

MNI RBA Preview - July 2025

Meeting Date: Tuesday 8 July 2025

Announcement Time: 14:30 AEST / 05:30 BST

Link To Statement: <https://www.rba.gov.au/monetary-policy/int-rate-decisions/2025/>

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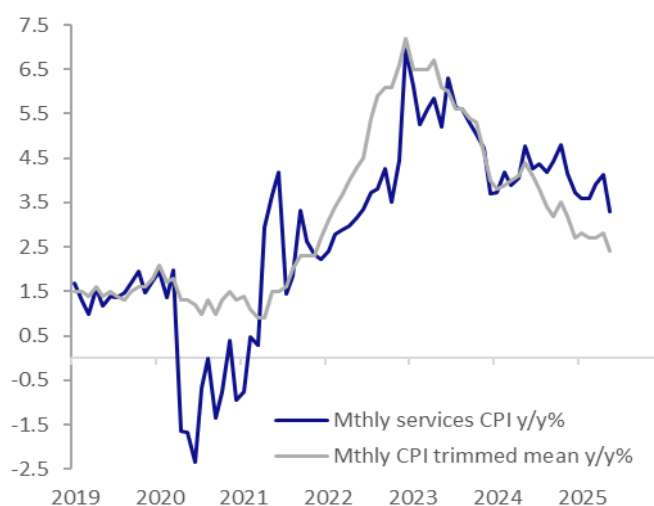
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MNI POV (Point Of View): 25bps Cut Likely

The RBA is widely expected to cut by 25bps at tomorrow's policy meeting. This is the sell-side consensus, albeit with a small number of economists expecting rates to be left on hold. Financial market pricing is also consistent with a 25bps cut (see below for more details). Our bias is also for a 25bps cut, which would take the RBA cash rate to 3.60%. If realized this would be 75bps worth of easing delivered so far in this cycle.

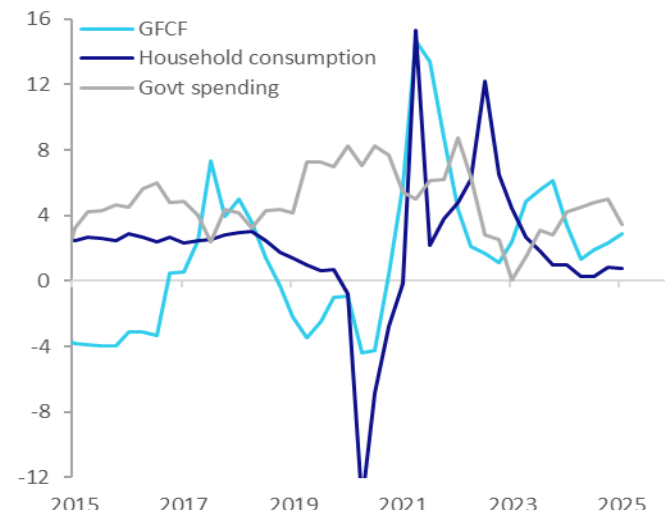
Data towards the end of June, for May monthly CPI, should give the RBA confidence to cut. Headline inflation was close to the bottom end of the RBA's 2-3% target band, whilst the trimmed mean eased to 2.4%/y/y. Services inflation is still running at a stronger pace, but as the chart below (on the left hand panel) shows, we continue to move off recent highs for this sub-sector of inflation. To be sure, the central bank will still be mindful of inflation risks, particularly given a still tight labor market. The unemployment rate remains wedged close to recent lows at 4.1%. However, even after a potential 25bps cut tomorrow, the policy rate at 3.60% would still be deemed to be in restrictive territory. Hence the risks that the RBA would be making a policy mistake by easing tomorrow is likely to be judged fairly low at the current juncture.

Figure 1: Inflation trending lower again



Source: Source: MNI – Market News/ABS

Figure 2: Lacklustre domestic demand growth y/y%



Source: MNI – Market News/ABS

The broader growth backdrop continues to support easier policy conditions from a domestic demand standpoint. Q1 aggregate growth was just 0.2%q/q, versus 0.6% in Q4 last year. A still tepid household spending backdrop, coupled with less impetus from the public sector, see the chart above (panel on the right hand side), suggests further policy support is warranted.

