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All Signal, No Noise

MARKET ANALYSIS

MNI RBA Review - October 2020

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MNI POV (Point Of View): Off Guard

The Reserve Bank of Australia (RBA) left its monetary policy settings unchanged at its October meeting, as expected by the majority of analysts, preferring to deploy changes in rhetoric and allow focus to fall on the federal and state budgets that were due in the coming hours/days.

There were no overt clues regarding which methods the RBA may adopt re: further easing/when they may be deployed, but the RBA has already sketched the “what” out in several recent addresses.

Still, the language shifts gave watchers plenty to chew over,

Focus To Fall On Labour Market Dynamics In The SoMP: The Bank noted that “labour market conditions have improved somewhat over the past few months and the unemployment rate is likely to peak at a lower rate than earlier expected. Even so, unemployment and underemployment are likely to remain high for an extended period. Wage and inflation pressures remain very subdued. The Bank will publish a full set of updated forecasts next month.” The Bank’s framing of better than initially expected labour market dynamics is well-known, but the focus on the economic projections that will be presented in its quarterly SoMP (due to be released a few short days after its November decision, with themes/forecasts from the SoMP often sketched in the decision made a few days before) means that it may use the wage/inflation dynamic to justify further easing, even as the GDP growth and employment situation isn’t as bad as it once feared.

Lack Of Pushback Against Recent ACGB Richening: The Bank noted that “over the past couple of weeks, 3-year yields have fallen to around 18 basis points as markets price in some probability of further monetary policy easing.” There was no pushback against this move, suggesting that the Bank is comfortable with this development.

Role Of The TFF Remains Key: The Bank was keen to flag the ample capacity still available through its recently re-jigged TFF scheme, which is a key instrument as the Bank operates around the effective limits of its traditional monetary mechanism.

Concluding Tweaks: The concluding passage of the October statement stated the following: “The Board views addressing the high rate of unemployment as an important national priority. It will maintain highly accommodative policy settings as long as is required and 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. The Board continues to consider how additional monetary easing could support jobs as the economy opens up further.” Most, including us, believe that the “national priority” phraseology coupled with the downbeat CPI/wage dynamic outlined earlier raises the chance of fresh easing measures in November.

What Next?: As we noted ahead of the release, an address from RBA Governor Lowe (on October 15) and the minutes of the October meeting (released on October 20) will provide the two major opportunities to shape expectations ahead of the Bank’s Melbourne Cup day meet in early November.

All in all, we would suggest that the Bank will likely ease policy in November, with 15bp cuts to the cash rate target, 3-Year yield target and the rate applied to the TFF (to 0.10% in each case). Such a move would likely be accompanied by a cut in the interest rate applied to surplus E/S balances lodged at the RBA, perhaps to 0.05%. We could also see the Bank adopt a purer form of QE, although the sheer size of TFF available limits the chances of such a move.

Such a package should be assessed on net and seen as a way to facilitate investment and promote growth in the Australian economy, with RBA Governor Lowe particularly focused on the state-level fiscal deployment. The federal budget was perhaps not quite as stimulatory as most of the sell-side expected, at least in headline deficit terms, but the roll forward of the previously outlined income tax cuts, which will include some backdating, provides a real credit impulse to households. Some may argue that this lessens the need for RBA easing, but to us, the choice of language, particularly surrounding the labour market situation, suggests that further easing is in the offing.

RBA OCTOBER 6 2020 MEETING STATEMENT

At its meeting today, the Board decided to maintain the current policy settings, including the targets for the cash rate, the yield on 3-year Australian Government bonds, and the parameters for the expanded Term Funding Facility.

The global economy is gradually recovering after a severe contraction due to the pandemic. However, the recovery is uneven and its continuation is dependent on containment of the virus. While infection rates have declined in some countries, they have increased in others. The recovery is most advanced in China, where conditions have improved substantially over recent months. Globally, inflation remains very low and below central bank targets.

Financial conditions remain accommodative around the world and supportive of the economic recovery. Financial market volatility is low and the prices of many assets have risen substantially despite the high level of uncertainty about the economic outlook. Bond yields are at historically low levels, as are interest rates for most businesses and households. The Australian dollar remains just a little below its peak of the past couple of years.

The Australian economy experienced a sharp contraction in the June quarter, with output falling by 7 per cent. As difficult as this was, the decline in output was smaller than in most other countries and smaller than was earlier expected. A recovery is now under way in most of Australia, although the second-wave outbreak in Victoria has resulted in a further contraction in output there. The national recovery is likely to be bumpy and uneven and it will be some time before the level of output returns to its end 2019 level.

