

## MNI RBA Preview - May 2026

**Meeting Date:** Tuesday 5 May 2026

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

**Link To Statement:** <https://www.rba.gov.au/monetary-policy/int-rate-decisions/2026/>

### Contents

- [Page 1-2:](#) MNI POV (Point Of View): RBA Hike, CPI Too High
- [Page 3:](#) Pre-Meeting RBA Dated OIS Pricing
- [Page 4:](#) RBA March Meeting Statement
- [Page 5:](#) MNI RBA WATCH: Board To Hike On Inflation Concerns
- [Page 7-11:](#) Sell-Side Analyst Views

### MNI POV (Point Of View): RBA Hike, CPI Too High

Given the split vote around the March decision to hike rates, which was a disagreement around timing and not policy direction, the RBA Board decision on 5 May could again be close. It may feel that tightening had been brought forward and so the Board can watch and wait for more information, especially given that the Strait of Hormuz is yet to open despite a ceasefire. However, this month includes the Statement on Monetary Policy with updated forecasts and given ongoing elevated inflation, signs of higher prices at least partially passed onto customers and data in line with the estimation of excess demand in the economy, the RBA is likely to hike rates again in May. This will unwind 2025's easing and likely bring policy closer to the stance required to bring inflation back into the band. 30/31 analysts surveyed by Bloomberg expect the RBA to hike this month.

In April, Deputy Governor Hauser spoke and reiterated that inflation remains too high while supply is constrained, which is likely being exacerbated by the supply shock from the Iran War. Importantly, he said that he didn't have "high confidence" that rates were at the level to bring inflation back to target implying that the Board has more tightening to do. The Q1/March inflation was likely too soon to gauge the extent of second-round effects from higher fuel and other input costs with a number of firms announcing price increases on 1 April. This is where the RBA's business liaison programme will be important and Hauser said that firms were currently finding it "tough" to pass on higher costs.

The RBA will provide revised forecasts but given the update will have occurred under extremely difficult circumstances there will be an even higher degree of uncertainty around the estimates. There could be scenario analysis included using different oil price levels and degrees of pass through of higher costs to customers. Q1 CPI data suggest that the Q2 trimmed mean projection may be left unchanged at 3.7% but headline could be revised higher from February's 4.2%. The key will be that inflation is still close to the 2.5% band mid-point by Q2 2028.

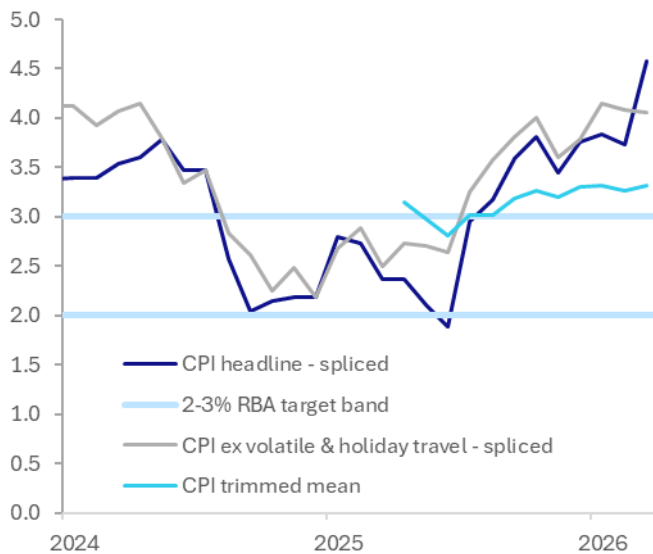
The Middle East supply shock may drive a downward revision to GDP growth in the near-term with upward revisions to the unemployment rate. The Q1 average unemployment rate was 4.2% and employment growth 1.5% y/y with the RBA's February Q2 forecasts 4.3% and 1.1% y/y respectively.

The March decision to raise rates centred around upside risks to the above-target inflation projections in the February estimates, while the increase in fuel prices had already lifted short-term inflation expectations. MI April consumer inflation expectations rose 0.7pp to 5.9%, highest since November 2022, and NAB final product prices rose 1.1% 3m/3m in March, fastest rate since May 2024. Higher fuel and shipping costs drove S&P PMI input cost

inflation up for a third straight month to its highest since August 2022 – the Ukraine/Covid-related supply shock period. While cost pressures were not fully passed through to customers, selling price inflation was its highest for three and a half years. Manufacturing faced greater pressures with cost and selling price inflation at close to 4-year highs. In terms of labour costs, SEEK advertised salaries rose 4.1% y/y in March with momentum rising.

