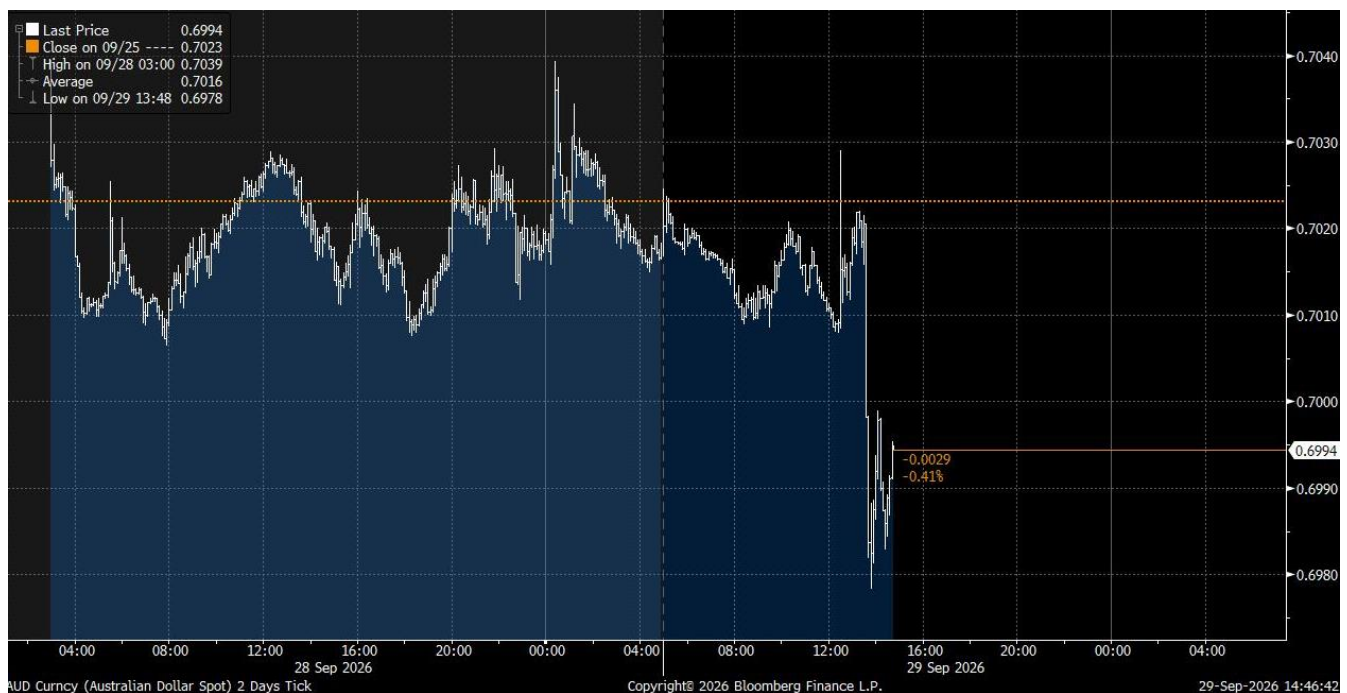


Post RBA: Cautious Hawks

"All the proof e of a pudding, is in the eating," William Camden's *Remaines Concerning Britaine*

Chart: AUD Weaken Post RBA Decision



- As expected, the **RBA hiked rates by 25bp in a unanimous decision** to take the cash rate to 4.60%. The AUD testing below 70 cents is reflective of the **RBA falling short of the hawkish expectations set by markets**.
- First, in the statement, the **forward-looking allusion** to a willingness to “*increasing the cash rate target further if needed*” is **not materially different** from the August statement which stated that they will consider “increasing the cash rate target further if upside risks materialise”.
- Second, there is an **explicit inclusion** of “**uncertainties** about the economic effects of the **downturn** in the **housing market**” in the September statement. This is likely to be a risk going forward that keeps the RBA in a period of assessing excess demand conditions and the restrictiveness of monetary policy.
- Third, in Governor Bullock’s press conference, she revealed that the **RBA discussed the option of keep the policy rate unchanged** as well as the decision to hike by 25bp. The disclosure reinforces the impression that the **decision to tighten was not unequivocal** and points to a **degree of underlying policy caution**.
- Notably, Governor Bullock also emphasised that while labour market conditions remain tight, the **RBA does not see evidence of a wage-price spiral**. This suggests labour market strength continues to provide the capacity to maintain restrictive policy rather than serving as the primary justification for additional tightening.
- Looking ahead, it is perhaps also telling that she reminded that the **upcoming inflation prints are in the past** and have already happened, the policy tightening at this juncture serves to ensure that **inflation momentum moderates in the months ahead**.
- Specifically, she said that inflation on a QoQ basis should sit around 0.6% **in six months’ time** rather than 0.8-1.0% which will be uncomfortable for the RBA.
- All in, while the RBA Governor has said that the proof of the pudding is in inflation, we remain cognisant that monetary policy transmission has lags and as such, a **period of assessment cautions against back-to-back rate hikes**.

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