Labour market conditions have improved somewhat over the past few months and the unemployment rate is likely to peak at a lower rate than earlier expected. Even so, unemployment and underemployment are likely to remain high for an extended period. Wage and inflation pressures remain very subdued. The Bank will publish a full set of updated forecasts next month.

Over the past six months, the Australian economy has been supported by a substantial easing of fiscal policy. Public sector balance sheets in Australia are in good shape, which allows for continued support, with the Australian Government budget to be announced this evening. Both fiscal and monetary support will be required for some time given the outlook for the economy and the prospect of high unemployment.

The Bank's policy package is working as expected and is underpinning very low borrowing costs and the supply of credit to households and businesses. There is a very high level of liquidity in the Australian financial system and borrowing costs are at record lows. $81 billion of low-cost funding for authorised deposit-taking institutions (ADIs) has been advanced under the initial allowance of the Term Funding Facility. ADIs currently have access to a further $120 billion under this facility. As this is drawn down, there will be a further very significant expansion of the Reserve Bank's balance sheet.

Government bond markets are functioning well, alongside a significant increase in issuance. Bond yields are around record lows. Early in September, the Bank bought a further $2 billion of Australian Government Securities (AGS) in support of its 3-year yield target, bringing total purchases of government securities since March to $63 billion. Over the past couple of weeks, 3-year yields have fallen to around 18 basis points as markets price in some probability of further monetary policy easing.

The Board is committed to do what it can to support jobs, incomes and businesses in Australia. Its actions, including last month's decision to expand the Term Funding Facility, are keeping funding costs low and assisting with the supply of credit. The Board views addressing the high rate of unemployment as an important national priority. It will maintain highly accommodative policy settings as long as is required and 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. The Board continues to consider how additional monetary easing could support jobs as the economy opens up further.

MNI POLICY TEAM REVIEW: RBA Holds Rates, But Flags Further Easing

By Lachlan Colquhoun

MNI (Sydney) - The Reserve Bank of Australia left policy on hold Tuesday, as widely expected, but said it continues to consider how additional monetary easing can support the labour market and the economic recovery.

The RBA Board decided to keep the official interest rate at a record low 0.25% for the seventh consecutive month. The decision comes just hours ahead of the Federal Budget at which the ruling Liberal Party-led coalition government is expected to announce major fiscal stimulus measures.

The central bank also re-affirmed its program of government bond purchases and made no changes to its funding facility for commercial banks.

--BUDGET DAY

MNI's understanding is that the RBA was reluctant to change policy on the same day as the budget, recognising the greater impact of fiscal policy in the coronavirus-damaged economy and the impact of the budget on sentiment.

While acknowledging the sharp 7% contraction in GDP in the June quarter, the RBA said this was less than initially expected and a recovery was underway in most of Australia, although the second wave of the pandemic was Victoria is dragging on growth.

Governor Philip Lowe said in the statement that labour market conditions had improved somewhat over the past few months and the unemployment rate is likely to peak at a lower rate than earlier expected. "Even so, unemployment and underemployment are likely to remain high for an extended period," Lowe said, adding that fiscal and monetary support would be required for some time.

The bank said its policy package was "working as expected" and underpinning low borrowing costs and the supply of credit to households

The economy had also been supported by a "substantial easing in fiscal policy" and public sector balance sheets remained in 'good shape," which allowed for further government borrowing, the statement said.

--MARKET EXPECTATIONS

The RBA has so far purchased A$63 billion in government debt under a yield control program with a targeted yield of 0.25%. The bank noted that the yield on the benchmark three-year bond had fallen to 18 basis points "as markets price in some probability of further monetary policy easing."

Commercial banks have taken up A$81 billion in low cost funding under the RBAs Term Funding Facility, with access to another A$120 billion.