Indicators of household spending have been mixed through the first parts of Q2 (softer retail sales momentum, but better household spending figures, which will replace retail sales as an indicator next month). Any improvement is coming from a low base though and the trend improvement in consumer sentiment, evident in the second half of last year, has stalled so far in 2025.

Some focus will be on the language the RBA uses and whether it considers a 50bps cut or not (assuming a 25bps cut is delivered). We feel the most likely scenario for the RBA board will be to consider holding steady or a 25bps cut. International risks are now arguably lower compared to the first part of Q2. This outlook can change quite quickly, but at the current juncture there are likely to be less fears around the global outlook. In turn, this may leave the fairly guarded on future rate guidance, with further cuts likely to be eyed as data dependent. Note we get Q2 inflation on July 30, with the August policy meeting outcome on the 12th. The bias is still likely to be for further cuts given policy is still in the restrictive zone.

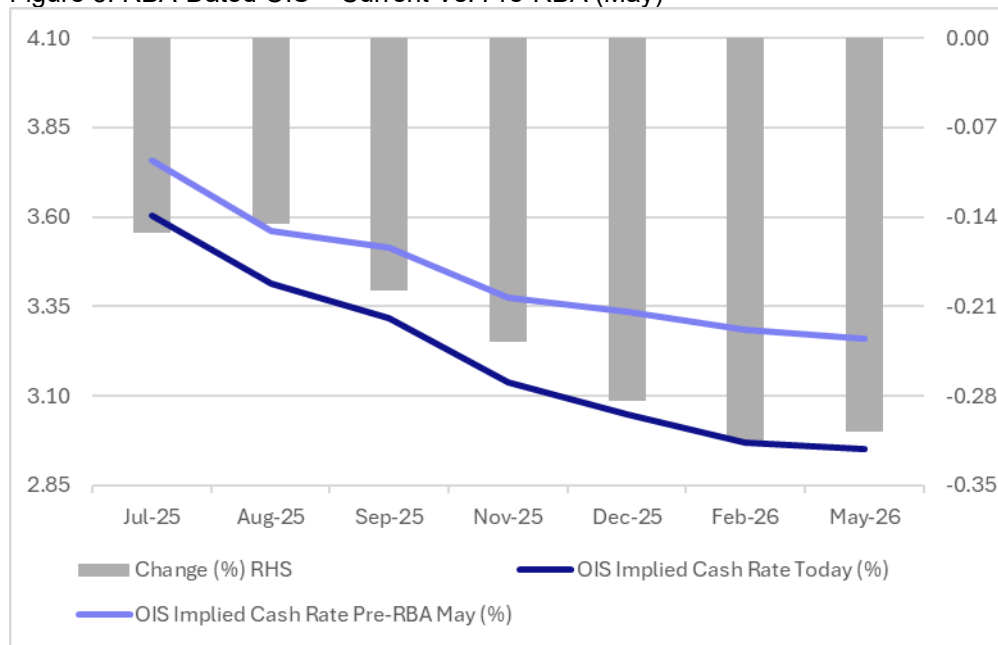
The final focus point is likely to be on whether the central bank reveals policy votes of board members (unattributed), which has been speculated.

Pre-Meeting RBA Dated OIS Pricing

At the time of writing, RBA-dated OIS pricing is slightly softer on the day across meetings ahead of tomorrow's RBA Policy Decision.

- A 25bp rate cut this week is given a 93% probability, with a cumulative 78bps of easing priced by year-end (based on an effective cash rate of 3.84%).
- Notably, today's moves leave meetings pricing 15-32bps softer than levels before the May 20 RBA Meeting.

Figure 3: RBA-Dated OIS – Current Vs. Pre-RBA (May)



Source: Bloomberg Finance LP / MNI

RBA May 2025 Meeting Statement

At its meeting today, the Board decided to lower the cash rate target by 25 basis points to 3.85 per cent.

Inflation continues to moderate.

