RBA Update September 2025

The Reserve Bank of Australia (RBA) Monetary Policy Board kept interest rates unchanged at the September meeting, with the cash rate target remaining at 3.60% and the interest rate on Exchange Settlement balances staying at 3.50%. The decision was in line with market expectations.

However, the RBA Monetary Policy Board has sharpened its tone, and appears to be less inclined to deliver rate cuts in the coming months than after the August meeting.

Post-meeting Statement

The post-meeting statement by the Monetary Policy Board was more hawkish across the board, highlighting that:

- the monthly CPI indicator data suggests that inflation in Q3 may be higher than forecast by the RBA in August;
- the Q2 national accounts data suggests that private sector demand is recovering faster than expected; and
- labour market conditions are steady but ‘a little tight’, with labour market underutilisation being low and unit labour costs running high.

The RBA Monetary Policy Board voiced an opinion that stronger-than-expected economic growth is a sign that households have become ‘more comfortable’ about spending more, which could make it easier for companies to pass on rising costs to customers. However, they also see some risk that the recent acceleration in consumption may prove short-lived.

According to the RBA, uncertainty over the impact of tariffs has eased slightly, but remains high, while geopolitical risks also threaten the global economy.

The RBA said explicitly that they have revised their outlook, deeming it appropriate to remain cautious while taking their decisions. They stressed that the cash rate has already been reduced substantially, and has translated into an easing of credit conditions and a revival in the housing market. They reiterated that monetary policy is well-placed to respond to international developments.

Press Conference

In the press conference, RBA Governor Michele Bullock repeated the above messages, concentrating on the upside surprises to private consumption and the monthly inflation indicator, especially dwelling costs and services price inflation.

Governor Bullock declined to provide any forward guidance multiple times during the conference, instead stressing that the future decisions will be data-dependent. She did not completely rule out a scenario that rates would be kept on hold from now on, but overall appeared to still consider a November rate cut as possible.

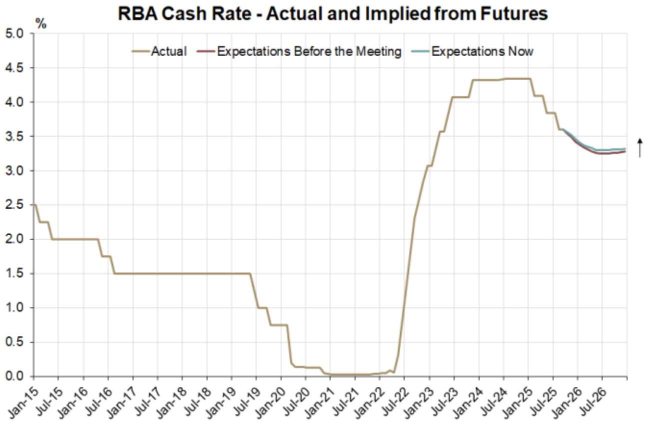
She assessed the current monetary policy conditions as ‘a bit restrictive’ and ‘definitely not expansionary’.

Market Impact

The more hawkish tone from the RBA after today’s meeting led to further slight scaling back of cash rate cut expectations. The probability of a cut in November dropped below 40% and even the February rate cut is not fully priced in at the time of writing. However, the terminal rate remains at just below 3.30%.

Any further market reaction was quite short-lived. 3-year yields did pick up from 3.56% to 3.60% just after the statement was released, but fell back after the press conference. At the time of writing, 10-year yields are slightly lower than before the decision (-1bp at 4.31%).

The AUD, in turn, appreciated from US$0.6592 to slightly above US$0.66 just after the statement release, and has been oscillating above this mark since.



Comment

The September RBA Monetary Policy Board meeting brought a slight hawkish pivot. This followed an upside surprise first to Q2 GDP figures and then to the August CPI indicator.

The RBA appears not to be particularly concerned over the recent easing in labour market conditions, focusing on the low underutilisation and still-encouraging results of its own business liaison. It also remains concerned about sluggish productivity growth, which is supporting unit labour costs despite moderate wages growth.

The central bank has also noted the first signs that the cash rate cuts over the past year are flowing through to the economy, such as faster house price growth and abundance of credit overall. However, they stress that it will take some time to see the full effects of easing.

The RBA is considering the incoming data, to see if the recently observed revival in economic growth, especially in personal consumption, continues to prop up prices in the economy.

As noted above, cash rate cut expectations declined further today. We also see a lower probability of a November cut, with our central scenario now being for a 25bps reduction in cash rate in February.

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