CAMA RBA SHADOW BOARD – COMMENTS

DECEMBER 2013

Each CAMA RBA Shadow Board member is invited (but not obliged) to provide a personal comment on monetary conditions. Neither the comments nor the probabilities constitute financial advice. The views of the Shadow Board members are not those of CAMA. Any individuals utilizing these comments, or the probabilities, do so at their own risk.

PAUL BLOXHAM

The interest rate sensitive sectors of the economy continue to pick up, in response to the current cash rate setting, with the housing market leading the way. There are also tentative signs that conditions are starting to improve across a broader range of industries, including the manufacturing and services sectors. As monetary policy is already getting significant traction, there would be little purpose in cutting the cash rate further, with lower rates likely to increase the risk of asset price misalignments. However, the case for lifting rates any time soon is also fairly weak at this stage, as inflation remains contained, the labour market remains loose and the AUD is still high. I recommend that the cash rate is left unchanged and see it as more likely than not that the cash rate will need to be higher than its current level in 12 months time.

MARK CROSBY

No comment.

MARDI DUNGEY

No comment.

SAUL ESLAKE

Current: The RBA's made it pretty clear it is reluctant to cut rates again, and would prefer that further easing in financial conditions come via a depreciation of the exchange rate. Yesterday's capex numbers didn't provide any reason for them to change that view.

6 month: Notwithstanding the RBA's preference as noted above for further easing in financial conditions to come via exchange rate depreciation, unless the A$ reacts sharply to the likely start to 'tapering' of the US Federal Reserve's QE program within this 6-month time frame, the A$ is likely still to be uncomfortably high, signs of a tangible revival in non-mining investment hard to detect, consumer spending still soft, and unemployment still trending upwards – making a much stronger case for a further cut in rates.

12 month: As for the six month view, just a bit more so.

BOB GREGORY

No comment.

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GUAY LIM

Keeping the cash rate at 2.5 percent seems appropriate for now, and the RBA has already signaled that it is monitoring house prices and the exchange rate. Both the TD-MI monthly inflation gauge and the MI consumer expected inflation rate are within the target band of 2-3 percent. There is, moreover, no clear evidence that the economy has changed gear recently, although there are encouraging signs of a pick-up in private capital expenditure.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

The policy rate should be returned to its neutral level over the medium term. However, the current benign conditions for inflation combined with a mixed outlook for economic activity across different sectors suggests that the RBA can continue a "wait and see" approach before embarking on a tightening cycle.

JEFFREY SHEEN

No comment.