Inflation has fallen substantially since the peak in 2022, as higher interest rates have been working to bring aggregate demand and supply closer towards balance. Data on inflation for the March quarter provided further evidence that inflation continues to ease. At 2.9 per cent, annual trimmed mean inflation was below 3 per cent for the first time since 2021 and headline inflation, at 2.4 per cent, remained within the target band of 2–3 per cent. Staff forecasts released today project that while headline inflation is likely to rise over the coming year to around the top of the band as temporary factors unwind, underlying inflation is now expected to be around the midpoint of the 2–3 per cent range throughout much of the forecast period.

The outlook remains uncertain.

Uncertainty in the world economy has increased over the past three months and volatility in financial markets rose sharply for a time. While recent announcements on tariffs have resulted in a rebound in financial market prices, there is still considerable uncertainty about the final scope of the tariffs and policy responses in other countries. Geopolitical uncertainties also remain pronounced. These developments are expected to have an adverse effect on global economic activity, particularly if households and firms delay expenditure pending greater clarity on the outlook. This has also contributed to a weaker outlook for growth, employment and inflation in Australia. That said, world trade policy is changing rapidly, thereby making the central forecasts subject to considerable uncertainty.

Setting aside overseas developments, private domestic demand appears to have been recovering, real household incomes have picked up and there has been an easing in some measures of financial stress. However, businesses in some sectors continue to report that weakness in demand makes it difficult to pass on cost increases to final prices.

At the same time, a range of indicators suggest that labour market conditions remain tight. Employment is continuing to grow, measures of labour underutilisation are at relatively low rates and business surveys and liaison suggest that availability of labour is still a constraint for a range of employers. Looking through quarterly volatility, wages growth has softened over the past year or so but productivity growth has not picked up and growth in unit labour costs remains high.

There are uncertainties about the outlook for domestic economic activity and inflation stemming from both domestic and international developments. While the central projection is for growth in household consumption to continue to increase as real incomes rise, recent data suggest that the pick-up will be a little slower than was expected three months ago. There is a risk that any pick-up in consumption is even slower than this, resulting in continued subdued growth in aggregate demand and a sharper deterioration in the labour market than currently expected. Alternatively, labour market outcomes may prove stronger than expected, given the signal from a range of leading indicators.

More broadly, there are uncertainties regarding the lags in the effect of monetary policy and how firms' pricing decisions and wages will respond to the demand environment and weak productivity outcomes while conditions in the labour market remain tight.

Maintaining low and stable inflation is the priority.

The Board judged that the risks to inflation have become more balanced. Inflation is in the target band and upside risks appear to have diminished as international developments are expected to weigh on the economy. With inflation expected to remain around target, the Board therefore judged that an easing in monetary policy at this

meeting was appropriate. The Board assesses that this move will make monetary policy somewhat less restrictive. It nevertheless remains cautious about the outlook, particularly given the heightened level of uncertainty about both aggregate demand and supply. The Board considered a severe downside scenario and noted that monetary policy is well placed to respond decisively to international developments if they were to have material implications for activity and inflation in Australia.

The Board will be attentive to the data and the evolving assessment of risks to guide its decisions. In doing so, it will pay close attention to developments in the global economy and financial markets, trends in domestic demand, and the outlook for inflation and the labour market. The Board is focused on its mandate to deliver price stability and full employment and will do what it considers necessary to achieve that outcome.

MNI RBA Watch: Further Easing Likely As Domestic Factors Weigh

By Daniel O'Leary

MELBOURNE - The Reserve Bank of Australia is likely to lower the cash rate by a further 25 basis points to 3.6% at its meeting next Tuesday, as domestic conditions continue to soften and inflation falls further into the 2-3% target band amid concerns over global trade.

A cut would bring total easing since February to 75bp, following reductions in both February and May – the latter meeting including discussion of a larger 50bp move driven partly by concerns over international trade. (See [MNI RBA WATCH: Board's Dovish Turn Included Debate Of 50bp Cut](#))

The expected rate cut is likely to be accompanied by more domestically-focused communication, as the Bank awaits further clarity on the global environment, which is not expected to fully materialise until later this year.

Markets have fully priced in a 25bp cut, and are assigning an 80% probability to another reduction at the Aug 12 meeting. Current market pricing implies a 3% cash rate by year-end, suggesting at least one more move lower before December.

