Tuesday, 3 October 2023

# RBA Board Meeting
## New Governor Holds the Line

Today's meeting marks the first Board meeting for the new Reserve Bank (RBA) Governor Michele Bullock. She started off gently, leaving cash-rate settings unchanged and making no major changes to the accompanying statement. In fact, it's possible it contained the least changes to a statement in a long time. The RBA Board left the cash rate unchanged at an 11-year high of 4.10% for the fourth consecutive month. The RBA has now paused in five of its last seven meetings, a signal that the cash rate is at a or near a peak in this cycle.

Our central view is that 4.10% marks the peak and rate cuts will materialise in the second half of next year. Interest-rate markets are less convinced. Latest market pricing has the chance of a rate hike by March 2024 at around 85%.

The RBA remains data dependant. The flow of data between the last policy meeting in September and today's meeting would have done little to sway the RBA into returning from the sidelines today.

The latest data on household spending shows a softening is well underway and jobs data may be pointing to a turning point in the labour market. But there were few changes to the accompanying statement and the changes that occurred were mostly factual in nature.

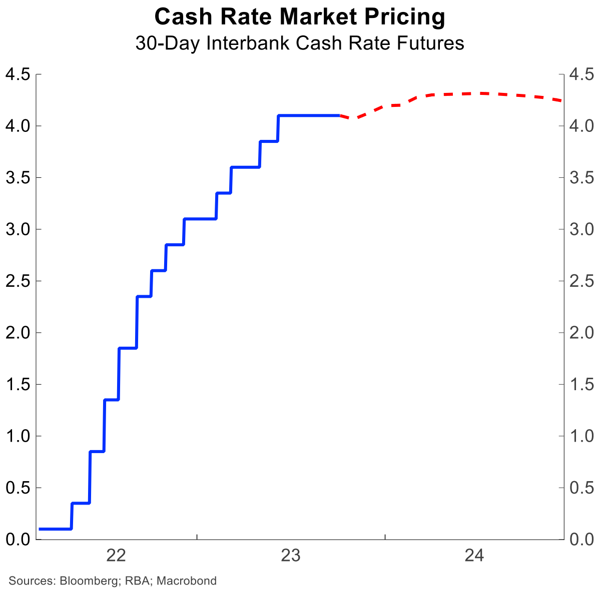
There were two key changes. The first is that the statement noted the recent noticeable rise in fuel prices and the second is the insertion of a sentence describing the Australian economy as stronger than expected over the first half of this year. Both these changes at the margin perhaps flag some upside risks to inflation.

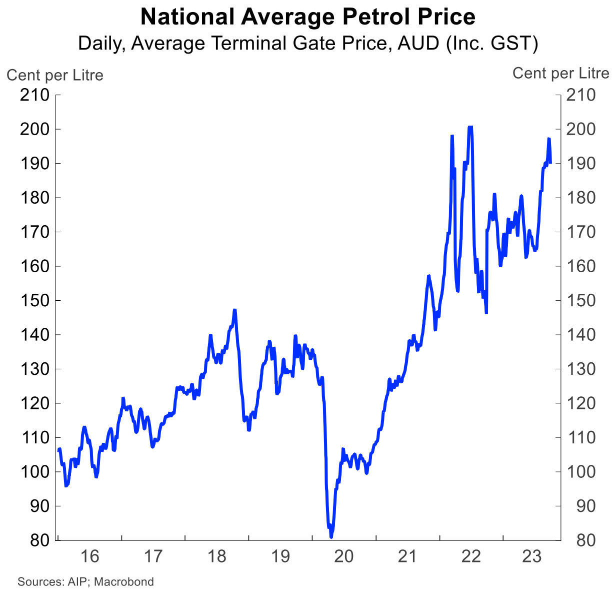
The RBA retained the call out on risks around services inflation by stating that the prices of many services are rising briskly. Moreover, the statement continues to reiterate that services price inflation has been surprisingly persistent overseas. It is clear the RBA remains on high alert for possible stickiness in inflation relating to the prices of services.

Fuel has emerged as another risk that could re-accelerate price pressures and lift inflation expectations. World oil prices have recently moved sharply higher due to stronger than anticipated seasonal demand and a drawdown in oil inventories. Saudi Arabia and Russia last month also announced their intentions to extend voluntary oil production cuts until the end of December 2023. Supply and inventories are both tight, leading the International Energy Agency to recently warn OPEC+ was "locking world oil markets into substantial deficit".

The higher for longer theme around monetary policy settings is likely to continue to dominate amid this backdrop. Further tightening can also not be completely ruled out, although we see the risks as low. There will be greater clarity when the quarterly inflation report is published later this month and the RBA publishes its fresh forecasts in November. The previous reference to the monthly inflation indicator was dropped in today's statement, which means the new Governor has not taken the opportunity to escalate concerns around inflation.

The final paragraph of the statement is the most eyes; the warning about the possibility of further tightening to ensure inflation returns to target in a reasonable timeframe was retained. This comes as no surprise; whilst inflation is moderating, it's elevated and not without upside risks. These include the possibility of stickiness in services inflation.

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