

CAMA RBA SHADOW BOARD – COMMENTS

DECEMBER 2016

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PAUL BLOXHAM

No comment.

MARK CROSBY

Little has changed since last month, despite the election of Donald Trump in the United States. Uncertainty around the international environment is now greater than a month ago, but key international economies continue to muddle through. In this environment there is little reason for the RBA to move in either direction, despite protestations by the Eurocentric OECD that countries like Australia should raise rates so as to strengthen our exchange rate and weaken our economy to the benefit of Europe.

MARDI DUNGEY

No comment.

BOB GREGORY

I agree with the sentiments of Mark so I am just sitting tight with what I said last time. It is interesting though in that I have heard that there is some pressure around Canberra to encourage the RBA to do a little more stimulus as there is a view that the economy is beginning to weaken.

GUAY LIM

No comment.

WARWICK MCKIBBIN

The election of Donald Trump as US President has changed the term structure of global interest rates. As the US embarks on a tightening of monetary policy and loosening of fiscal policy global interest rates will likely rise. It is difficult to see how Australia will be able to follow a very different path of domestic interest rates under these circumstances.

JAMES MORLEY

No comment.

JOHN ROMALIS

No comment.

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JEFFREY SHEEN

The Trump election appears to have changed sentiment in financial markets. Long term bond yields (as well as bank and construction stocks) have risen in anticipation of a large fiscal stimulus in the US. This stimulus is likely to come from tax cuts initially, and infrastructure investment later. However, there remains much uncertainty about the net macroeconomic effects of the Trump presidency---for example, because of the negative global impact of any heightened protection measures that may be introduced. One cannot be very confident about significantly higher expectations of future inflation and nominal and real interest rates in the US. The likely impacts of the new presidency on the Australian economy are even more uncertain at this stage.

The Australian economy is growing just above normal thanks to government and household expenditure and net exports, and despite negative private real investment growth. Dwelling investment approvals have also been shrinking, which is also a concern. Low interest rates are needed until non-mining investment turns around, and so the RBA should not raise the cash rate now. However my outlook for the future has shifted very marginally towards a tightening because of the possible Trump effect.