mni

All Signal, No Noise

MARKET ANALYSIS

MNI RBA Preview - August 2020

Meeting Date: Tuesday August 4 2020

Statement Release Time: 05:30 BST/14:30 AEST

Link To Statement Page: https://www.rba.gov.au/monetary-policy/int-rate-decisions/2020/

SoMP Release Time: Friday August 7 02:30 BST/11:30 AEST

Link To Statement Page: https://www.rba.gov.au/publications/smp/2020/aug/

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mni Central Bank Watch - RBA

Monday, August 3, 2020

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	-0.3	2.2	↓	1.8	↓					-2.33
CPI Trimmed Mean (Q)	% y/y	1.2	1.8	↓	1.6	↓					-1.98
Import Prices (Q)	% q/q	-1.9	-1.0	↓	0.7	↓					-1.69
Consumer Inflation Exp	% y/y	3.2	4.6	↓	4.7	↓					-1.23
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
AiG PMI	Index	53.5	35.8	↑	45.4	↑					0.58
GDP (Q)	% y/y	1.4	2.2	↓	1.8	↓					-1.16
Building Approvals	% y/y	-15.8	2.3	↓	8.4	↓					-1.52
Trade Balance	AUD m	8025	3968	↑	5638	↑					0.80
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	2.9	3.7	↓	2.3	↑					-0.02
Private Capital Expend (Q)	% q/q	-1.6	-2.6	↑	-0.6	↓					-0.50
Commodity Prices	% SDR	-11.4	-10.6	↓	-2.8	↓					-0.90
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	16.9	0.6	↑	1.2	↑					3.04
Consumer Confidence	Index	87.92	75.64	↑	93.38	↓					-0.34
Employment Change	k	210.8	-3.1	↑	31.3	↑					1.12
Wage Price Index (Q)	% q/q	0.5	0.5	↓	0.5	↓					-0.87
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	5926.1	5522.4	↑	7017.2	↓					-0.59
AUD 10-Year Yield	%	0.82	0.89	↓	0.95	↓					-0.55
AUD Yield Curve (3s-10s)	bps	54.7	64.0	↓	33.4	↑					0.29
AUD TWI	Index	124.99	130.90	↓	135.89	↓					-1.75

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

MNI POV (Point Of View): Massaging The Numbers

The Reserve Bank of Australia (RBA) will likely use its August monetary policy meeting to refine its forecasts surrounding both the local and global economic backdrops, while the Bank will almost certainly leave its monetary policy settings unchanged, meeting consensus expectations in the process. That would see the cash rate target left steady at 0.25%, with the 3-Year government bond yield target held at “around 0.25%.”

Bank communique continues to reflect a high degree of comfort with the current monetary policy settings and general resentment towards the idea of negative interest rates.

The Bank’s first foray into the world of unconventional monetary policy, via its own brand of Yield Curve Control (YCC), is evolving as expected, with market participants effectively enforcing the RBA’s 3-Year yield target (outside of a couple of limited moves higher). This is of course of a positive, with the RBA not having to buy ACGBs since early May, while the notable upsizing of ACGB issuance has been easily digested, allowing the AOFM to adopt a go hard, go early approach to its issuance program for the current fiscal year as it looks to accommodate the country’s new-found fiscal burden. Surplus balances lodged on E/S accounts at the RBA remain at historically elevated levels, albeit some way shy of the record levels registered earlier this year.

Tuesday’s statement should provide clues as to the projections that will be included in Friday’s Statement on Monetary Policy (SoMP).

Australia’s initial response to the COVID-19 pandemic was revered as one of the most impressive in the developed world, which should take some of the edge off the more immediate economic projections that will be issued in the SoMP. Generally better than expected economic data and a shallower fall in total hours worked should lift the Bank’s Q2 GDP growth expectations. However, the trimming of the government’s labour market supportive policy package (from the end of September) and questions surrounding the latest COVID-19 outbreak in the country’s second largest city, Melbourne, which is already filtering through into broader consumer confidence and higher frequency labour market data, pose questions marks around the health of the economy in the coming months

On the currency front, the AUD now sits around levels not observed since early 2019 (in TWI terms). While some have suggested that this could present a headwind for the bank, several rounds of communique have suggested that the rally in the AUD does not provide any headwinds for monetary policy settings, given the lack of any tangible detachment from the currency’s fundamental value.

