



RBA LOSES CONTROL OF INTEREST RATES

Agenda: Bond yields

- Forward guidance
- Bond yield changes
- Bank Lending
- Commodities
- Immigration & Students
- Investment implications

RBA Statement

- maintain the cash rate target at 10 basis points and interest rate on Exchange Settlement balances at 0%
- continue to purchase government securities at the rate of \$4 billion a week until at least mid February 2022
- discontinue the target of 10 basis points for the April 2024 Australian Government bond

Bond Curves

Australia 3-Year ▲ **0.953** +0.036 (+3.93%)



Australia 10-Year ▲ **1.868** +0.020 (+1.08%)

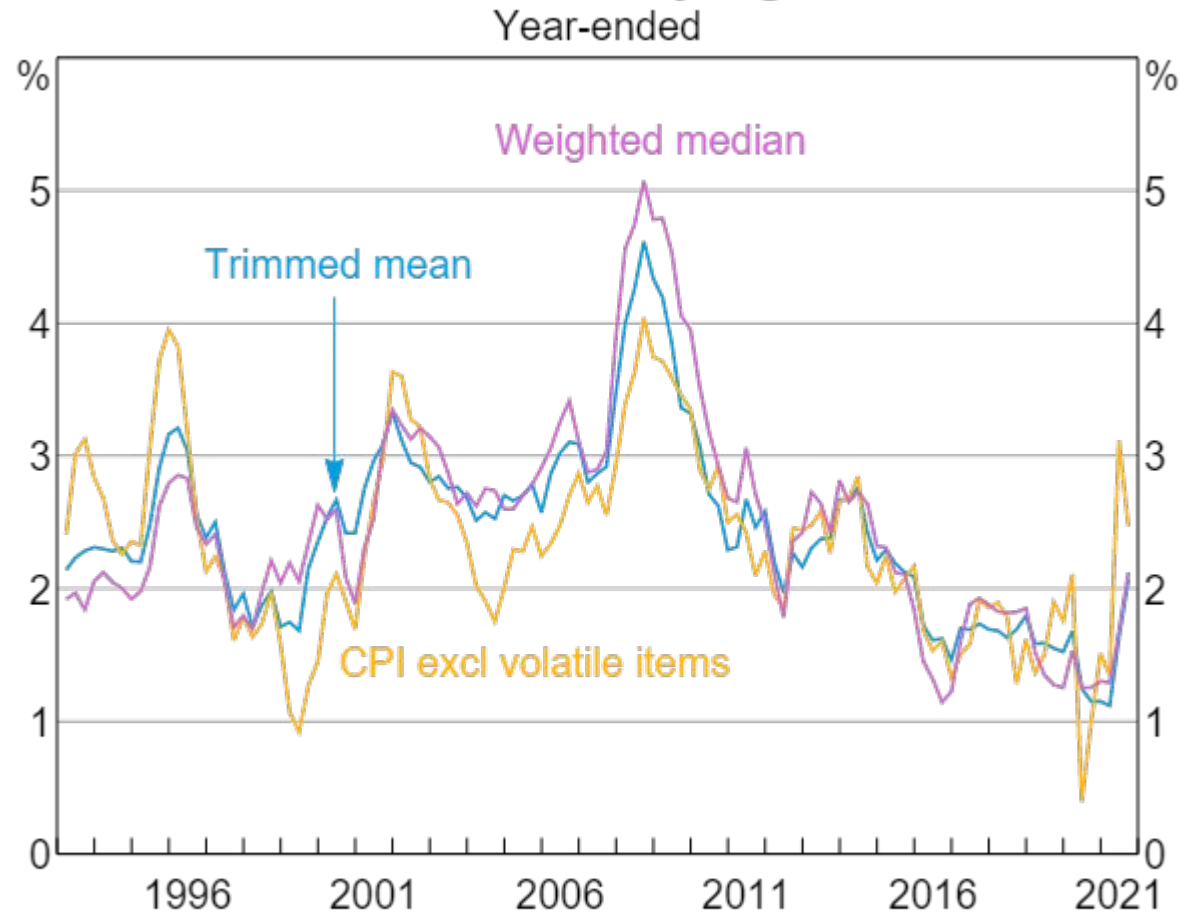


Bank Lending



Inflation

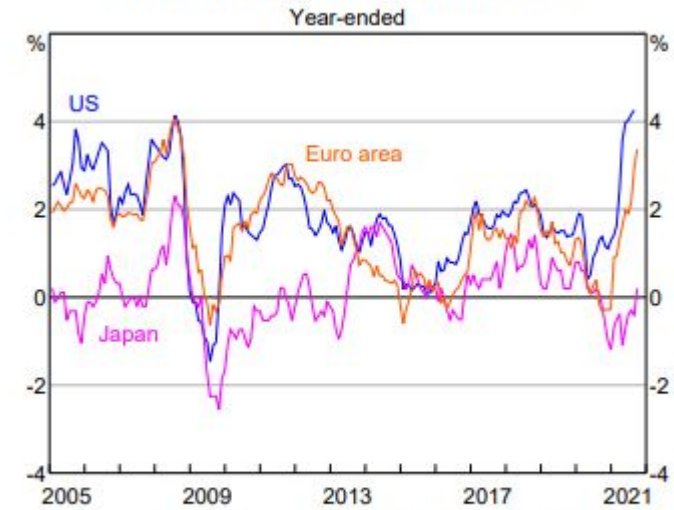
Measures of Underlying Inflation*



* Excludes interest charges prior to September 1998 and deposit & loan facilities prior to September 2011; adjusted for 1999–2000 tax changes

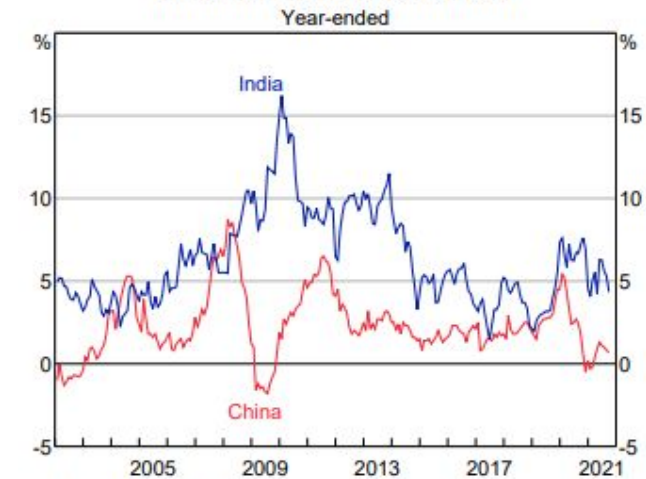
Sources: ABS; RBA

Inflation – Advanced Economies*



* Personal consumption expenditure (PCE) inflation for the US; Japan data excludes the effects of the consumption tax increase in April 2014
Sources: RBA; Refinitiv

