

## MNI RBA Preview - April 2021

**Meeting Date:** Tuesday 6 April 2021

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

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

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## mni Central Bank Watch - RBA

Monday, April 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 | 0.9     | 0.7    | ↑      | -0.3   | ↑      |            |            |          |                | -0.43   |
| CPI Trimmed Mean (Q)       | % y/y | 1.2     | 1.2    | →      | 1.3    | ↓      |            |            |          |                | -1.28   |
| Import Prices (Q)          | % q/q | -1.0    | -3.5   | ↑      | -1.9   | ↑      |            |            |          |                | -0.18   |
| Consumer Inflation Exp     | % y/y | 4.1     | 3.5    | ↑      | 3.1    | ↑      |            |            |          |                | 2.02    |
| Economic Activity          |       | Current | 3m ago | 3m Chg | 6m ago | 6m Chg | 2Y History | Hit / Miss | Vs Trend | Surprise Index | Z-Score |
| AIG PMI                    | Index | 59.9    | 55.3   | ↑      | 46.7   | ↑      |            |            |          |                | 1.63    |
| GDP (Q)                    | % y/y | -1.1    | -3.7   | ↑      | -6.3   | ↑      |            |            |          |                | -0.27   |
| Building Approvals         | % y/y | 20.1    | 17.9   | ↑      | 2.4    | ↑      |            |            |          |                | 0.71    |
| Trade Balance              | AUD m | 7529    | 5849   | ↑      | 3715   | ↑      |            |            |          |                | 0.55    |
| 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 | 1.6     | 1.7    | ↓      | 2.2    | ↓      |            |            |          |                | -1.05   |
| Private Capital Expend (Q) | % q/q | 3.0     | -3.1   | ↑      | -6.4   | ↑      |            |            |          |                | 1.81    |
| Commodity Prices           | % SDR | 28.2    | 13.3   | ↑      | -5.9   | ↑      |            |            |          |                | 1.32    |
| 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 | -0.8    | 6.7    | ↓      | -4.1   | ↑      |            |            |          |                | -0.25   |
| Consumer Confidence        | Index | 111.84  | 112.04 | ↓      | 93.85  | ↑      |            |            |          |                | 0.77    |
| Employment Change          | k     | 88.7    | 86.2   | ↑      | 158.6  | ↓      |            |            |          |                | 0.10    |
| Wage Price Index (Q)       | % q/q | 0.6     | 0.1    | ↑      | 0.2    | ↑      |            |            |          |                | 0.71    |
| Markets                    |       | Current | 3m ago | 3m Chg | 6m ago | 6m Chg | 2Y History | Hit / Miss | Vs Trend | Surprise Index | Z-Score |
| Equity Market              | Index | 6828.7  | 6587.1 | ↑      | 5815.9 | ↑      |            |            |          |                | 0.92    |
| AUD 10-Year Yield          | %     | 1.84    | 0.97   | ↑      | 0.79   | ↑      |            |            |          |                | 1.42    |
| AUD Yield Curve (3s-10s)   | bps   | 152.9   | 86.4   | ↑      | 62.7   | ↑      |            |            |          |                | 1.42    |
| AUD TWI                    | Index | 133.53  | 125.01 | ↑      | 130.95 | ↑      |            |            |          |                | 1.07    |

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): Looking Ahead

There is seemingly little scope for anything in the way of notable developments at the upcoming RBA meeting, given the recent deluge of rhetoric from the RBA Governor.

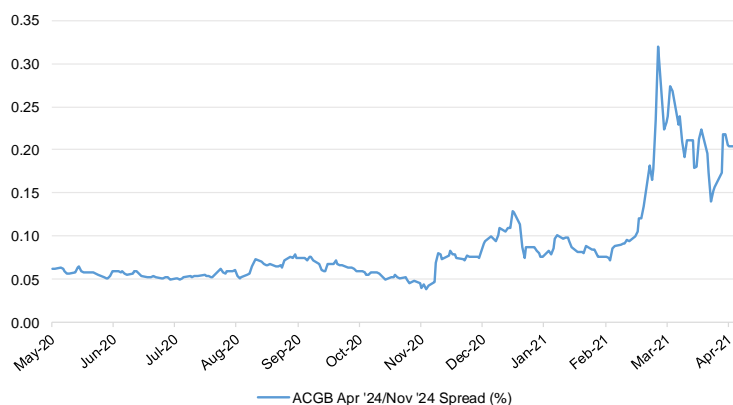
As a reminder, a March address saw Governor Lowe push back against market pricing re: a rate hike in a more authoritative manner, while he continued to reaffirm the Bank's forward guidance on the matter.

