# MNI RBA Preview - June 2021

**Meeting Date:** Tuesday 1 June 2021

**Decision Time:** 14:30 AEST/05:30 BST

**Link To Statement:** https://www.rba.gov.au/monetary-policy/int-rate-decisions/2021/

## Contents



## Central Bank Watch - RBA

31 May 2021

### MNI RBA Data Watch List

| Inflation | | Current | 3m ago | 3m Chg | 6m ago | 6m Chg | 2Y History | Hit / Miss | Vs Trend | Surprise Index | Z-Score |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CPI (Q) | % y/y | 1.1 | 0.9 | ↑ | 0.7 | ↑ | | | | | -0.14 |
| CPI Trimmed Mean (Q) | % y/y | 1.1 | 1.2 | ↓ | 1.2 | ↓ | | | | | -1.34 |
| Import Prices (Q) | % q/q | 0.2 | -1.0 | ↑ | -3.5 | ↑ | | | | | 0.56 |
| Consumer Inflation Exp | % y/y | 3.5 | 3.7 | ↓ | 3.5 | → | | | | | -0.14 |
| **Economic Activity** | | **Current** | **3m ago** | **3m Chg** | **6m ago** | **6m Chg** | **2Y History** | **Hit / Miss** | **Vs Trend** | **Surprise Index** | **Z-Score** |
| AiG PMI | Index | 61.7 | 55.3 | ↑ | 56.3 | ↑ | | | | | 1.78 |
| GDP (Q) | % y/y | -1.1 | -3.7 | ↑ | -6.3 | ↑ | | | | | -0.27 |
| Building Approvals | % y/y | 47.4 | 22.6 | ↑ | 12.4 | ↑ | | | | | 2.08 |
| Trade Balance | AUD m | 5574 | 7400 | ↓ | 6322 | ↓ | | | | | -0.57 |
| **Monetary Analysis** | | **Current** | **3m ago** | **3m Chg** | **6m ago** | **6m Chg** | **2Y History** | **Hit / Miss** | **Vs Trend** | **Surprise Index** | **Z-Score** |
| Home Loans | % m/m | 1.4 | -0.8 | ↑ | -2.1 | ↑ | | | | | 0.84 |
| Private Sector Credit | % y/y | 1.3 | 1.7 | ↓ | 1.8 | ↓ | | | | | -1.08 |
| Private Capital Expend (Q) | % q/q | 6.3 | 4.2 | ↑ | -2.9 | ↑ | | | | | 1.73 |
| Commodity Prices | % SDR | 34.7 | 20.1 | ↑ | -0.7 | ↑ | | | | | 1.43 |
| **Consumer / Labour Market** | | **Current** | **3m ago** | **3m Chg** | **6m ago** | **6m Chg** | **2Y History** | **Hit / Miss** | **Vs Trend** | **Surprise Index** | **Z-Score** |
| Retail Sales | % m/m | 1.1 | 0.3 | ↑ | 1.5 | ↓ | | | | | 0.07 |
| Consumer Confidence | Index | 113.13 | 109.06 | ↑ | 107.66 | ↑ | | | | | 0.59 |
| Employment Change | k | -30.6 | 33.4 | ↓ | 162.1 | ↓ | | | | | -1.22 |
| Wage Price Index (Q) | % q/q | 0.6 | 0.6 | → | 0.1 | ↑ | | | | | 0.66 |
| **Markets** | | **Current** | **3m ago** | **3m Chg** | **6m ago** | **6m Chg** | **2Y History** | **Hit / Miss** | **Vs Trend** | **Surprise Index** | **Z-Score** |
| Equity Market | Index | 7161.6 | 6673.3 | ↑ | 6517.8 | ↑ | | | | | 1.43 |
| AUD 10-Year Yield | % | 1.71 | 1.92 | ↓ | 0.90 | ↑ | | | | | 0.74 |
| AUD Yield Curve (3s-10s) | bps | 143.3 | 180.0 | ↓ | 78.5 | ↑ | | | | | 0.51 |
| AUD TWI | Index | 139.44 | 125.96 | ↑ | 129.52 | ↑ | | | | | 1.82 |

