

No change to Australia's official monetary policy settings

No change to cash rate, yield curve control benchmark target, or to asset purchase scheme - July remains the likely date for the RBA to review its current policy settings



Source: Shutterstock

0.1%

Cash rate target

...and 3Y yield target

As expected

No change to RBA stance

Having laid out at its May rate meeting that no substantial policy decisions would take place until the July meeting, the June meeting that has just taken place was widely anticipated to be a non-event for markets.

That said, a small minority of forecasters may have started to lean towards a more hawkish

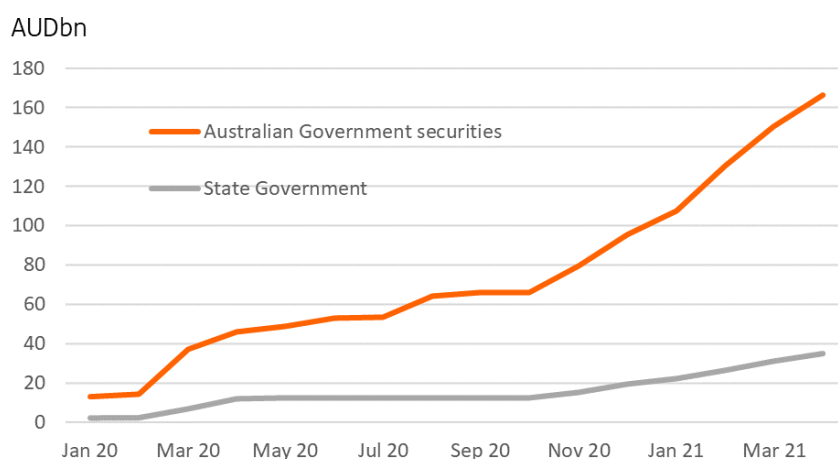
stance, taking their lead from the Bank of Canada and RBNZ, both of whom have toughened their guidance recently. If so, they will have rapidly been disabused of this notion.

The first paragraph of the [accompanying text from this latest meeting](#) says almost everything you need to know: "At its meeting today, the Board decided to maintain the current policy settings, including: the targets of 10 basis points for the cash rate and the yield on the 3-year Australian Government bond; the parameters of the government bond purchase program; and the rate of zero per cent on Exchange Settlement balances".

The text did include some more upbeat language on the outlook for growth. "The economic recovery in Australia is stronger than earlier expected and is forecast to continue. The Bank's central scenario is for GDP to grow by 4¾ per cent over this year and 3½ per cent over 2022". These forecasts are broadly in line with our house forecasts for 2021 growth (ING f 4.4% for 2021), but stronger than our forecast for 2022 (ING f 2.6%).

There were also some more positive references to the evolution of the labour market "Progress in reducing unemployment has been faster than expected, with the unemployment rate declining to 5.5 per cent in April. Job vacancies are at a high level and a further decline in the unemployment rate to around 5 per cent is expected by the end of this year. There are reports of labour shortages in some parts of the economy". But the statement concluded as it had done in May with the observation that for inflation to rise to be consistent with its target range "...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"

RBA holdings of Government bonds



Source: Reserve Bank of Australia

Asset purchase scheme still has room to run

If the RBA does decide to continue to run its asset purchase scheme beyond September at its July meeting, then there are few constraints to them doing so. Current RBA holdings of government bonds [according to their statistical tables A3.1](#) amounted to a bit more than AUD201bn at the end of April, and at their present rate of growth, will be about AUD260bn by the end of July, which equates to about 22% of all Australian government and semis securities outstanding ([RBA](#)

[Statistical table D4](#)).

Typically, central banks pursuing these sorts of policies prefer not to hold more than 30% of the outstanding stock of government debt, though there are examples where the ownership goes much higher than this (Bank of Japan), so an extension of the asset purchase programme beyond the current one should not meet and practical or theoretical constraints.

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