovish Case: Any comment regarding the level of the AUD would likely result in a dovish reaction, although, as we have explained above, this should be viewed as an unlikely outcome. Any sense of heightened worry re: the virus situation in Melbourne (although very unlikely at the stage) could also present a dovish risk.

Hawkish Case: Hard to pinpoint a potential hawkish outcome given the COVID-19 backdrop, perhaps a slightly more upbeat view on some of the more timely labour market data/a modest relief rally in AUD if the level of the currency is not mentioned in the statement provide some potential sources of a "hawkish" outcome.

RBA June 2 2020 MEETING STATEMENT

At its meeting today, the Board decided to maintain the current policy settings, including the targets for the cash rate and the yield on 3-year Australian Government bonds of 25 basis points.

The global economy is experiencing a severe downturn as countries seek to contain the coronavirus. Many people have lost their jobs and there has been a sharp rise in unemployment. Over the past month, infection rates have declined in many countries and there has been some easing of restrictions on activity. If this continues, a recovery in the global economy will get under way, supported by both the large fiscal packages and the significant easing in monetary policies.

Globally, conditions in financial markets have continued to improve, although conditions in some markets remain fragile. Volatility has declined and credit markets have progressively opened to more firms. Bond rates remain at historically low levels.

In Australia, the government bond markets are operating effectively and the yield on 3-year Australian Government Securities (AGS) is at the target of around 25 basis points. Given these developments, the Bank has purchased government bonds on only one occasion since the previous Board meeting, with total purchases to date of around $50 billion. The Bank is prepared to scale-up its bond purchases again and will do whatever is necessary to ensure bond markets remain functional and to achieve the yield target for 3-year AGS. The target will remain in place until progress is being made towards the goals for full employment and inflation.

The Bank's market operations are continuing to support a high level of liquidity in the Australian financial system. Authorised deposit-taking institutions are making use of the Term Funding Facility, with total drawings to date of around $6 billion. Further use of this facility is expected over coming months.

The Australian economy is going through a very difficult period and is experiencing the biggest economic contraction since the 1930s. In April, total hours worked declined by an unprecedented 9 per cent and more than 600,000 people lost their jobs, with many more people working zero hours. Household spending weakened very considerably and investment plans are being deferred or cancelled.

Notwithstanding these developments, it is possible that the depth of the downturn will be less than earlier expected. The rate of new infections has declined significantly and some restrictions have been eased earlier than was previously thought likely. And there are signs that hours worked stabilised in early May, after the earlier very sharp decline. There has also been a pick-up in some forms of consumer spending.

However, the outlook, including the nature and speed of the expected recovery, remains highly uncertain and the pandemic is likely to have long-lasting effects on the economy. In the period immediately ahead, much will depend on the confidence that people and businesses have about the health situation and their own finances.

The substantial, coordinated and unprecedented easing of fiscal and monetary policy in Australia is helping the economy through this difficult period. It is likely that this fiscal and monetary support will be required for some time.

The Board is committed to do what it can to support jobs, incomes and businesses and to make sure that Australia is well placed for the recovery. Its actions are keeping funding costs low and supporting the supply of credit to households and businesses. This accommodative approach will be maintained as long as it is required. The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.

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MNI POLICY TEAM PREVIEW: RBA Set To Hold, Eyes September Policy Cliff

--RBA Sees Effective Transmission of Earlier Moves, But To Act If Needed

By Lachlan Colquhoun

SYDNEY (MNI) - The Reserve Bank of Australia is expected to leave policy unchanged Tuesday, with official rates held at a record low for a fourth consecutive month, while continuing to target a 0.25% yield on the benchmark 3-year government bond.

With little ammunition left in term of conventional monetary policy, the RBA is aiming to keep its remaining powder dry until current government stimulus packages roll off in September before mulling whether further action will be required.

The RBA has consistently ruled out negative interest rates, pointing to further unconventional policy if the need arises.