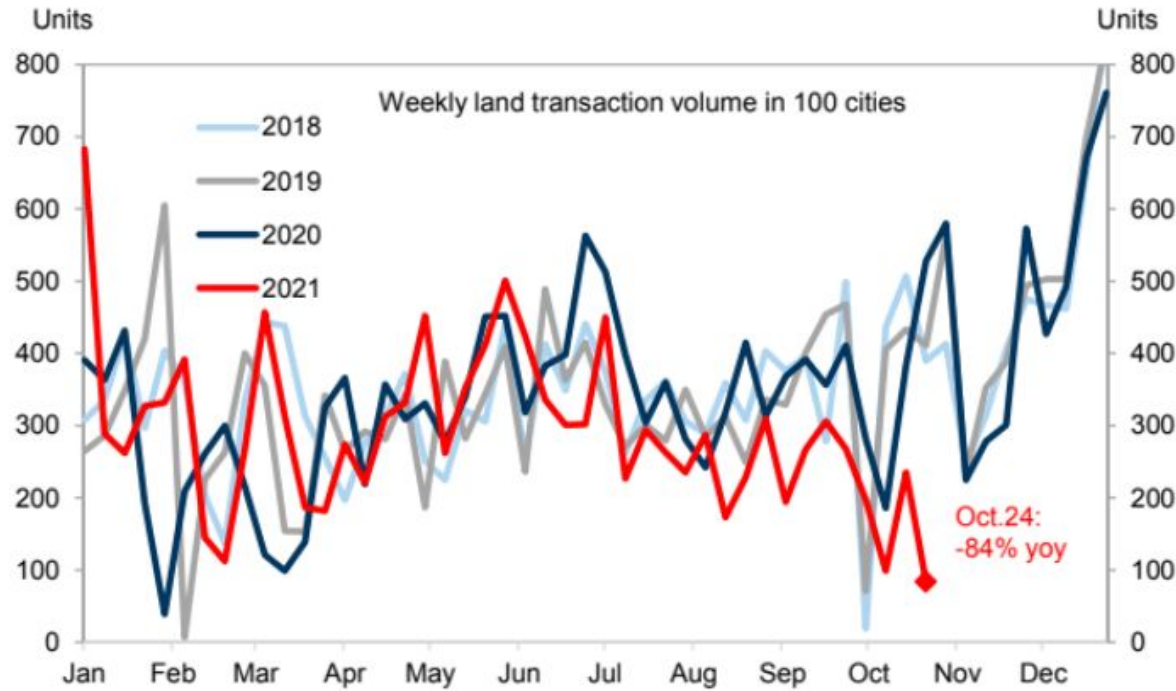
Inflation – China and India



Source: CEIC Data

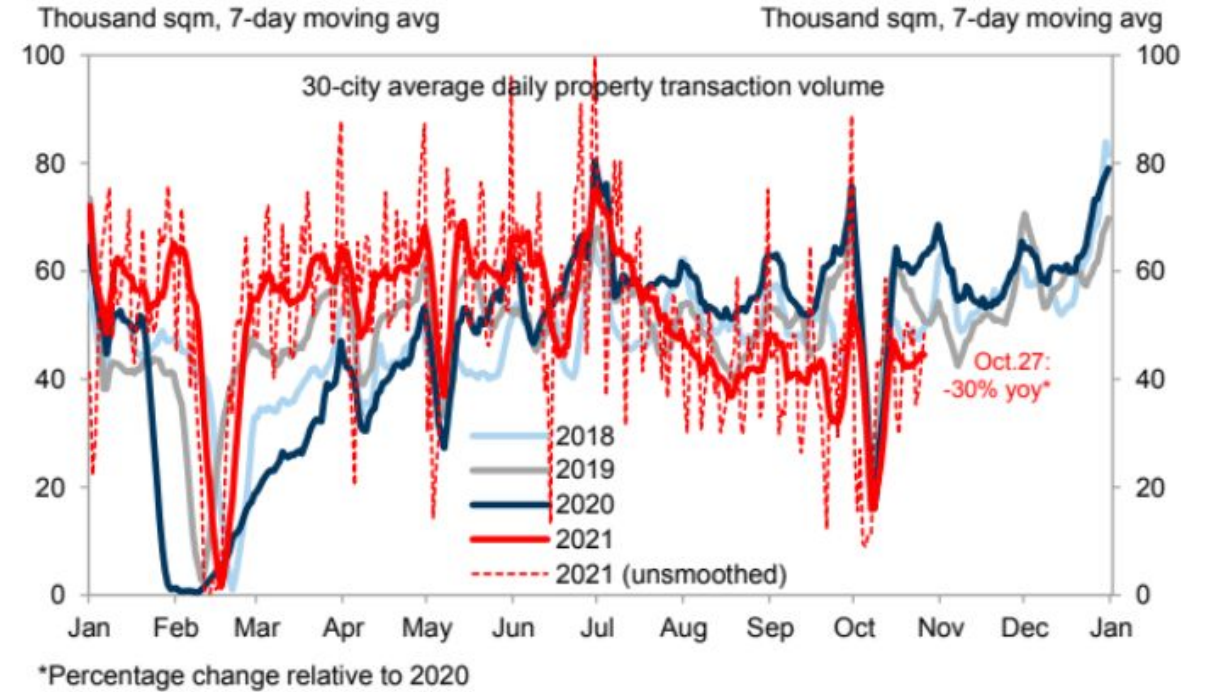
Commodities

Exhibit 7: Land transaction volume in 100 cities still less than half of 2020 levels