ANALYSTS' KEY COMMENTS

ANZ:

- The addition to the final paragraph that the "The Board views addressing the high rate of unemployment as an important national priority" strongly suggests to us that the rate cut will come in November. It is a clear alignment with what is likely to be the theme of the Budget and why add it unless it is a reason to act. The target for the 3y bond yield and the interest rate on the term funding facility (TFF) will be reduced in line with the cash rate. We think the RBA will cut the interest rate it pays on excess exchange settlement balances (currently 0.1%) to 0.05%. It is this rate that will determine where BBSW settles.
- We aren't as certain that 'pure' QE will be on the menu for November. The RBA statement makes the point that the extension of the TFF means "there will be a further very significant expansion of the Reserve Bank's balance sheet." This is the same outcome as QE, so why double up again? We think the TFF is actually the RBA's most powerful tool, acting to materially reduce bank funding costs and also to provide indirect support to the credit market overall (as it limits the amount of bank issuance) and flatten the curve as investors search for yield. This wording may mean the RBA is not ready to move to 'pure' QE just yet. But we have long thought that market dynamics will eventually force the RBA's hand and require a move to 'pure' QE. Given this, why not move to 'pure' QE now given the critical nature of the task at hand, ie reducing unemployment.
- The RBA Governor is speaking on 15 October. We expect him to signal more forcefully the likelihood of a rate cut in November. He may also clarify the RBA's thinking about 'pure' QE.
- As a further point, we also think the TFF will be extended before its current end date of June 2021. It doesn't make sense to us that the RBA will allow bank funding costs to jump and the indirect support for the credit market to be removed just as the recovery in the economy (and hence credit growth) is gathering strength. As a step toward transitioning to a 'normal' market, the RBA may decide to extend the TFF but 'taper' it somewhat by setting it at a size that requires banks to source some of their funding from markets.

Barclays:

- The tone of the statement remained dovish, and the bank confirmed that it will not increase the cash rate or the yield target until progress is made toward full employment and it is confident that inflation is sustainably within the 2-3% target band.
- However, the statement remained somewhat ambiguous on having an easing bias, as the bank reiterated that it continues to consider " how additional monetary easing could support jobs as the economy opens up further" (similar to the September statement).
- We think Deputy Governor Debelle's speech was more dovish than today's decision statement. In his speech, Mr Debelle acknowledged that the RBA's outlook for inflation and employment are not consistent with its objectives, which creates the need to consider more policy options. On the other hand, today's statement noted some improvement in labour market conditions and said a recovery is underway in most of Australia. The bank also continues to stress the fact that the current policy package is working well and is providing material support.
- That said, the RBA's guidance that it views "addressing the high rate of unemployment as an important national priority" indicates that the bank may ultimately lean toward further easing, in our view. This would also be in line with Mr Debelle's speech, which gave a more explicit indication that the RBA sees the need to adjust its March 2020 policy package further.
- While the cash rate is currently 0.25%, the market-determined cash rate is much lower. The RBA also acknowledged today that 3y yields have fallen to around 18bp "as markets price in some probability of further monetary policy easing." Cutting the official cash rate would align it with the traded rate and would also require the 3y AGB yield target and term funding facility rate to be reduced to the same level, given both are tied to the cash rate.
- We think the balance of risks now suggests that the RBA is more likely to ease. Therefore, we expect the RBA to cut the cash rate to 0.10%, most likely at the November board meeting, when it will also update its economics forecasts.
- However, we acknowledge that the decision will be a close call, given both we and the RBA see green shoots in the economy, though the recovery is likely to be uneven and bumpy. We think amount of fiscal expansion – which will be known later today when the government unveils its budget – will be an important consideration in gauging the need for more monetary easing. We also expect further guidance from the

RBA on 15 October when Governor Lowe speaks at an annual Australia and New Zealand investment conference, as well as from the minutes of today's meeting (to be released on 20 October). In the November Statement on Monetary Policy, we expect the RBA to revise its economic forecasts to reflect a less pessimistic outlook for the economy, given that the bank has said that the decline in output in Australian economy was smaller than it expected.

CBA:

