Tuesday, 16 March 2021

RBA Minutes

Reserve Bank Pushes Back on Markets

- **The Reserve Bank Board met on 2 March and left all monetary policy settings unchanged. The RBA reiterated that it does not expect it will lift the cash rate until 2024 at the earliest.**
- **The minutes provided some details on factors underpinning the RBA's policy decisions, echoing comments from Governor Lowe last week.**
- **In explaining their thinking, the RBA is seeking to hose down recent market speculation that they will hike the cash rate sooner than 2024. Market pricing implies an increase in the cash rate as early as late next year.**
- **The Board emphasised the cash rate will not increase until inflation is sustainably within the 2% to 3% per annum range. For this to occur, it is likely that wages growth will need to be sustainably above 3%. The RBA does not expect these criteria to be met before 2024.**
- **It was reaffirmed that yield curve control and quantitative easing may be extended later this year.**
- **The minutes flagged that tapering of fiscal support, including the conclusion of JobKeeper, could slow the pace of the recovery in the labour market over the coming months. This is consistent with our view that the unemployment rate will hover around 6.4% until the end of June before declining to 6.0% by the end of the year.**
- **The RBA has repeatedly noted the importance of sound lending standards in recent communications, flagging the risks linked to higher leverage and asset prices. Reading between the lines, this could mean a tightening in macroprudential policy is on the cards in the future.**

The Reserve Bank Board met on 2 March and left all monetary policy settings unchanged. The Bank reiterated that it does not expect it will lift the cash rate until 2024 at the earliest.

The minutes provided some details on factors driving the RBA's policy decisions, echoing comments from Governor Lowe last week. The RBA is seeking to hose down recent market speculation that they will hike the cash rate sooner than 2024.

On the **cash rate**: it was reiterated that the cash rate will not increase until inflation is sustainably within the 2% to 3% per annum range. For this to occur, it is likely that wages growth will need to be sustainably above 3%. The RBA does not expect these criteria to be met before 2024. It was noted that inflation was expected to rise temporarily above 3% around the middle of the year, as a result of the reversal of some pandemic-related price reductions.

Markets aren't buying the RBA's story, with market pricing implying an increase in the cash rate as early as late next year.

On **quantitative easing** (QE): the minutes reaffirmed that additional QE is possible. The program is currently due to expire in September, at which point the RBA will have purchased $200bn of government bonds.

Markets are keeping a close eye on the QE program since bond yields lifted sharply over the past month or so. The RBA wants to bond yields to stay low to keep a lid on funding costs and the AUD. We expect the QE program is likely to be extended.

On **yield curve control** (YCC): the RBA is putting off making a decision on extending YCC, noting it would consider the question later in the year when it had more information about the economic recovery. The RBA will not consider removing the yield target completely or change the yield target of 10 basis points.

Markets have been speculating whether the RBA will roll the target on the 3-year bond from April 2024 to November 2024.

The minutes also provided colour on the RBA's perspective on developments in the economy.

The tapering of fiscal support, including the conclusion of JobKeeper at the end of March, was noted as an important near-term issue. The RBA flagged there may be a pause in the pace of improvement in the labour market. This is consistent with our view that the unemployment rate will hover around 6.4% until the end of June before declining to 6.0% by the end of the year.

The board noted that conditions are strong in the housing market, particularly in the detached housing sector in outer metropolitan and regional areas. The RBA has repeatedly noted the importance of sound lending standards in recent communications, flagging the risks linked to higher leverage and asset prices.

Governor Lowe has previously emphasised that the RBA does not target house prices but that other tools are better placed to address concerns over the housing market. This implies that a tightening in macroprudential policy could be on the cards in the future if the housing market shows signs of overheating. Importantly, the RBA has made it clear that it will not move the cash rate in response to developments in the housing market.

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