Source: Wind, Goldman Sachs Global Investment Research

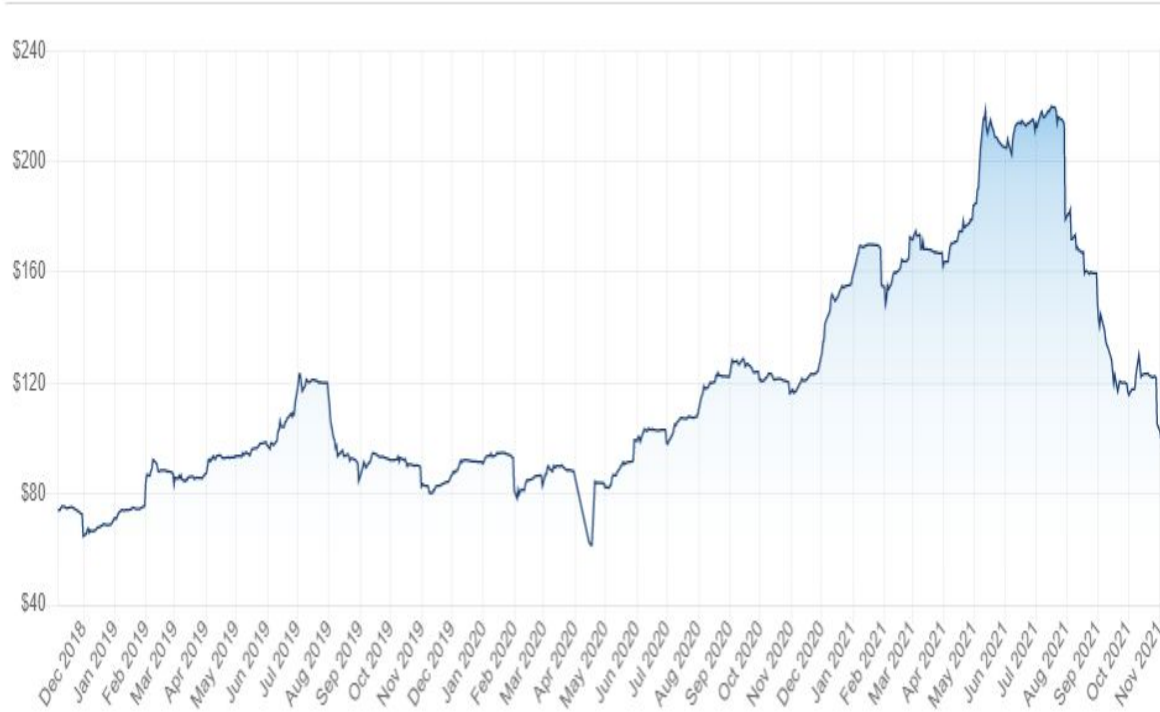
Exhibit 8: 30-city daily property transaction volume a quarter below 2020 levels



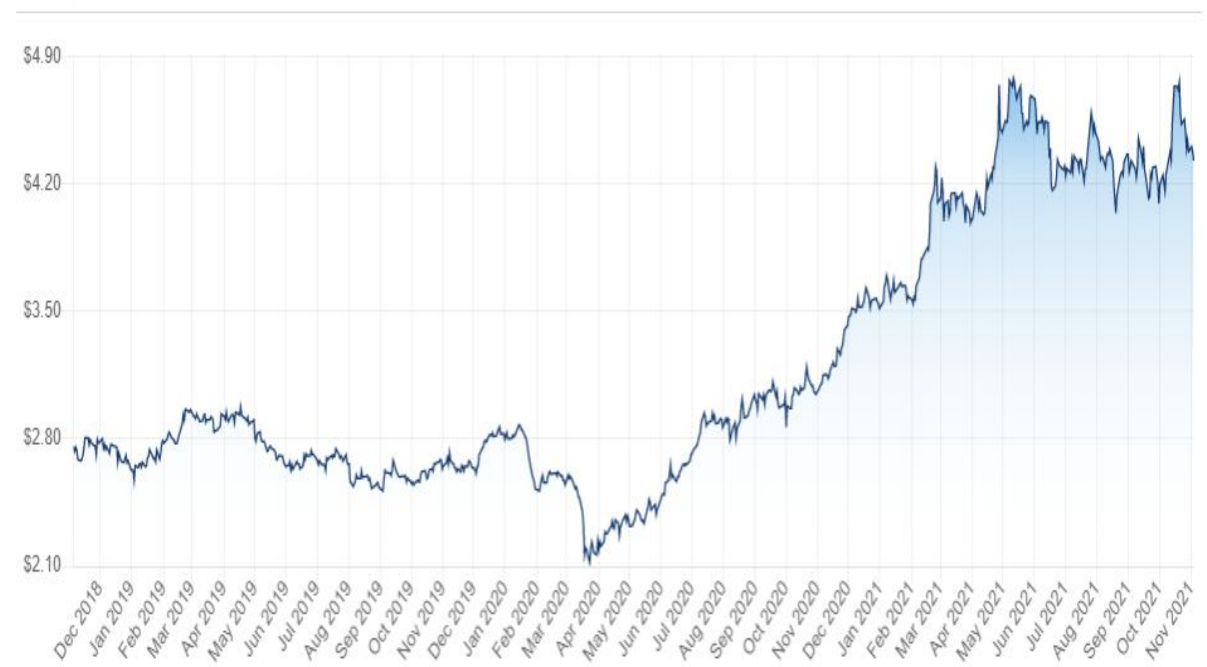
Source: Wind, Goldman Sachs Global Investment Research