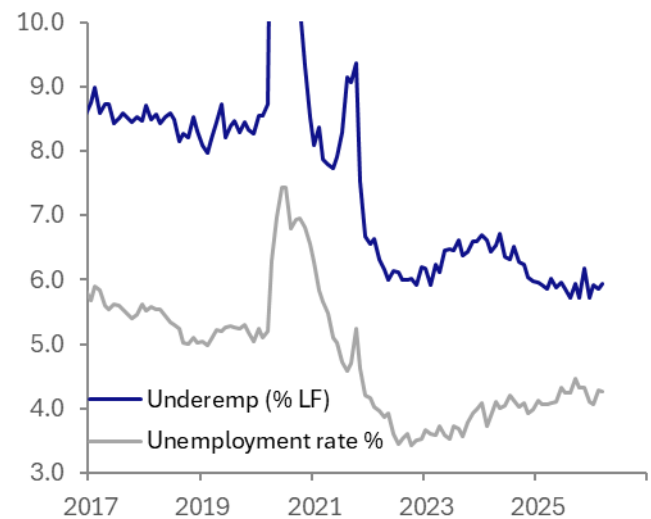
The March/Q1 CPI data printed close to Bloomberg consensus but with trimmed mean picking up 0.1pp to 3.5% y/y in Q1, March holding at 3.3% for the fourth straight month and the 2q/2q annualised rate close to 3.5%, the RBA is likely to continue to assess that inflation remains “too high”. While it was around consensus and underlying inflation stabilised with market services improved in March, it continues to run well above the top of the target band with risks to the upside given the positive output gap pre the Iran War and the current supply shock from the closure of the Strait of Hormuz. Q1 headline inflation jumped 1.4% q/q bringing it to 4.0% y/y from 3.7% but it is not only being boosted by March’s 32.8% m/m rise in automotive fuel but also from base effects as government electricity rebates have expired.

**Figure 1: Inflation continues running above band**



Source: Source: MNI – Market News/ABS

**Figure 2: Labour market remains tight**



Source: MNI – Market News/ABS

The labour market remained tight in Q1 with the unemployment and underemployment rates in line with Q4. Job growth picked up to 1.5% y/y from 1.1%. There were no early signs of an impact from the Iran War in the March data, but it was likely too soon given that hiring plans would have been decided before hostilities began. There was a jump in Westpac consumer unemployment expectations in April and in fact NAB business labour demand rose in March to its highest since August 2024. However, with consumption growth underwhelming and consumer confidence sinking 12.5% m/m in April, the RBA is monitoring the consumer closely. But the conflict is likely a positive terms-of-trade event for Australia as it is a net energy exporter and other commodity prices are higher too. Easy fiscal policy is another area that could support the economy but also add to the demand imbalance.

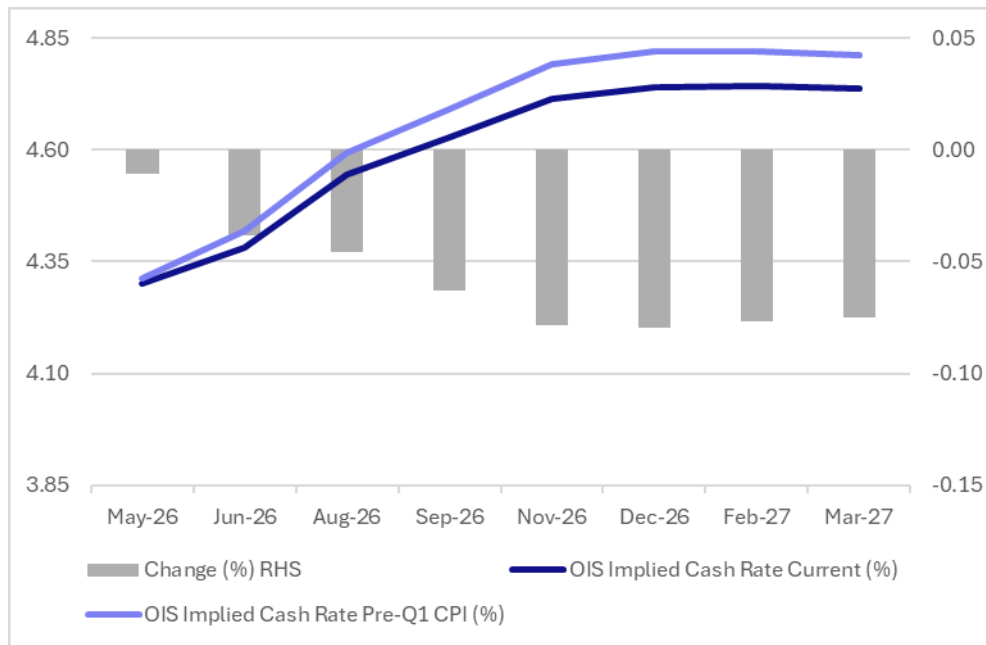
More monetary tightening may be needed going forward to make policy restrictive enough to reduce excess demand and be on track to bring inflation towards the 2.5% band mid-point. However, the current geopolitical situation and its impact on fuel and fertiliser prices make that assessment even more difficult than usual. If the Board raises rates on 5 May to 4.35%, it may then feel that after 75bp in 2026, it can watch and wait for more information on the economy and the Middle East before hiking again. The next opportunity would likely be the Statement on Monetary Policy meeting including updated forecasts on 11 August leaving the 16 June decision as possibly a hold. Data dependency will be even more important, and the RBA looks for signs of the impact from the Iran War. Key releases include April jobs on 21 May, April CPI 27 May, April consumption 4 June, as well as the 12 May federal government budget, 13 May Q1 wages and 3 June Q1 GDP.