The latest MNI Insight piece covering the RBA referenced currency matters. RBA board member Ian Harper touched on the level of the Aussie, as he told MNI that "to the extent that commodity prices are rising, we just live with the consequences of a higher rate because we need the stimulatory effect of higher export earnings, especially when services exports are so low…"This will outweigh the dampening effect of a higher rate.” There is "not much, if anything, we can do.” Commentary on the currency will likely be reserved for the SoMP/minutes of the meeting.

When all is said and done, the Bank’s hands remain tied by its proximity to the self-imposed lower bound in the cash rate. This, among other familiar matters, will leave those within 65 Martin Place pointing the finger at the government when it comes to further stimulatory requirements, at least in the short term.

Base Case: No change to the Bank’s monetary policy settings. Little deviation in language with modest updates to the economic projections reflecting a less benign Q2 GDP outlook, and perhaps a slightly flatter inflation outlook given the uptick in the AUD TWI in the time since the release of the May SoMP. The Bank will also touch on the recent COVID-19 developments surrounding Melbourne/Victoria.

Dovish Case: A heightened sense of worry regarding the local COVID-19 situation, although the Bank’s self-imposed monetary policy limits provide a real stumbling block to any notable further loosening.

Hawkish Case: Downplaying of the local COVID-19 backdrop as a short-term issue, and perhaps places a focus on the recent, positive economic developments. Unlikely giving the severity of the lockdown in Melbourne.

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RBA July 7 2020 MEETING STATEMENT

At its meeting today, the Board decided to maintain the current policy settings, including the targets for the cash rate and the yield on 3-year Australian Government bonds of 25 basis points.

The global economy has experienced a severe downturn as countries seek to contain the coronavirus. Many people have lost their jobs and there has been a sharp rise in unemployment. Leading indicators have generally picked up recently, suggesting the worst of the global economic contraction has now passed. Despite this, the outlook remains uncertain and the recovery is expected to be bumpy and will depend upon containment of the coronavirus. Over the past month, infection rates have declined in many countries, but they are still very high and rising in others.

Globally, conditions in financial markets have improved. Volatility has declined and there have been large raisings of both debt and equity. The prices of many assets have risen substantially despite the high level of uncertainty about the economic outlook. Bond yields remain at historically low levels.

In Australia, the government bond markets are operating effectively and the yield on 3-year Australian Government Securities (AGS) is at the target of around 25 basis points. Given these developments, the Bank has not purchased government bonds for some time, with total purchases to date of around $50 billion. The Bank is prepared to scale-up its bond purchases again and will do whatever is necessary to ensure bond markets remain functional and to achieve the yield target for 3-year AGS. The yield target will remain in place until progress is being made towards the goals for full employment and inflation.

The Bank's market operations are continuing to support a high level of liquidity in the Australian financial system. Authorised deposit-taking institutions are continuing to draw on the Term Funding Facility, with total drawings to date of around $15 billion. Further use of this facility is expected over coming months.

The Australian economy is going through a very difficult period and is experiencing the biggest contraction since the 1930s. Since March, an unprecedented 800,000 people have lost their jobs, with many others retaining their job only because of government and other support programs. Conditions have, however, stabilised recently and the downturn has been less severe than earlier expected. While total hours worked in Australia continued to decline in May, the decline was considerably smaller than in April and less than previously thought likely. There has also been a pick-up in retail spending in response to the decline in infections and the easing of restrictions in most of the country.

Notwithstanding the signs of a gradual improvement, the nature and speed of the economic recovery remains highly uncertain. Uncertainty about the health situation and the future strength of the economy is making many households and businesses cautious, and this is affecting consumption and investment plans. The pandemic is also prompting many firms to reconsider their business models. As some businesses rehire workers as demand returns, others are restructuring their operations.

The substantial, coordinated and unprecedented easing of fiscal and monetary policy in Australia is helping the economy through this difficult period. It is likely that fiscal and monetary support will be required for some time.

The Board is committed to do what it can to support jobs, incomes and businesses and to make sure that Australia is well placed for the recovery. Its actions are keeping funding costs low and supporting the supply of credit to households and businesses. This accommodative approach will be maintained as long as it is required. The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.