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg



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# MNI POV (Point Of View): Filling A Space Ahead Of The Key July Meeting

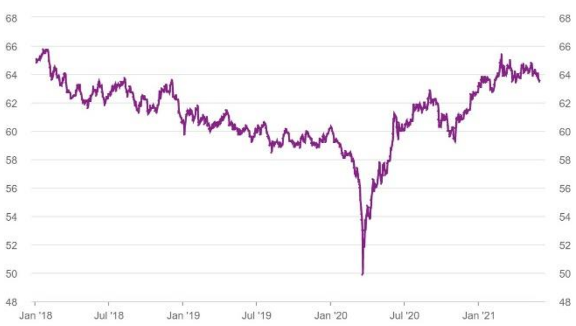
June's meeting should be a bit of a non-event given the RBA's explicit guidance surrounding its July meeting, when it will make a decision on whether or not to roll its yield targeting scheme over to ACGB Nov' 24 from ACGB Apr '24. July will also see the board issue a decision on "future bond purchases following the completion of the second A$100 billion of purchases under the government bond purchase program in September." The May meeting saw the RBA stress that "the Board is prepared to undertake further bond purchases to assist with progress towards the goals of full employment and inflation. The Board places a high priority on a return to full employment."

April's labour market report was mixed, with the ABS noting that "some of the 31,000 fall in employment may relate to the end of JobKeeper, but it could also reflect usual month-to-month variation in the labour market and some larger than usual seasonal changes similar to those we saw earlier in the year. Seasonal factors explained the larger fall in hours (down 0.7%), which was again attributed to higher than usual numbers of people taking leave around the public and school holidays." The part-/full-time split was a little more encouraging for policymakers, with the number in full-time employment growing April. Elsewhere, the dip in the participation more than offset the fall in the number employed, pushing the unemployment rate lower, while the underemployment and underutilisation rates continued to evolve in a favourable manner, with the labour market clearly outstripping broader expectations in recent months. Still, excess capacity remains evident, with full employment still not within touching distance.

On net there hasn't really been much to alter the Bank's view on an intra-meeting basis, with the Q1 GDP release set to hit on Wednesday, and only one more labour market report set to be released between now and the board's key July gathering.

Q1 GDP partials point to a fairly resilient domestic economy, although the internationally influenced readings have been a little more questionable. Meanwhile, the COVID lockdown in Victoria throws a fresh hurdle in the path of the economy, although most assume that policymakers will be able to minimise the impact of the restrictions that are in play, given the country's impressive track record in isolating cases, limiting the wider spread of any outbreaks. This shouldn't elicit much in the way of a response from the RBA, outside of a note of the issue and perhaps a hat tip to the obvious risks surrounding any notable prolonging of the state-wide lockdown.

Graph of the TWI



Sources: RBA

Market pricing remains more aggressive than the RBA's forward guidance re: the prospect of it embarking on a hiking cycle, while the recent hawkish turns from both the BoC and the RBNZ have left the RBA as the last dove within the G10 commodity dollar bloc, although we don't expect this to force the RBA's hand, with the senior officials at 65 Martin Place more than comfortable with the recent pullback in A$ in TWI terms (and dare way say it, wishing for more). The RBA's subtle tweak to its forward guidance in its May statement reduces the likelihood in language shifts this time out.

Looking ahead, it is clear that the majority of the sell-side community do not expect the RBA to extend the coverage of its yield targeting scheme to ACGB Nov '24 come the end of the July meeting, with expectations re: estimates of the next round of bond purchases generally between the A$50bn to A$100bn goalposts over a ~6-month horizon. We should not expect the RBA to shed any new information on those matters at the end of its June meeting, although Governor Lowe may choose to use a 17 June and/or 30 June address to finesse the messaging ahead of next month's decision.

