Australia's Reserve Bank leaves policy measures unchanged

No change to the cash rate, to the 3-Year yield target, to government asset purchases or to the term funding facility.

Reserve Bank of Australia Governor Philip Lowe

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0.1% Cash rate and 3Y yield targets

Markets were not anticipating any policy shifts from this meeting

In recent months, the Reserve Bank of Australia (RBA) has been very clear with its message that it is not in any hurry to withdraw stimulus from the economy, even though some reports on the recovery have been stronger than expected. Today's statement on the monetary policy decision echoes the tone of its recent rhetoric:

Key points:

- No change to the Cash rate target (0.1%) or the 3-year government bond target (also 0.1%)
- No shift from the April 2024 bond benchmark
- No change to the Term funding facility or the date for the final drawing
- No changes to the government bond purchase programme

(see also this RBA supporting document for the original policy decisions)

Statement makes few concessions to data flow

The RBA's statement notes the continued global recovery as well as the "stronger than expected" Australian recovery. Consequently, the Bank has revised higher its central expectation for GDP growth to 4.75% in 2021 and 3.5% in 2022. That said, the recent lower-than-expected 1Q21 CPI release means that the RBA is still convinced that "inflation pressures remain subdued in most parts of the Australian economy", with their expectation for inflation in 2021 only 1.5% rising to 2% by mid-2023.

The housing market got a brief mention in the statement: "Given the environment of rising housing prices and low-interest rates, the Bank will be monitoring trends in housing borrowing carefully and it is important that lending standards are maintained".

The statement also said that the board would wait until the July meeting to consider whether to move the 3Y yield curve control target from the April 2024 bond to the next maturity November 2024 bond. This latter point was widely anticipated by markets. The statement added that the July meeting would also "consider future bond purchases following the completion of the second $100 billion of purchases under the government bond purchase program in September".

The RBA did not expect to the Term Funding Facility to be extended past the scheduled date for final drawings of 30 June 2021 and repeated that it would not "increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. For this to occur, the labour market will need to be tight enough to generate wages growth that is materially higher than it is currently. This is unlikely to be until 2024 at the earliest".

There was little immediate market reaction to the decision or the statement beyond a very slight increase in yield on the November 2024 bond.

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