MNI RBA Preview - December 2021

Meeting Date: Tuesday 7 December 2021

Decision Time: 14:30 AEDT/03:30 GMT

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

Contents

- **Page 2:** MNI POV (Point Of View):
- **Page 3:** RBA 2 November 2021 Meeting Statement
- **Page 4-6:** 2 November 2021 Post-Meeting Address By RBA Governor Lowe
- **Page 7:** RBA STATE OF PLAY: Omicron Likely To Keep RBA Dovish
- **Page 8-9:** Sell-Side Analyst Views

mni Central Bank Watch - RBA

Sunday, December 5, 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	3.0	3.8	↓	1.1	↑					1.02
CPI Trimmed Mean (Q)	% y/y	2.1	1.6	↑	1.1	↑					1.85
Import Prices (Q)	% q/q	5.4	1.9	↑	0.2	↑					1.96
Consumer Inflation Exp	% y/y	4.6	3.3	↑	3.5	↑					1.07
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
AiG PMI	Index	54.8	51.6	↑	61.8	↓					0.32
GDP (Q)	% y/y	3.9	9.5	↓	1.4	↑					0.60
Building Approvals	% y/y	-8.1	21.4	↓	44.5	↓					-1.81
Trade Balance	AUD m	11220	13520	↓	9256	↑					0.07
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	5.7	4.1	↑	1.3	↑					1.28
Private Capital Expend (Q)	% q/q	-2.2	3.4	↓	6.2	↓					-0.48
Commodity Prices	% SDR	36.2	50.7	↓	43.4	↓					-0.99
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	4.9	-2.7	↑	1.1	↑					0.73
Consumer Confidence	Index	105.30	104.09	↑	113.13	↓					-0.64
Employment Change	k	-46.3	3.1	↓	-30.1	↓					-0.30
Wage Price Index (Q)	% q/q	0.6	0.4	↑	0.6	→					0.75
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	7241.2	7534.9	↓	7161.6	↑					1.01
AUD 10-Year Yield	%	1.61	1.16	↑	1.71	↓					0.38
AUD Yield Curve (3s-10s)	bps	71.0	91.8	↓	143.3	↓					-1.07
AUD TWI	Index	134.53	133.32	↑	124.84	↑					0.36

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

Business Address - MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

MNI POV (Point Of View): Optionality Set To Be Maintained

The RBA's December meeting and subsequent statement should be a relatively bland affair, coming in the wake of the November gathering, which resulted in the widely expected formal removal of the Bank's YCT mechanism and adjustments to the Bank's forward guidance. The latter evolved into a deliberately ambiguous passage, with patience and the ability to deliver sustainable underlying inflation at its core. This should remain unchanged this time out, as should the broader levers of monetary policy.

The outbreak of the omicron COVID variant, which has been detected in Australia, should not have much in the way of medium-term impact on the RBA, at least if it is dealt with swiftly and effectively, aided by speedy vaccine development and resilience via the current crop of vaccines (or if it proves to pose a lower mortality threat vs. what was feared around the initial detection of the strain). Yes, it has impacted the wider re-opening of the borders (both inter-state and international), but the country's vaccination rate should allow the government to maintain its living with COVID approach when a little more clarity becomes apparent. The real monetary worry centres on the potential for a fresh inflationary impulse if the variant results in widespread lockdowns, stimulus and hence inflation. This could result in greater chances of "policy errors," via the frontloading of rate hikes.

The RBA will likely tilt its hat to the short-term risks/uncertainty provided by the omicron COVID variant, which will add a sense of vindication to its pursuit of optionality and relatively dovish utterances when we compare market views to the RBA's forward guidance. For reference, markets currently price a 15bp cash rate hike in the June/July '22 window (which month depends on your assumptions re: where the effective cash rate will print when a hike is implemented). Governor Lowe and his board will no doubt want to preserve their sense of guarded optimism (Lowe has focused on a glass half-full view, as opposed to the dovish characterisation pushed by many quarters) ahead of the two-month hiatus that comes between the December '21 and February '22 monetary policy meetings, with the recent Q3 GDP print failing to provide a meaningful deviation from the RBA's base case.

Looking ahead, it will ultimately be the unemployment-wage dynamic that comes under scrutiny, with the RBA continually referencing wage growth of "3 point something" when it comes to delivering sustainable underlying inflation that resides in the upper half of its 2-3% target range (which it is focused on after years of missing the target). The Bank remains more cautious on this matter when compared to both the market and the economic commentariat.