## Pre-Meeting RBA Dated OIS Pricing

RBA-dated OIS pricing is 1-8bps softer meetings versus pre-CPI levels, with late 2026 / early 2027 leading.

- March CPI was slightly lower than expected at 4.6% y/y up from 3.7% while the underlying trimmed mean rose 0.3% m/m to be stable at 3.3% y/y. Q1 trimmed mean was close to consensus rising 0.8% q/q rising to 3.5% y/y from 3.4%. Headline increased 1.4% q/q as expected.
- Nevertheless, OIS pricing continues to show tightening across all meetings, with the probability of a 25bp hike rising from 80% for tomorrow to 179% by August and 256 by December 2026.
- Moreover, the market remains more confident about a May hike than it was ahead of February and March 25bp hikes.

Figure 1: RBA-Dated OIS – Current Vs. Pre-CPI



Source: Bloomberg Finance LP / MNI

## RBA March 2026 Meeting Statement

At its meeting today, the Board decided to increase the cash rate target by 25 basis points to 4.10 per cent.

While inflation has fallen substantially since its peak in 2022, it picked up materially in the second half of 2025. Information since the February meeting suggests that some of the increase in inflation reflects greater capacity pressures. In addition, the conflict in the Middle East has resulted in sharply higher fuel prices, which, if sustained, will add to inflation. Short-term measures of inflation expectations have already risen. As a result, the Board judged that there is a material risk that inflation will remain above target for longer than previously anticipated.

Higher capacity pressures reflect, in part, the greater momentum in demand in the latter part of 2025. Growth in private demand strengthened substantially more than was expected in mid-2025, although the composition of that growth surprised in the December quarter. Business investment was above expectations and consumption was below expectations. Meanwhile, growth in unit labour costs declined. More recently, the unemployment rate has been a little lower than expected and measures of labour underutilisation remain at low rates. Activity and prices in the housing market grew strongly over the past year, although housing price growth moderated somewhat at the start of 2026.

Financial conditions have tightened a little this year, but the extent to which monetary policy is restrictive is uncertain. Credit is readily available to both households and businesses and the effects of interest rate reductions in 2025 are yet to flow through fully to aggregate demand, prices and wages. The exchange rate, money market interest rates and government bond yields have risen over the past month. In large part, higher interest rates reflect expectations for the path of monetary policy, which have risen in Australia and most other advanced economies in response to the expected inflationary implications of the conflict in the Middle East.

There are material uncertainties about the outlook for domestic economic activity and inflation and the extent to which monetary policy is restrictive. Globally, the conflict in the Middle East poses substantial risks in both directions. A longer or more severe conflict could put further upward pressure on global energy prices; this will push up near-term inflation and could also increase inflation further out if it impairs supply capacity or price rises get built into longer term inflation expectations. Higher prices and prolonged uncertainty may cause growth to be lower in Australia's major trading partners and also in Australia.

### Decision

A wide range of data over recent months have confirmed that inflationary pressures picked up materially in the second half of 2025. While part of the pick-up in inflation is assessed to reflect temporary factors, the Board judged that the labour market has tightened a little recently and capacity pressures are slightly greater than previously assessed. Developments in the Middle East remain highly uncertain, but under a wide range of possible scenarios could add to global and domestic inflation.

In light of these considerations, the Board judged that inflation is likely to remain above target for some time and that the risks have tilted further to the upside, including to inflation expectations. It was therefore appropriate to increase the cash rate target.

The Board will be attentive to the data and the evolving assessment of the outlook and 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. Monetary policy is well placed to respond to developments and the Board is focused on its mandate to deliver price stability and full employment. It will do what it considers necessary to achieve that outcome.

Today's policy decision was made by majority: five members voted to increase the cash rate target by 25 basis points to 4.10 per cent; four members voted to leave the cash rate target unchanged at 3.85 per cent.