DOMESTIC DATA WEAKENS

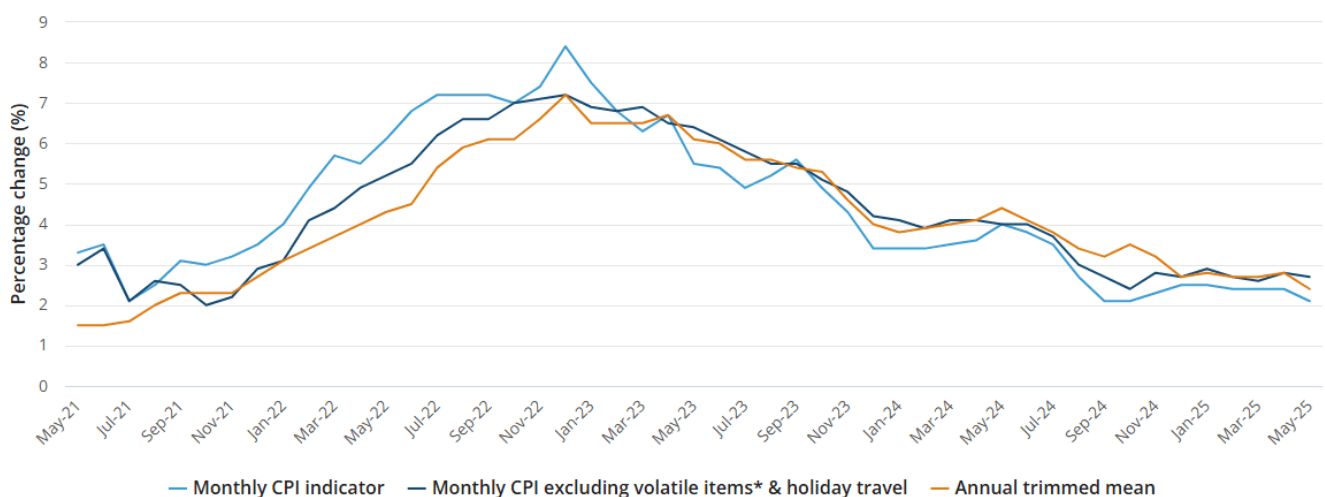
[May's monthly CPI indicator](#) came in 20bp below expectations at 2.1%, while the trimmed-mean inflation rate fell 40bp to 2.4%. Importantly, the May print included key Q2 market services inflation, a category the RBA is closely monitoring, while housing cost growth also continued to moderate.

All groups monthly CPI indicator, Australia, annual movement (%)

Graph

Table

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While the Bank puts more weight on quarterly inflation data, the consistent easing in monthly figures adds to the case for a rate cut.

Retail sales rose just 0.2% m/m and 3.3% y/y in May, also below expectations. Though slightly higher than in April, sales growth has not exceeded 0.2% since January's 0.5% rise, and the year-ended pace has slowed from March's 4.3% peak.

While [labour market conditions](#) remain tighter than the RBA would prefer, with the unemployment rate holding at 4.1%, signs of cooling are emerging. The economy shed 21,000 jobs in May, down sharply from April's 89,000 gain.

[GDP per hour worked](#), a key productivity indicator, fell 1% y/y in Q1, while real unit labour costs rose 2.6%. The RBA expects productivity growth to improve gradually, reaching 0.9% by the December quarter. Still, the Reserve does not see weak productivity as a reason to delay further easing, as it reflects a drag on both supply and demand. (See [MNI POLICY: RBA Trade Concerns Abate, Focus On Domestic Market](#))

INTERNATIONAL RISKS EASE

The global trade outlook was front and centre at the RBA's May meeting, and shaped Governor Michele Bullock's public messaging. While these immediate concerns have since moderated, the RBA believes any adverse impact will take longer to materialise, allowing a renewed focus on domestic trends at the next two policy meetings.

So far, the RBA has not observed significant declines in business or consumer sentiment that would point to spillovers from U.S. actions. Washington's retreat from its most aggressive trade measures in response to market volatility has helped reduce short-term risks, while China continues to show resilience.

Despite this, the RBA will continue to note the potential for greater uncertainty in the second half, alongside the softer domestic data.

