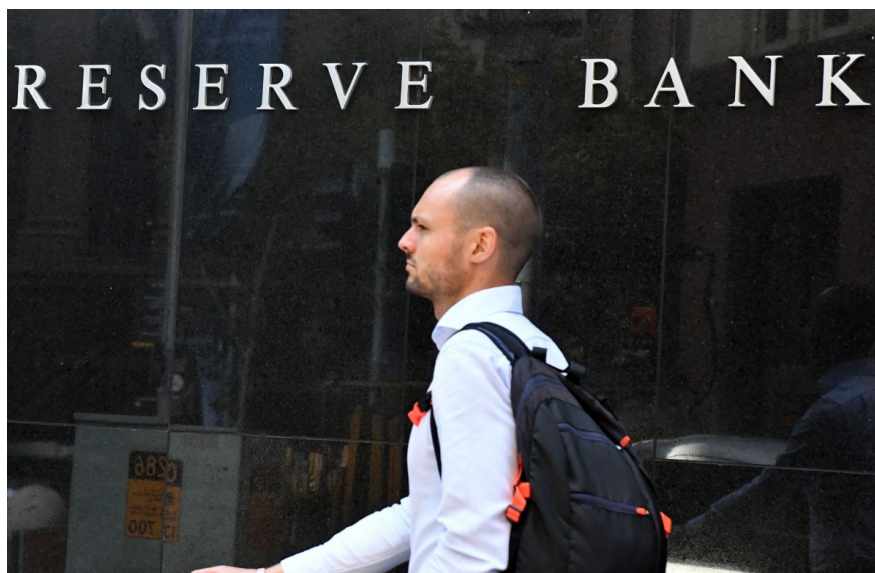


Australia: No change to monetary policy stance

Despite recent lockdowns in response to Covid outbreaks against a backdrop of slow vaccination progress, the Reserve Bank of Australia has opted not to amend the policy stance it outlined at the July meeting



AUD4bn

Asset purchases per week

Next phase of the programme

Lower than expected

No U-turn

At its July meeting, the Reserve Bank of Australia (RBA) announced that after the current program expired in early September, it would conduct its asset purchase programme at a rate of AUD4bn per week. This was a "change" from the AUD100bn over the previous period from the second week in April until early September.

While the maths of this is a bit fuzzy - it seems the RBA agree that this is a slight reduction in pace, and in the latest statement, they refer to the previous pace as AUD5bn per week. It seems a stretch to us to describe this reduction as a "taper". But many market participants regarded it as a significant move at the time.

Moreover, a number of market participants have been suggesting that following the latest bout of lockdowns caused by a resurgence in Covid-19 cases, a "U-turn" by the RBA was warranted at this meeting. In contrast, we felt that as the change in policy noted in July was already so marginal, at most, only a token adjustment would be required.

In the end, the RBA has decided that even a token gesture was unnecessary. The asset purchase policy remains set to proceed at a pace of AUD4bn until mid-November after the current programme ends in September.

With little else to tweak at this meeting, we have scoured the text for any other hints and tweaks.

At the July meeting, the RBA made some room for future changes in its assertion that cash rates would not be raised until 2024, by suggesting that this was in line with its "central scenario" - implying that under a more robust outcome (an upside scenario), an earlier response was possible and the reverse was possible for a weaker scenario.

There is no change to this central scenario view and 2024 remains the main guidance. But the write up of the economy, while acknowledging the impact of the Covid lockdowns, remains relatively upbeat. The text suggests that it is pushing at the upper half of the central scenario. It also takes a relatively upbeat view on the speed of rebound of the economy once lockdowns are ended. *"The experience to date has been that once virus outbreaks are contained, the economy bounces back quickly. Prior to the current virus outbreaks, the Australian economy had considerable momentum and it is still expected to grow strongly again next year".*

The statement also notes the strength of the housing market, the faster than expected recovery in the labour market, and higher than anticipated inflation. A further degree of flexibility is introduced due to the uncertainty of the wage response to unemployment at the low levels forecast. This again, in our view, provides a further caveat to the 2024 pledge and any hardening in the policy outlook in the quarters ahead.

So in short, nothing much here for markets to get too excited about. Though to the extent that they might have priced in a scaled-back taper, that has helped the AUD to find some strength today. 10Y Australian government bonds have reacted to the absence of any reduction of the taper with a small increase in bond yields of about 2-3bp at the time of writing, compared to first thing this morning.

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