# MNI RBA Watch: Board To Hike On Inflation Concerns

By Daniel O'Leary

May 1, 2026

MELBOURNE - The Reserve Bank of Australia Board is likely to raise the cash rate by a further 25 basis points to 4.35% when it meets on Tuesday, as it seeks to contain inflationary pressures stemming from the Middle East conflict.

A move next week would be the Bank's third consecutive 25bp increase this year and return the cash rate to the peak reached during the post-Covid inflation response in December 2024, fully reversing 2025's easing.

Markets have priced in around a 75% chance of a hike, and see the cash rate reaching 4.75% by December, implying at least two more increases.

While the Middle East conflict and its impact on oil prices have added to inflationary pressure, the RBA was already concerned about persistent price rises, with Governor Michele Bullock noting after March's meeting that inflation remains too high, excess demand persists, and that inflation expectations must remain anchored. (See [MNI RBA WATCH: Timing Drove Split Vote, Not Direction-Bullock](#))

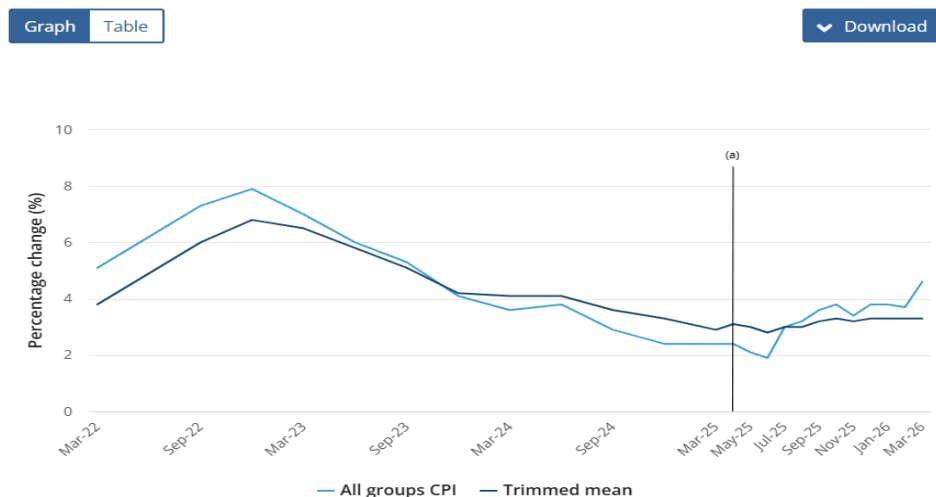
[Minutes from the March](#) meeting showed the Board believed the Gulf supply shock would exacerbate existing capacity pressures, while future demand destruction remained only a possibility.

## INFLATION & LABOUR

[Q1 trimmed-mean inflation](#), the first full quarterly inflation print since the start of the conflict, was 0.8% q/q, 10bp below expectations and down from 0.9% in Q4, while headline CPI increased 1.4%, in line with forecasts. On a monthly basis, trimmed-mean inflation was 0.3% in March, up 10bp from February, while the annual pace increased 10bp to 3.5%. Headline CPI rose 4.6% y/y, up 90bp from February but 20bp below expectations.

While the results were not as strong as many expected, March was still very early for broad pass-through to become evident, a fact the RBA will keep in mind.

All groups CPI and Trimmed mean, Australia, annual movement (%)



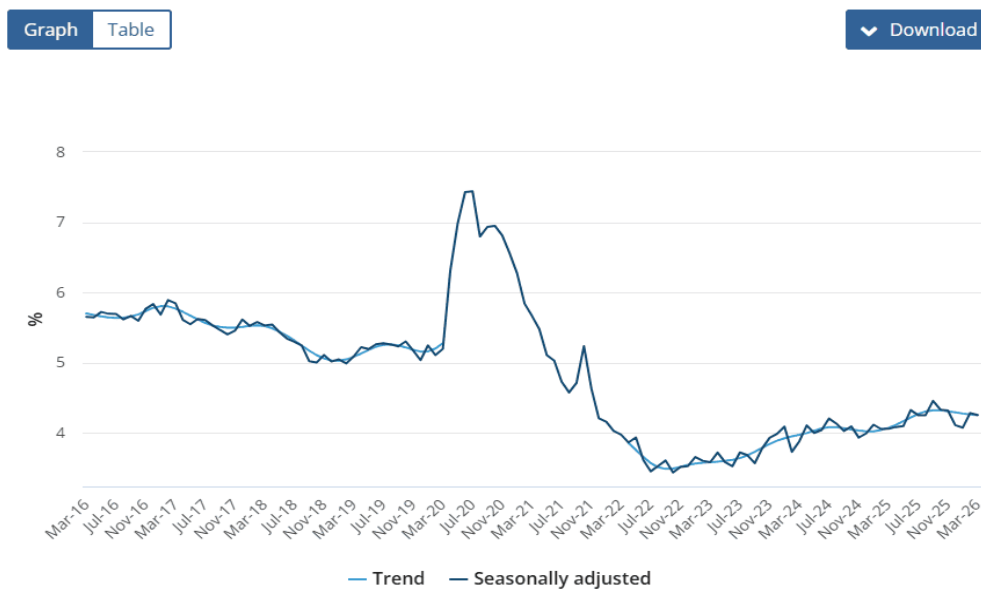
a. Annual movements prior to April 2025 are calculated by comparing each quarter to the same quarter in the previous year. From April 2025 these movements are calculated by comparing each month to the same month in the previous year.