RBA May SoMP Economic Projections

Forecast Table – May 2020 – 'Baseline' Scenario[a]

Percentage change over year to quarter shown[b]

	Dec 2019	Jun 2020	Dec 2020	Jun 2021	Dec 2021	Jun 2022
Gross domestic product	2.2	−8	−6	7	6	5
Household consumption	1.2	−15	−9	13	9	5
Dwelling investment	−9.7	−17	−13	2	6	10
Business investment	−1.2	−8	−13	−6	4	8
Public demand	4.7	5	2	0	2	3
Gross national expenditure	1.2	−9	−7	7	7	5
Imports	−1.5	−14	−11	13	13	6
Exports	3.4	−10	−7	14	12	4
Real household disposable income	1.8	−8	−8	6	8	6
Terms of trade	−0.6	−4	−7	−9	−2	−2
Major trading partner (export-weighted) GDP	3.2	−6	0	10	5	4
Unemployment rate (quarterly, %)	5.2	10	9	8½	7½	6½
Employment	2.0	−7	−7	4	6	5
Wage price index	2.2	2	1½	1½	1¾	2
Nominal (non-farm) average earnings per hour	3.1	7¾	−¼	−5¾	2½	4
Trimmed mean inflation	1.6	1½	1¼	1¼	1¼	1½
Consumer price index	1.8	−1	¼	2¾	1¼	1½

(a) The cash rate is assumed to remain at its current level, with other elements of the Bank's monetary stimulus package, including the 0.25 per cent target for the 3-year government bond yield, assumed to remain consistent with current settings. Other technical assumptions include the TWI at 57, A$ at US$0.64 and Brent crude oil price at US$35 per barrel; shaded regions are historical data.
(b) Rounding varies: economic activity variables rounded to the nearest whole number; unemployment rate to the nearest half point; wages and prices variables to the nearest quarter point

Sources: ABS; CEIC Data; Refinitiv; RBA

MNI POLICY TEAM PREVIEW: RBA To Hold As Virus Lockdowns Hit Victoria

By Lachlan Colquhoun

SYDNEY (MNI) - The Reserve Bank of Australia is set to keep monetary policy unchanged Tuesday, despite a resurgence of the coronavirus in some parts of the country, with focus on how policymakers address the fresh challenges the economy will likely face in coming months if further lockdowns occur.

In the month since the previous policy decision, Melbourne has been hit with a renewed outbreak of infections which are set to impact the strength of Australia's nascent recovery.

RBA Board member Ian Harper told MNI this week that the situation in Melbourne was a "significant danger" to the Australian economy.

Harper, Dean of the Melbourne Business School and Co-Dean of the University of Melbourne's Faculty of Business and Economics, said that even if the latest outbreak was contained to the state of Victoria, "it will slow the national recovery given the relative size of the Victorian economy."

"This is a significant danger the more widely it spreads," said Harper, speaking in a private capacity and not as an RBA Board member.

AUSSIE DOLLAR

The resurgent Australian dollar has been a point of focus for some, although the RBA seems more relaxed and Governor Philip Lowe has said recent currency gains were reasonable.

Harper, in his comments to MNI, said the bank would need to learn to live with the effects of a stronger currency, adding that there was "not much, if anything" the RBA could do.

AUGUST SOMP

The RBA will release its quarterly Statement on Monetary Policy on Aug 7 and this will contain new economic forecasts factoring in the resurgence of the virus and its impact on the economy, along with the stronger dollar.

Any change in outlook is expected to be reflected in the RBA commentary published alongside Tuesday's policy decision.

Recent language from the central bank has been cautiously optimistic, suggesting that the impact of the pandemic, particularly on the labour market, has not been as bad as originally feared. But this view may change in the new public health environment.

The RBA last cut rates to a record low 0.25% in March, also announcing a bond buying program to target a yield of 0.25% on the benchmark Australian Government three year bond.

It also introduced a A$90 billion Term Funding Facility (TFF) designed to facilitate low cost lending by commercial banks to smaller businesses.

Since then, the Bank has been consistent in its messaging that it sees its policies being transmitted as designed, complementing the Federal Government's AUD259 billion fiscal stimulus package.

MNI INTERVIEW: Payrolls Take "Turn For Worse" - RBA's Harper

By Lachlan Colquhoun

SYDNEY (MNI) - Australia's payroll data looks to have taken a "turn for the worse" in July, with a fresh wave of Covid-19 virus infections in Melbourne posing a "significant danger" to Australia's economy, Reserve Bank of Australia board member Ian Harper told MNI Thursday.

The latest wave threatens to derail a recovery which, according to RBA Governor Philip Lowe, saw the labour market "turn the corner" in June with employment increasing by 210,000, to pull back a quarter of the previous two months' losses.

