

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.

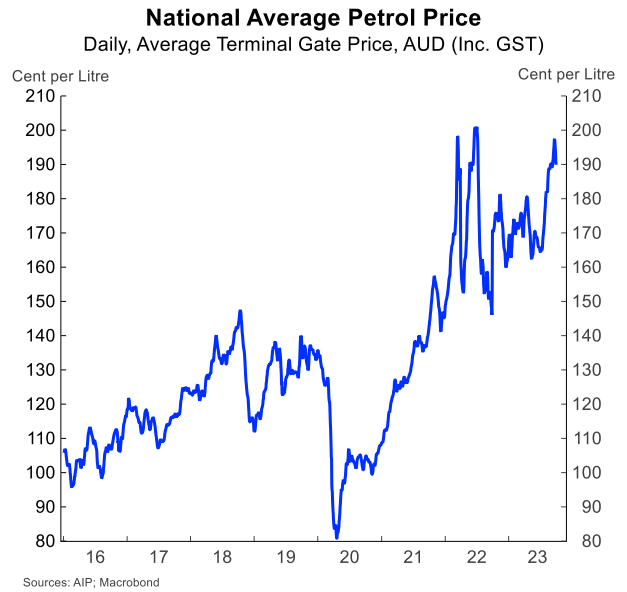
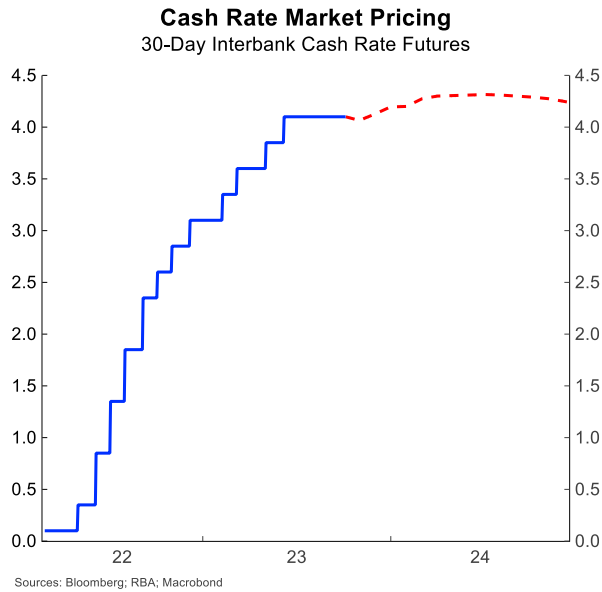
The RBA retained the call out on risks around services inflation by stating that the prices of many services are rising briskly. Moreover, the statement continues to reiterate that services price inflation has been surprisingly persistent overseas. It is clear the RBA remains on high alert for possible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



Besa Deda, Chief Economist
+61 404 844 817

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
+61 404 844 817

Senior Economist

Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+61 481 476 436

Senior Economist

Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 571 786

Economist

Jameson Coombs
jameson.coombs@stgeorge.com.au
+61 401 102 789

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