The RBA last cut rates by 50 basis points at an out of cycle meeting in March, announcing the simultaneous bond buying program targeting the 3-year yield.

It also introduced a A$90 billion Term Funding Facility (TFF) designed to facilitate low cost lending by commercial banks to smaller businesses.

--POLICIES WORKING

The Bank has been consistent in its messaging over recent months that its policies, complementing the Federal Government's AUD259 billion fiscal stimulus package, are effectively transmitting to the real economy.

RBA Deputy Governor Guy Debelle said just last week that the Bank believes "these policy actions are working as expected."

"The target for the cash rate, the level of the actual cash rate and the target for the three-year Government bond yield mean that these important pricing benchmarks anchor a low risk-free yield curve in the Australian financial system," Debelle said.

"Together with the liquidity provided through market operations and the TFF, this has lowered the cost of funding for the banking system. In turn, this has been transmitted through to lower borrowing costs for households and businesses."

--JOBS GOAL

RBA Governor Philip Lowe has said the employment market is the key to the recovery, and that the economy appeared to be picking up better than initially expected.

The RBA estimates had been for hours worked in May to fall by 15%, and the actual figure from the Australian Bureau of Statistics was a fall of 12.1%.

The RBA has previously forecast that unemployment would reach 10% in the second quarter, while GDP growth would contract by 10% over the first half of the year, with hopes now both may fare better.

ANALYSTS' KEY COMMENTS

AMP Capital:

- The RBA is unlikely to make any changes to monetary policy.
- The RBA has repeatedly indicated that 0.25% is the effective lower bound on rates and that negative rates are "extraordinarily unlikely" so the RBA won't be cutting rates and given the weakness in the economy, high unemployment and inflation way below target its way too early to think about raising rates.
- In fact, we see the cash rate stuck at 0.25% for the next three years at least, which is consistent with the recent message from RBA Deputy Governor Debelle. Basically, the RBA sees its policy easing measures as working as expected and that while uncertainty remains high regarding the future so far things have been better than expected. So, it remains in wait and see mode.
- That said, its likely to reiterate its dovish forward guidance on monetary policy and indicate that it stands ready to do more if needed.

ANZ:

- We don't expect any change in policy, with the Board continuing to say that it "is committed to do what it can to support jobs, incomes and businesses" and that "this accommodative approach will be maintained as long as it is required."
- It will be interesting to see if the statement says anything about recent pandemic developments in Melbourne. There is no doubt that a resurgence is the biggest downside risk to the economic outlook. A return to widespread lockdown would have a material impact on GDP and employment. The blow to sentiment in such circumstances may be longer lasting than that from the first lockdown.
- Partial lockdowns, while devastating for the people and businesses directly affected, may have less impact on the economy overall. Certainly there are data that support this conclusion, in the form of ANZ-observed spending and various alternative data measures. This is not to say there will be no impact. In particular, we think the local resurgence reinforces our view that firms will be cautious with employment and investment decisions. But for now, we don't think the impact of the Melbourne surge will prevent a sharp rebound in activity in Q3. We will watch the data to see if this remains the case.

Barclays:

- We expect no changes to RBA's policy. The RBA should keep its OCR at 0.25% for at least two years.

CBA:

- At the July meeting we expect the RBA to leave the cash rate and their bond yield target for 3-year Commonwealth Bonds at 0.25%. On Tuesday 30th June Deputy Governor Guy Debelle spoke on the RBA's policy actions. Of note, he referred to the ES balances and influence on the level of the cash rate, and how this has been passed on to other market rates. The efficacy of the RBA's policy actions is likely to be reiterated in the July statement.