# RBA 4 May 2021 Meeting Statement

At its meeting today, the Board decided to maintain the current policy settings, including the targets of 10 basis points for the cash rate and the yield on the 3-year Australian Government bond, as well as the parameters of the Term Funding Facility and the government bond purchase program.

The global economy is continuing to recover from the pandemic and the outlook is for strong growth this year and next. The recovery remains uneven, though, and some countries are yet to contain the virus. Global trade in goods has picked up strongly and commodity prices are mostly higher than at the start of the year. However, inflation remains low and below central bank targets.

Sovereign bond yields have been steady recently after increasing earlier in the year due to the positive news on vaccines and the additional fiscal stimulus in the United States. Inflation expectations have lifted from near record lows to be closer to central banks' targets. The 3-year government bond yield in Australia is at the Board's target of 10 basis points and lending rates for most borrowers are at record lows. The Australian dollar remains in the upper end of the range of recent years.

The economic recovery in Australia has been stronger than expected and is forecast to continue. This recovery is especially evident in the strong growth in employment, with the unemployment rate falling further to 5.6 per cent in March and the number of people with a job now exceeding the pre-pandemic level.

The Bank's central scenario for GDP growth has been revised up further, with growth of 4¾ per cent expected over 2021 and 3½ per cent over 2022. A pick-up in business investment is expected and household spending will be supported by the strengthening in balance sheets over the past year. The unemployment rate is expected to continue to decline, to be around 5 per cent at the end of this year and around 4½ per cent at the end of 2022.

Despite the strong recovery in economic activity, the recent CPI data confirmed that inflation pressures remain subdued in most parts of the Australian economy. A pick-up in inflation and wages growth is expected, but it is likely to be only gradual and modest. In the central scenario, inflation in underlying terms is expected to be 1½ per cent in 2021 and 2 per cent in mid 2023. In the short term, CPI inflation is expected to rise temporarily to be above 3 per cent in the June quarter because of the reversal of some COVID-19-related price reductions.

Housing markets have strengthened further, with prices rising in all major markets. Housing credit growth has picked up, with strong demand from owner-occupiers, especially first-home buyers. Given the environment of rising housing prices and low interest rates, the Bank will be monitoring trends in housing borrowing carefully and it is important that lending standards are maintained.

At its July meeting, the Board will consider whether to retain the April 2024 bond as the target bond for the 3-year yield target or to shift to the next maturity, the November 2024 bond. The Board is not considering a change to the target of 10 basis points. At the July meeting, the Board will also consider future bond purchases following the completion of the second $100 billion of purchases under the government bond purchase program in September. The Board is prepared to undertake further bond purchases to assist with progress towards the goals of full employment and inflation. The Board places a high priority on a return to full employment.

The date for final drawings under the Term Funding Facility is 30 June 2021. Given that financial markets in Australia are operating well, the Board is not considering a further extension of this facility. Authorised deposit-taking institutions have drawn $100 billion so far and a further $100 billion is currently available. Given the facility provides funding for 3 years, it will continue to support low funding costs in Australia until mid 2024.

The Board is committed to maintaining highly supportive monetary conditions to support a return to full employment in Australia and inflation consistent with the target. It will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. For this to occur, the labour market will need to be tight enough to generate wages growth that is materially higher than it is currently. This is unlikely to be until 2024 at the earliest.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# MNI STATE OF PLAY: RBA Waiting Game Should Continue This Week

By Lachlan Colquhoun

SYDNEY (MNI) - The Reserve Bank of Australia meets Tuesday with little to no policy action expected after the bank said at its previous meeting key decisions on its bond buying program and forward guidance would be addressed in July.

Policymakers said they would wait until the first meeting of the second half of the year to consider whether to retain the April 2024 bond as the target bond for the 3-year yield target or to shift to the next maturity, the November 2024 bond.

The July meeting will also be the time to consider future bond purchases following the September completion of the second AUD100 billion of purchases under the AUD200 billion government bond purchase program.

With interest rates expected to remain at 0,10%, a record low, the RBA continues to be in a holding pattern as it waits for more evidence on the strength of the domestic recovery.