Speaking in a private capacity and not as an RBA Board member, Harper agreed that while the payroll data continues to indicate a recovery from the lows of April and May, it "appears to have taken a turn for the worse" in July.

SECOND WAVE

Even if a recent second wave of virus infections is contained to the state of Victoria, "it will slow the national recovery given the relative size of the Victorian economy," said Harper, who is also dean of the Melbourne Business School and co-dean of the University of Melbourne's Faculty of Business and Economics.

"This is a significant danger the more widely it spreads," he told MNI in an interview.

"Most 'downside' scenarios, including the RBA's published in the May Statement on Monetary Policy, show a second wave will significantly deepen the downturn and slow the recovery," he said.

The Victorian situation threatens to undermine the confidence which is key to the recovery as a driver of consumption and investment, he said, although he added that the latest closely-watched NAB sentiment survey data had been "very encouraging.".

MNI INTERVIEW: RBA’s Hands Tied If AUD Appreciates - Harper

By Lachlan Colquhoun

SYDNEY (MNI) - The Reserve Bank of Australia has only limited options if the local dollar continues to appreciate against the greenback, board member Ian Harper told MNI on Thursday.

"To the extent that commodity prices are rising, we just live with the consequences of a higher rate because we need the stimulatory effect of higher export earnings, especially when services exports are so low," said Harper, speaking in a private capacity and not as an RBA Board member

"This will outweigh the dampening effect of a higher rate."

There was "not much, if anything, we can do," he said in an interview, as the Aussie rose to just shy of USD72 cents this week, from a low of USD57 cents in March.

RBA Governor Philip Lowe last week repeated his view that he would prefer a lower AUD, but MNI's understanding is that the Bank is unlikely to make any short-term moves to influence the level of the currency.

ANALYSTS' KEY COMMENTS

AMP Capital:

- The RBA is expected to leave monetary policy on hold for the fifth month in a row on Tuesday and will release its quarterly Statement on Monetary Policy on Friday.
- Having provided massive monetary stimulus back in March the RBA is still in "watch and wait" mode, and the policy focus now remains largely on fiscal policy. The RBA is unlikely to make any major changes to its economic growth forecasts but it may lower its underlying inflation forecasts given June quarter underlying inflation came in lower than it expected and it will continue to emphasise the uncertainty surrounding the outlook.
- Its views on the further rise in the value of the Australian dollar will also be watched although its unlikely to be too concerned as its still around fair value and its rise is consistent with higher commodity prices.
- Against this backdrop and given the risks flowing from Melbourne's renewed lockdown, the RBA is likely to reiterate its dovish forward guidance on rates and note that it stands ready to do more if needed.
- In terms what it might do if it does ease further in the months ahead it has all but ruled out negative interest rates, foreign exchange intervention and the direct monetary financing of government spending, but sees still lower but positive interest rates and the purchase of more government bonds as possible options.
- A rate cut to 0.1% would hardly be worth the effort which leaves more QE as the main tool for any further easing. Meanwhile, rate hikes are at least three years away.

ANZ:

- No substantive changes expected.
- In the May SoMP the RBA stated that, "a decline in GDP of around 10 per cent from peak to trough is expected" in the first half of 2020. Commensurate with this gloomy outlook the RBA forecast the unemployment rate rising to 10% in the June quarter. But it recognised that even this dire forecast would understate the pandemic's impact on the labour market, with "more of the labour market adjustment…likely to occur through hours worked rather than job losses in economies with more comprehensive wage subsidy programs."
- In the event, Australia managed the initial wave of the pandemic better than expected. The RBA board acknowledged this in its June statement:
- The RBA was more certain of a better economic outcome by the time of the July board meeting.
- This set the stage for a reasonable upgrade to the RBA's forecasts for 2020 in the upcoming August SoMP. Unfortunately, by the time the July minutes were published Melbourne and the Mitchell Shire had returned to lockdown and COVID-19 case numbers were rising in Sydney (albeit at still low levels). While this won't impact the likely material revision to the extent of the economic contraction in the first half of 2020, it will cast a shadow on the extent of the improvement expected in the second half of the year. We also think it will likely dampen expectations for 2021, with the realisation that the pandemic can quickly return likely to impact decisions by consumers and businesses for some time.