Elsewhere, the return to normality in the ACGB market, at least from a market functioning perspective, on the back of the RBA's well documented actions surrounding the mechanics of implementing its 3-Year ACGB yield target will continue to please the Bank.

The RBA's QE path beyond what has already been prescribed continues to generate interest, with debate re: the size of any subsequent schemes and the potential for the extension of the 3-Year ACGB yield targeting scheme to cover ACGB Nov '24 front and centre.

On the former, any such announcement on the matter is some way off. On the latter, the Bank has noted that it will make any such decision at some point later in the year. Some have suggested that the Bank could make an announcement on that particular matter at its July/August decision, given the timing of the roll of the 3-Year benchmark status. The informal consensus view is that the RBA will not roll its 3-Year yield targeting scheme over to ACGB Nov '24.

**Fig. 1: ACGB Apr '24/Nov '24 Spread (%)**



Source: MNI - Market News/Bloomberg

The domestic labour market continues to evolve in a firmer than expected manner, although the recent cessation of the government's JobKeeper scheme introduces greater two-way risk in the coming months (any weakness shouldn't be meaningful given the recent strength in the labour market). At 5.8% the headline unemployment rate is still some way above the RBA's estimate of NAIRU. As a reminder, Governor Lowe didn't push back against the idea that the level of NAIRU may start with a 3 when questioned on the matter at a recent address. Expect the Bank to continue to acknowledge the positive developments on this front.

Elsewhere, the recent dip in the AUD (both vs. the USD and in TWI terms) will please the Bank, although the move can only be deemed a pullback from multi-year highs (on both metrics) at present.

The Bank's commentary on the housing market has been steadfast in recent months, with senior bank officials unphased by developments on the pricing side. A reminder that the macroprudential settings come under the remit of the APRA, not the RBA, with APRA chief Byers recently noting that "no mandate to target the level of housing prices, or act to improve housing affordability. For us, housing prices are a risk factor, not a goal," as he acknowledged the recent speculation re: a potential move from the body. Byers went on to stress that "household debt levels are undeniably high, but have declined relative to income recently. Serviceability of that debt is also being supported by historically low interest rates. On the radar, however, are signs that housing credit growth is picking up, and likely to outpace income growth for the foreseeable future." He then highlighted a focus on the quality of lending, flagging no real sign of concern there, before concluding with: "so it is a nuanced picture. There does not seem cause for immediate alarm. Nor, though, for complacency."

The Bank's May decision, which will be supplemented by the release of the quarterly SoMP, should prove to be more interesting than this month's decision. All in all, the Bank will want to digest as much information as it can before making a final decision on the potential rolling of its 3-Year yield targeting scheme to ACGB Nov '24.

## RBA 2 March 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 outlook for the global economy has improved over recent months due to the ongoing rollout of vaccines. While the path ahead is likely to remain bumpy and uneven, there are better prospects for a sustained recovery than there were a few months ago. Global trade has picked up and commodity prices have increased over recent months. Even so, the recovery remains dependent on the health situation and on significant fiscal and monetary support. Inflation remains low and below central bank targets.

The positive news on vaccines together with the prospect of further significant fiscal stimulus in the United States has seen longer-term bond yields increase considerably over the past month. This increase partly reflects a lift in expected inflation over the medium term to rates that are closer to central banks' targets. Reflecting these global developments, there have been similar movements in Australian bond markets. Changes in bond yields globally have been associated with volatility in some other asset prices, including foreign exchange rates. The Australian dollar remains in the upper end of the range of recent years.