Citi:

- The RBA is expected to keep its policy levers unchanged. We expect the Bank to persist with its yield curve control target at 0.25%, while maintaining the cash rate at 0.25%.
- Central Bank officials have recently noted that the economic outcomes were not as bad as initially feared in the May SMP. For example, Governor Philip Lowe has suggested that the decline in hours worked is more likely to be ~9%, as opposed to 20% that was assumed in May.
- That said, the Bank will continue to suggest that there's still considerable amount of downside risks. Indeed, the Statement could flag the recent outbreak in Victoria as evidence for the degree of uncertainty that clouds the outlook, especially if lockdowns are re-imposed.
- The better-than-expected labour market outcomes means that we expect the Bank to upwardly revise its economic projections in the August SMP.

Commerzbank:

- We expect the Reserve Bank of Australia (RBA) to leave monetary policy unchanged next Tuesday. In March it lowered the key rate to the, in its view, minimum level of 0.25% and has stabilised the yield on 3-year government bonds at this level by means of its QE programme.
- Only a few days ago, Deputy Governor Guy Debelle in addition pointed out that he does not consider negative interest rates to be necessary. The cost of borrowing is low enough and there is sufficient liquidity, which the RBA has provided with its government bond purchases. He assured that the RBA would keep interest rates at the current low levels until the economy recovers and inflation stabilises in its target range of 2-3%. Further bond purchases are possible.
- According to Debelle, however, it is important that first and foremost fiscal policy remains active. In his opinion, it would be a problem if the fiscal aid provided by the government were to end in the coming months. While the economy has performed better than expected, the slump has been unprecedented and continued support measures are therefore needed.

Goldman Sachs:

- The RBA left policy settings unchanged in June, including its targets for both the cash rate and 3-year bond yields. The brief attending statement noted that better-than-expected health outcomes and an earlier re-opening suggested that “the depth of the downturn will be less than earlier expected”.
- Even so, the RBA noted that the economic contraction is on track to be the largest since the 1930s and guided that existing accommodative policy settings will be “maintained as long as is required”.
- Since June's meeting, Deputy Governor Guy Debelle delivered a speech noting that "policy actions are working as expected" and that - while the RBA "stands ready to do more as the circumstances warrant" - much of the ongoing policy support "is likely to be on the fiscal side".
- We interpret the comments as signaling the RBA is maintaining a watching brief for now, with little appetite for additional easing. That said, the RBA is likely to note risks around the recent 'second wave' outbreak in parts of Melbourne.

HSBC:

- The RBA's view appears to be that Australia's monetary policy is near its useful limits and that any further support for the economy will need to come from fiscal policy. We expect the RBA to maintain its 0.25% cash rate and 3-year yield targets for the rest of 2020 and 2021.

ING:

- We forecast the Reserve Bank of Australia leaving rates on hold, and we're not alone in this view. There is a unanimous consensus behind this view, especially as the policy rate is currently sitting at an all-time low of 0.25% from where it has no room to fall further.
- RBA Governor Philip Lowe has recently ruled out negative rates and we think he will stick to that. And his deputy, Guy Debelle suggests they are ready to do more quantitative easing if circumstances warrant.
- Recent labour market figures show that the worst of the declines may have passed, and indeed in some states, employment began to creep tentatively higher again in May. More of this is likely in June everywhere except in Victoria, where restrictions remain in place.
- The main concern for the central bank and the Australian government may be the strength of the Australian dollar, and it is possible that the upcoming rate meeting looks to talk up some of the possible downside risks to the economy and policy choices to keep the AUD from moving too much higher, though global market sentiment and appetite for the AUD and Australia's commodity exports could shortly turn for the worse if Covid-19 flare-ups in the US and elsewhere do not begin to turn back down again.
- As rightly pointed out by governor Lowe, there is no evidence that the AUD is overvalued - our in-house BEER estimates show an undervaluation of around 10%. However, the current global recessionary environment would surely warrant a much wider risk premium embedded into a quintessentially pro-cyclical currency such as AUD.
- The role of a weaker AUD as a shock-absorber for the Australian economy is non-negligible, and the fact that neighbouring Reserve Bank of New Zealand is directly addressing a strong NZD as a hindrance to economic recovery is a case in point.

