

Australia's Lowe says "No" to negative rates

It's good (and rare) to hear a central banker talking common sense when it comes to unconventional monetary policy - The Reserve Bank of Australia's Lowe mostly did that in a speech last night.



Reserve Bank of
Australia Governor
Philip Lowe

Source: Shutterstock

Lowe on Unconventional monetary policy (UCMP)

Having presided over a recent [BIS report on unconventional monetary policy recently](#), which I read, and which I didn't much like (it seemed to basically endorse all that central banks have done since the GFC - not surprising, as it was their paper on themselves), Philip Lowe's speech last night is a rarity in my book - a central banker mainly talking common sense on UCMP.

It's worth a much longer read and a much longer write up than I can do here today, [so here is the link for those interested](#), but in a nutshell, here are my quick takeaways.

1. Negative interest rates - they do more harm than good. Regular readers will be aware that this is a personal bugbear. It now turns out that there is even a new term in economics/finance, to describe the point at which rate declines stop being helpful, and start doing damage. This apparently is the "reversal interest rate". (Note to self, go and write that critical book before it becomes mainstream!). As Lowe also succinctly puts it "there is

evidence that...(low interest-rates)...can encourage households to save more and spend less, especially when people are concerned about the possibility of lower income in retirement". Importantly (and this is my main point), this can happen at low **positive** nominal rates. They don't need to turn negative. The AUD took slight comfort momentarily during his speech when he pointed out that negative rates were very unlikely for Australia.

2. Forward guidance - I don't share central bankers enthusiasm for "forward guidance". Indeed, I don't even consider it a "tool". So when these people start talking about their arsenal of policies and include forward guidance in the list, I basically conclude that they are out of ammunition (Bank of Japan, ECB). My point is, we (that is the market), are not stupid (at least not collectively - there will be exceptions). So when central banks try to drive longer yields down by claiming they won't do such-and-such until a certain date, or until certain conditions are met, we are either well ahead of them or have a more realistic future outlook. In other words, this only works if the central bank knows something we don't, and is solving a principal-agent failure. Otherwise, it's just hot air. "Forward nonsense". Here, I part company with Governor Lowe. This part of the speech I think you can skip. But it's short. Maybe he isn't much of a fan either.
3. There is a section on extended liquidity provisions - read it if you want, I don't consider this unconventional so much as "modified". It's an important adaptation to changed circumstances, but an evolution, not a revolution in monetary policy.
4. Asset purchases - or QE. The interesting part of this speech is the somewhat rambly explanation for what they are supposed to do. I think this owes to the fact that when they were first introduced, most central banks didn't really have much idea what they **were** trying to do, beyond stem a massive collapse in confidence. This worked, fortunately. Though most of the subsequent rationale for QE - portfolio balance theory, in particular, is in my opinion, ex-post justifications for policies that were made on the fly more in hope than in the certainty that they would do any good.

Lowe also set out some points for Australia:

- QE would not be started until and unless conventional rates fell to 0.25% (they are currently 0.75%).
- He noted that he didn't expect this point to be reached in the near future - (but then he would say that wouldn't he, which is another example of why forward guidance is such a waste of time)
- I was particularly encouraged by one of Lowe's concluding sentences, which I think is spot-on "In my view, there is not a smooth continuum running from interest rate reductions to quantitative easing. It is a bigger step to engage in money-financed asset purchases by the central bank than it is to cut interest rates". This is a hugely important admission.

Day ahead

We've had a further positive steer on trade talks according to the US President, which would normally be supportive for local currencies, including the CNY and CNH. Markets seem to be getting enured to such comments, though, especially when they don't come with any added supporting information, and the fact that we have heard these positive comments so often but are still waiting for a deal could be interpreted as meaning that significant problems still remain. This may be more than just dotting the "i's" and crossing the "t's" (this is another example of the irrelevance and overuse of forward-guidance - but here in a political setting).

We've already had some NZ trade figures for October - not terribly exciting. Both exports and imports coming in close to expectations and the trade deficit narrowing a bit more on a 12M year-to-date basis (\$5.037bn now from \$5.330)bn. The NZD is looking reasonably perky this morning, so these figures may have provided some support.

We've got some China data out later too - industrial profits - a good contemporaneous indicator of where the Chinese economy is given the misgivings many of us have over the GDP figures. However, there may be some issues with today's release, and as Iris Pang writes "We expect a turn in the headline number from negative yearly growth to positive yearly growth because of base effects from the same period last year. This base effect will mask how the infrastructure projects have benefited related manufacturers, and how the trade war has hurt export-related manufacturers".

Thailand has also been addressing its weak domestic demand problem with some fiscal stimulus: Praksah Sakpal notes that "The government yesterday rolled out additional stimulus worth \$3.3 billion (0.6% of 2018 GDP) to support growth. Almost all of it is directed toward additional support to farmers and village cooperatives. October manufacturing data today will inform about the direction of GDP growth in the current quarter. The consensus is a slightly steeper 5% YoY fall in output than September's 4.7% fall. We continue to look for signs of a bottoming in activity. We are seeing this in exports but not yet in manufacturing, which means continued sluggish GDP growth in the current quarter. Even so, we don't think the BoT will ease policy again at the December meeting, especially now that the government has unveiled more stimulus".

The big G-7 data out tonight will be the October US personal spending figures. The outlook for the Fed, the USD and US Treasuries changes completely if the US household stops supporting the rest of the economy. Durable goods data is likely to keep showing weak business investment.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

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