More imminently, consensus points to the RBA reducing its A$4bn/week bond buying scheme down to A$2bn/week come the end of its February '22 meeting, although that is a fairly long-held view. Some have pointed to the potential for a quicker pace of Fed QE tapering as a source of facilitation when it comes to a swifter tapering process at the RBA. Some have started to point towards the potential for the RBA to announce the complete cessation of its bond purchases at the end of its February meeting. Given the Bank's slow and steady approach when it comes to the removal of the COVID-driven monetary stimulus, we would suggest that is one step too far at present. The Bank has already signalled that February will be the next "live" meeting when it comes to reconsidering matters surrounding its bond purchasing scheme, and we do not expect any fresh signals on that front this time out.

RBA 2 November 2021 Meeting Statement

At its meeting today, the Board decided to:

- maintain the cash rate target at 10 basis points and the interest rate on Exchange Settlement balances at zero per cent
- continue to purchase government securities at the rate of $4 billion a week until at least mid February 2022
- discontinue the target of 10 basis points for the April 2024 Australian Government bond.

The Australian economy is recovering after the interruption caused by the Delta outbreak. As vaccination rates increase even further and restrictions are eased, the economy is expected to bounce back relatively quickly. The central forecast is for GDP growth of 3 per cent over 2021 and 5½ per cent and 2½ per cent over the following two years. One important source of uncertainty continues to be the possibility of a further setback on the health front.

The Delta outbreak caused hours worked in Australia to fall sharply, but a bounce-back is now underway. The Bank's business liaison and the data on job ads suggest that many firms are now hiring, which will boost employment over coming months. The central forecast is for the unemployment rate to trend lower over the next couple of years, reaching 4¼ per cent at the end of 2022 and 4 per cent at the end of 2023.

Inflation has picked up, but in underlying terms is still low, at 2.1 per cent. The headline CPI inflation rate is 3 per cent and is being affected by higher petrol prices, higher prices for newly constructed homes and the disruptions in global supply chains. A further, but only gradual, pick-up in underlying inflation is expected. The central forecast is for underlying inflation of around 2¼ per cent over 2021 and 2022 and 2½ per cent over 2023. Wages growth is expected to pick up gradually as the labour market tightens, with the Wage Price Index forecast to increase by 2½ per cent over 2022 and 3 per cent over 2023. The main uncertainties relate to the persistence of the current disruptions to global supply chains and the behaviour of wages at the lowest unemployment rate in decades.

Housing prices are continuing to rise in most markets and housing credit growth has picked up due to stronger demand for credit by both owner-occupiers and investors. The Bank welcomes APRA's recent decision to increase the interest rate serviceability buffer on home loans. It is important that lending standards are maintained at a time of historically low interest rates.

Financial conditions in Australia remain highly accommodative, with most lending rates at record lows. Bond yields have increased recently and bond market volatility has also risen significantly. The exchange rate has appreciated a little, but remains within the range of the past year.

The decision to discontinue the yield target reflects the improvement in the economy and the earlier-than-expected progress towards the inflation target. Given that other market interest rates have moved in response to the increased likelihood of higher inflation and lower unemployment, the effectiveness of the yield target in holding down the general structure of interest rates in Australia has diminished.

The Board is committed to maintaining highly supportive monetary conditions to achieve a return to full employment in Australia and inflation consistent with the target. While inflation has picked up, it remains low in underlying terms. Inflation pressures are also less than they are in many other countries, not least because of the only modest wages growth in Australia.

The Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. This will require the labour market to be tight enough to generate wages growth that is materially higher than it is currently. This is likely to take some time. The Board is prepared to be patient, with the central forecast being for underlying inflation to be no higher than 2½ per cent at the end of 2023 and for only a gradual increase in wages growth.

The Governor will conduct a webinar, including a question and answer session, at 4.00 pm AEDT today. This will be broadcast live on rba.gov.au.

2 November 2021 Post-Meeting Address By RBA Governor Lowe

Good afternoon and thank you for joining this webinar.

The Reserve Bank Board met this morning. At our meeting we agreed to:

- maintain the target for the cash rate at 10 basis points
- continue to purchase government bonds at the rate of $4 billion per week until mid February 2022, with a further review to be undertaken then
- discontinue the target for the yield on the April 2024 bond.
- I would like to take this opportunity to explain these decisions – particularly the decision to discontinue the yield target – and to answer your questions.

I would like to start with some background and our updated forecasts.

