RBA Update August 2026

The Reserve Bank of Australia (RBA) Monetary Policy Board kept the cash rate unchanged at 4.35% at its August meeting. The decision was unanimous.

Post-meeting Statement

The post-meeting statement was broadly unchanged from June, but it read slightly less hawkish.

The Monetary Policy Board again highlighted that inflation is ‘too high’, with trimmed mean inflation ‘little changed’ from the previous quarter’s elevated level.

It underscored that updated projections still show inflation not returning to the target range until late 2027, with risks to the central forecasts tilted to the upside.

On the labour market, the statement noted that conditions had eased more than expected, although leading indicators point to only limited easing.

The statement also noted that financial conditions have tightened and are ‘somewhat restrictive’, allowing the Monetary Policy Board to assess the effects of previous rate hikes.

The forward guidance was slightly reshuffled and also appeared less hawkish. It continued to stress the Board’s determination to return inflation to target and again did not rule out further rate hikes, but it specified that these could occur if ‘upside risks materialise’.

Statement on Monetary Policy

Key updates to the economic projections in the August Statement on Monetary Policy were as follows:

- trimmed mean inflation forecasts were revised modestly lower, but still envisage a return to around the midpoint of the 2-3% target band only in late 2027
- unemployment rate forecasts were revised slightly higher, with the rate now expected to rise to 4.8% around mid-2028
- GDP growth forecasts were little changed or revised slightly higher, as a significant upgrade to business investment growth was partly offset by downward revisions to household spending and dwelling investment.

The forecasts assumed only a partial increase in the cash rate around the turn of 2026-27.

The Statement on Monetary Policy also included a box summarising insights from the RBA’s recent business liaison.

Surveyed companies reported that cost inflation remains high, but that passing higher costs on to consumers is becoming increasingly difficult. Therefore, they expect selling price growth to ease over the next year. On the labour market, respondents reported below-average employment intentions and improved labour availability, alongside ongoing wage pressures. The liaison also noted the strength in data centre investment.

Press Conference

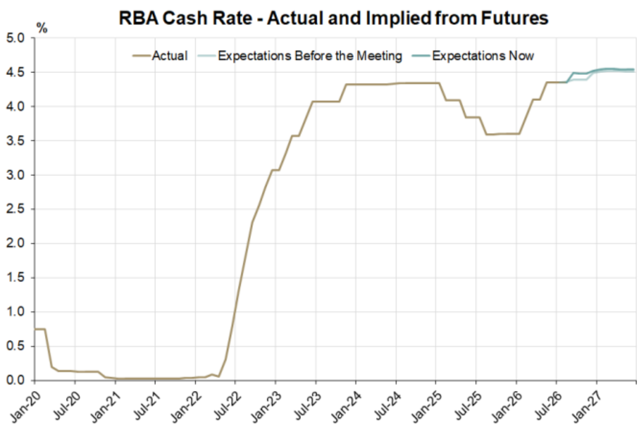
At the press conference, RBA Governor Michele Bullock stressed that a rate hike had been discussed today.

Governor Bullock also specified that the RBA’s key task in the coming months would be to assess whether upside risks to its August inflation projections were building, in which case further tightening might be necessary. Asked about the balance of risks to the interest rate outlook, she said that it remained skewed to the upside.

Market Impact

The post-meeting statement was viewed as mildly less hawkish by market participants. However, confirmation at the press conference that a rate hike had been discussed more than reversed the initial market reaction.

Three-year Commonwealth bond yields initially eased from 4.56% to 4.51%, before rising to 4.57% during the press conference. Ten-year yields briefly fell below 5.00% from 5.02%, but were trading at 5.04% at the time of writing. The AUD/USD made a similar U-turn and was again trading at US$0.705, roughly the same as before the RBA decision.



Comment

The RBA’s decision was broadly as expected. The central bank kept rates steady, while acknowledging that previous hikes may be gaining traction.

This was reflected in the downward revision to the RBA’s trimmed mean inflation forecast, despite its forecasts not fully incorporating a further cash rate hike.

However, the RBA has not ruled out further hikes, as confirmed by the discussion of additional monetary policy tightening at today’s meeting. The central bank made clear that they will look closely for signs that upside risks to its inflation projections are materialising when deciding whether to raise rates again.

We continue to judge that the RBA is likely done for this cycle. However, given the heightened uncertainty, we do not rule out further rate hikes entirely.

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