Unemployment and inflation are the key factors in determining any change in monetary policy, and while the signs are encouraging the RBA has said that conditions for an interest rate rise are "unlikely until 2024 at the earliest."

ECONOMY

While Australia has managed to contain the spread of COVID-19, a new outbreak in Melbourne has seen a third lockdown in Australia's second largest city and may stall a full economic recovery.

April unemployment figures released last week show a slight fall to 5.6%, but more than 30,000 jobs were lost as the participation rate fell. Inflation continues to flag below the RBA's 2% to 3% inflation target, with first quarter inflation at 1.1% despite a hike in fuel prices.

While expecting a spike in inflation this quarter, the RBA is not forecasting that it will return to the target range until June 2023.

# Sell-Side Analyst Views

**AMP Capital:** The RBA is expected to leave monetary policy on hold following its meeting on Tuesday, as it's still a long way from meeting its requirements for a rate hike. While the jobs market has tightened more rapidly than expected, it's still a long way from full employment, let alone being strong enough generate wages growth "sustainably above 3%" (which is necessary to be confident of sustainably achieving the 2 to 3% inflation target). While we think this may come in 2023, that's still a long way off and the RBA is likely to reiterate that it does not expect to raise interest rates until 2024 at the earliest. Meanwhile, our view is that with the economy recovering faster than expected, the RBA will stick with the April 2024 bond as the target bond for the 3-year yield target and cut its bond purchases in half from September, but it's indicated that it won't consider this until the July meeting.

**ANZ:** The RBA may reference the lockdown in its policy statement as a reminder that downside risks to the economic outlook remain. We don't expect its policy message to change from that in May, nor for there to be any hints about the July decisions on the fate of the yield target and quantitative easing. Governor Lowe may use a speech on 17 June to outline the RBA's thinking on the fate of these policies.

**Barclays:** The RBA is likely to keep its policy package unchanged, reiterating that it sees a stronger economy. However, uncertainty remains, such as with Victoria's week-long lockdown. We do not expect any details about another bond-buying program or about the 3y AGB yield target to be announced at this meeting.

**CBA:** The next decisions for the RBA will be whether to continue to target the April 2024 bond or whether to switch to the November 2024 bond and whether to extend the asset purchase program. The RBA have flagged that these decisions will be announced at the July Board meeting. As a result the June meeting should be fairly quiet with no changes made to monetary policy settings. Note that CBA expect the RBA keep the yield curve target pegged to the April 2024 bond and to extend the asset purchase program by another $A50bn over six months.

**Goldman Sachs:** We expect the RBA to keep policy settings unchanged and continue to reiterate existing guidance around the cash rate and potential adjustments to the YCC and QE programs in July. On the latter, we don't expect the RBA to explicitly confirm any changes at the June meeting, although it is likely to note the ongoing improvement in the local data - including the decline in unemployment in April - notwithstanding near-term uncertainties around the recent COVID outbreak and 7-day lockdown in Victoria.

**J.P.Morgan:** At the May Board meeting the RBA flagged that the Bank will make its decision on the future of the YCC and QE programs in July. With this guidance in mind and given the lack of domestic catalysts in the past month we deem it unlikely that Bank officials make any meaningful shifts at the coming week's meeting. Indeed, we anticipate the language concerning the YCC, QE, and cash rate outlooks will be largely unchanged from the previous meeting. The Bank also handed down the comprehensive Statement on Monetary Policy last month, which included new macroeconomic forecasts. Given these forecasts are still current we do not expect any meaningful changes to the description of the domestic economy.

**Morgan Stanley:** We expect no notable policy or messaging shifts from the RBA at its June meeting, although it should confirm that the Term Funding Facility will end as expected at the end of the month. After refreshing their forecasts at the previous meeting, the RBA flagged that they would decide in July whether to extend or taper its QE and yield target programs. We expect it will extend both but expect few clues around their thinking at this meeting - although any reaction to the recent labour market data or re-emergence of COVID cases in Victoria would be closely watched.

