MARKET UPDATES

RBA Update December 2025

The Reserve Bank of Australia (RBA) Monetary Policy Board kept the cash rate target unchanged at 3.60% at the December meeting. The decision was in line with market expectations.

Post-meeting Statement

The post-meeting statement was cut short, most likely to highlight the significant changes in the RBA's thinking about economic conditions and outlook, and their implications for monetary policy going forward.

All these changes are clearly to the hawkish side.

First and most importantly, the RBA Monetary Policy Board highlighted that inflation had picked up recently, and risks to inflation had tilted to the upside. While the Board stressed that some of the rise was due to temporary factors, there are also signs that the acceleration in price growth could be more broad-based and persistent.

Second, economic activity is recovering, supported mainly by the private sector, which has picked up more than expected by the RBA. The Monetary Policy Board stressed that the recovery in the private sector has been driven by both consumption and investment.

Third, labour market conditions remain 'a little' tight according to the RBA's assessment. The central bank highlighted the low underutilisation in the labour market and ongoing difficulties in finding employees faced by Australian companies.

However, it was uncertainty that took the centre stage in the statement.

Starting with inflation, the central bank underscored that the new monthly data are still hard to interpret, and so it might 'take a bit longer' to better assess how persistent inflation pressures are.

The RBA also said that there was some uncertainty about the GDP growth outlook, stressing that – if it again surprised to the upside – it could add even more to capacity pressures.

The global economy and trade remain a major source of uncertainty. However, the RBA underscored that, so far, the impacts of global developments on Australia and its major partners had been 'minimal'.

Given the considerable degree of uncertainty, the RBA has given itself time to analyse the incoming information and update its view as the data evolve.

This means that the RBA remains in a wait-and-see stance. Despite the clear shift in tone in the overall statement, its last paragraph was kept completely unchanged to emphasise that future decisions will remain data-dependent. The focus also remains on both price stability and full employment.

Press Conference

In the press conference, RBA Governor Michele Bullock clarified that the risks to the interest rate outlook had shifted to the upside, and the intention of the changes in the post-meeting statement was to highlight this.

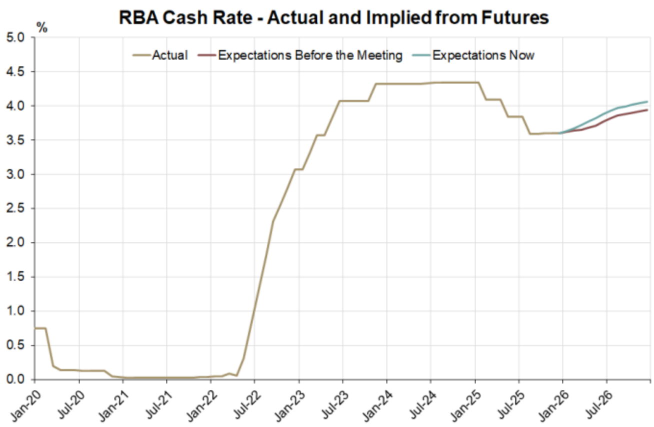
She confirmed that a cash rate cut was not on the table at the meeting. An immediate cash rate hike was not discussed 'specifically' either, but the Board considered potential hikes in the coming year quite extensively.

Governor Bullock went further, saying several times that there would be no rate cuts for the foreseeable future. Instead, the choice is between a prolonged pause or a rate increase.

The RBA Governor stressed that the Monetary Policy Board was 'uncomfortable' with where inflation was. They are looking forward to the updated economic projections in February for more guidance.

Market Impact

The post-meeting statement was not as hawkish as some market participants had feared, initially leading to a marginal decline in government bond yields and the AUD. However, the situation reversed during the press conference, during which cash rate hike expectations intensified a bit. As a result, 3-year Commonwealth bond yields rose from 4.10% to 4.13% at the time of writing, while AUD/USD ticked up from US$0.663 to US$0.664.



Comment

The RBA has concluded its easing cycle and is preparing for rate hikes. This follows an unexpectedly strong rise in inflation in the second half of 2025 and continued strength in the labour market. The RBA has bought time by emphasising economic uncertainty, but the Governor hinted at the press conference that the next meeting in February could potentially be 'live'. We do not expect a cash rate hike so early, but acknowledge the need for adjustment ahead if incoming data remains strong.

09 December 2025