

RBA's March minutes reinforce "Lower for longer" view

Reserve Bank of Australia (RBA) minutes for the March rate meeting echo recent remarks by Governor Lowe, suggesting that there will be no rate increases for a considerable time, at least, not until wages reach 3%, and that is not expected until 2024. Bond yields have fallen in response to these minutes and comments, but we don't expect this to last



Source: Shutterstock

3%

Wages growth

Required for rates to rise

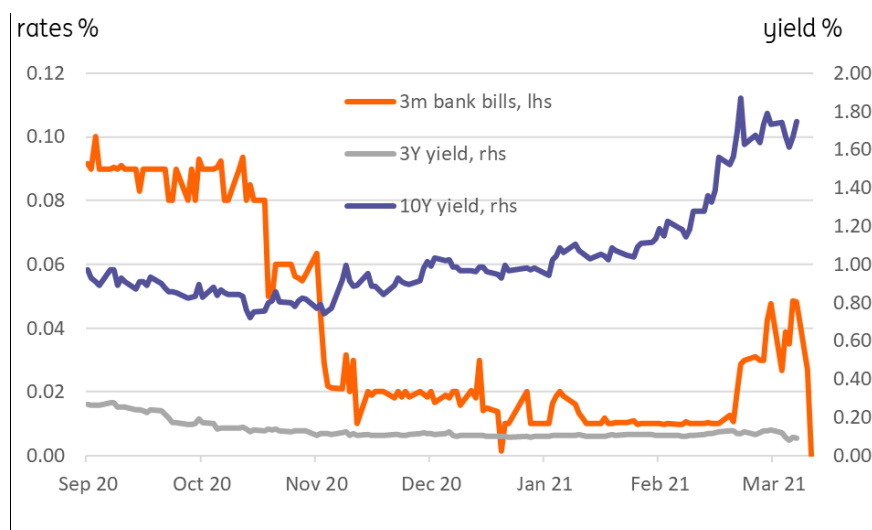
Minutes reinforce lower for longer

Following [a bond-bashing speech on March 10](#) by Reserve Bank of Australia Governor Philip Lowe, [the minutes of the March RBA meeting](#) reinforce his recent message of "lower for longer".

The minutes dismissed ideas that rising commodity prices might translate into sustained higher prices as long as there remained substantial slack in the rest of the economy, in particular labour markets and wages. Perhaps the key phrase from the minutes is this "*The international experience prior to the pandemic had underscored that a sustained period of tightness in labour markets would be needed in order to generate increases in wages growth, and, even then, would put only limited upward pressure on consumer price inflation*". Even this was seen as a necessary but not sufficient condition for a sustained increase in inflation, as "*Even if wages growth did pick up, it was also possible that corporate profit margins in some economies could absorb an increase in labour costs before firms passed such costs through to final consumer prices*".

In his speech on March 10th, Philip Lowe put further meat on the bones of this economic slack idea, noting that to see inflation rising to the RBA's inflation target (mid-point of 2-3% range) would likely require wages growth of 3%, and the current rate was only 1.4% and remained close to historical lows in many industries. This 3% level for wages was repeated in the March minutes and was thought to be unlikely to occur until 2024.

Australian rates and bond yields (%)



Source: Reserve Bank of Australia
Australian rates and bond yields

Bond response

What is very clear is that the RBA does not intend to change the cash rate target in the near term, or even by the end of 2022, as they allege some markets have been recently pricing. It is also very clear that they are unhappy both with the pressure on the 3Y government bond yield which they stepped in recently to lower back below its 0.1% target and also with longer-dated bond yield increases, which they view as exerting an unwelcome tightening of financial conditions.

What is less clear is whether there is much they can do about the increase at the longer end of the yield curve (anything above 3Y) without resorting to more aggressive measures, such as extending their current yield curve control policy for no more than 0.1% yield on 3Y government bonds.

That is because, like most bond markets, the Australian government bond market takes its cues from the world's deepest and most liquid capital market - that of US Treasuries. And ahead of this week's FOMC meeting, the US Federal Reserve has indicated fairly clearly that they are not that

bothered by recent yield increases. Here, we don't think bond yields of 10Y US Treasuries have yet seen their peak, and are forecasting 1.75% by the end of 2Q21 and 2% by the end of 3Q2021.

Our US Treasury forecasts would only restore US bond yields to roughly what they were yielding pre-Covid, and also like Australia, against a backdrop of rising inflation (mostly, though perhaps not entirely transitory) plus a big boost from fiscal policy, with more probably on its way later in the year related to US infrastructure spending.

We doubt that the RBA can do much beyond inject a little 2-way risk into the Australian government bond market by their regular verbal interventions, and even active asset purchase policies unless they change the rules of the game and expand their yield curve control actions. We don't expect that to happen.

So in short, yes, we agree, there is nothing likely on cash rates, though we would not rule out a 2023 hike, because we would also not rule out the Fed hiking by 2023 either, and not being ahead of the Fed seems important to the RBA. But this doesn't mean that Australian bond yields can not rise further. By maintaining a slight positive spread over US treasuries (current spread is about +11bp), we can see the Australian 10Y at 2.25% by the year-end.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com