In Australia, the economic recovery is well under way and has been stronger than was earlier expected. There has been strong growth in employment and a welcome decline in the unemployment rate to 6.4 per cent. Retail spending has been strong and most of the households and businesses that had deferred loan repayments have now recommenced repayments. The recovery is expected to continue, with the central scenario being for GDP to grow by 3½ per cent over both 2021 and 2022. GDP is expected to return to its end-2019 level by the middle of this year.

Wage and price pressures are subdued and are expected to remain so for some years. The economy is still operating with considerable spare capacity and the unemployment rate remains higher than it has been for some years. Further progress in reducing spare capacity is expected, but it will be some time before the labour market is tight enough to generate wage increases that are consistent with achieving the inflation target. In the central scenario, the unemployment rate will still be around 6 per cent at the end of this year and 5½ per cent at the end of 2022. In underlying terms, inflation is expected to be 1¼ per cent over 2021 and 1½ per cent over 2022. CPI inflation is expected to rise temporarily because of the reversal of some COVID-19-related price reductions.

The current monetary policy settings are continuing to help the economy by keeping financing costs very low, contributing to a lower exchange rate than otherwise, and supporting the supply of credit and household and business balance sheets. Together, monetary and fiscal policy are supporting the recovery in aggregate demand and the pick-up in employment.

Lending rates for most borrowers are at record lows and housing prices across Australia have increased recently. Housing credit growth to owner-occupiers has picked up, but investor and business credit growth remain weak. Lending standards remain sound and it is important that they remain so in an environment of rising housing prices and low interest rates.

The Bank remains committed to the 3-year yield target and recently purchased bonds to support the target and will continue to do so as necessary. Also, bond purchases under the bond purchase program were brought forward this week to assist with the smooth functioning of the market. The Bank is prepared to make further adjustments to its purchases in response to market conditions. To date, a cumulative \$74 billion of government bonds issued by the Australian Government and the states and territories have been purchased under the initial \$100 billion program. A further \$100 billion will be purchased following the completion of the initial program and the Bank is prepared to do more if that is necessary. Authorised deposit-taking institutions have drawn \$91 billion under the Term Funding Facility and have access to a further \$94 billion. Since the start of 2020, the RBA's balance sheet has increased by around \$175 billion.

The Board remains committed to maintaining highly supportive monetary conditions until its goals are achieved. The Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. For this to occur, wages growth will have to be materially higher than it is currently. This will require significant

gains in employment and a return to a tight labour market. The Board does not expect these conditions to be met until 2024 at the earliest.

## MNI STATE OF PLAY: RBA Focus on Guidance As Jobs Improve

By Lachlan Colquhoun

SYDNEY (MNI) - The Reserve Bank of Australia could start discussions on when to amend their current [forward guidance](#) as early as Tuesday's meeting, as policymakers may look to take advantage of a jobs recovery that appears to be ahead of schedule.

No change is expected in the overall policy settings, with the benchmark cash rate seen unchanged at 0.1%, the target maintained on the three-year government bond yield at the same level of 0.1% and the scale of QE also carried over at the levels previously laid out.

The key weapon in the bank's current armoury is its yield curve control program, which targets a level of 0.1% on three year bonds, the same as the overnight cash rate.

The RBA is currently centred on the bond maturing in April 2024, which effectively functions as a form of forward guidance given the bank's ongoing pledge not to raise interest rates until 2024 "at the earliest."

Policymakers could decide to extend the yield curve program to the next series, maturing in November 2024, giving a strong signal on its outlook. A decision and an announcement on this could be made this week.

### EMPLOYMENT RECOVERY

The RBA has said that it won't raise rates from the current historic low until the labour market tightens, wages grow and inflation moves sustainably into the 2 to 3% target range.

Board member Ian Harper was upbeat on the outlook for the jobs market in a recent [MNI interview](#).

Inflation is currently at an annualised 0.9% and while unemployment came down to 5.8% in February it could move higher with the expiry of the Government's Jobkeeper program, which kept one million workers employed.