The Australian economy is now growing again, after the recovery from the pandemic was interrupted by the Delta outbreak. GDP is expected to record a solid gain in the December quarter, following the sharp contraction in the September quarter. And by the middle of next year, GDP is expected to be back on its pre-Delta path. Our central scenario is for the economy to grow by around 5½ per cent over 2022 and by around 2½ per cent over 2023.

At the outset of the pandemic, economic policy, including monetary policy, set out to build a bridge to the other side. That other side is now clearly in sight. As restrictions are eased, spending is expected to pick up relatively quickly as people seek a return to a more normal way of life. The rapid increase in vaccination rates has been critical in getting us to this point. More broadly, the support provided by both monetary and fiscal policy means that the Australian economy is well placed to resume its expansion.

The resilience of the economy continues to be evident in the labour market. A strong bounce-back in hours worked is now under way, after a sharp fall during the lockdowns. The unemployment rate is expected to trend lower over the next couple of years. Our central scenario is for the unemployment rate to reach 4¼ per cent by the end of next year, and 4 per cent by the end of 2023. This would be a welcome development. Australia has not experienced a sustained period of unemployment at levels this low since the early 1970s.

Inflation, in underlying terms, remains low in Australia, at 2.1 per cent. Inflation is, however, a little higher than it has been over recent years. This increase largely reflects higher oil prices in global markets, higher prices for residential construction and strained global supply chains. Looking forward, we are expecting a further, but gradual, increase in underlying inflation. Our central forecast is for underlying inflation of 2¼ per cent in 2022 and 2½ per cent in 2023.

While these forecasts for inflation are higher than our previous forecasts, we are not expecting the surge in inflation that has been experienced in some other countries. The situation in Australia is different. We have not seen the same fall in labour force participation as experienced elsewhere, and the impact of other supply disruptions, including in energy markets, is less evident in our CPI.

It is also relevant that the starting points for inflation and wages growth are lower in Australia than in many other countries. In addition, our business liaison suggests that wage growth remains modest, although there are some hotspots. Wages growth is expected to pick up as the labour market tightens, but this pick-up is expected to be gradual.

So that is the economic backdrop against which today's decision was made.

I will now turn to the yield target.

The yield target was introduced in the exceptional days of March 2020. It was part of a package of monetary policy measures designed to help build that bridge that I spoke about before. That package has been effective and it is one of the reasons that the Australian economy is now well placed to recover from the pandemic.

The yield target had two motivations.

The first was to directly anchor the short end of the yield curve so that funding costs were low across the economy. In the exceptional circumstances of the time, we judged that the most efficient way of anchoring the curve was to target a risk-free yield further out along the curve than the cash rate.

The second motivation was to reinforce the Board's forward guidance that the cash rate was very unlikely to be increased for three years, which at the time ran until March 2023.

On both counts, the yield target has been effective and has supported the recovery of the Australian economy. But its effectiveness as a monetary policy tool declined as expectations about future interest rates shifted due to the run of data and the forecast progress towards our goals.

At the time the yield target was introduced, the Board assigned a very low probability to an increase in the cash rate over the three-year horizon of the target – which at the time aligned with the maturity date of the April 2023 bond. Indeed, the central scenario was that the cash rate would need to be held steady beyond that date and the likelihood of an earlier increase in the cash rate was considered to be very low.

Today, more than a year and a half on, the balance of probabilities is a little different. Given our forecasts, it is still entirely plausible that the first increase in the cash rate will not be before the maturity of the current target bond – that is, the bond with a maturity date of April 2024. But it is now also plausible that a lift in the cash rate could be appropriate in 2023.

In our central scenario, underlying inflation reaches the midpoint of the 2 to 3 per cent range only in late 2023. Having underlying inflation reach the midpoint of the target range for the first time in seven years does not, by itself, warrant an increase in the cash rate. It is also relevant that wages growth at the end of 2023 is expected to be running at 3 per cent. While this is higher than it is now, it is still below the average over the two decades to 2015. This expected configuration of inflation and wages growth allows the Board to be patient in considering a lift in interest rates.

It is also possible that the global inflation shock is more persistent than currently expected and that this is transmitted to Australia. There is also uncertainty as to how wages growth responds to the unemployment rate being near 4 per cent for an extended period. We have little historical experience to guide us and there is also the question of the impact on labour supply of the opening of the international border. Given this, it is possible that faster-than-expected progress continues to be made towards achieving the inflation target. The recovery of the economy and the recent inflation data have increased the probability of this. If this faster progress were to be sustained, there would be a case to lift the cash rate before 2024.

