Australia Watch

RBA review: 25bps cut, global risks weigh on outlook

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Economics
Australia

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Cash rate cut 25bps to 3.85% as expected

The Monetary Policy Board (MPB) cut the cash rate target by 25bps to 3.85% as was widely expected (see report: RBA Preview). While most economists expected a 25bps cut (31/33 in Bloomberg survey, 2/33 expected 50bps cut) and it was fully priced by the market, the Governor noted the MPB considered a hold, 25bps, and 50bps cut, but 25bps was a 'confident cut'. The uncertain outlook and revised forecasts reinforce our view that the RBA will hold in July, with the next cut most likely in November, barring a significant growth shock or downside inflation surprise.

Global shock leads to lower growth and inflation

Global growth developments have contributed to weaker RBA forecasts for growth, employment, and inflation. Growth forecasts were revised down in the near-term with GDP expected to remain below-potential in 2025 due to weaker consumption and global growth (Exhibit 1). Underlying inflation is expected to stabilize at 2.6%, slightly above the target midpoint (Exhibit 2). Inflation risks were assessed as more balanced given global trade developments are seen to be disinflationary for Australia.

The only certainty is uncertainty

The MPB remains cautious about the outlook and signaled a data dependent approach amid elevated uncertainty. Uncertainty about the global outlook, domestic growth and inflation, spare capacity, and monetary policy lags and firms' pricing decisions, all suggest a gradual approach where future decisions will depend upon the data and "the evolving assessment of risks". The dovish market response largely reflects the RBA's read of downside risks from global growth, although the RBA noted two-sided risks around trade policy. The MPB assessed monetary policy remains "somewhat less restrictive" after 50bps of cuts, but we note uncertainty around this assessment.

We anticipated a more hawkish cut…

We anticipated a more hawkish message from the RBA and were supported on the downside by the almost parallel shift in the curve from Dec '25 interest-rates futures our to 3y bond futures. However, absent a major global shock, it is still difficult to conceive the RBA easing more than quarterly (i.e. after quarterly CPI data), which would mean two more cuts in August and November. Our economists see just one more (November).

…but we still like selling Dec '25 vs 3y futures

With 44bps priced by August and more than 65bps priced by year end and, 2025 RBA dates continue to look too rich and arguably levels are even more stretched. We still recommend selling Dec '25 bill futures vs 3y bond futures (YM contract) because a lot of the 'dovish' commentary hinged on global risks, which we do not see as sufficient to justify rate cuts from the Federal Reserve in 2025. We entered the trade at 21bps with a target of 8bps and a stop of 27bps (current level 19bps).The risk to the trade is another global risk-off event, which would likely see markets front-load cuts even more aggressively given the RBA's commentary today.

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RBA on hold until November 25bps cut

The cautious guidance and RBA's revised forecast profile reinforce our view that the RBA will look to gradually ease the level of restrictiveness, rather than move to an expansionary policy stance. We continue to expect the RBA will next cut by 25bps in November, allowing time to assess how 50bps of easing and elevated global uncertainty is affecting the domestic economy. However, a sharper-than-expected global slowdown or downside inflation surprise could bring cuts forward.

Forecasts show lower near-term growth

Near-term GDP growth forecasts were downgraded reflecting weaker 1Q consumption, and the output gap was assessed as slightly positive, as we expected. The RBA is now forecasting GDP growth to rise to 2.1% yoy in 4Q25, above our expectations of 1.6% growth (see report: Weaker growth forecasts amid global turbulence).

The RBA's trimmed mean inflation forecast is little changed from February with underlying inflation expected to stabilize at 2.6% (from 2.7%) to mid-2027. The RBA noted inflation risks have become more balanced as global trade policy is expected to weigh on the economy.

The labour market was characterized as tight with unemployment estimated to remain below the NAIRU as we expected (see report: Labour review). The RBA are forecasting the unemployment rate to stabilize at 4.3%, slightly below our forecasts peak of 4.4%.

