

The Reserve Bank of Australia (RBA) Board kept interest rates unchanged at the March meeting, with the cash rate target remaining at 4.35% and the interest rate on Exchange Settlement balances staying at 4.25%. The decision was in line with market expectations.

There was no update to the Statement on Monetary Policy and projection, though a media conference was held in line with the new RBA communication arrangements.

A separate set of data showed the RBA holdings of Australian Government bonds and semis declined A\$0.5b to A\$335.5b, as the 8 February 2024 New South Wales TCorp bond matured.

Post-meeting Statement

The post-meeting statement by RBA Governor Michele Bullock was again centred around the following points:

- moderating but still-high inflation;
- the 'highly uncertain' outlook; and
- returning inflation to the target range being a priority.

On the inflation front, Governor Bullock reiterated that inflation is moderating driven by slowing growth in goods prices, while services inflation remains 'elevated' and is easing 'at a more gradual pace'. She assessed that wages growth has most probably peaked but stressed that it is consistent with the inflation target, only if productivity growth returns to its long-run average.

On the uncertainties, Michele Bullock underscored that services price inflation could remain persistently high, as was the case overseas. The new risk brought about in the statement was the uncertain outlook for unit labour costs. Governor Bullock also cited uncertainties regarding the Chinese economic outlook, lags in monetary policy transmission and geopolitical risks.

Overall, however, Governor Bullock highlighted that economic growth has slowed, driven by weak household consumption, while unemployment and underemployment are likely to increase 'a bit further'. She highlighted the February 2024 forecasts of inflation returning to the 2-3% target range in the second half of next year and to the mid-point of the range in 2026.

Lastly, Michele Bullock reiterated that returning inflation to target within 'a reasonable timeframe' is the RBA Board's 'highest priority'. However, the explicit reference to interest rate hikes ('a further increase in interest rates cannot be ruled out') was scrapped from the statement. That said, the RBA Board still does not 'rule anything in or out'.

Press Conference

In the press conference, Governor Bullock was obviously pressed about the altered wording of the forward guidance and tried to play it down.

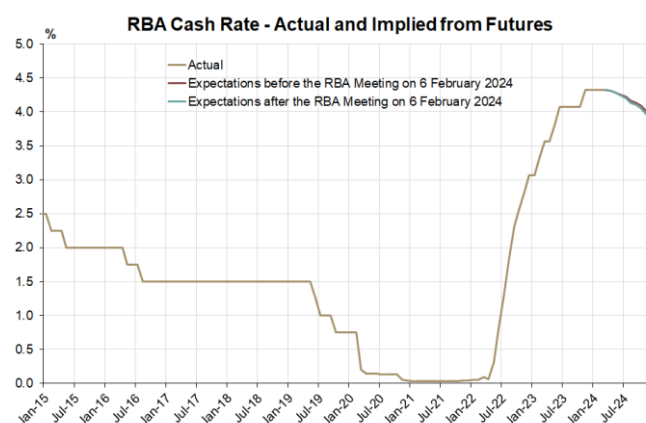
When asked about whether the 'tightening bias' was removed or the RBA had 'pivoted to neutral bias', she said that the Board was not yet confident enough to rule out changes in rates, especially given the heightened uncertainty. She suggested that the wording change was simply a response to the recent data.

Market Impact

All of the above information was perceived as a bit more dovish than some traders had predicted. As a result, rate cut expectations increased slightly, with the first reduction now almost fully priced in for August.

The rise in cash rate cut expectations led to:

- a drop in 3-year Commonwealth bond yields from 3.73% to 3.67% at the time of writing;
- a decline in 10-year yields from 4.13% to 4.08%; and
- depreciation of the Australian dollar from US\$0.6560 to US\$0.6518.



Comment

At the March meeting, the RBA Board watered down but did not entirely abandon the tightening bias, moving closer to a neutral tone.

As Governor Bullock pointed out herself the slight change in tone reflected the recent set of data releases. This includes easing [inflation](#) momentum, softness in [economic activity](#) and an easing, albeit still tight, [labour market](#).

Despite some increase in rate cut expectations, the first reduction continues to be expected sometime in Q3.

The February labour force survey on Thursday and monthly CPI next week will be another important set of data for the RBA monetary policy outlook.

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