CAMA RBA SHADOW BOARD – COMMENTS

FEBRUARY 2024

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.

SALLY AULD

No comment.

BESA DEDA

No comment.

BEGOÑA DOMINGUEZ

The annual inflation rate in Australia went down to 4.1% in Q4 of 2023 well below the 5.4 % in Q3 and below the RBA forecast of 4.5 % (according to the November 2023 Statement on Monetary Policy). The CPI increased this quarter by a mere 0.6 %, lowest since March 2021. The inflation rate (4.1 %) is now below the cash rate (4.35 %). Measures of expectations of inflation indicate that expectations are well anchored. The unemployment rate remains at 3.8 %. While non-tradeable inflation remains high, it seems that we are on target to achieve a soft landing and at an earlier date than forecasted.

Around the world, inflation has eased. The debate now has turned to when central banks will start to cut rates and by how much. Traders in the federal funds futures market are betting that the US Federal reserve will cut the rate in March and investors are expecting the first ECB rate cut in April. Nevertheless, there are many geopolitical uncertainties.

The cash rate in Australia is below many other central banks. However, research indicates that the prevalence of variable mortgage rates increases and speeds up the transmission mechanism of monetary policy. Given this, the current inflation trends and the restrictive monetary stand, my view is that the Reserve Bank of Australia should keep the cash rate on hold in the next meeting. My view is also that a cut rate may be desirable in a few months, but not just yet.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

No comment.

JOHN ROMALIS

No comment.

PETER TULIP

I support a faster and more certain return to the inflation target, now explicitly stated to be 2.5%, than most other commentators.

The longer inflation is allowed to remain above target, the more likely it is that inflation expectations increase. If that happens, then a substantial increase in unemployment would be required.

An increase in interest rates now would mean higher unemployment in the short run, but lower and more stable unemployment in the long run.