

Cash Rate Outlook

RBA Puts Plan into Action

- The Reserve Bank (RBA) board met today and reaffirmed their target for the cash rate and the 3-year government bond yield at around 0.25%. They also appear to have entered a period of assessment. These targets and the term funding facility are aimed at keeping funding costs low in the economy.
- The RBA noted that there was “considerable uncertainty” to the outlook, which suggests the RBA wants to wait to see how events and how economic developments will play out.
- Nonetheless, the RBA stated that “a very large economic contraction” was expected for the June quarter and that “the unemployment rate is expected to increase to its highest level for many years”.
- In terms of the recent measures implemented by the RBA, the 3-year government bond yield target of “around 0.25%” has now been met; this yield is currently sitting at 0.25%, down from 0.49% prior to the announcement. To achieve this target, the RBA said it has purchased around \$36 billion worth of securities so far (or just under 2% of GDP), including government bonds and semi-government bonds.
- The extensive measures already announced suggests that the RBA can wait and assess the effectiveness of these new policies. Moreover, the considerable uncertainty to the outlook, which depends on containment of COVID-19, also gives reason for the RBA to wait and see how developments unfold.
- The RBA has made it clear again that any raising of the cash rate target will not occur for some time and not until “progress is being made towards full employment and it is confident that inflation will be sustainably within the 2-3 per cent target band”. All of us, including the RBA, are waiting for containment of the virus, before expecting a recovery in the economy.

After announcing a comprehensive package of measures on March 19, the Reserve Bank (RBA) mostly used today’s announcement to provide an update on the implementation of these policies. The RBA reaffirmed its target for the cash rate and the 3-year government bond yield at 0.25%, and it appears to have entered a period of assessment. These targets and the term funding facility are aimed at keeping funding costs low in the economy.

The RBA noted that there was “considerable uncertainty” to the outlook, adding to the sense that the RBA wants to wait to see how events and the economy will play out. Nonetheless, the RBA stated that “a very large economic contraction” was expected for the June quarter and that “the unemployment rate is expected to increase to its highest level for many years”.

All of us, including the RBA, are waiting for containment of the virus, before expecting a recovery

in the economy.

In terms of the new measures implemented by the RBA, the 3-year government bond yield target of “around 0.25%” has now been met; the yield currently is sitting at 0.25%, down from 0.49% prior to the announcement. In achieving this target, the RBA announced it has purchased around \$36 billion worth of securities so far (or just under 2% of GDP), including government bonds and semi-government bonds.

The RBA also announced that the first drawings under the Term Funding Facility had been made yesterday, which is aimed to keep down funding costs and to provide an incentive to support credit to businesses, particularly small and medium-sized businesses.

There was also some discussion around the functioning in financial markets, which have undergone considerable stress over recent weeks. However, there were “signs that markets are working more effectively than they were a few weeks ago”, which had been helped by the actions of central banks. The RBA noted it had injected substantial liquidity into the financial system. The RBA also pointed out that the functioning in the bond market had improved after some dislocations in recent weeks.

Outlook

The extensive measures already announced suggests that the RBA can wait and assess the effectiveness of these new policies. Moreover, the considerable uncertainty to the outlook, which depends on containment of COVID-19, also gives reason for the RBA to wait and see how developments unfold. Further action could also depend on the functioning of financial markets – if stresses continue in money and credit markets, additional liquidity measures may likely be deployed. In terms of whether further monetary policy stimulus could be deployed, the RBA appears to be waiting for greater clarity on how well COVID-19 will be contained. Nonetheless, the RBA has made it clear again that any raising of the cash rate target will not occur for some time, and not until “progress is being made towards full employment and it is confident that inflation will be sustainably within the 2-3 per cent target band”.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist

Besa Deda

dedab@stgeorge.com.au

(02) 8254 3251

Senior Economist

Janu Chan

chanj@stgeorge.com.au

(02) 8253 0898

Economist

Nelson Aston

nelson.aston@stgeorge.com.au

(02) 8254 1316

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