It is, of course, also possible that we experience yet another setback that throws the economy off course and delays progress towards our goals. One source of such a shock would be a new strain of the virus or a decline in vaccine effectiveness. In this case, the cash rate would need to remain at its current level for longer than otherwise.

At its meeting this morning, the Board considered these various possibilities and their implications for the yield target.

One option discussed was to continue with the target on the basis that it remained consistent with our central forecasts for the economy.

A second option considered was to lift the target yield or change the maturity of the target bond. However, this would not have been consistent with the Board's view that the yield target was an appropriate tool during an exceptional period, but not one to be used on an ongoing basis.

The third option considered was to discontinue the target on the basis of the shift in the distribution of possible outcomes for the cash rate that I just spoke about.

The Board decided on this third option.

I want to make it clear that this decision does not reflect a view that the cash rate will be increased before 2024. As I have discussed, there is genuine uncertainty as to the timing of future adjustments in the cash rate. Given the information we currently have to hand, it is still entirely possible that the cash rate will remain at its current level until 2024. But it is also possible that an earlier move will be appropriate. Given this, the Board judged that there were more costs than benefits in seeking to anchor the yield on the April 2024 bond at 10 basis points.

Given the progress towards our goals and the revised outlook, the Board judged that it was no longer sustainable to maintain the target of 10 basis points. The Board took into account the fact that the shift in the distribution of possible outcomes was being reflected in other term interest rates in Australia. If we had sought to pin the yield on the April 2024 bond at 10 basis points in the face of these developments, we would have ended up holding all the freely tradable bonds in the bond line, so that trading in that bond would cease. This would have further diminished the usefulness of the target.

I recognise that the past few days have been turbulent ones in the bond market. Our decision to stand out of the market in the days between the release of the CPI and the Board meeting did result in uncertainty as to our policy and affected market pricing and liquidity. We faced a difficult choice over those days: stand out of the market until the Board had an opportunity to review the latest data and forecasts in a matter of a few days; or enter a thin market in an effort to defend a target that was losing credibility for the reasons I have spoken about. I thought the better approach was for the Board to review the situation and decide whether or not to confirm or discontinue the target.

I would now like to turn to a broader point and that is the nature of the RBA's forward guidance. As I have stressed on previous occasions, our forward guidance is based on the state of the economy, not the calendar. Our focus has been on returning inflation sustainably to the 2 to 3 per cent range and doing what we reasonably can to reach full employment. These are our goals and it is progress on these fronts that will continue to determine decisions about the cash rate. These decisions are not driven by the calendar.

We have, though, supplemented this state-based guidance with a reference to our forecasts and the calendar. We have done this to provide the community with our expected time frame and the factors that will influence that time frame. This in no way has constituted a promise that the cash rate would remain unchanged to any particular date. Rather, at the time of each policy statement we provided our best expectation of the timing of when the cash rate might change, recognising that expected timing can change.

While on the issue of timing, the latest data and forecasts do not warrant an increase in the cash rate in 2022. I recognise that some other central banks are raising rates, but our situation is different. The Board will not increase the cash rate until inflation is sustainably in the target range. We are prepared to look through spikes in the inflation rate, as we have done with headline CPI inflation this year. For inflation to be sustainably in the target range, wages growth will have to be materially higher than it is now. This is likely to take time. The Board is prepared to be patient.

Finally, in terms of the bond purchase program, we will be including the April 2024 bond in our regular auctions from next week. We will also continue with the program at the current rate of purchases until February, when we will review it again. That review will be based on the same three considerations as previous reviews: (i) the actions of other central banks; (ii) how our bond market is functioning; and (iii) most importantly, the actual and expected progress towards our goals for inflation and unemployment.

Thank you. I am here to answer your questions.

MNI STATE OF PLAY: Omicron Likely To Keep RBA Dovish

By Lachlan Colquhoun

SYDNEY (MNI) - Fresh uncertainty on the impact of the Omicron virus variant is likely to keep the Reserve Bank of Australia's outlook on monetary policy dovish as the central bank goes into its final meeting of the year.

The RBA board meets on Tuesday and although recent economic indicators, such as the better than expected 1.9% third quarter GDP growth and strong October retail sales, are indicating a strong economic rebound the bank is likely to continue its cautious approach to policy, see: MNI INSIGHT: Retail Sales Point To Strong Australia Q4 GDP.

