

Tuesday, 1 September 2015

## RBA Appears Unfazed

- At the RBA's September board meeting today, the RBA left the cash rate unchanged at 2.0%, as expected. The broad message of the Statement was also similar - that the RBA will continue to assess economic and financial conditions suggesting that rates will be on hold for some time.
- The few changes to the RBA's accompanying statement were mostly on global conditions. However, they were very subtle and did not suggest much alarm on behalf of the RBA. It suggests the RBA is little fazed by the extreme movements in financial markets globally and concerns over China in recent weeks.
- More insight could be revealed in the minutes which will be released in two weeks.
- We continue to expect the RBA to keep rates on hold until late 2016. The domestic economy continues to undergo a difficult transition from mining investment to growth driven by other sectors of the economy. Nonetheless, there are tentative signs of improvement. Further, interest rates are already at very low levels, and the lower Australian dollar is providing support.

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There was a note on the recent volatility in share markets, but only in passing. This is not too surprising as measured response is typical of central banks, as sentiment can change quickly.

Similarly, on the global economy and the outlook for China, the RBA recognised "some further softening in conditions in China and east Asia of late", but added that US growth was stronger.

There was a hint that the RBA had downgraded its assessment to the global growth outlook and the demand for commodity prices. Previously, the RBA noted that "much of this trend (of lower commodity prices) appears to reflect increased supply", whereas the RBA now states that "key commodity prices are much lower than a year ago in part reflecting increased supply". This could reflect some recognition that demand factors are playing a greater role in pushing down commodity prices.

On the domestic economy, the RBA's assessment was broadly unchanged and noted that the "moderate expansion" in the economy is continuing. The RBA reiterated that employment growth

had been stronger, but that spare capacity remained and that monetary policy needed to be accommodative.

Similarly, on the Australian dollar, the RBA reiterated that it was “adjusting to the significant declines in key commodity prices”.

### **Outlook for Monetary Policy**

The RBA has signalled it remains in a “wait and see” stance despite recent developments in global financial markets. While the RBA’s assessment signals some recognition of concerns regarding China, volatility in equity markets and possibly weaker demand for commodities, it does not appear overly alarmed by these events.

Given the uncertainty regarding the outlook for China and developments in financial markets, this approach would seem wise. More insight could be revealed in the minutes which will be released in two weeks.

The domestic economy continues to undergo a difficult transition from mining investment to growth driven by other sectors of the economy. Nonetheless, there are tentative signs of improvement. Further, interest rates are already at very low levels, and the lower Australian dollar is providing support. We continue to expect the RBA to keep rates on hold until late 2016.

The one page text of the Governor’s Statement can be found at <http://www.rba.gov.au/>

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