The unemployment rate also held steady at 4.3% in March, in line with expectations, while employment rose by 17,900, slightly below the forecast 20,000 increase, reinforcing the RBA’s view that the labour market can withstand higher interest rates. (See [MNI POLICY: RBA Believes Labour Market Can Absorb Higher Rates](#))

Employment growth was driven by full-time work, which increased by 53,000, partly offset by a 35,000 decline in part-time jobs. Hours worked rose 0.5% in March.

The 0.4% increase in full-time hours worked was supported by a 0.5% rise in full-time employment, while part-time hours worked increased 0.6% despite a 0.7% decline in part-time employment. The RBA expects the unemployment rate to rise by a further 10bp by mid-2027.

Unemployment rate



FUTURE STRATEGY

While the RBA is likely to hike next week, the pace of further tightening will depend on the trajectory of the Iran conflict and how long policymakers expect the oil supply shock to persist, former RBA economists told MNI.

The Board's split vote at the March meeting also signalled that members may take a less hawkish approach than would typically be expected in response to a purely demand-driven shock, according to James Morley, professor of macroeconomics at the University of Sydney. The RBA is likely to signal greater awareness of downside risks to activity within its updated Statement on Monetary Policy, including weaker consumer confidence and the implications for labour market conditions, he noted.

“They will signal that the pace of further rate hikes will be moderated by concern about what’s happening in the domestic economy,” Morley said.

## Sell-Side Analyst Views

**ANZ (+25bp):** ANZ expects the RBA to deliver a 25bp rate hike on 5 May, taking the cash rate to 4.35%, driven by a still-tight labour market, elevated underlying inflation, and risks to inflation expectations. However, the decision is expected to be close, with “several members” likely favouring a hold.

- Looking beyond May, ANZ sees increasing uncertainty shaping the policy outlook. This will be reflected in updated forecasts and scenario analysis in the Statement on Monetary Policy, alongside limited forward guidance. They anticipate a subtle shift in tone that “will open the door to an extended pause,” with their base case that the cash rate remains at 4.35% after the hike.
- The forecast profile is expected to weaken, partly due to the RBA’s use of market-implied rate paths, which are higher than previous assumptions. This is likely to produce softer growth outcomes, as “the negative impact of higher energy prices on household incomes will also weigh on growth.”
- Compared to February, ANZ expects the updated forecasts to show weaker GDP growth, higher unemployment, and eventually lower inflation by late 2027. However, they note the RBA will emphasise that the rate path used in forecasts is only a technical assumption and “does not reflect the views of the RBA Board on a likely course of policy.”

**AMP (+25bp):** AMP expects the RBA to raise the cash rate by 25bp to 4.35%, returning it to its previous peak, but stresses the decision is not certain. Following the prior 5–4 split, they anticipate another divided Board, noting a hike is not a “done deal” as disagreement remains about timing rather than direction.

- While March inflation data was slightly better than expected, AMP sees inflation pressures persisting, with trimmed mean inflation likely to remain above 3.5%, “too far above the RBA’s 2.5% target.” They also expect June quarter inflation to rise again, reinforcing the case for tightening.
- However, AMP highlights growing risks to the economy. Higher rates would take borrowing costs back to post-Covid highs and could weigh on private sector growth just as it was beginning to recover. This is compounded by higher fuel prices, which they estimate are equivalent to “around 1 interest rate increase” in their economic impact.
- Ultimately, the RBA faces a trade-off between inflation and growth. AMP believes that “the RBA’s concern around inflation... will lead them to decide to hike again,” despite the downside risks to activity.
- Looking at the updated forecasts in the Statement on Monetary Policy, AMP expects near-term inflation projections to be revised higher, while GDP growth is likely to be downgraded due to tighter financial conditions and the drag from higher energy costs.