There is no expectation that the RBA will change official interest rates from the record low of 0.10% and its only other current policy lever, the bond buying program, is scheduled to continue at the rate of AUD4 billion a week until a review in February.

CHANGE OF LANGUAGE

The RBA's views on the Omicron variant will be closely watched, as will any change in its language on an interest rate rise which the bank now says is possible either in late 2023 or 2024, depending on the progress of inflation.

Trimmed mean inflation for the third quarter was at 2.1%, and inside the RBA's 2% to 3% target range for the first time in more than five years, but the RBA is forecasting a sluggish increase to 2.5% by the end of 2023.

WAGE KEY

Growth is expected to rebound sharply in the fourth quarter of 2021, but wage growth – which the RBA sees as the key to driving inflation sustainably into its target range – is still low at an annualized 2.2%.

October unemployment was at 5.2%, and the bank has said it believes it should be in the low 4% range to have an impact on wages growth.

The RBA meeting may also offer some commentary on the future of the bond buying programme with the bank perceived to be under some pressure to stop the program in February as other central banks taper their own purchases.

Sell-Side Analyst Views

ANZ: If the Fed does accelerate the pace of its bond tapering, then we think the RBA could well decide to end its QE program altogether in February. This would be doubly so if the data over coming weeks means the RBA's economic forecasts are upgraded in its February Statement on Monetary Policy. We don't think the statement that will follow the RBA Board's December meeting will allude to the possibility of QE ending in February, however. Not least because the critical Fed meeting won't happen until the week after.

Bank of America: The new COVID variant and further disruption to the border does not change the fundamental story for above-trend growth and stronger price pressures in 2022. But it does give the RBA scope to underscore dovish guidance.

- It is possible the RBA will provide some guidance on tapering, but it is more likely they wait until their scheduled February review to announce any changes to the Bond Purchase Program considering the focus on upcoming data. We expect a cut in bond purchases to A$2bn/week in February, if not more, depending on data that provides more insight to economic momentum and traction for rising costs over summer.

Barclays: We expect the RBA to hold the cash rate at 0.10%, and signal its intent to taper - but not end - its bond purchases from February. We think these purchases will end around mid-2022, followed by a 15bp rate hike in November 2022.

CBA: We don't expect any policy changes at the RBA Board's last meeting of the year. Although the Q3 GDP print indicated that the economy had been more resilient than expected over the lockdown period, we don't see that as having moved the dial on the RBA's thinking around inflation and wages growth.

Goldman Sachs: We expect the RBA to keep policy settings - including the cash rate and pace of QE purchases - unchanged, and largely repeat November's language around the forward guidance. Since the last meeting, data have been broadly in line with the RBA's expectations, including ongoing softness in wages growth and a contraction in Q321 GDP due to earlier lockdowns.

- On the COVID front, vaccine coverage continues to be very strong in Australia and lockdown restrictions have been largely lifted, but news of the 'omicron' variant saw officials tighten up some interstate and international border restrictions. Overall, the RBA is likely to remain cautiously optimistic about the 'reopening' of Australia and rebound in economic activity going forward.
- That said, we expect the RBA to remain dovish relative to many peer central banks given softer inflation and wage pressures. As a result, we expect the RBA to keep the cash rate on hold in 2022, and our forecast November 2023 lift-off is towards the dovish end of consensus expectations. In the near term however, we do see a material risk that the RBA tapers QE more quickly at its February meeting than our current base case (for QE to wind down by May 2022). We note that the RBA's unconventional policies are calibrated towards downside scenarios, and we see a much lower hurdle to adjusting these policies than for conventional interest rates.

ING: The RBA has been back-pedalling a bit from its insistence that rates will not rise until 2024, and it at least now acknowledges that a 2023 hike is a possibility. But there has been nothing recently to require them to make further shifts, or to stake out a new approach to asset purchases when the current policy is reviewed in mid-February. Australian Q321 GDP data was less bad than had been expected, but doesn't shed much light on the correct policy stance and has had little impact on market expectations.

J.P.Morgan: We expect the meeting to be uneventful and officials to leave the policy mix unchanged. The data since the RBA last met have been mixed, with the stronger-than-forecast Q3 real GDP outcome counterbalanced by the spike in the jobless rate to 5.2%. The data have been particularly volatile in recent months on the heels of COVID-related lockdowns on the East Coast so we don't expect the Bank to place too much weight on any individual print. At last month's meeting Governor Lowe made it clear the Bank will next review the QE program in February, and while the guidance is somewhat compromised following the decision to jettison YCC between policy meetings, we anticipate the governor's commitment will hold. The Bank is also likely to retain its forward guidance on hikes, pledging not to increase the cash rate until inflation is "sustainably with the 2 to 3 per cent target range" and "wage growth is materially higher than it is currently."