The RBA could announce changes to its AUD200 billion program of Quantitative Easing buying longer dated Government bonds, although this is considered unlikely, as is any change to the bank's Term Funding Facility that currently offers funding at 0.10% to commercial banks.

## Sell-Side Analyst Views

**AMP Capital:** The RBA is expected to leave monetary policy on hold following its meeting on Tuesday and reiterate that: it does not expect to raise interest rates to 2024 at the earliest as it wants to see a much tighter jobs market and much stronger wages growth; that it remains committed to the 0.1% three-year bond yield target; and that it is prepared to make further adjustments to its bond purchases if necessary. Fortunately, the stabilisation in bond markets and some softening in the \$A has taken some pressure off. The focus will likely be on the RBA's assessment of the resurgence in the property market.

**ANZ:** We expect the RBA to repeat in their April statement the message it has been at pains to emphasise recently - that policy will remain stimulatory for a long time. In his speech on 10 March, RBA Governor Lowe noted that "over the past couple of weeks, market pricing has implied an expectation of possible increases in the cash rate as early as late next year and then again in 2023." He went on to say, "this is not an expectation that we share." This message and the actions the RBA has taken on its bond purchases have seen the spike in the 10Y ACGB/UST bond spread to more than 40bps in February pullback to around flat. We think this has contributed to the pullback in the AUD from close to 0.80 in late February to close to 0.76 as we write. A move that has been important in bringing the strong upward trend in the currency to at least a temporary halt. The next major challenge for RBA messaging will be in May, when it seems inevitable that there will be a substantial improvement in the forecast for unemployment. In the market's mind this will bring the timing of the first rate hike closer. We don't expect the RBA to shift away from its view that conditions for a rate hike won't be met "until 2024 at the earliest."

**Bank of America:** Risks around the unwinding of the government's fiscal support policies at the end of March have risen after a period of upside surprises for data. This is why we expect the RBA to retain dovish guidance at the board meeting on 6 April. Treasury has warned of 100-150k potential job losses following the end of the JobKeeper program, with around 960k people still being supported at the end of the initiative. Job creation elsewhere in the economy should offset this. Leading indicators such as job ads (up 7.2% in February) and business hiring intentions point to recent strengthening demand for labour.

- We expect the unemployment rate to consolidate in coming months to reflect spare capacity, but the starting point is much better than expected.
- The next RBA forecast upgrade is in May and could inform whether the RBA decides not to roll the 3-year yield target to end-2024. This looks less likely in light of stronger data unless there is an unexpected jump in unemployment over 2Q.

**Barclays:** We expect the RBA to maintain its policy settings at this meeting. The bank is likely to reiterate that economic indicators are suggesting a stronger-than-expected recovery but that the situation remains uncertain, especially as the JobKeeper payments draw to a close. The focus will likely be on any discussion about shifting the yield target to November 2024 bonds from April 2024 currently.

**CBA:** There were extensive communications from the RBA in March pushing back against the idea of any premature policy tightening. The RBA made it clear it does not think economic conditions will warrant a lift in the cash rate until 2024 at the earliest. The RBA believes wages growth will need to be at least 3% before actual inflation will sustainably return to the 2-3% target and this will require a material tightening in the labour market. They may be wrong of course and wages and inflation pressures may lift before they anticipate. The labour market did tighten subsequent to the March Board meeting with the unemployment rate falling from 6.3% to 5.8% in February. Uncertainty around the end of JobKeeper and the lockdown in Brisbane will be enough for the RBA to maintain its dovish position. The other piece of detail worth watching this month will be any further commentary about the 3-year yield target. The RBA will need to decide in coming months if it will continue to target the April 2024 bond or switch to the November 2024 bond. We expect the RBA to keep the target pegged to the April 2024 bond.

**Goldman Sachs:** Governor Lowe signaled his disagreement with market pricing for rate hikes in late 2022 and 2023 and emphasized that labour market tightness would be required 'for an extended period' before wages and inflation pressures picked up. He reiterated that the Board did not expect these conditions to be met until 'at least 2024' and noted that the economy was a "long way" from full employment on no less than six occasions.