**BofA (+25bp):** BofA expects the RBA to deliver a 25bp hike but emphasises it is “a close call,” with a split decision likely as the Board balances elevated inflation against rising growth risks. Inflation remains above target and the labour market is tight, supporting further tightening.

- They argue the case to “front-load hikes is stronger,” warning that holding policy steady amid rising inflation could damage credibility and push expectations higher. In this context, hiking now is seen as the safer option to avoid the RBA falling behind the curve and needing more aggressive tightening later.
- BofA expects May to likely mark the final hike of the cycle, though market pricing implies further increases. They highlight that communication will be key: a “dovish hike” could see yields fall, while a stronger hawkish signal focused on second-round effects could push yields higher and price in additional tightening.
- The bank expects the RBA to revise inflation forecasts higher and stresses that “holding the cash rate amid rising inflation risks damaging credibility.” Overall, while acknowledging downside growth risks, BofA sees front-loaded tightening as the “path of least resistance,” reinforcing the RBA’s commitment to returning inflation to target.

**BNY (+25bp):** BNY expects the RBA to raise rates to 4.35%, noting the market is “near-unanimous” on a hike. Inflation expectations have risen בעקבות the conflict, and they see Q2 headline inflation moving well above the Q1 trimmed mean of 0.8% q/q.

- They highlight that the labour market remains strong, while demand could be supported by favourable terms-of-trade effects from higher commodity prices. However, higher import costs for refined energy products are likely to add further upward pressure to headline inflation.
- Overall, BNY suggests the combination of elevated inflation, firm demand, and supportive external conditions will keep policy relatively tight, with the RBA “likely to end the year with the highest rates among the G10.”

**Citi (+25bp):** Citi sees the Reserve Bank of Australia’s policy stance as highly contingent on how it interprets ongoing geopolitical risks, particularly the Middle East conflict. The tone of the RBA’s communication, and whether it leans hawkish, will depend on its assessment of both the duration and economic impact of these disruptions.

- As Citi notes, “whether the monetary policy board’s accompanying commentary is hawkish depends on the RBA’s assessment of the duration of the Middle East conflict and the effective closure of the Strait of Hormuz.” This highlights that policy is not being driven solely by domestic conditions, but increasingly by global supply shocks and energy market uncertainty.
- Citi’s central view is that these geopolitical effects will not fade quickly. They argue that “the conflict’s economic legacy will likely continue for the foreseeable future,” implying prolonged upward pressure on inflation, particularly via energy prices, and ongoing uncertainty for growth.
- Overall, Citi frames the RBA outlook as conditional rather than directional. A more persistent conflict would likely reinforce a hawkish bias due to inflation risks, while any resolution could reduce pressure on the central bank. This leaves policy finely balanced, with incoming global developments playing a decisive role in shaping the RBA’s next moves.

**CBA (+25bp):** CBA expects the RBA’s May decision to be finely balanced, with a high likelihood of another rate hike but no certainty. They anticipate a split board, noting that some members may prefer to hold given heightened uncertainty and weakening sentiment. As highlighted, “a hike is expected in May but not guaranteed,” and “the decision in May feels more precarious than March,” when the board narrowly voted 5–4 to tighten.

- Inflation remains the key driver of policy. Headline CPI has risen sharply, with fuel prices surging due to the war in Iran, pushing annual inflation to 4.6%. However, underlying pressures are also persistent, with trimmed mean inflation at 3.5% year-on-year. CBA stresses that “the inflation problem has not yet been solved,” with domestic price pressures still firm.
- In particular, services inflation and housing costs continue to rise, reflecting tight labour markets and strong demand. CBA notes that “market services price growth is still too high, and domestic price pressures remain firm,” especially as higher transport and material costs begin to flow through the economy.
- At the same time, growth risks are increasing. Business and consumer confidence have weakened, and there are early signs of softness in the housing market. This creates a difficult trade-off for the RBA, as “inflation remains well above target... [but] business and consumer sentiment has weakened,” making the decision “another line ball.”
- Looking ahead, CBA expects the RBA to pause after May, as higher rates, elevated energy costs, and softer confidence weigh on activity. However, they acknowledge that stronger wages, resilient consumption, or a quicker resolution to geopolitical tensions could still prompt further tightening.

**Goldman Sachs (+25bp):** Goldman Sachs sees the Reserve Bank of Australia turning more tolerant of economic weakness as it prioritises returning inflation to target. They argue the Monetary Policy Board “appears to now have a tolerance for a ‘rougher’ return to the inflation target – featuring weaker growth and employment,” reflecting a shift toward accepting softer activity as part of the disinflation process.