**RBC:** Since it last met, key labour market data have suggested a reasonably smooth transition to the end of JobKeeper, confidence has risen further with an upbeat capex survey recently and the suite of housing data has stayed strong. The global central banking backdrop has also shifted slightly less dovish. The VIC C-19 outbreak and accompanying 7-day lockdown adds an element of caution especially if it is extended, but the board is unlikely to do much more than note the situation. It will soon begin preparation for its usual quarterly forecast updates and may then make some adjustment for VIC depending on how the situation unfolds. We expect no material new insights in the post board meeting statement.

**Societe Generale:** We expect no changes in monetary policy at the RBA's June meeting. The central bank will likely keep its policy rates on hold, retain the bond purchasing (QE) programme that will complete in September, and announce the end of the Term Funding Facility program on 30 June as already mentioned at the May meeting. The forward guidance of keeping the cash rate on hold until actual inflation is sustainably within the target range and the labour market conditions for this high inflation are met (i.e., low unemployment rate and high wages growth) is also likely to be preserved.

- While steady economic recovery in 1Q21 that restored GDP to its pre-pandemic level was already hinted by the Statement on Monetary Policy in May, we focus on labour market and wages growth data that could be even more important for the monetary policy outlook. Wages growth in 1Q21 was stable with quarter-on-quarter growth of 0.6% and year-on-year growth of 1.5%. Labour force data in April showed a modest decline in the number of employed people and hours worked, and the ABS said that it was unclear whether this labour market weakness could be attributed to the end of the JobKeeper programme in March. RBA Governor Lowe once said that the wages growth should be "sustainably above 3%" and also hinted that unemployment rate would be a "low 4%" for inflation to be sustainably within the 2-3% target. Wages growth was 2.4% on an annualised pace in 1Q, while the unemployment rate was 5.5% in April, suggesting that the current situation in the labour market is still reasonably far from the aforementioned conditions for higher inflation to be met.
- The upcoming policy meeting in June will not be closely watched by financial market participants, as policymakers already announced that the two important policy decisions, about the extension of the government bond purchase programme and the shift of the target bond for the three-year yield target, will be made at the July meeting. While the minutes of the May meeting said that those policy decisions would be affected by economic data flow and financial market conditions, we don't think that the data or markets during the previous month provided any clear implications for monetary policy. So the near-term uncertainty about those policy decisions will continue until the July meeting.
- We maintain our base scenario of a tapering in the bond purchase programme (smaller target purchase amount) and a shift in target bonds from the April 2024 bond to the November 2024 bond. Strong economic recovery should support the tapering of bond purchases, while the recent tapering action by the Bank of Canada may also affect the RBA. We continue to think that the shift of maturity in the target bonds is needed to secure the credibility of the policymakers' forward guidance to refrain from a rate hike until 2024.

**TD Securities:** Since the last meeting, data has surprised to the upside so RBA's commentary is likely to be upbeat. Focus will be on clues for the July meeting when the RBA will announce its YCC and QE decisions. Most market participants expect RBA to retain the Apr'24s as the target YCC bond (TD expects the same), but there is no unanimity on the likely QE course (TD A$100bn over 6 months).

**Westpac:** The Reserve Bank Board meets on June 1. The minutes of the May meeting confirmed that the Board will decide on the next stage of its Yield Curve Control and Quantitative Easing policies at its July meeting. As such, the June meeting will be one of 'marking time' and discussing the recent run of data.

- The May minutes noted that recent data and financial conditions will be factors influencing the decisions in July. Westpac expects the Board to extend the QE policy by a further $100 billion beginning in September and to switch the target bond in the YCC policy from April 2024 to Nov 2024.
- This view is based on the expectation that the Board will be committed to monetary stimulus (reducing QE or restricting YCC to the April bond are akin to tightening policy) for the remainder of 2021. Despite more promising signs around momentum there is still much to achieve the Bank's objectives of full employment and its inflation target.