Bank of America:

- Reserve Bank of Australia (RBA) monetary policy is sidelined for now.
- The RBA has little appetite to consider alternative policy in the near term, particularly the appropriateness of negative rates. We expect ongoing strengthening of forward guidance that rates will remain lower for longer to be a feature at the board meeting next week.
- The RBA revealed in the June board meeting minutes that it reassessed details of unconventional policies. The Bank considered a lower but yet still positive yield target, larger quantities of bond purchases and adjustments to the Term Funding Facility (TFF). The RBA also revealed this week that the 3yr yield curve control target (YCC) is focused on the government bond line that is nearest to the 3yr maturity.
- While the RBA has little appetite for alternative policy at present, particularly negative rates, focus on possible changes to the unconventional toolkit and a more explicit calendar reference for the yield target helps to strengthen forward guidance that rates will remain lower for longer. The dovish message is consistent with the recent setback from the recent COVID-19 outbreak,

Barclays:

- We do not expect any change from the RBA at this meeting. While the board will likely sound concerned about the growth impact from the Melbourne lockdown, we expect them to remain comfortable with their less pessimistic stance as green shoots emerge in the rest of the economy. The bank has not purchased any bonds for a long time, suggesting that it is comfortable with bond market functioning.

CBA:

- The RBA Board meet on Tuesday and we expect monetary policy to be left unchanged.
- The economic path since the RBA last published its forecasts in early May has been mixed. Throughout May and June the domestic economic data was generally better than the RBA's forecasts implied. The news on the spread of COVID-19 was generally positive and community transmission was low. This meant that a number of key restrictions were eased. And parts of the economy were opened early than anticipated.
- But over the past month there has been a sharp increase in the number of new COVID-19 cases in Victoria. As a result, Metropolitan Melbourne (around 20% of Australia's population) has been placed back into lockdown since.
- From an RBA forecast perspective, we suspect the better news on the spread of COVID-19 in Australia, excluding Victoria, will largely be offset by the situation in Metropolitan Melbourne. As such, we don't think that we will see major surgery on their forecast profile for growth. Notwithstanding, we expect the RBA to upwardly revise their Q2 20 forecast for GDP. The RBA had pencilled in a 20% fall in hours worked over Q2 20, which underpinned their expectation for a contraction in GDP of 10% in H1 20. But hours worked 'only' declined by 8.5% in Q2 20. From a mechanical perspective an upward to revision to Q2 20 lifts the 2020/21 growth profile. In the end we suspect the RBA's updated forecasts will resemble something very similar to the Government's forecasts contained in the July Economic & Fiscal Update (JEFU). The Government has forecast a 2½% contraction in GDP over 2020/21 which is very similar to our forecast.
- The Tuesday Board meeting itself will probably be a low key affair. Indeed the RBA Board meetings have been quite routine since the unscheduled meeting of 18 March, where the Board took the decision to deliver a comprehensive package to support the Australian economy. In summary we expect the cash rate will be left at 0.25% next week and for the target for the yield on 3-year ACGBs to be retained at 0.25%. We expect no changes to current repo funding arrangements on the interest paid on the surplus ES balances.

Goldman Sachs:

- The RBA left the targets for the cash rate and the 3-year government bond yield unchanged at 0.25% at its July Board Meeting, as expected. While the attending statement highlighted that the domestic downturn had been "less severe than earlier expected", the RBA remained cautious about the outlook, noting uncertainty was weighing on investment plans and that some firms were restructuring their operations.
- Since July's meeting, Governor Lowe delivered a speech arguing strongly against the RBA using its balance sheet to directly finance government borrowing and again dismissed the prospect of alternative policy tools like negative interest rates and FX intervention in Australia. Instead, Dr. Lowe endorsed a focus on ongoing fiscal support. While he explicitly did not rule out further RBA measures – such as further lowering the cash rate to a lower but positive level or altering the TFF – he emphasized that "in the current environment, there are limitations to what more can be achieved through monetary policy."
- Against this backdrop, we expect the RBA to keep policy settings unchanged in August. While the near-term macro outlook has deteriorated somewhat given rising virus infections in Melbourne and Sydney, the Government quelled concerns about an imminent 'fiscal cliff' by extending fiscal support. Further ahead, while not our base case, a second lockdown in NSW would likely boost the odds of incremental RBA easing, although the focus would remain on fiscal policy.