Morgan Stanley: We expect no policy changes from the RBA at its December meeting with the cash rate held at 0.1% - and limited shift in signalling. Statement messaging will be little changed, particularly ahead of a review of QE settings at the next meeting in February. We expect it will acknowledge the better-than-expected Q3 GDP data and signs of a relatively strong recovery as restrictions ease, although this may be tempered by reference to potential disruption from the latest Covid variant.

RBC: This is the last board meeting for 2021 ahead of the traditional summer/holiday hiatus, with no meeting in January and the first meeting of 2022 scheduled for 1 February. Domestic data since the board last met continue to surprise to the upside and will add to the RBA's confidence in the unfolding recovery and progress towards its dual goals. Omicron will likely feature in Tuesday's discussion, but it remains far too early for any policy implications, with policy settings and forward guidance set to remain unchanged. Governor Lowe's speech may elaborate further, but his final speech on 16 December could be a bit more insightful

Scotiabank: The decision will be monitored for two possible though unlikely hints in light of the arrival of the Omicron variant and the uncertainties it represents. First, while they have stated that the A$4bn/week bond purchase program will be re-evaluated at the next meeting in February, we'll be watching for hints that they are perhaps leaning toward curtailing or ending it. A full discussion at the February meeting likely makes it premature to expect much just yet. This would be a further step after abandoning its 3-year yield target under pressure from financial markets. Second, any discussion around potential timing of rate hikes is unlikely at this meeting but conditions around growing consensus opinions that it may bring forward its guidance somewhat may be discussed.

Societe Generale: We expect the RBA to maintain its current monetary policy settings.

- As market participants seem to agree that there could be further tapering in February of next year, they are likely to focus on whether the RBA maintains its still-dovish forward guidance or not. While we had thought that the forward guidance had been changed at the November meeting to reflect a shift in the timing of the first rate hike from 2024 to 2023, Governor Lowe later suggested that the RBA would maintain the timing of the first rate hike in 2024, stating: "It is still plausible that the first increase in the cash rate will not be before 2024." We now suspect that the policymakers want to keep the timing of the first rate hike a little vague.
- We do not think that there will be any allusions to a change in forward guidance and expect the concluding paragraph of the policy statement to be much the same as it was in November. We see the rising uncertainty on the growth and inflation outlook due to the emergence of COVID variant of concern, Omicron, as the main reason why the RBA is likely to maintain a cautious (and even vague) approach on its policy actions in the future. Also, recent data flows do not contain any major surprises that could alterthe RBA's central economic forecasts. Q3 GDP data confirmed the damage from the Delta outbreak, but also suggested a quick bounce-back with a surge in household savings rate and resilient private investment. Strong retail sales in October proved that an instant recovery in consumption was underway. Wage growth resumed a 'normal' pace in Q3, and a rather surprising contraction in October employment may support the RBA's dovish view that they do not need to be in a hurry to raise policy rates. Policymakers are likely to closely monitor the development of the Omicron variant and the pace of the domestic economic recovery in December 2021 and January 2022, until the next meeting in February 2022.

TD Securities: We don't expect the RBA to announce any policy changes in the Dec Statement, retaining the target rate at 0.10%, the rate on ES Balances at 0% and QE continuing at a weekly rate of A$4bn/wk through to Feb. While the Omicron variant poses downside economic risks, expect the Bank to strike an upbeat note on the post lockdown recovery.

Westpac: The RBA is expected to keep policy settings unchanged at its last meeting of 2021. As such, the focus will again be on the wording of the Governor's decision statement, particularly any assessments of the latest round of economic data, including the Q3 national accounts, and the shifting external environment, particularly with respect to price inflation in developed economies.

- The Bank's following meeting, on February 1 next year, will likely see more meaningful shifts with a scheduled review of the bond buying program expected to see purchases scaled back from $4bn/week to
- A$2bn/week prior to a wind down of the program by mid -May.
- The Governor continues to emphasise the Board's patience with respect to the timing of the initial rate increase. Westpac remains comfortable with our view that the bank's first move will come in February 2023 although markets are anxious for a mid-2022 move while the Governor himself is still open to waiting till 2024.