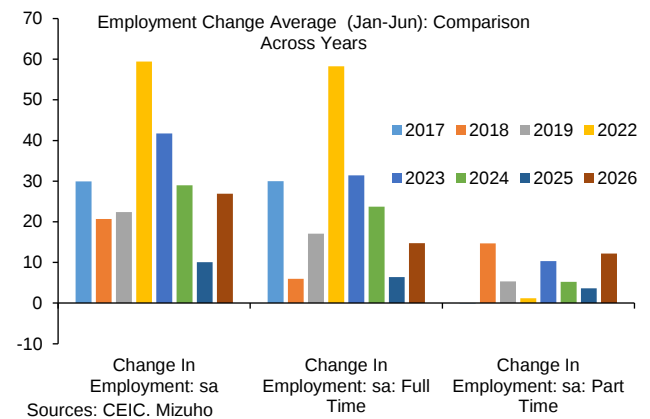
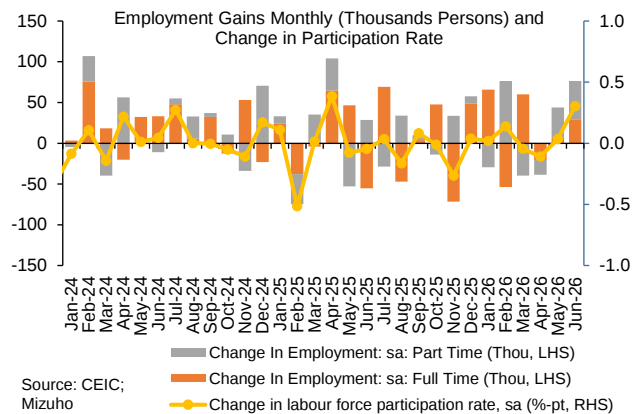
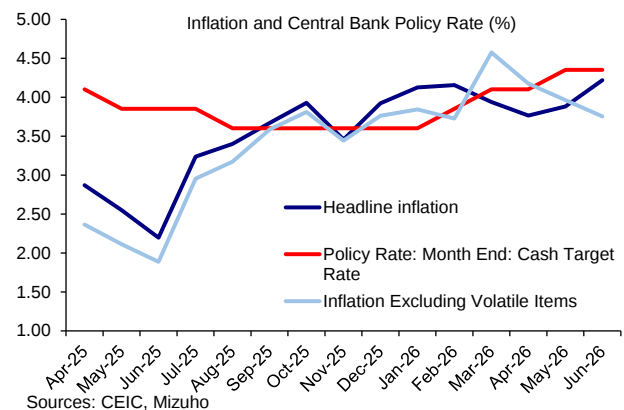
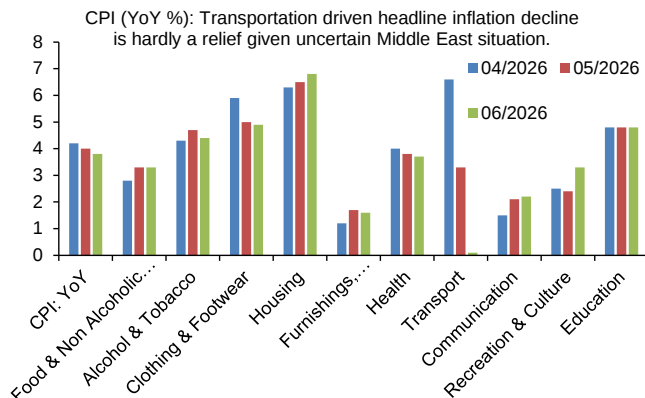


Post Australia CPI: Insufficient Relief



- Australia headline inflation for June at 3.8% came in lower than expected, a marginal decline from May's 4.0% YoY print. Trimmed mean inflation stayed sticky at 3.6% YoY in June. The upshot is that this print which is reliant on lower oil prices and administrative measures brings **limited relief for the RBA amid simmering pipeline risks**.
- Specifically, a 10.9% MoM contraction in automotive fuel prices that helped to offset higher costs of vehicles, spare parts and maintenance and repair costs.
- Crucially, we continue to **flag that the phased expiry of the fuel excise tax colliding with the current resurgence in energy prices** will derail prospects of further headline dis-inflation in the months ahead.
- Furthermore, higher jet fuel costs, which continue to buoy inflation in the recreation and culture category, is unlikely to fade given the incessant Middle East disruptions. Goods dis-inflation may also be hard to come as global trade frictions from shipping and tariffs rise.
- Meanwhile, **last week's employment print which came in above market expectations does not alter our view of the labour market in a significant manner**. Specifically, we maintain our view that the labour market hiring remains robust while being subject to bouts of volatility from AI related restructuring initiatives.
- We are **certainly not carried away by the outperformance** given that almost two third of employment gains were of a part time nature and the unemployment rate remained at 4.4% rather than edged lower. The current pace of gains are in line with pre-pandemic trends rather than a re-acceleration reverting to pandemic era hiring.
- The **housing market though will increasingly be a key focus** for the RBA's policy calculus on given the widely reported slowdown in real estate activity and decline in housing prices. That said, CPI for new dwellings edged higher in June as builders continue to pass on higher costs of labour and materials creating a stark dichotomy.
- All in, while we **maintain our call for another RBA hike in Q3**, a hold is increasingly favoured for the August decision as policy makers remain watchful of spillovers from a potential housing market downturn.
- AUD will inadvertently remain pressured amid wobbly risk sentiments while awaiting a firmer backstop from commodity demand and policy support.

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