J.P.Morgan:

- Next week will be busy for the RBA, with Tuesday's Board meeting followed by the quarterly Statement on Monetary Policy (SoMP) and speech from Assistant Governor Luci Ellis (both Friday). The Board meeting is widely expected to be a non-event, with officials leaving the cash rate and 3Y yield target unchanged and

repeating last month's forward guidance. Uncertainty remains elevated but comments by the governor last week suggest that the labor market and GDP impact have perhaps been less severe than first thought. This may result in a slightly more upbeat tone to the relevant parts of the macro commentary.
- The official macroeconomic forecast unveiled in Friday's SoMP is likely to formalize these sentiments. The RBA had expected the jobless rate to reach 10% in the June quarter (2Q average: 7%), and it's likely the required mark-to-market results in a downshift to the unemployment rate forecasts across the forecast horizon. The real GDP forecasts are also likely to be upgraded, though given the recent escalation in case counts it's probable these revisions will be marginal and still leave the annual rates deep in negative territory. Last, officials had expected headline inflation to slump 1%oya in June, materially weaker than this week's actual print. This outcome alongside the anticipated inflation bounce in 3Q is likely to see the Bank raise its near-term expectations for the inflation trajectory.

NAB:

- The Reserve Bank meets on Tuesday, where it is almost certain the bank will keep monetary policy and its policy guidance unchanged.
- The post-meeting media statement may provide some detail on the bank's revised economic forecasts, to be formally released on Friday in its Statement on Monetary Policy. The bank is likely to upgrade its near-term outlook on the back of better data, but still expect a slow recovery in activity, unemployment and inflation. In our view, risks to the recovery remain tilted to the downside, particularly as the second wave continues to unfold. Victoria's COVID-19 case numbers in the week ahead are crucial and policymakers are discussing the possibility of tougher restrictions.

RBC:

- The renewed lockdown in Victoria and the risk that it extends beyond six weeks coupled with further border closures have been the key developments since the board last met. Accordingly, we expect a more cautious tone in all three RBA events this week, with updated macro forecasts consistent with this.
- There are likely to be three key themes in RBA communication this week: 1) a recovery under way but set back by Victoria, and uncertainty high with further labour market weakness ahead; 2) ongoing support for fiscal measures and further stimulus if needed; and 3) a preparedness from the RBA to step up should activity/labour market underwhelm.
- A dovish tone, consistent with its global counterparts, is likely.

Societe Generale:

- We expect the RBA to maintain its wait-and-see stance and announce no additional policy actions at its meeting in August. Further easing actions, such as negative interest rates or direct purchases of private-sector assets, are unlikely to be discussed.
- The RBA is expected to upgrade its growth, employment and inflation forecasts to reflect the better-than-expected macroeconomic indicators. However, the sustained worsening of the global COVID-19 situation and the ongoing second wave of COVID-19 infections in the Melbourne area has clearly raised uncertainty over the near-term growth outlook. We expect the RBA to confirm that it stands ready to do more if needed.
- In the July meeting the RBA already said that the downturn in the Australian economy had been less severe than previously expected. And the RBA will reflect those indicators for the quarterly updates to its macroeconomic forecasts. Meanwhile, the rebound in the number of daily COVID-19 cases in the Melbourne area continues, and the recent rise in the number of new deaths seems to confirm that Australia is entering a second wave of COVID-19 infections. The weekly payroll jobs data also confirm that the implementation of restriction measures in the Melbourne area in early July has already had a negative impact on the economy.
- Accordingly, the announcement of an extension to the JobKeeper program on 21 July seems to reflect heightened uncertainties over the economic outlook as a result of the second wave. We don't expect the RBA to introduce further easing measures now to address these uncertainties, but it will surely reiterate its commitment to do 'whatever it can' to support the economic recovery.

TD Securities:

- The target cash rate should remain at 0.25% given the Minutes of the July meeting stated there is “no need to adjust the package of policy measures in Australia in the current environment”. Otherwise on Tuesday the market will look to get a flavour of the Bank's latest set of forecasts for GDP, CPI and unemployment that will be published on Friday

Westpac:

- The RBA is expected to keep policy settings unchanged at its August meeting. The Bank is providing considerable support to the economy through a range of stimulus policies and will continue to do so for the foreseeable future. The key elements of the RBA's response to the pandemic are as follows: 1) lowering the cash rate to 0.25%; 2) targeting the 3 year government bond rate at 0.25%; 3) market operations, as needed, to provide ample liquidity to the banking system; 4) a Term Funding Facility for the banking system providing 3 year funding at 0.25%; and 5) setting the rate paid on Exchange Settlement balances at the RBA at 10bps.

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