Exhibit 1: Economic forecasts from RBA and BofA

GDP growth revised down in the near-term on global trade risks

	Q4 2024	Q2 2025	Q4 2025	Q2 2026	Q4 2026	Q2 2027
Gross Domestic Product	1.3	1.8	2.1	2.2	2.2	2.2
Previous Forecast	1.1	2.0	2.4	2.3	2.3	2.2
BofA Forecast	1.3	1.7	1.6	2.1	2.4	
Unemployment Rate (%)	4.0	4.2	4.3	4.3	4.3	4.3
Previous Forecast	4.0	4.2	4.2	4.2	4.2	4.2
BofA Forecast	4.0	4.2	4.4	4.3	4.3	
Consumer Price Index	2.4	2.1	3.0	3.1	2.9	2.6
Previous Forecast	2.4	2.4	3.7	3.2	2.8	2.7
BofA Forecast	2.4	2.2	3.0	2.7	2.7	
Trimmed Mean Inflation	3.3	2.6	2.6	2.6	2.6	2.6
Previous Forecast	3.2	2.7	2.7	2.7	2.7	2.7
BofA Forecast	3.2	3.3	2.6	2.7	2.8	2.8
Cash Rate (%)	4.3	4.0	3.4	3.2	3.2	3.2
Previous Forecast	4.3	4.0	3.6	3.4	3.5	3.5
BofA Forecast	4.4	3.9	3.6	3.6	3.6	

Source: BofA Global Research, RBA, ABS, RBA

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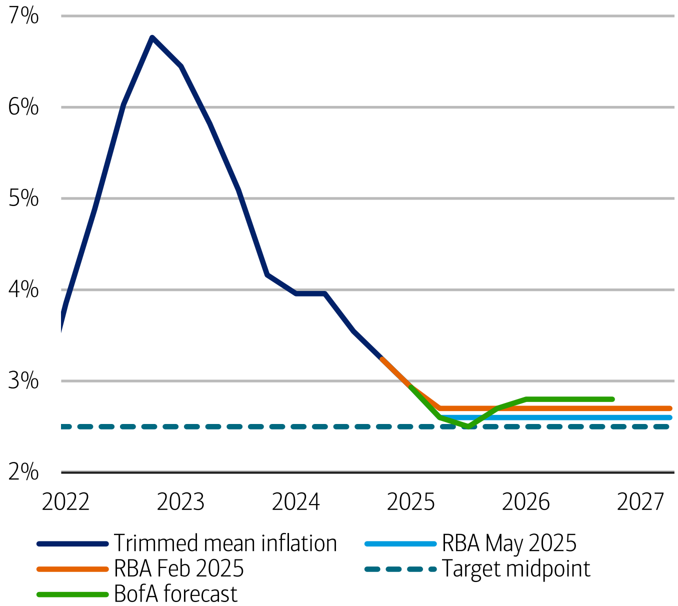
Exhibit 2: Trimmed mean inflation forecasts (yoy %)
Underlying inflation expected to remain above the target midpoint at 2.6%



Source: BofA Global Research, RBA, ABS, RBA

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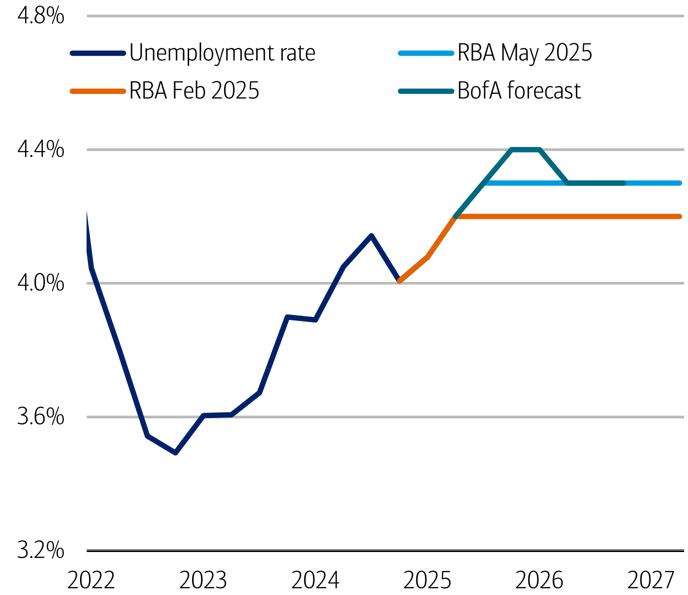
Exhibit 3: Unemployment rate forecasts(%)
Unemployment forecast profile revised up to 4.3%



Source: BofA Global Research, RBA, ABS, RBA

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