

Snap | 7 September 2021

AUSTRALIA

RBA embraces flexibility

Market chatter about delaying the taper proved to be too extreme - instead, the Reserve Bank of Australia has shifted the decision on what to do next with the asset purchase element of their policy until February 2022. This might have happened anyway



Reserve Bank of Australia Governor Philip Lowe

Source: Shutterstock

Mid Feb

AUD4bn asset purchases

until at least

A nuanced change

- Cash rate target - unchanged at 0.1%.
- 3-year yield control target - unchanged at 0.1%.
- Asset purchases to continue at AUD4bn per week - unchanged....**almost...**

Where the Reserve Bank of Australia's (RBA) asset purchase policy was previously going to be reviewed no later than November, having been reduced to an AUD4bn per week pace from

AUD5bn at the July meeting, it is now going to be kept at AUD4bn per week until *at least* mid-February 2022

This is a marginal change. The previous market assumption back in July probably was that assuming further re-opening of the economy, by November, the pace of asset purchases would have been reduced again, to say AUD3bn per week at that time. This would likely have been repeated every three months or so until asset purchases were stopped altogether in about 12 months' time.

But that was not an explicit aim. The policy as set out in the previous statement in August was that this would be conducted at an AUD4bn per-week pace "...until at least November". The emphasis should be on the words "at least". Now that has been extended until "at least mid-February".

All that has really changed is that the policy now states with certainty that the pace of asset purchase will not be reduced earlier than mid-February, whereas the previous policy left that open as a mere possibility.

AUD a bit weaker, but should pass

Perhaps the most interesting bit of the RBA decision is the explanation for the changes to their policy. These included that the recovery would likely be delayed by the delta outbreak - previously, the RBA had remained fairly upbeat about the prospects for a rapid bounce-back from lockdowns.

The RBA continues to expect the economy to be growing in the 4th quarter as their central scenario. So do we after a contraction in 3Q21. But the extent of that GDP growth is highly dependent on how long the current outbreak requires lockdowns and other restrictions to remain in place. And although we have not yet done so, the risk to our full-year 4.8% 2021 GDP forecast is clearly on the downside. That said, given the strength of GDP growth earlier in the year and the supportive year-on-year backdrop, even a sizeable 4Q deviation on the downside will only have modest effects on the 2021 full-year growth total - though it may have more of a knock-on impact on our 2022 growth forecast.

Markets have not been too fazed by this decision. The AUD initially spiked stronger on the announcement but has since shot weaker. Given how marginal this decision was in reality, we would not be surprised to see the currency revert to its pre-announcement rate over the course of the trading day.

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