

Minutes of the August RBA Board Meeting

RBA Weighing Up the Risks

- There were again no surprises in the Reserve Bank's (RBA) minutes of the August meeting. It struck a similar tone to that provided in recent commentary.
- The RBA continues to be comfortable with the outlook for the domestic and global economies, and presented mostly a balanced assessment of the risks.
- On the domestic economy, the RBA maintained its assessment of economic growth "a bit above 3 percent over 2018 and 2019".
- The commentary suggested some greater confidence in the outlook for consumer spending. Increases in the minimum wage, future tax cuts and the improving labour market were highlighted as factors which had "reduced some of the uncertainty around the outlook for consumption".
- Nonetheless, the RBA made a slight downgrade to its assessment of non-mining business investment.
- The RBA provided some insight into the recent rise in wholesale funding costs, although stated that it was "difficult to be definitive about the cause". While the increase had been somewhat in line with markets overseas, a part of the reason was "specific to Australia".
- The RBA reiterated that "the next move in the cash rate would more likely be an increase than a decrease" with the caveat that "there was not a strong case for a near-term adjustment in monetary policy". We continue to expect that the RBA will leave official interest rates on hold for an extended time.

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In regards to the global economy the RBA acknowledged the downside risks from trade tensions. The direct impact of measures were "expected to be small", but raised the risk of "adverse effects on investment decisions and confidence". Working in the other direction, the RBA pointed to the risk of stronger US growth and inflation as a result of the fiscal stimulus occurring in the economy.

On the domestic economy, the RBA maintained its projection of economic growth to be "a bit above 3 percent over 2018 and 2019".

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Nonetheless, the RBA made a slight downgrade to its assessment of non-mining business investment, which was “expected to continue to grow over the forecast period, but at a more moderate pace than over the previous year”. The RBA gave a further acknowledgement that the mining investment downturn was about to end soon – “mining investment was still expected to trough in coming quarters, but beyond that was expected to increase moderately as companies invested to sustain production”.

The RBA provided some insight into the recent rise in wholesale funding costs, although stated that it was “difficult to be definitive about the cause”. While the increase had been somewhat in line markets overseas, a part of the reason was “specific to Australia” particularly in reference to a spike in rates towards the end of June. The RBA suggested that there was less liquidity in money markets due to regulatory requirements by banks, which meant interest rates were likely to move more in changes to supply and demand. The RBA also singled out portfolio reallocation behind the increase in the bank bill swap rate. Since early July, bank-bill swap rates have eased around 16 basis points from their peak. However, given that reduced liquidity is likely to be ongoing it would suggest that the wholesale funding costs could be prone to further spikes.

Implications for Monetary Policy

On monetary policy, there was no change to the assessment “members continued to agree that the next move in the cash rate would more likely be an increase than a decrease”. However, the RBA maintains that “there was no strong case for a near-term adjustment in monetary policy”.

We remain comfortable in expecting the RBA will unlikely raise interest rates for some time.

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