- Since March's meeting, macro data have generally been strong, with the unemployment rate falling 50bp to 5.8% in February - much better than the RBA's prior expectations. Housing market data have also been very strong, with dwelling prices surging in March. That said, fiscal policy has also started to tighten, with the JobKeeper wage subsidy and the JobSeeker supplement payment both ending. Australia's vaccine roll-out has also been slower than expected, although the medium-term timeline remains intact.
- Overall, we expect the RBA to keep policy setting unchanged in April and reiterate existing forward guidance. That said, it will be worth paying close attention to language around the housing market. As outlined in our recent Analyst, we think the RBA will not attempt to cool booming house prices with tighter monetary policy, but we do see some risks of tighter macroprudential if lending standards start to deteriorate. We think this is unlikely to occur this year given the soft starting point for credit growth, and is more likely in 2022 or 2023.

**NAB:** Markets are not expecting any change to policy, but will be watching closely for any nuance around the discussion of yield curve control, with the Bank previously flagging a decision on whether to maintain the 3yr target at the April 2024 target bond or roll the target to the November 2024 bond will be made 'later in the year'. The Bank will have to acknowledge the sharp fall in the unemployment rate to 5.8% with the labour market improvement running more than a year ahead of the RBA's February forecast track.

**RBC:** After pushing back on market pricing and strengthening its commitment to YCC in early-March communication, we suspect that the RBA's April board meeting will find itself relatively light on fresh content. The end of the JobKeeper wage subsidy programme in March and what this means for the labour market will likely be the main focus for the bank in the near future, but it will take some time yet to judge the full impact. Weekly payrolls released on 28 April and covering the two weeks to 10 April are likely to give the earliest signals, followed by the next two weeks of payrolls (to 24 April) released on 11 May, and then the monthly labour force for April, which will be released on 20 May. We suspect that with more data in hand, the May and June board meetings will likely be far more interesting than the April sitting.

**Societe Generale:** We expect no changes in monetary policy at the RBA's April meeting. The forward guidance of keeping the cash rate on hold until actual inflation is sustainably within the target range is also likely to be retained.

- Governor Lowe's speech on 10 March confirmed the RBA's ultra-accommodative stance despite the growing evidence of a strong recovery in both the global and domestic economies. He emphasised the relative weakness in business investment. Lowe also prescribed the conditions for wage growth to accomplish its inflation target: it needs to be sustainably above 3% vs. the current level of 1.4%. In addition, he hinted that NAIRU would be "low 4s," vs. the current level of 5.8%. He clarified that the RBA disagrees with the market's expectation of hikes in the cash rates in 2022 and 2023, and suggested that the RBA's intention is to hold the cash rate into 2024.
- Recent economic indicators have been relatively mixed. Sustained strength in employment and an instant rebound in hours worked in the February labour market data was cited as yet further evidence of a strong recovery. But signs of consolidation in retail sales and exports in February can put forth the case that the path to recovery may not take place in a straight line.
- We maintain our base scenario that the RBA will introduce tapering (i.e. a reduction in the target amount of bond purchases) in 2H when the current AUD100bn programme is completed. In addition, we now think that the maturity for the three-year target bond will be shifted from April 2024 to November 2024 during 2H20 as Governor Lowe hinted at in his speech. Tapering should be the response to the mounting evidence of a strong economic recovery, while the shift of the target bonds would be needed to enhance the credibility of the forward guidance to hold the cash rate until 2024.

**TD Securities:** The RBA retained an upbeat outlook on the recovery and appeared unfazed at the impact of JobKeeper's wind-down. We expect RBA to stick to their script and reiterate its pledge to provide further monetary stimulus if required but remain tight-lipped on Yield Curve Control. Despite the run up in house prices, RBA could indicate that it remains comfortable with lending standards.

**Westpac:** The RBA is widely expected to maintain current policy settings at the April Board meeting. Activity conditions have surprised to the high side as the economy reopens and the unemployment rate moderated to 5.8% in February, down from the mid-2020 peak of 7.5%. However, that rate of 5.8% is still too high and the achievement of the RBA's policy goals is still a long way off.