Commodities

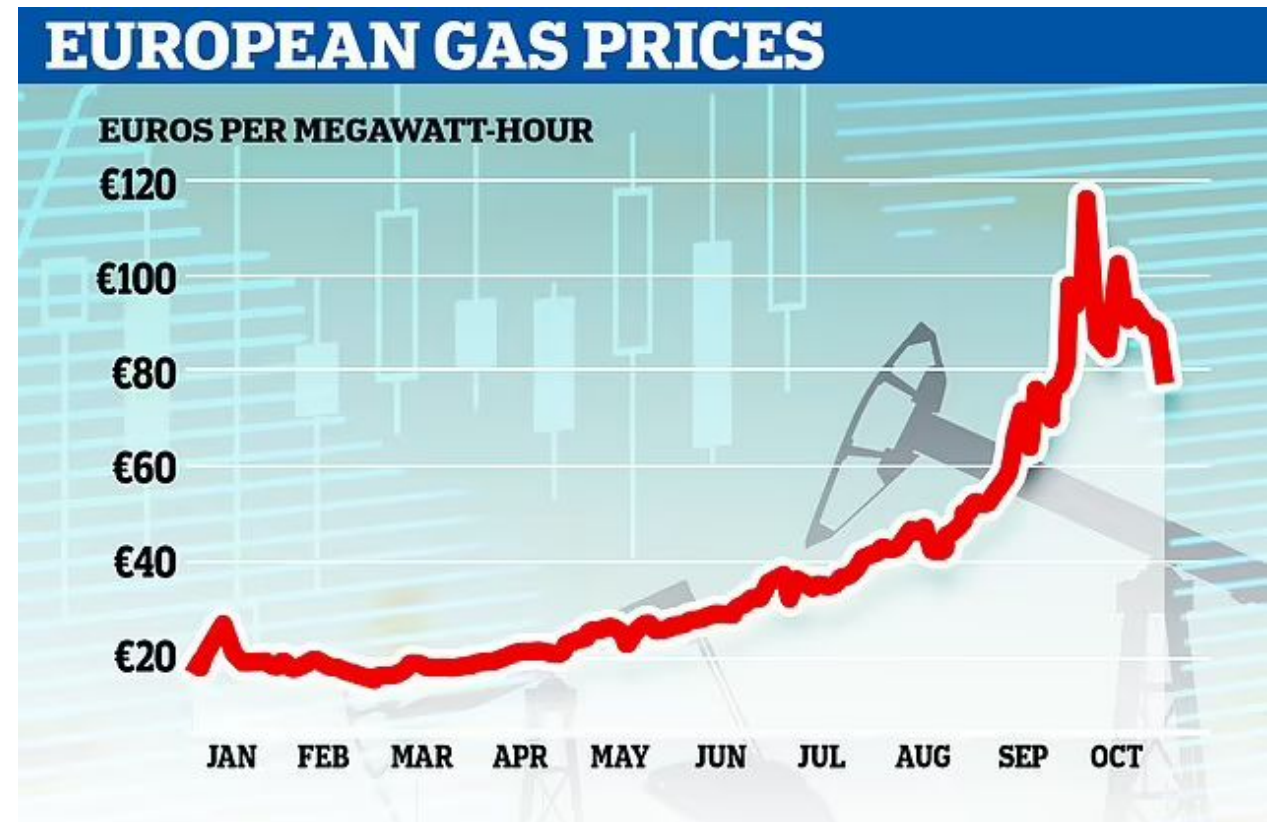
Iron Ore Chart



Copper Chart



Commodities



Immigration and Students



Investment implications

- Energy bubble has triggered broader commodity bubble as Chinese metal processing cut. Both feed Wall St.
- Commodity bubble has triggered rates back-up. Spooked Fed tapers despite slowing growth and fiscal cliff.
- But, extreme goods volumes to ease over 2022 as services spending lifts.
- Just as deflating energy deflates all commodities as Chinese metals output lifts.
- Just as Chinese property bust hammers demand.
- Just as stronger USD adds to commodity deflation.
- Just as supply side bottlenecks ease.
- 2022 commodity bust and year of **deflation not inflation**.
- Yields tumble. Stocks correct and reverse rotation to Growth from Value.
- Avoid miners and banks.

Viewer question of the week:

Should the RBA be doing more or less?

Drop your answers in the comments

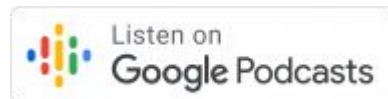
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