

## Australia Watch

## RBA review: Hold in April, next cut likely in May

## Cash rate target held at 4.1% as expected

The Monetary Policy Board (MPB) held the cash rate target at 4.1% in line with our expectations and consensus (see our [RBA preview note](#)). Markets were pricing around an 8% chance of a cut prior to the meeting. The hold in April follows a 25bps cut in February, which was the first cut since November 2020. Going forward, MPB expectations for inflation sustainably returning to 2.5% remains the key hurdle for further rate cuts. We expect the Q1 CPI on April 30 to provide evidence of disinflation that supports a 25bps cut in May.

## Statement and press conference strikes a cautious tone

The MPB Statement emphasized caution about the outlook and two-sided risks around inflation (Exhibit 1). While underlying inflation is moderating, it remains above the target midpoint. The labour market was characterized as tight, with the RBA appearing to look through the employment decline in February as we expected (see [Labour review](#)). Global uncertainties are significant, with an “adverse effect on global activity” but uncertain implications for inflation.

Governor Bullock reinforced the cautious tone and hawkish rhetoric in the press conference. She noted it was a consensus decision to hold rates, and that the Board did not consider a cut today. This suggests there is no urgency to ease further, and we expect the May decision will be a close call.

## Exhibit 1: MPB Statement key messages

RBA sees inflation risks on both sides, private demand is recovering, but global risks loom large

	Growth	Inflation
<b>February (25bp cut)</b>	Growth in output has been weak, private domestic demand is recovering more slowly than earlier expected...uncertainty around the extent to which the recovery in household spending will persist. Uncertainty about the outlook abroad remains significant.	Some of the upside risks to inflation appear to have eased and there are signs that disinflation might be occurring a little more quickly than earlier expected...risks on both sides.
<b>April (hold)</b>	Private domestic demand appears to be recovering, real household incomes have picked up and there has been an easing in some measures of financial stress. Uncertainty about the outlook abroad remains significant.	The continued decline in underlying inflation is welcome, but there are nevertheless risks on both sides and the Board is cautious about the outlook

Source: RBA

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## FX/rates: we retain our short bias in the front end

It would have been difficult for the RBA to meet market expectations, so it is unsurprising that front-end swaps cheapened a few basis points after the RBA decision. Yet with 47bps priced by August, we retain a short bias and continue to recommend paying August and hedging US slowdown risk by buying YM (3y bond futures). Tomorrow's US tariff announcement is a looming risk for the AUD but we are more sanguine on the currency as we head towards the second half of 2025.

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## Further progress on disinflation...

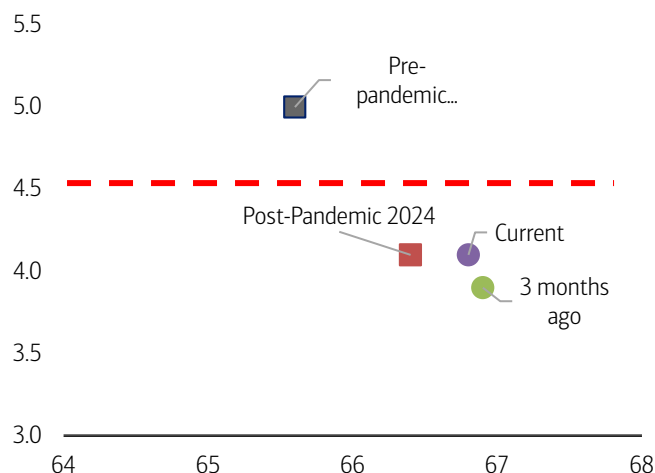
MPB expectations for inflation to sustainably return to 2.5% remains the key hurdle for further rate cuts. The RBA's latest forecasts have trimmed mean inflation declining to 2.7% in Q2-CY25 and remaining there to mid-2027, conditional on the cash rate declining to 3.6% in Q4. The monthly CPI showed trimmed mean inflation of 2.7% in February, and we believe the MPB hurdle for further progress on disinflation will be confirmed with the Q1 CPI on April 30. This should give the MPB the evidence needed to lower the cash rate target 25bps to 3.85% on May 20. However, an upside surprise in the CPI would likely lead the RBA to hold in May.

## ...and labour market easing needed for more cuts

In previous cash rate cycles, guidance typically shifted dovish when the unemployment rate increased c. 0.5ppts from the previous low. While the labour market remains tight, we believe the small rise in unemployment over the past 3 months has shifted the RBA towards more of a dovish stance (Exhibit 2). While the February data was surprisingly weak, labour data are volatile, and today's Statement suggested the RBA largely looked through the monthly noise. Vacancies remain elevated, and the labour market appears to be easing along a steep section of the Beveridge curve (Exhibit 3). We expect the unemployment rate will rise gradually to 4.3% in Q3, consistent with our expectations for a shallow RBA easing cycle.

### Exhibit 2: Unemployment and participation rate in regimes

Unemployment has risen slightly but remains low alongside a historically high participation rate

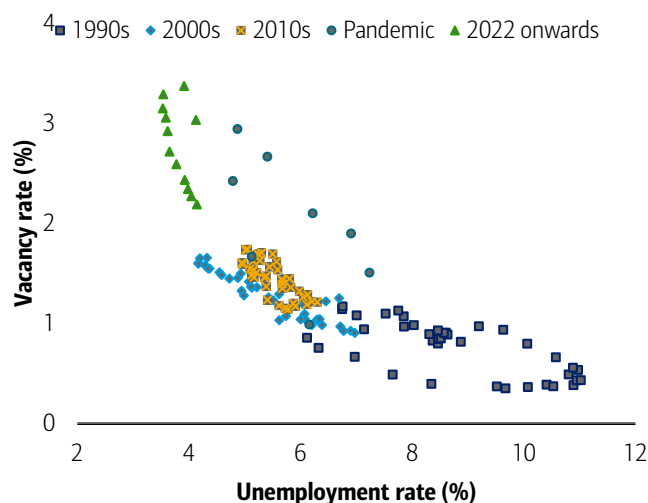


Source: ABS

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### Exhibit 3: Unemployment and vacancies (%)

Labour market appears to be easing along the steep section of the Beveridge curve



Source: ABS

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## Inaugural meeting of the Monetary Policy Board

Today's meeting was the first under new governance arrangements recommended in the RBA Review, where the Reserve Bank Board has been replaced by two new boards to help strengthen their monetary and corporate governance frameworks. The Monetary Policy Board consists of 9 members (Governor, Deputy Governor, and 7 external members). New members include Marnie Baker (former CEO of Bendigo and Adelaide Bank) and Renee Fry-McKibbin (Professor of Economics at the Australian National University). We did not get any further information today on plans to publish MPB votes.



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