

Australia: RBA leaves rates on hold

The Reserve Bank of Australia gives no hints about policy changes in accompanying statement



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1.5% RBA interest rate

As expected

The RBA has left policy rates unchanged at 1.5%, in line with a unanimous consensus expectation. And there was very little change in the accompanying statement from Governor Philip Lowe from the 1 August statement. Gone from the text is a reference to the central forecast for economic growth of around 3%. With 2Q GDP data out on Wednesday, we don't see this as significant, except inasmuch as the RBA probably did not want to front-run the release. We recently revised our forecast for the second quarter to 0.9%QoQ (not far off a 4% annualised rate, so the omission was probably to avoid an unintended steer in a lower direction).

The RBA continues to see low wages growth lingering, but on inflation, the only notable change is how heavily this section of the statement has been cut. The outlook is still for inflation to gradually

pick up, but no additional details are given this time.

On the housing market and household debt, the general sense continues to be that this is an issue for the regulators to deal with, not the RBA with rate policy. The statement continues to point to the very regional fortunes of the housing market, but the continued outpacing of household incomes by household debt. There was almost no change to the commentary on the AUD - though with Governor Lowe speaking at a dinner in Brisbane later, it is possible he uses the opportunity to try to talk the AUD down - more likely, he will steer clear of such a potentially dangerous topic.

Markets still do not see much scope for any change in the policy stance until next year at the earliest. Our house forecast is for no change until 1Q18 - and we are sticking to that for now, though this is far from priced in by futures markets.

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