J.P.Morgan:

- The policy suite the RBA announced in March has worked as expected so far, and there is not much pressure to do more right now. In that context RBA commentary has lacked incremental information of late. Official commentary in June was somewhat more upbeat due to earlier-than-expected reopening, which posed some upside risks relative to the staff forecasts presented in May. Escalation of COVID cases in Victoria should turn the domestic commentary a little more circumspect.
- The more interesting tidbits of late relate to the central bank's management of financial market conditions. Deputy Governor Debelle spoke this week on the inflation of reserve balances, which is allowing the RBA to pull back from repo operations to an extent (as it has with QE purchases). Debelle also affirmed that the bank is open to purchasing sub-3Y bonds, to enforce a soft cap of 0.25% on yields out to the official 3Y yield target. The June minutes also reported liaison with banks that the RBA's funding facility for banks-the TFF-is likely to be drawn. This should add yet more excess reserves and system liquidity.

Morgan Stanley:

- We expect the RBA's current policy framework of 1) cash rate of 0.25%, 2) 3Y yield target of 0.25% and 3) Term Funding Facility (TFF) to remain in place through 2H20, and expect little shift in outlook at the July meeting, with confirmation of a smaller than forecast trough offset by worsening international and domestic virus trajectory. The current framework is very flexible, and in our view consistent with a forecast sustained economic recovery, and the RBA's willingness to play a supporting role to more active fiscal policy.
- We do expect a restart of bond purchases in Q3, to lean against an increase in bond yields and higher AUD. We don't expect these purchases to be large, and pencil in A$10bn/quarter. While TFF takeup has been slow by the banks (A$11bn to date), in part due to strong deposit growth, we expect this to accelerate in Q3 as banks prefund ahead of the Sep-30 deadline for the initial allocation (A$91bn).
- We are confident that the RBA is unlikely to significantly shift its policy framework this year, in large part because of the degree of uncertainty - both on the economic outlook, but also for fiscal policy ahead of the transition away from crisis stimulus in September and Federal Budget in October. A firmer outlook from the RBA is likely to emerge once these are clearer, and we expect a reassessment is likely at the first meeting for 2021, just ahead of the closing of the TFF in March. Ultimately though we expect the RBA to retain both its yield and cash rate targets through 2021.
- While we are not expecting any policy shifts from the RBA, the likely path of any easing or tightening is still very much in focus. Risks are skewed to more easing, and we would expect either an expansion of its bond purchase program (extending the yield target or expanding the purchases to private bonds), or a second round of TFF in 2021 to be the preferred forms of additional easing. In our view negative interest rates are still very unlikely for Australia. While a tightening of policy is extremely unlikely over the next 18 months, we expect YCC to be removed well before rate hikes, consistent with RBA guidance.

NAB:

- The Reserve Bank should keep policy unchanged as it continues to assess the shape of the recovery
- RBA Governor Lowe and Deputy Governor Debelle have both emphasised in recent remarks that the economic outlook remains highly uncertain, even though recent data has shown a smaller initial economic hit than first feared. In particular, Governor Lowe has emphasised his concern that the recovery may be stymied if fiscal stimulus is withdrawn too abruptly.
- On this front, the government's decision on how to taper its assistance programmes – to be announced on 23 July – will be key to the outlook. Currently, most of its economic crisis measures are slated to end in September, including the JobKeeper wage subsidy. A large 3.3 million workers are currently supported by the $1500 per fortnight JobKeeper payment ($39,000 pa) and an unknown proportion of these workers will fall into unemployment when the subsidy ends. Unemployment benefits are also currently set to revert to $566 a fortnight ($14,700 pa), which points to a large hit to household incomes if the government does not extend support.
- With the government's decision looming, the RBA will stay on hold as it continues to assess the outlook, where even in its best-case upside scenario, full economic recovery will take years. Further, Lowe has emphasised that the economic recovery depends on health outcomes and how quickly confidence is restored, where the recent COVID-19 outbreaks in Victoria have presented an additional downside risk.

