

Economic Analysis RBA Monetary Policy Decision Oct 2023

At the first meeting chaired by Governor Michele Bullock, the Reserve Bank of Australia (RBA) Board kept interest rates on hold.

The cash rate target remains at 4.10% and the interest rate on Exchange Settlement balances at 4.00%.

The decision was in line with cash rate futures pricing for no change.

Justification of the Decision

The post-meeting statement was almost an exact copy of that issued after the previous meeting, again citing:

- substantial monetary policy tightening to date;
- inflation having passed its peak; and
- uncertainty surrounding the economic outlook.

On the first point, Governor Bullock repeated that interest rates had increased by 400bps in this cycle, which was working towards a 'more sustainable balance between supply and demand', but she reminded that monetary policy operated with a lag.

On the second point, Governor Bullock stressed that inflation had declined, led by slower growth in goods prices. She upheld the assessment that labour market conditions had 'eased a little', but remained tight, and wages growth was still consistent with the inflation target, provided productivity growth accelerated.

On the third point, the RBA Governor said that, while inflation was expected to return to the 2-3% target range, there were risks to this central path, most notably:

- 'brisk' services price inflation and a renewed rise in petrol prices,
- the economy performing better than expected, though still below trend, and
- the uneven distribution of the effects of tightening across households, which generated uncertainty about the private consumption outlook.

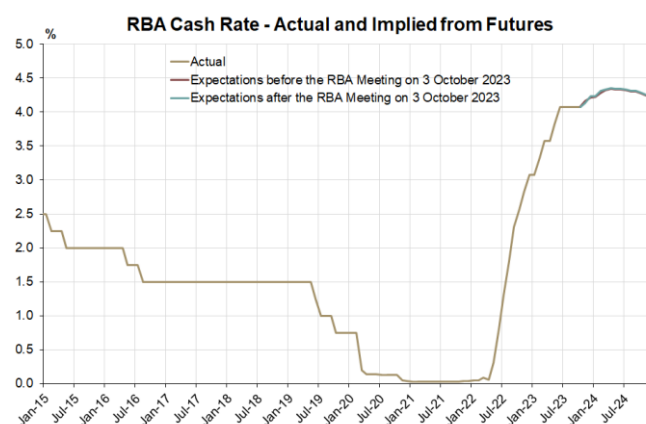
Governor Bullock also mentioned that the Chinese economic outlook remained uncertain due to 'ongoing stresses' in the property market.

In the same vein as her predecessor, Governor Bullock underscored that some further tightening might be required. However, future decisions would remain data-dependent, focussing on the global economic outlook, household spending, inflation, and labour market conditions. She stressed that the RBA Board remained 'resolute in their determination' to bring inflation back to its target range.

Market Impact

The RBA's decision to keep the interest rates on hold was widely expected by the markets and the unchanged tone of the statement resulted in no major changes in cash rate expectations. In addition:

- 3-year Commonwealth bond yields declined from 4.12% to 4.09%.
- 10-year yields ebbed from 4.57% to 4.56%.
- The AUD/USD fell from US\$0.6348 to be currently just below US\$0.6313.
- The ASX 200, which was trading at 6930 points, closed at 6939 points, the lowest close in half a year.



Comment

The RBA's decision to pause was expected by an overwhelming majority of market participants.

It was taken despite the renewed rise in [inflation](#) and the [economy](#) performing better than expected, with a tight [labour market](#), as well as a rise in [house prices](#) amid persistent [undersupply of dwellings](#).

Given the above factors, particularly the re-acceleration of price growth, the prospect of the cash rate remaining unchanged at coming meetings is a little bit cloudier than a month ago. The Q3 inflation report and the results of the November projection will be key to the interest rate decision next month.

Currently, cash rate futures are pricing in around a 30% probability of a 25bps hike later this year. However, we continue to expect that, absent of major upside surprises to inflation, the RBA will likely keep the rates unchanged at the coming meetings.

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