

Minutes of the April RBA Board Meeting

Discontent Rising?

- On balance, the minutes of the RBA board meeting in April continued to suggest that the RBA remains satisfied regarding current monetary settings and does not seem poised to lower interest rates any time soon.
- The RBA was generally upbeat regarding developments in the domestic economy. Nonetheless, there were other concerns raised regarding global conditions and the stronger Australian dollar.
- The RBA still seemed confident that the necessary rebalancing was occurring. If anything, the RBA was more upbeat regarding the state of the domestic economy. The RBA would be even more encouraged by last week's labour force data, which confirmed that jobs were continuing to grow at a healthy pace.
- The major offsetting concern however for the RBA, was the level of the Australian dollar. The RBA has expressed some discomfort with the AUD at just above 75 US cents (at the time of the meeting) although commentary suggested that the RBA did not view the currency as being out of line with fundamentals. An AUD at 77.7 US cents at the time of writing this note could be even more disconcerting for the RBA, and we suspect they will be watching this development closely.
- We believe that there is little fundamental reason to expect the AUD will sustain at current levels, unless commodity prices rise further from here. An AUD seriously out of line with our forecast for a sustained period, without a corresponding move in commodity prices, would raise the likelihood of further monetary easing. However, barring such an event, we maintain our view that the economy will grow sufficiently for the RBA to leave rates on hold for the remainder of the year.

It was a mixed bag from the minutes of the RBA board meeting in April. The RBA was generally upbeat regarding developments in the domestic economy. Nonetheless, there were other concerns raised regarding global conditions and the stronger Australian dollar.

On balance, the minutes continued to suggest that the RBA remains relaxed regarding recent developments and does not seem poised to lower interest rates any time soon.

The much used phrase that "continued low inflation would provide scope to ease monetary policy further, should that be appropriate to lend support to demand" was again reiterated.

However, the RBA still seemed confident that the necessary rebalancing was occurring and that “there were reasonable prospects for continued growth in the economy”. If anything, the RBA was more upbeat regarding the state of the domestic economy. The discussion surrounding past economic indicators including GDP, the labour market and dwelling investment were broadly positive. The RBA was unsurprisingly less positive on the outlook for business investment, but noted that the decline over the December quarter was “in line with expectations”.

The RBA would be even more encouraged by last week’s labour force data which confirmed that jobs were continuing to grow at a healthy pace.

The major offsetting concern however for the RBA, was the level of the Australian dollar. “Members noted that an appreciating exchange rate could complicate progress in activity rebalancing towards the non-mining sectors of the economy”. Much like in the Governor’s statement earlier in the month, the RBA explained the appreciation with the lift in commodity prices and expectations of a slower pace of tightening by the Federal Reserve. Therefore, while the RBA has expressed some discomfort with the AUD at just above 75 US cents (at the time of the meeting), it was not yet at a point where the RBA viewed the currency as being out of line with fundamentals. An AUD at 77.7 US cents at the time of writing this note could be even more disconcerting for the RBA, and we suspect they will be watching this development closely.

Of course, an appropriate level for the AUD would depend heavily on the outlook for commodity prices. On this front, the RBA has hinted at some doubt that the current level of commodity prices will be sustained, in particular the price of iron ore. The RBA noted that Chinese steel production had declined, and global supply was expected to increase.

The other concerns for the RBA regarded the risks to financial stability from China and some other emerging market economies. These were also raised in the RBA’s financial stability review released last week. The RBA also noted softening economic activity in emerging economies, but that growth for Australia’s major trading partners was as forecast.

Outlook for Monetary Policy

The RBA continues to be confident that the domestic economy is performing relatively well and suggests that a rate cut is unlikely anytime soon. However, the level of the exchange rate could cause the RBA some concern if it stays at current levels or it appreciates further, particularly without a corresponding increase in commodity prices.

We believe that there is little fundamental reason to expect the AUD will sustain at current levels, unless commodity prices rise further from here. An AUD seriously out of line with our forecast for a sustained period without a corresponding move in commodity prices would raise the likelihood of further monetary easing. However, barring such an event, we maintain our view that the economy will grow sufficiently for the RBA to leave rates on hold for the remainder of the year.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist

Hans Kunnen

kunnenh@bankofmelbourne.com.au

(02) 8254 8322

Senior Economist

Josephine Horton

hortonj@bankofmelbourne.com.au

(02) 8253 6696

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.