Tuesday, 18 August 2015

Minutes of the August RBA Board Meeting

Comfort Factor Increases for the RBA

- **The minutes of the RBA board meeting in August hinted that the RBA was a touch more at ease with developments in the domestic economy and likely to keep the current stance of monetary policy unchanged for some time.**

- **It was clear that the RBA was much more comfortable with the level of the Australian dollar than previously. The need for the currency to depreciate further was again omitted, and there were various comments that noted the positive impact of the weaker AUD on the economy.**

- **The domestic economy was viewed as generally "more positive". The RBA seemed relatively upbeat on the outlook for consumption, dwelling investment and net exports.**

- **The RBA was also more optimistic on non-mining business investment, highlighting an improvement in confidence and conditions in recent business surveys. There was however, recognition that the recovery in non-mining business investment remained uncertain.**

- **The tentative signs of improvement in the domestic economy suggest that this remains sufficient for the RBA to continue to wait and watch upcoming developments. We remain comfortable with our view that the RBA will leave the cash rate on hold until late 2016.**

The minutes of the RBA board meeting in August hinted that the RBA was a touch more at ease with developments in the domestic economy and likely to keep the current stance of monetary policy unchanged for some time. This sentiment largely echoes the accompanying statement provided at the August meeting.

Given the wide range of commentary from the RBA in recent weeks, including the Statement on Monetary Policy and various speeches, there were few surprises from the RBA today.

However, there were some interesting comments, particularly around the currency.

It was clear that the RBA was much more comfortable with the level of the Australian dollar than previously. Again, the minutes omitted the statement that "further depreciation seemed both likely and necessary." Moreover, there were further comments that noted the positive impact of the Australian dollar on the economy through the traded sector -"the further depreciation of the Australian dollar was expected to impart stimulus to the economy through stronger net exports."

The RBA also recognised the upward revision to its inflation forecasts due to depreciation in the Australian dollar.

The more relaxed tone from the RBA regarding the currency could be partly due to the expectation that the US dollar will appreciate further following the first interest rate increase by the US Federal Reserve. Indeed, much like ourselves, the RBA is wary of a lift in financial market volatility once the Fed actually delivers its first rate increase.

The domestic economy was viewed as generally “more positive”. The better-than-expected labour market was discussed, as well as the implications of slower population growth in keeping the unemployment rate stable. The RBA noted that the “very low interest rates were continuing to support strong growth in dwelling investment and consumption”.

The RBA also took heart from an improvement in the conditions of non-mining firms as based on survey measures, but recognised that the recovery in non-mining business investment remained uncertain.

The RBA appeared slightly more downbeat on the global economy where major trading partner growth was revised down slightly for this year and the next. Nonetheless, the RBA viewed that downside risks to the outlook for Chinese growth had “receded somewhat”. Note that the minutes would have preceded recent, mildly disappointing economic data and the devaluation in the Chinese yuan last week. The RBA noted that Chinese international reserves had declined around 7% in recent quarters to keep the yuan stable against the US dollar. It highlights that there was extensive market pressure for the yuan to depreciate prior to the devaluation.

On the Australian housing market, the RBA noted that recent measures by banks, as a result of APRA, resulted in a “tightening in lending conditions” for investor housing.

Outlook for Monetary Policy

The RBA appears comfortable with current stance of monetary policy and doesn’t seem inclined to lower rates any further over the near-term. Nonetheless, the RBA’s view remains contingent on the expectation that economic growth will pick up to above 3% in 2017.

There are however, tentative signs of improvement through retail spending and business surveys. While only tentative, this remains sufficient for the RBA to continue to be patient and watch upcoming developments for the time being. Low interest rates and the weaker Australian dollar are providing support to the economy. We remain comfortable with our view that the RBA will leave the cash rate on hold until late 2016.

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