- Against this backdrop, Goldman has upgraded its near-term tightening outlook, expecting the RBA to hike 25bp in both May and June, taking the cash rate to 4.60%. At the same time, risks to the outlook have increased materially, with the bank noting that “the geopolitical and macro-outlook remains highly uncertain,” particularly following the war in Iran.

- Their forecasts reflect a stagflationary tilt: “we have revised our Australian growth forecasts materially lower... and our inflation forecasts materially higher.” Households and businesses are expected to face mounting pressure as “financial conditions have become a material headwind,” with higher inflation and rates weighing on incomes and asset prices. Goldman expects only modest real income growth and a decline in house prices.
- While fiscal support may provide some relief, “the tailwind to growth from the wider public sector continues to fade,” leaving the private sector exposed. As a result, recession risks have risen, with Goldman estimating “the odds of a recession over the next 12 months” at 25%, up from a lower baseline, though still not their central case.
- On inflation, they expect a near-term spike, with “higher fuel prices to lift headline inflation to 4.9%yoy,” marking the peak. However, risks of second-round effects remain, particularly as upstream cost pressures broaden.

**JP Morgan (+25bp):** JPM expects the RBA to deliver a third consecutive 25bp hike in May, taking the cash rate to 4.35%, citing ongoing concerns that demand remains too strong and inflation could spill into expectations. They note the Bank has “already shown its hand by tightening back-to-back into a supply shock,” reinforcing its bias to act on inflation risks.

- While the previous decision was a narrow 5–4 split, JPM expects another divided outcome, though with a smaller minority. At the same time, they see the outlook becoming more balanced as rates rise and downside risks to growth increase, including from fuel-related disruptions.
- JPM highlights that recent inflation has been driven largely by goods and energy, with “less persistent linkages” to domestic capacity pressures, while growth, consumption, and housing data have softened. As a result, they see limited upside risk to core inflation forecasts, expecting only minor adjustments and retaining an endpoint around 2.6%, signalling the inflation target is not fully secured.
- They anticipate upward revisions to near-term headline inflation due to energy shocks, but less impact on underlying inflation. Meanwhile, growth forecasts are likely to be downgraded further, reflecting weaker activity and tighter financial conditions.
- Overall, JPM expects the RBA to maintain a near-term hawkish tone, but acknowledges increasing downside risks, with policy approaching a more balanced stance after May.

**NAB (+25bp):** NAB expects the Reserve Bank of Australia to deliver one more rate hike at the upcoming meeting but sees this as likely the final move in the tightening cycle. While near-term policy action is still skewed toward an increase, the broader outlook suggests the RBA is close to, or already at, its terminal rate.

- Their view reflects a combination of slowing domestic momentum, easing inflation pressures, and a growing sense that previous tightening is sufficiently restrictive. As a result, even if the RBA does hike, NAB believes “further moves higher are very unlikely,” indicating a strong bias toward an extended pause thereafter rather than a continued hiking path.
- In rates markets, NAB argues that pricing at the front end of the Australian Commonwealth Government Bond (ACGB) curve does not fully reflect this shift in outlook. Specifically, they see short-dated yields as too elevated relative to the likely policy trajectory, stating that “front end ACGB yields still look too high.” This implies scope for yields to decline as markets reassess the probability of additional tightening and increasingly price in a prolonged hold, or eventually, easing.
- Overall, NAB’s stance can be characterised as a near-term hawkish lean paired with a medium-term dovish outlook. The anticipated hike is viewed more as a final adjustment rather than the start of another tightening phase, with risks increasingly skewed toward policy stability and, over time, potential rate cuts if economic conditions soften further.

**SEB (+25bp):** SEB expects the RBA to raise the cash rate by 25bp for a third consecutive meeting on 5 May, bringing it to 4.35%. They see inflation as the dominant driver of policy, with continued upward pressure reinforcing the case for further tightening.

- They note that inflation is still rising and the RBA now judges that price pressures will remain above target for longer than previously expected. In addition, they highlight that the war in the Middle East has increased inflation risks and shifted the balance of risks further to the upside.
- Overall, SEB's view is that persistent inflation and heightened geopolitical pressures are keeping the RBA on a tightening path, with another rate hike expected in May.

**Scotiabank (+25bp):** Scotiabank expects the RBA to raise rates by 25bp to 4.35%, noting that markets are “almost unanimously” priced for a hike, with futures and OIS implying roughly a 75% probability.

- They argue that persistently elevated inflation provides the main justification for further tightening, with headline inflation at 4.6% year-on-year and trimmed mean measures still running hot. Rising inflation expectations are also reinforcing the case for action.
- Scotiabank highlights that much of the Q1 inflation data predates the latest supply-side shock, suggesting further upward pressure on prices is still to come in the months ahead. They also note that potential affordability measures in the upcoming federal Budget may be influencing the RBA to maintain a tighter stance ahead of policy announcements.
- Overall, they see inflation dynamics and forward-looking risks as supporting another rate hike, even though much of the data underpinning Q1 outcomes may already be outdated relative to current conditions.

