

## RBA unlikely to act today

Despite the Covid-19 problems in the state of Victoria, RBA Governor, Philip Lowe, is unlikely to act today - regional issues don't usually warrant national policy responses. He might want to talk up the prospects of future action though - not least to take some of the air out of the AUD



Reserve Bank of  
Australia Governor  
Philip Lowe

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### What do you do when you have a regional issue, but only a national solution?

The RBA is the main event in Asia-Pacific macro space today, and that might be something of a non-event, with virtually no one looking for any change in policy. One of the arguments for the RBA doing more easing today would be the Covid-19 pandemic's resurgence in the state of Victoria, resulting in a strict lockdown in Melbourne. One could argue that this requires some offsetting policy stimulus. It does. But a local/regional problem does not require a national monetary solution, but a local fiscal response, with the Federal Government picking up some of the price tag to help out. And that is more than likely what will happen.

The official cash rate is already down at 25bp, as is the yield curve control target for 3Y government bonds, so any further action would seem to necessitate a move further into

unorthodox territory. And about all that is now left is negative interest rates.

Governor Lowe has been reassuringly unenthusiastic about negative rates (I say that as I think they are a really bad idea), unlike his New Zealand counterpart. But while I tend to agree with the implied reluctance to embark on a policy that may, in fact, do more harm than good to domestic demand, it is possible he is missing a trick by not at least keeping the door slightly open to such a policy.

The AUD over the last month has outperformed Asia's best currency over the same time period, the KRW, and also the CNY, another bellwether of generalised risk conditions in the region. And so there is a legitimate argument for trying to take some of the wind out of the AUD's sails. This is not just a reflection of USD weakness.

But the RBA doesn't have much left apart from rhetoric. So although I am not a big fan of forward-guidance, this may be one of those rare instances where the central bank does need to massage the market in a direction that is more likely to enable sustainable growth.

Hindering him in this task may be today's Australian trade figures for June, out at 0930 SGT which are likely to show some bounce back in both exports and imports.

## Day ahead in Macro space

Yesterday's G-7 PMI data were broadly positive, but perhaps a bit more of a mixed bag than some of the newswires are alluding to this morning, given their need to pin equity gains overnight on something (seriously, asset prices sometimes just rise - there doesn't always have to be an event!). Europe's manufacturing PMI increase to 51.8 was only a small rise from the previous 51.1, and the US figure actually fell, though was ignored in favour of the more widely watched ISM numbers, where strong orders dominated a still anaemic picture for employment (that's a story that may come back to haunt us - if not this month, then next).

Today, the US durable goods release is the pick of the G-7 space. US business investment has been surprisingly resilient to the pandemic, so this may be reflected in today's figures.

We have already had inflation data for Japan's Tokyo region, and that came in stronger than expected at 0.6%YoY, which implies a similar figure for the national numbers which are always released with a 1-month lag to the Tokyo figures.

We also have the Bank of Japan's monetary base figures out today. These have spiked recently, though with no big fanfare from the Bank of Japan, we can only assume that this is mopping up of issuance to finance Japan's sizeable fiscal stimulus plan. The BoJ has probably missed a trick here though, as they could have made more of this and maybe gained a bit more of a market boost from it.

South Korean July CPI inflation figures are already out, and inflation remained at 0.3%, in line with expectations - nothing interesting to say about these.

Otherwise, it's a fairly quiet day. Good luck.

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