Australian Standfirst

Australia Begins Quantitative Easing

Monetary Policy

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Australia's Central Bank will join the global collective in enacting Quantitative Easing programme(s), likely to begin later this week.

The only major global economies to follow suite remain the People's Republic of China and the Russian Federation.

Our houseview, which has been on public record since 2017, has been that Australia and our Central Bank – The Reserve Bank of Australia, or RBA – giving in to the persistent gravitational pull of what's referred to as the Zero Lower Bound, or ZLB, **will have no choice but** to begin printing money, which in the vernacular, has come to be referred to as Quantitative Easing, or QE.

Denials from Canberra and Martin Place (RBA HQ) persisted until even last week but *c'est la vie*.

Today, RBA Governor Philip Lowe released a media statement, noting that the RBA "*stands ready to purchase Australian government bonds in the secondary market to support the smooth functioning of that market*", given signs that "*trading liquidity has deteriorated in some markets*".

This comes in addition to a statement earlier this morning by the Council of Financial Regulators and on top of the RBA stepping up Repurchase Agreement (REPO) operations.

Governor Lowe also flagged that the RBA "*will announce further policy measures to support the Australian economy on Thursday*" [Thursday, 19 March 2020].

Several unconventional measures are expected Thursday, however, of greatest importance is the QE-style "**yield curve control**" measures, which is cipher for outright Quantitative Easing.

Of importance, Australian domestic and global investors alike need to be particularly careful how this unconventional monetary mechanism deploys and of paramount priority, Australians – investors, advisors and regulators alike – need to be ever so mindful not to presume that an Australian QE programme will replicate those seen in North America, Europe or Japan.

QE comes by many names and formations, all of which the DDPM Team have discussed with our 114,000 readers since 2017 – "Modern Monetary Theory", or MMT and of course the Orwellian, Universal Basic Income, or UBI.

Canberra may have carried denials of imminent QE but they sure did a Sir Humphrey Appleby botched job of hiding their inevitable intent (18 November 2016) – Parliament Of Australia: Basic income: a radical idea enters the mainstream.

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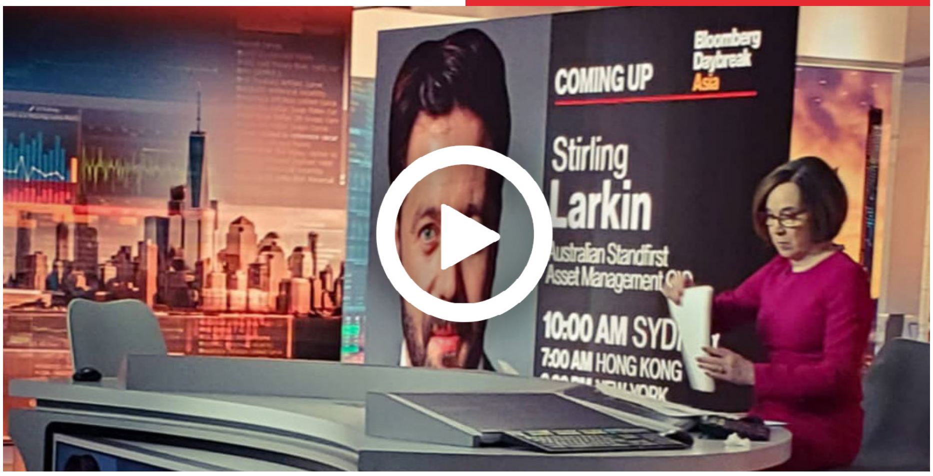

→ PLAY **Watch:** Bloomberg USA sit with Australian Standfirst on 9 January, 2020, flagging the imminency of Australian Quantitative Easing.

We illuminated the precariousness of Modern Monetary Theory in April 2019 – Global Investor Circular April 2019 Edition – and the outright dumbness of Universal Basic Income – No to UBI, 3 July 2019.

The Reserve Bank continuing to workshop the spectre of QE since 2016 raises the jeopardy of Martin Place Mandarins fighting the last war – the Great Recession.

This is not only a mistake but dangerous.

This morning Australia's Council of Financial Regulators confirmed that they are, "*working closely together to help ensure that Australia's financial markets continue to operate effectively and that credit is available to households and businesses.*" but in so doing they are further eroding the underpinning of our Australian Dollar carry, which began in 2017 and evidenced by the Swiss Franc crisis, that presciently shot a metaphorical cannon ball across our mercantile bow.

Hot currencies, such as the Australian Dollar, have no Market Microstructure (Maureen O'Hara, 1998, Market Microstructure—The "plumbing" of markets) architecture – cite:- Market Microstructure Theory and the Australian Dollar, 14 August 2019 – and diving below ZLB and beginning the printing presses only invites trouble for our all-important 'Aussie'.

In addition, Governor Lowe announced that the RBA will, "*be conducting one-month and three-month repurchase (REPO) operations until further notice and conduct operations of six-months maturity or longer at least weekly, as long as market conditions warrant.*"

Ironically, it could hardly play well for Australia's Big Four banks, who can hardly afford any perception that they are accruing even more oligopolistic power following the wrath of the recent Royal Commission.

The move is similar to RBA actions during the Great Recession to forefront funding and mitigating upward pressure on bank funding costs; another *faux pas* and further evidence of Canberra and Martin Place going well beyond the pale – End The Fed, 24 September 2019.

Australia has experienced eleven (11) inverted fixed income yield curves since 2014 and the actions of Governor Lowe this week invite further inversion, reversion, subversions.

To reiterate, it is folly for Australian investors, advisors and State actors to presume Australian QE will synthesize American, Japanese or European yield curve manipulations.

Lastly, the RBA is predicted to adopt a funding facility for banks with credit provision conditions, similar to what was announced by the Bank of England last week; this in conjunction with ongoing risk-off sentiment across global financial markets will pressure the AUD-USD exchange breaking bottom of current rangebound, dropping below **60 cents** by close of business Friday.

It is not too late to stop and albeit a supertanker cannot stop on a dime, the highly skilled Governors sitting at the level twelve boardroom of 65 Martin Place, Sydney are in a strong position to think very carefully about the risk of adverse unforeseen consequences and whether this is a rabbit hole we too want to rummage down. ■

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