NatWest:

- We expect the RBA to leave policy unchanged.
- At its last meeting, the RBA was cautiously more optimistic about the rebound in activity. This should once again be a feature. However, the broad policy guidance is once again expected to remain unchanged, with the central bank reiterating that the fiscal and monetary support could be required for some time.
- Since the last meeting, data releases have been a little mixed, with some key indicators beating expectations while some below consensus. While uncertainty remains high, on balance the performance of the economy has been better than RBA's base case. RBA Governor Lowe noted the shock to the Australian economy was smaller than it had feared. Deputy Governor Debelle said that "the Australian economy has turned out to be somewhat better in the June quarter than feared. While the outcomes to date have been better than expected, it is important to remember that the declines in GDP and in hours worked have still been historically large".
- Survey indicators for both business and consumer continue to rebound as the economy came out of lockdown restrictions.
- The Board continues to concentrate on the labour market. As in many countries, COVID-19 has led to large job losses since end-March. The unemployment rate however does not indicate the true picture as: underemployment rate although falling from record highs continued to be at high levels. The rate of unemployment was also materially contained by the Job Keeper package which is set to end in September. The Governor had suggested an extension of the program in his address to the parliament in order to help the economy recover.

RBC:

- The meeting is unlikely to bring any changes to policy settings, but we'll be keeping an eye out for any economic forecast tweaks ahead of the August quarterly statement as Australia continues to weather the COVID storm better than most. Deputy Governor Debelle reaffirmed this week that the RBA would likely keep the target cash rate at its present 0.25% setting for several years to come, and this tone is unlikely to change in the full July board meeting despite a faster than expected recovery to date.

Societe Generale:

- We expect the RBA to maintain its wait-and-see stance and announce no additional policy actions. Further easing actions, such as negative interest rates or direct purchases of private-sector assets, are unlikely to be discussed, given the relatively favourable conditions in the Australian economy and continuing signs of improvement in the global economy and financial markets. But the worsening of the COVID-19 situation in some major countries, and the recent rebound in the number of new confirmed cases in Australia clearly warrant caution; and the RBA is likely to confirm that it stands ready to do more if needed.
- With the easing of lockdown measures in early May, as the COVID-19 situation improved, the Australian economy should normalise faster than initially expected. Though May employment data still point to a deterioration in labour market, payroll jobs started to rebound. There was also an impressive recovery in May retail sales, almost recouping the losses in April. RBA Deputy Governor Guy Debelle acknowledged that the Australian economy had turned out to be somewhat better in 2Q than feared.
- But the renewed increase in the number of COVID-19 cases in the Melbourne area has raised concerns about a second wave of the pandemic, which should justify the policymakers' continued commitment to do whatever it can to support the recovery of the Australian economy.
- We have just heard the news that the restrictions to contain COVID-19 have been strengthened again in Melbourne, which supports the RBA's own argument that there is considerable uncertainty over the path of economic recovery.

TD Securities:

- There should be no surprises with the RBA keeping the cash rate on hold. The Bank is likely to reiterate it stands ready to provide liquidity as needed. This was backed by actions last month, the Bank injecting short term funds to offset the sizeable maturity of reverse repos in June. Expect significant liquidity over coming months as the Term Funding Facility is drawn down.

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Westpac:

- The RBA is providing considerable stimulus to the economy through a range of policies and will continue to do so. Interest rates and policy settings will be unchanged in July.
- The key elements of the RBA's response to the pandemic are as follows. (1) Lowering the cash rate to 0.25%. (2) Targeting the 3 year government bond rate at 0.25%. (3) Market operations, as needed, to provide ample liquidity to the banking system. (4) A Term Funding Facility for the banking system providing 3 year funding at 0.25%. (5) Setting the rate paid on Exchange Settlement balances at the RBA at 10bps.
- The cash rate is set to remain at its current level for a very long time - we assess until at least the end of 2023 although the 3yr bond target rate will likely be lifted during 2022.