**Societe Generale (+25bp):** Societe Generale expects the RBA to deliver a third consecutive 25bp rate hike next week, taking the cash rate to around 4.35%, in what is likely to be another narrow and split decision. They highlight that this is a “close call” given uncertainty around the geopolitical outlook and the previous 5–4 vote in March.

- They note that the RBA's February forecasts already implied rates returning to around this level, but inflation remains persistently high. Trimmed mean inflation is still around 3.5% year-on-year and not expected to return to the midpoint of the target band within the forecast horizon, meaning inflation would remain above target for an extended period.
- Despite a small downside surprise in quarterly core inflation, SocGen stresses that underlying inflation is still “unacceptably high,” especially with the labour market remaining solid and policymakers increasingly focused on preventing inflation expectations from becoming entrenched. They argue there is “little reason for the RBA to tolerate this level of inflation,” warning that delay could increase the risk of needing more aggressive tightening later.
- Looking ahead, they expect the RBA to maintain a hawkish tone to keep financial conditions tight and reinforce its anti-inflation stance, while still preserving flexibility. However, they also note that as consumer demand slows in the second half of the year, the case for further tightening is likely to become more difficult.

**Wells Fargo (+25bp):** Wells Fargo expects the RBA to raise rates by 25bp next week, taking the cash rate to 4.35%, and now sees the tightening cycle extending further into mid-year rather than ending in 2026 as previously assumed.

- They note the RBA has framed recent decisions as a question of “timing rather than direction,” with policy focused on anchoring long-term inflation expectations. As Governor Bullock emphasised, this depends on convincing households and firms that the RBA “would take action to bring inflation back to target.”
- While March CPI was slightly below expectations and core inflation appeared to be moderating at 3.3%, Wells Fargo expects this to reverse due to new inflation pressures linked to the Middle East conflict. They point to rising cost pressures, with recent PMI data showing the fastest input cost increases in over four years.
- With inflation still above target and the labour market tight, they see policymakers prioritising near-term action. The upcoming Statement on Monetary Policy is expected to reinforce a higher inflation outlook and clarify the need for further tightening.
- Beyond May, Wells Fargo sees risks skewed to additional hikes, with another increase likely in June or possibly August, taking the cash rate to 4.60%. They also note that if inflation pressures persist due to geopolitical shocks, rates could rise further than currently expected.

**Westpac (+25bp):** Westpac expects the RBA to remain focused on containing inflation and to continue tightening policy despite rising uncertainty from the Middle East conflict. They reaffirm that the Monetary Policy Board will lift the cash rate by 25bp in May to 4.35%, arguing that inflation was already too high before the geopolitical shock and that earlier hikes were based on pre-war data.

- While petrol prices have partially retraced March's sharp spike, Westpac notes that this relief is incomplete, with diesel and freight costs still elevated. More importantly, they see evidence that cost pressures are spreading beyond fuel. As they put it, "pass-through to other (non-fuel) prices is clearly starting," affecting areas such as building materials and food. They also highlight that CPI data already show "scattered signs of pass-through," including rising repair, insurance, and services costs.
- Underlying inflation remains too strong for comfort, with trimmed mean inflation at 0.8% for the quarter, still above target. Westpac says this level is "still too high for the RBA to walk past," especially alongside rising inflation expectations and business pricing signals, which they describe as flashing "bright red" warning indicators.
- They argue the RBA is unlikely to rely on the idea that higher fuel prices alone will eventually slow demand, noting it would "take too long to assuage an RBA facing an extended period of above-target inflation." Instead, the Bank views the economy as already too tight, with supply shocks adding further pressure rather than offsetting it.
- Westpac also highlights that unlike other central banks, the RBA has not pushed back against market expectations for more tightening, suggesting internal agreement that further hikes are needed. They expect May to be followed by additional increases in June and August, though they acknowledge risks to this outlook if inflation pass-through proves weaker or internal Board disagreement strengthens.

---

Unauthorized disclosure, publication, redistribution or further dissemination of this information may result in criminal prosecution or other severe penalties. Any such authorization requires the prior written consent of Market News International. Redistribution of this information, even at the instruction of your employer, may result in personal liability or criminal action unless such redistribution is expressly authorized in writing by Market News International. Violators will be prosecuted. This information has been obtained or derived from sources believed to be reliable, but we make no representation or warranty as to its accuracy or completeness. This is not an offer or solicitation of an offer to buy/sell. Copyright © 2024 Market News International, Inc. All rights reserved.