- The final paragraph in the Governor's post meeting statement stated that, "the Board continues to consider how additional monetary easing could support jobs as the economy opens up further". This is similar to the line in the September statement that, "(the Board) continues to consider how further monetary measures could support the recovery". But the emphasis is very much on jobs. The RBA Governor also put in an additional sentence in his statement today – "the Board views addressing the high rate of unemployment as an important national priority". Now it could be argued that this is a dovish tilt. But it could also be argued that these tweaks are simply an endorsement of the Government's focus on jobs in tonight's Budget.
- If the RBA is thinking about monetary policy at this juncture through the lens of job creation then we don't think that tinkering with the cash rate target in a very fine corridor between approx. 0.0% and 0.25% does much to shift the dial for the labour market. Indeed Governor Lowe shared a similar view in August when he spoke on this subject at the House of Representatives Standing Committee on Economics. More specifically he stated, "we are prepared to do more if we think that doing more would get extra traction. Judgement at the moment is that, given the nature of the problems the country faces, us moving interest rates by five or ten basis points isn't really going to make a material difference. There's not going to be much traction from that; the problems are elsewhere."
- We do not think that the RBA will have changed their assessment of this so soon after Governor Lowe made these remarks. Rather we think it more likely that the best way monetary policy can support job creation at this stage is playing a complimentary role to fiscal policy through supporting the Government's very large fiscal expansion with an increase in government bond purchases.
- Interest rate markets were little moved on today's announcement. As the RBA Governor noted, "over the past couple of weeks, 3-year yields have fallen to around 18 basis points as markets price in some probability of further monetary policy easing". Recognising that markets have priced in some further monetary policy easing is not the same thing as suggesting that more easing is imminent.
- Notwithstanding, there are two key bits of communication out of the RBA between now and the November Board meeting: (i) a speech by Governor Lowe on 15 October at Citi Australia and New Zealand Annual Investment Conference (8.45am) – the topic is not yet announced; and (ii) the Minutes of the October Board meeting on 20 October. We consider these two events as very much key as to what the RBA is likely to do at the November Board meeting. We have the RBA on hold, but note that there is a non-trivial risk of easing. The RBA Governor continues to emphasise that they have not ruled out any policy options.
- Finally we note that the Governor stated that, "labour market conditions have improved somewhat over the past few months and the unemployment rate is likely to peak at a lower rate than earlier expected." This suggests that the RBA will downwardly revise their profile for the unemployment rate in November's Statement on Monetary Policy (SMP).
- We also expect the RBA to upwardly revise their GDP profile. It would be highly unusual for an improved set of forecasts to be accompanied by monetary policy easing a few days earlier. But nothing is 'normal' in the current environment.

Goldman Sachs:

- Importantly, today's attending statement placed greater emphasis on the need to lower unemployment ("The Board views addressing the high rate of unemployment as an important national priority") and more explicitly acknowledged market pricing for further monetary easing ("3-year yields have fallen to around 18 basis points as markets price in some probability of further monetary policy easing"), suggesting further easing is likely. We continue to expect policy easing from the RBA at the November meeting, following the release of the Federal Budget tonight and Governor Lowe's speech on 15 October.

J.P.Morgan:

- At today's decision, the RBA Board kept the cash rate and 3Y yield targets unchanged at 0.25%. There has been considerable media speculation about the Bank's next steps following Deputy Governor Debelle's speech two weeks ago. However, as noted at the time we viewed Debelle's remarks as a neat summary of policy options still available to the Bank, rather than an indication that further policy adjustments were imminent. October was also complicated by the release of the Federal Budget, with officials, in our view, preferring to take stock of the fiscal response before tweaking monetary policy.
- The final paragraph of the policy statement had to change given its reference to decisions made last month (i.e., TFF extension), although officials have placed additional weight on the labour data citing the "high rate of unemployment as an important national priority". Viewed alongside the forward guidance (discussed below), it is clear the labour market, in particular the unemployment rate, will be the key metric to watch when trying to decipher the policy outlook.
- The forward guidance was unchanged from previous months, with the Bank pledging "not to 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". Based on its own macro-forecasts, this guidance implies the cash rate will remain at current levels (or lower) until at least 2023.
- This is the first RBA meeting since the 2Q real GDP print, so the discussion of the macro landscape is mostly dissecting that report. The economy is forecast to improve through 2H20, but the recovery is still characterized as bumpy and uneven. Officials continue to note that labour market conditions have improved and that the peak in the jobless rate is likely to be lower than previously expected. The RBA will update its forecast set in next month's Statement on Monetary Policy and it is probable officials mark through modest upgrades to the GDP/labour numbers.
- Looking further into 4Q, the main question in Australia is whether the RBA makes any policy tweaks in November. We see about a one in three chance that the basket of administered rates (IOER, repo, cash target, cash rate, 3Y target, TFF) is cut, but our base case is that happens next year. We see quantity targeting at the long end as less likely. The TFF is de facto QE, and the AOFM's recent syndication, along with a halving of tender sizes, effectively delivers delayed release of some of the injected TFF funds. This allows ES balances to continue growing for longer, adding to the perception of incremental easing through 4Q.

