

RBA - The Steady Hand

- The RBA left the cash rate unchanged at 2.0% as widely expected at its March board meeting today. Moreover, the accompanying Statement was very little changed from the previous month.
- Amidst further turbulence in financial markets and a raft of mixed domestic economic data of late, the RBA continues to be unperturbed by recent developments. The RBA is leaving the possibility of further easing open, but seems satisfied with developments in the domestic economy and that conditions in non-mining sectors of the economy are improving.
- On the exchange rate, the RBA only reiterated that “the exchange rate has been adjusting to the evolving economic outlook”. The lack of jawboning of the Australian dollar may have disappointed some market participants following comments from RBA board member John Edwards a few weeks ago. In our view, the case for jawboning the AUD is less strong than in previous years, and we do not believe the AUD is significantly overvalued in comparison to commodity prices.
- There was little to suggest that the RBA has changed its stance in monetary policy. Nonetheless, the economy continues to grow below trend and there is likelihood that economic growth will remain below trend for a while longer. As such, further monetary easing cannot be ruled out, but we continue to expect that the RBA will leave rates on hold for all of 2016.

The RBA left the cash rate unchanged at 2.0% as widely expected at its March board meeting. Moreover, the accompanying Statement was very little changed from the previous month. Amidst further turbulence in financial markets and a raft of mixed domestic economic data of late, the RBA continues to be unperturbed by recent developments. The RBA is still leaving the door open for further easing - there continued to be “scope for easier policy”, however the RBA Board “judged that there were reasonable prospects for continued growth in the economy, with inflation close to target”. These comments were exactly identical to the Statement in February.

There was no mention of the capex data released last week, which might have raised further concerns about the weak outlook for non-mining investment. The survey also suggested that the drag from mining investment could be as significant over 2016-17. This could mean that the RBA might be placing less weight on this release than in the recent past. The RBA has previously noted that this survey does not provide a full-representation of non-mining investment within the economy.

However, the focus for the RBA has shifted to the labour market. It has been highlighted as a key uncertainty for the RBA in the latest Statement on Monetary Policy. The labour market has also been mentioned in the RBA’s final paragraph for the second consecutive month, suggesting that monetary policy is highly contingent on developments for the job market. Indeed, if the economy can maintain a broadly steady unemployment rate in spite of any meaningful pickup in non-mining

investment, the RBA would probably see little reason for further easing in monetary policy.

The RBA also mentions the pickup in business lending as evidence of strengthening conditions in the non-mining sectors of the economy.

There was little change in the RBA's assessment on developments globally and in financial markets. The RBA remains watchful, but not ready to act on any concerns unless there are ramifications for the real economy.

On the exchange rate, the RBA only reiterated that "the exchange rate has been adjusting to the evolving economic outlook". The lack of jawboning of the Australian dollar may have disappointed some market participants. It follows comments from RBA board member John Edwards a few weeks ago that he would be more comfortable with the AUD trading at around US\$0.65. Despite Edwards comments, our view is that the case for jawboning the AUD was less strong than in previous years, and do not believe the AUD as being significantly overvalued in comparison to commodity prices.

Outlook for Monetary Policy

There was little to suggest that the RBA has changed its stance in monetary policy. It continues to keep the possibility of further easing open, but seems satisfied with developments in the domestic economy and that conditions in non-mining sectors of the economy are improving. The RBA remains encouraged by developments in the labour market.

Nonetheless, the economy continues to grow below trend and there is the likelihood that economic growth will remain below trend for a while longer. This raises the question of how long and how much the labour market can sustain its recent strength. In addition, given an environment of low inflation and uncertainty in the global economy, further monetary easing cannot be ruled out.

At the same time, already low interest rates and the low Australian dollar continue to provide support to the economy. We continue to expect that the RBA will leave rates on hold for all of 2016.

The one page text of the Governor's Statement can be found at <http://www.rba.gov.au/>

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