Sell-Side Analyst Views

AMP (25bps cut): “In Australia, we expect that the RBA on Tuesday will cut the cash rate by another 0.25% taking it to 3.6% with guidance likely to remain dovish. This will be the third cut since the RBA started to ease in February. At its May meeting the RBA signalled less concern about inflation which it saw as being at target and more concern about the growth outlook. Since then we have seen monthly trimmed mean inflation drop further to 2.4%yoy, which is in the bottom half of the RBA’s target range, business surveys point to a further easing in inflationary pressures, March quarter GDP growth come in weaker than expected with subsequent monthly economic data also looking soft and Trump’s trade war continue to threaten the growth outlook all of which point to another cut. A rate cut is not guaranteed though with the main arguments to hold being that unemployment is still low, home prices are rising again and share markets are more settled. But we believe these are weak reasons to hold as: there is no evidence that low unemployment is putting upwards pressure on wages growth and forward-looking jobs indicators along with anecdotal evidence point to slower jobs growth ahead; the RBA has to set rates for the average of the economy not just the housing market and there is not much it can do to fix poor housing affordability; and while share markets are calm the threat to growth from Trump’s tariffs remains high. So, on balance, we think it’s both appropriate and likely that the RBA will continue normalising interest rates with another cut on Tuesday and we expect it to cut again in August, November and February.”

Bank of America (unch): “We expect the RBA to hold the cash rate target at 3.85% on July 8, contrary to consensus and the market pricing in a 25bp cut. Looking at the economy, we see underlying inflation at the top of the band and not expected to hit the target midpoint before mid-2027, a positive output gap with demand accelerating amid supply-side constraints, and a labour market tighter than the RBA’s view of full employment. Global uncertainties have declined, improving the global growth outlook as tariff de-escalation has been broader and faster than expected, though we are not out of the woods yet. Given 50bps of easing to date, we believe the RBA will adopt a wait-and-see approach to assessing any domestic impact from global developments before adjusting policy.”

CBA (25bps cut): “We expect the cash rate to be cut by 25bps to 3.60%. Post the benign monthly May CPI we brought forward our call for the next interest cut from August to July. A dovish May RBA Board decision and subsequent meeting Minutes together with the flow of data since then make a rate cut in July our base case. We still expect the decision in July to be debated, with the board likely to weigh up whether to keep policy on hold or deliver another 25bps rate cut. We don’t expect a 50bp cut to be on the table given a less uncertain global environment compared to May. We are also further progressed in the rate cutting cycle after 50bps of easing to date.

Goldman Sachs (25bps Cut): “Taking all the above into account, we continue to expect the RBA to cut the cash rate 25bp to 3.60% in the July meeting – a forecast we have maintained since March and now fully priced by financial markets (96% probability). Beyond July, our base case is for a back-to-back cut in August and a final cut in November to a terminal rate of 3.10%, but we see the balance of risks skewed to a deeper easing cycle. In terms of the accompanying statement for the July meeting, we expect the final section of the statement to remain little changed, emphasising that “inflation [is] expected to remain around target” and noting that policy settings remain somewhat restrictive. That said, since the meeting does not coincide with a Statement on Monetary Policy forecasting round, it’s likely the sentence about a “severe downside scenario” is removed. Beyond the final section of the statement, we also expect to see incrementally more dovish language around the outlook for private demand, given the softer 1Q2025 GDP data, although we expect the RBA will continue to note the labour market is “tight”.

In the press conference, we expect Governor Bullock to lean dovish and signal the Board are open to further cuts pending upcoming inflation data and evolving risks to the outlook. In this context, we don’t expect she will push back against market pricing for ongoing cuts. That said, we expect any forward guidance to remain fairly vague, with Governor Bullock likely to reiterate elevated uncertainty around the outlook.

Several media reports have speculated the Board will formally decide on whether to publish unattributed votes in the July meeting, though it’s not clear if this will be accompanied by an updated Statement on the Conduct of Monetary Policy. We note that the upcoming meeting will also be first meeting attended by new Treasury Secretary Jenny Wilkinson (replacing Steven Kennedy).”

JP Morgan (25bps cut): “The RBA has only cut 50bp so far, and in May signalled appetite for a bit of front-loading. Core inflation is back in the band, and long-held upside risks to inflation have been largely abandoned. This allows back-to-back steps towards neutral and so respecting the message from recent communications, we have looked for a 25bp cut. As outlined in the May minutes, this would be positioned as “insurance”, which need not imply a lower terminal rate.