NAB:

- The RBA kept monetary policy unchanged in October, meeting market expectations as it kept the target cash rate and 3-year yield at 0.25% and left the term funding facility (TFF) unchanged. However, it strengthened its easing bias, adding in its final paragraph that it "continues to consider how additional monetary easing could support jobs as the economy opens up further". This wording echoes the dovish speech given by Deputy Governor Guy Debelle two weeks ago, which saw rate cut expectations spike and sparked NAB and others to change their monetary policy forecasts. NAB expects the RBA to cut rates – the cash rate target, 3-year yield target and TFF rate to 10 basis points – at its next meeting in November as well as introduce QE targeting purchases of longer-dated (five to 10 year) government bonds.
- The RBA made a second key change to its final paragraph to emphasise the importance of reducing unemployment. "The Board views addressing the high rate of unemployment as an important national priority." This intense focus on the unemployment rate aligns with the current aims of fiscal policy, where the government has said expansionary fiscal policy will remain in place until the unemployment rate is below 6% ahead of the 2020-21 Federal Budget tonight. It's been clear that the pandemic has been a huge blow to the household sector, with massive job losses that points to the unemployment rate rising to around 10%.
- The RBA board highlighted the role of fiscal policy, noting "over the past six months, the Australian economy has been supported by a substantial easing of fiscal policy" and that the federal budget is due tonight. The RBA expects fiscal and monetary support to remain necessary for some time "given the outlook for the economy and the prospect of high unemployment".
- Today's post-meeting statement has seen the RBA strengthen its easing bias, with the bank noting it is actively considering additional stimulus. This amplifies the dovish signal from Deputy Governor Debelle's recent speech and it is likely Governor Lowe's speech next week will also hint at a November move. At its November meeting, the RBA will have an updated set of economic forecasts, where it will have taken into consideration the government's economic support plan to be announced in the budget tonight. Now that

the peak of the pandemic has passed, the November meeting will be key for shaping the RBA's role in the economic recovery.

RBC:

- Despite much discussion of further possible easing following its October board meeting today, the RBA opted to leave the cash rate at 0.25% and all other key measures unchanged. With the Commonwealth 2020-21 Budget due this evening, the RBA has chosen to stay out of the limelight but has continued to send a clear message that it is prepared to do more if necessary.
- There were few meaningful changes to the short statement, but we think it erred a little more dovish. While we have long argued that the state of the labour market and its trajectory will determine whether further policy action (from both the RBA and government) is delivered, today's statement from the RBA placed added emphasis on its full employment target. The RBA added that "addressing the high rate of unemployment as an important national priority" is key. In this context, it repeated that it continues to "consider how additional monetary easing could support jobs." These labour market observations were in the key final paragraph and, in our view, strengthen the easing bias slightly. We were less convinced that the reference to markets pricing in "some probability of further monetary easing" was much more than a statement of fact, but this probably also needs to be read in the context of the labour market emphasis.
- While we revised down our year-end UR forecast to 7.2% (from 9%), reflecting the better starting point and somewhat stronger employment generation ex-VIC in recent months, we continue to think that H1 will be challenging as key income support measures are pared back further and eventually cease. We expect the UR to rise further in H1, pushing toward 8.4% by mid-year. The case for further RBA easing is likely to be more compelling by early next year and we expect a cut to the cash rate, 3y yield target, and TFF rate to 0.1% in Q1. In addition, there are likely to be measures in tonight's budget, including the bringing forward of the next stage of income tax cuts, back dated to 1 July 2020, that will lend support to demand in the coming months, buying the RBA time to monitor the economy. Nevertheless, we are mindful that speculation over further easing, including a QE program, is unlikely to abate and we view all meetings as live. The RBA will find it difficult to stand by idly for too long if the labour market weakens materially.

Societe Generale:

