RBA Update April 2025

As expected, the Reserve Bank of Australia (RBA) Monetary Policy Board kept the cash rate unchanged at 4.10% at its inaugural meeting.

Post-meeting Statement

The new Monetary Policy Board simplified the post-meeting statement, but kept the key messages previously highlighted by the RBA Board.

Most importantly, the Monetary Policy Board stressed that the underlying inflation is moderating in line with the forecasts from the February Statement on Monetary Policy. However, the Board still appears not to be confident if this progress will continue, allowing for the sustainable return of inflation to its target, which is the RBA's priority.

The RBA Monetary Policy Board concerns are justified with the second highlight of the statement – uncertainty. Apart from the obvious risks from policies of the new Trump administration, which could move inflation either way, the RBA cited domestic sources of uncertainty stemming from weak productivity, tight labour market or uncertain outlook for private consumption.

The forward guidance in the statement was little changed from the previous meeting, but the cosmetic changes that were made have strengthened the message that the RBA is determined to ensure that inflation is at target on a sustainable basis, and that the further decisions will be data-dependent.

Press Conference

At the post-meeting press conference, RBA Governor Michele Bullock acknowledged that a rate cut was not even discussed at the meeting, and that there was consensus among the new Monetary Policy Board members that the cash rate target should be kept unchanged.

She also repeated that there is a risk that, if the RBA opted to follow the market rate expectation path, inflation could overshoot the target over the medium term. She added that she is now more confident about inflation outlook than in February, but stressed that even further slowdown in inflation in Q1 would not determine a May rate cut.

The main topic of the press conference was the US tariff policies. Governor Bullock opened the conference with reassurance that the Bank was working closely with other central banks, especially from small open economies, to better assess the tariff impacts. She judged that the tariffs would slow the world trade, but stressed that the RBA did not forecast recession at this point.

Regarding the pending election, Governor Bullock stressed that it was not a factor in the RBA's decision to stay put today.

Market Impact

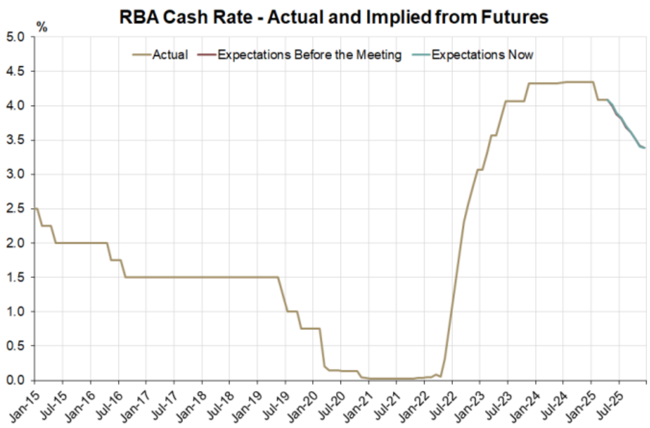
Since the decision to leave the cash rate unchanged today was widely expected, the markets reacted to the meeting quite calmly.

Commonwealth bond yields declined marginally following the post-meeting statement, which welcomed a decline in inflation. This was completely reversed during the press conference when it was confirmed that rate cuts were not discussed at the meeting.

Overall, 3-year yields are at 3.70% at the time of writing, compared to 3.69% just before the decision. 10-year yields also ticked up by 1 basis point to 4.41%.

The Australian dollar appreciated marginally, from US$0.6238 to US$0.6257, while the ASX 200 closed 1.0% higher, mainly thanks to tracking the gains on Wall Street overnight.

Cash rate cut expectations are hardly changed from yesterday.



Comment

As expected, the newly formed RBA Monetary Policy Board stayed put at its inaugural meeting today, but there was no shortage of topics to discuss.

Preparation for the next projection round in May appears to be in full swing, with RBA Governor Bullock confirming at the press conference that they are considering various scenarios around the tariffs and their impacts, in close collaboration with other central banks. While the central scenario is probably little changed from February, the risks around it have grown substantially and, as the RBA acknowledged on multiple occasions today, they are two-sided, at least for the Australian economy.

The RBA Governor also cautioned on many occasions today that the Bank is more cautious about the future rate cuts than the markets, and we believe this is a right approach given the elevated uncertainty. At the time of writing, a cut is around 80% priced in for May and fully priced in for July.

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