

CAMA RBA SHADOW BOARD – COMMENTS

SEPTEMBER 2015

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

No comment.

MARK CROSBY

Recent global gyrations should make the RBA hold rates this month, and with a recovery in equity markets outside of China there seems little reason to cut rates. The longer term outlook is still uncertain, with global trade falls the most recent worrying data in the global economy and far more consequential than falls in Chinese equity markets.

MARDI DUNGEY

No comment.

BOB GREGORY

No comment.

GUAY LIM

International interest rates are likely to rise, as growth and employment in the US appear to be stabilizing at normal rates. While Australian asset markets are expected to continue to be volatile, the exchange rate is expected to remain low. Keeping the official rate steady at 2 per cent would help offset some of the negative effects of uncertainty in the international environment on the domestic economy – as well keep the policy rate well above the zero lower bound.

WARWICK MCKIBBIN

The recent global stock market volatility illustrates the problem of using unusually loose monetary policy to provide temporary stimulus when the underlying real economic problems are not being addressed. This is a problem both globally and in Australia. Ideally interest rates would be higher in Australia than they are today but raising them to reverse previous policy decisions that now drive asset prices to unsustainable and dangerous levels is not a realistic option. This is a quandary for policymakers. Members of the Shadow RBA are supposed to estimate where interest rates SHOULD be today. They are not voting on what the RBA should decide at its next meeting. This is an important distinction. I believe interest rates should be higher than they are to avoid asset price inflation, but given the current volatile global situation, the RBA should not raise interest rates at the next meeting.

JAMES MORLEY

Given the recent turbulence in financial markets and underlying inflation being at the low end of the target range, the RBA should hold its policy rate steady rather than raise it. But with a stable real economy, an overheated housing market, and a low dollar stimulating the foreign sector, the RBA should not provide a “Greenspan put” by cutting rates in response to the stock market. Instead, it should carefully monitor conditions to determine when it will need to start raising the policy rate back towards its neutral level.

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JOHN ROMALIS

Current domestic and international economic conditions suggest a continuation of moderate rates of economic growth in Australia accompanied by a low inflation rate. The current target cash rate of 2.0% seems entirely appropriate for the near term.

JEFFREY SHEEN

The current fragility in global stock markets appears to be more of a dash to liquidity than to value. It is likely an over-reaction to expected future interest rate increases, beginning with the Federal funds rate perhaps this year. Nevertheless some downward adjustment was probably necessary because the boom in global stock prices generally did not mirror the sluggish recovery in the global real economy. The trade-weighted Australian dollar has fallen about 15% in the last year, and fortunately has not risen with the recent competitive depreciations across Asia. Monetary policy needs to avoid reversing this contributor to Australia's improved export competitiveness. In the current volatile financial environment, the RBA should maintain the current cash rate in September, though I have modestly increased the probability of a desirable cut