Asymmetric global risks are the main motivation to slightly speed up the return to neutral, with the July meeting coming just a couple of days before the tariff deadline. The domestic soft landing, taken alone, would otherwise warrant a gradual easing profile on the quarterly SoMP/inflation cadence, but with the global economy slowing, front-loading one cut for July seems relatively low-cost. The RBA had also become uncomfortable with the perception that the easing cycle will be predictable or regular. A July move helps to signal (as in the May press conference) that the challenges of 2022-24 are past. The Bank is no longer constrained by domestic inflation and can act as needed to cauterize downside risks.”

Societe Generale (25bps cut): We expect the RBA board to agree that a further 25bp cut in the cash rate is appropriate at the July meeting. Having just cut by 25bp at the previous meeting in May, this would mark a shift away from the cautious and reluctant approach the RBA has taken in this easing cycle, certainly compared to its peers. This is evident in the fact that it only initiated the easing cycle in February 2025, whereas the Fed, ECB and BoE, for example, started cutting rates in the summer of 2024. Moreover, peer central banks, once they did start easing did so forcefully, either by unusually large steps (Fed -50bp in September 2024), or by a quick-fire succession of cuts (ECB four 25bp reductions in the latter seven months of 2024, and another four in the subsequent six months). In contrast, the RBA cut once by 25bp in February, and then sat out the 31 March/1 April meeting. But there were good reasons to stand pat at this meeting, most prominently the national election on 3 May – which the RBA board understandably wanted to stay out of and be seen to do so. In short, the RBA’s cautious and patient attitude in judging whether inflation was convincingly and sustainably returning to its 2-3% target range suggests that an accelerated easing process now appears warranted. Hence, we expect a 25bp cut not only at the July meeting, but also at the August meeting, when new macroeconomic projections will be available. In our view, another 25bp reduction is likely in November, bringing the RBA cash rate to 3.10%.

TD Securities (25bps cut): “The RBA is widely expected to cut by 25bps while the OIS market has fully priced in a cut for this meeting. Supporting the RBA cutting in July are recent developments such as soft trimmed mean CPI and downbeat business sentiment. There won't be any new economic forecasts at this meeting, but we think RBA Governor Bullock may signal the odds of another cut are high in August.”

Wells Fargo: (25bps cut): “The consensus view is for the RBA to cut the policy rate by 25 bps. This anticipated move follows a series of softer-than-expected economic data that have reinforced the case for near-term easing. In particular, May inflation surprised to the downside, with headline CPI slowing to 2.1% year-over-year—just above the RBA’s 2% target floor—and trimmed mean inflation, a key core measure, easing to 2.4% from 2.8%. Recent CPI suggest that underlying price pressures are moderating more quickly than previously expected. At the same time, Q1 GDP growth came in at just 0.2% quarter-over-quarter, reflecting subdued domestic demand and a broader deceleration in economic momentum.

While the RBA typically places greater weight on Q2 inflation and wage data—due later this month—the recent disinflationary trend and sluggish growth backdrop support the view that the central bank may begin easing sooner rather than later. We now expect a 25 bps rate cut in July, followed by a second cut in August, bringing the policy rate to 3.35%. That said, risks remain two-sided. Against this backdrop, there is a non-negligible possibility that the RBA opts to hold rates steady in July or pauses after a single cut, particularly if upcoming data fail to show further signs of softening. The central bank is likely to maintain a data-dependent approach, balancing the need to support growth with the goal of anchoring inflation expectations.”

Westpac (25bps cut): “Westpac anticipates the RBA Monetary Policy Board will deliver a 25bp rate cut at its July policy meeting, taking the cash rate from 3.85% to 3.60%. We do not think the decision will be the ‘slam dunk’ markets are anticipating, though. While the May CPI Indicator was better than expected, underlying inflation will likely remain in the top half of the target band in the full Q2 CPI data. The RBA’s forecasts clearly flag some lingering concern over inflation pressures, so the post-meeting language is expected to be non-committal and perhaps even a little grudging about the decision to cut.”

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