- The hints on further easing in the policy statement were not as clear as we had anticipated. Nevertheless, we maintain our base scenario that the RBA will lower the targets for the cash rate and the 3-year bond yield to 0.10% in November, along with announcing updated economic forecasts.
- The RBA's assessment of the global and domestic economies was not much different from the one it given at the September meeting. The RBA underlined that recovery of both the global and the Australian economies is likely to be uneven and bumpy, while financial conditions remain accommodative around the world and supportive of the economic recovery. The statement said that the unemployment rate is likely to peak at a lower rate than earlier expected, but that unemployment and underemployment are still expected to remain high for an extended period. The RBA continued to argue that both fiscal and monetary support would be required, pointing to the government budget to be announced this evening. The RBA also reported that it bought a further AUD2bn in government bonds, bringing the total since March to AUD63bn, and advanced AUD81bn to banks under the initial allowance of the Term Funding Facility. The concluding paragraph in the policy statement also repeated key sentences, such as "the Board is committed to do what it can to support jobs, incomes and businesses in Australia," and "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."
- There were some changes in the policy statement that could be interpreted as hints of impending policy easing. First, the sentence "the yield target will remain in place until progress is being made towards the goals for full employment and inflation" was replaced by "3-year yields have fallen to around 18 basis points as markets price in some probability of further monetary policy easing", which lends weight to the market expectation of imminent easing action. Second, a newly added sentence, "the Board views addressing the high rate of unemployment as an important national priority" in the concluding paragraph, appears to show the RBA's intention to boost the economy and lower unemployment by further easing. Third, the sentence "the Board continues to consider how additional monetary easing could support jobs (or the recovery)" was moved from the middle to the end of the concluding paragraph, which also gives the impression that the RBA could act soon "as the economy opens up further" in the Melbourne area.

- We admit that there remains some uncertainty on additional policy easing. But we conclude that the RBA made efforts not to disappoint the market in its anticipation of further easing. One can clearly say that the door is open for additional rate cuts. The uncertainty now centres on when the easing will happen, and we think there is no good reason why the RBA will wait for more than one month. We continue to think that the RBA will implement further easing in November.

Westpac:

- However, from our perspective, there is considerable encouragement that the Board plans to move next month having given the Federal Government clear air to sell its Budget tonight.
- There were a number of key changes in the Governor's Statement that point to an imminent move in policy.
- Firstly, the Statement ended on a very clear note, "The Board continues to consider how additional monetary easing could support jobs as the economy opens up further." In this Statement he chose to end the Statement on this note rather than in September when the second last sentence read "continues to consider how further monetary measures could support the recovery".
- The final sentence in the Statement will always be the one of most importance. Furthermore "additional monetary easing" is a stronger signal than "further monetary measures".
- Secondly the Governor directly refers to a further easing by quoting market pricing "3-year yields have fallen to around 18 basis points as markets price in some probability of further monetary policy easing". It is my experience that central banks like to refer to market pricing when it is consistent with their own biases.
- The language around the labour market is stronger – "The Board views addressing the high rate of unemployment as an important national priority". Further "Unemployment and underemployment are likely to remain high for an extended period". That compares with the September Statement "it is likely to be some months before a meaningful recovery in the labour market is under way". This harsher language around the labour market is despite "the unemployment rate is likely to peak at a lower rate than earlier expected". That is because the Bank's real concern is the length of the period where Australia will experience high unemployment so it needs to do whatever it can as quickly as possible.
- The rhetoric around the activity in the economy is also more sobering. Although the description of the recovery as "bumpy and uneven" was repeated from previous statements the additional insight "it will be some time before the level of output returns to its end 2019 level". In its Statement on Monetary Policy in August the RBA forecast GDP growth (through the year) of minus 6% in 2020 and +5% in 2021. That implied a lower level of output by end 2021 but a more positive view on the near term unemployment rate presumably means the Bank will be raising its current implied growth rate in 2020 H2 from around 1.4% (compared to Westpac's forecast of 4%) and therefore may be considering significantly lowering its forecast for 2021 from the current 5%.
- There is some reference to the possibility of further use of the RBA's balance sheet to support fiscal policy. "Public sector balance sheets in Australia are in good shape, which allows for continued support".
- Last month, after it had lifted to USD 0.738 the Governor discussed the AUD for the first time in many months. He noted that "the Australian dollar has appreciated to be around its highest level in nearly two years". To ensure that markets are aware that although the AUD has fallen (by around US 2¢) since the last meeting the RBA still sees it as "high" the Governor notes that "the Australian dollar remains just a little below its peak of the past couple of years".
- Readers will be aware that Westpac forecasts that, at the next Board meeting on November 3, the Board will decide to cut the cash rate; the three year bond target; and the rate on new borrowings of the Term Funding facility to ten basis points. To ensure that these objectives are internally consistent we expect that the RBA will reduce the rate which its pays on its Exchange Settlement balances to one basis point.
- We expect that the Governor will announce, as part of the November stimulus package, a general intention to purchase both Australian Government and State Government bonds across maturities from five to ten years.