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All Signal, No Noise

MARKET ANALYSIS

MNI RBA Review – December 2025

Meeting Date: Tuesday, 9 December 2025

Link To Statement: https://www.rba.gov.au/media-releases/2025/mr-25-33.html

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MNI POV (Point of View): Stance Skewed To Upside

In a unanimous decision, the RBA's Board decided to leave rates at 3.6% where they have been since August, which was expected. Governor Bullock clarified that a rate cut was not considered or even suggested as an option at the December meeting and that the 2026 discussions are likely to be around whether to leave rates at 3.6% or increase them. The Board is uncomfortable with where inflation currently is while private demand is now taking over from the public sector and so further easing is not "on the horizon for the foreseeable future". Rates will continue to be decided on a meeting-by-meeting basis and be data driven.

While the Board remains "cautious", the statement shifted slightly hawkish with more concern regarding rising inflation but it needs "longer to assess the persistency of inflationary pressures". However, Bullock stated that if the data show that inflation isn't coming down, then there would be questions around how tight financial conditions actually are and the size of capacity pressures. Capacity utilisation was also said to be above its "long-run average" and the statement reiterated that firms are finding it difficult to source labour. In line with this, the Board is now uncertain of how restrictive policy is, whereas in November it reiterated that it was "a little restrictive".

Both Governor Bullock and Deputy Governor Hauser noted after the November decision that there is increased uncertainty the closer monetary policy is to "neutral". Bullock stated in the December press conference that 6 months ago risks were to the downside, which have now abated, but upside ones have been "generated" and therefore "additional cuts are not needed". She also said that the Board needs to be flexible as conditions change. Increased uncertainty regarding the outlook and possibly a turning point in the cycle were also reflected in the significantly shorter meeting statement. The Board feels it has time to watch and wait.

The Board discussed the monthly CPI data but concluded that there was significant "uncertainty" around it given it is new, signaling that the Board is likely to concentrate on quarterly CPIs until seasonal factors and trend are established. Q4 CPI is released on 28 January ahead of the next decision on 4 February, which also includes an updated RBA outlook. It observes "some signs of a more broadly based" increase in inflation in the October CPI, which could suggest the rise is more "persistent" and therefore it needs "close monitoring". The Governor said that if inflation stays high, then the Board will have to do "something". It is particularly looking at developments in market services, new dwelling and durable goods prices.

It also added to the guidance paragraphs that risks have now "tilted to the upside". It dropped references to risks being "in both directions" in line with Bullock's comments signalling that the Board's policy stance is now skewed to the upside. It also sounded less sanguine on wages observing that while the WPI has peaked, "broader measures" were strong and unit labour cost growth remains "high".

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Monetary policy lags are also adding to uncertainty regarding the economic outlook as the RBA believes that the full effect of 2025's 75bp of easing has not yet flowed through "fully to demand, prices and wages". It observes that the recovery continues and private demand growth has been stronger than the RBA expected though.

A rate hike wasn't explicitly considered in December but the Board discussed what needs to happen for it to occur, which includes quarterly CPIs showing more inflation persistency signalling that there are greater capacity pressures and less restrictive financial conditions. Bullock noted that with growth likely around potential, there isn't much room to grow without price pressures. She said that the market is right that the Board is thinking about upside risks and that it is alert but wants more evidence. She wouldn't comment on the timing of market priced hikes. If there is a "material miss" on the RBA's Q4 trimmed mean forecast of 3.2% (Q3 3.0%) though and jobs/activity data hold up, then the chance of a 4 February rate hike is likely to become substantial.

Post-Meeting RBA Dated OIS Pricing

RBA-dated OIS pricing is 1–8bps firmer across meetings today, extending yesterday's post-press conference sell-off.

- Relative to pre-RBA levels yesterday, pricing is now 5–13bps firmer, led by late-2026 meetings.
- Markets are pricing a steady build-up in tightening risk, with the implied probability of a 25bp hike rising from 38% in February to 102% by May and 205% by November 2026.
- The spread between the 1-year forward 3-month swap (1Y3M) and the 3-month rate—often used as a proxy for policy expectations a year ahead—has widened by more than 150bps since April, underscoring the magnitude of the shift in rate expectations.

Figure 1: 1Y3M Swap Rate Vs. 3M Swap Rate

Source: Bloomberg Finance LP / MNI

RBA December 2025 Meeting Statement

At its meeting today, the Board decided to leave the cash rate unchanged at 3.60 per cent.

While inflation has fallen substantially since its peak in 2022, it has picked up more recently. The Board's judgement is that some of the recent increase in underlying inflation was due to temporary factors and there is uncertainty about how much signal to take from the monthly CPI data given it is a new data series. Nevertheless, the data do suggest some signs of a more broadly based pick-up in inflation, part of which may be persistent and will bear close monitoring.

Economic activity continues to recover. Growth in private demand has strengthened, driven by both consumption and investment. Activity and prices in the housing market are also continuing to pick up. Financial conditions have eased since the beginning of the year, credit is readily available to both households and businesses and the effects of earlier interest rate reductions are yet to flow through fully to demand, prices and wages. On the other hand, money market interest rates and government bond yields have risen more recently.

Various indicators suggest that labour market conditions remain a little tight. The unemployment rate has risen gradually over the past year and employment growth has slowed. However, measures of labour underutilisation remain at low rates, surveyed measures of capacity utilisation are above their long-run average and business surveys and liaison continue to suggest that a significant share of firms are experiencing difficulty sourcing labour. Wages growth, as measured by the Wage Price Index, has eased from its peak but broader measures of wages continue to show strong growth and growth in unit labour costs remains high.

There are uncertainties about the outlook for domestic economic activity and inflation and the extent to which monetary policy remains restrictive. On the domestic side, the pick-up in momentum has been stronger than anticipated, particularly in the private sector. If this continues, it is likely to add to capacity pressures. Uncertainty in the global economy remains significant but so far there has been minimal impact on overall growth and trade in Australia's major trading partners.

Decision

The recent data suggest the risks to inflation have tilted to the upside, but it will take a little longer to assess the persistence of inflationary pressures. Private demand is recovering. Labour market conditions still appear a little tight but further modest easing is expected. The Board therefore judged that it was appropriate to remain cautious, updating its view of the outlook as the data evolve.

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. 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.

Today's policy decision was unanimous.

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MNI RBA Watch: Board Sees 2026 Hike Risks, Cuts Ruled Out

By Daniel O'Leary

MELBOURNE - The Reserve Bank of Australia Board sees the balance of risks tilted toward a potential rate hike in 2026 to contain inflation, with cuts firmly off the table, Governor Michele Bullock said, adding that policymakers will reassess the restrictiveness of the 3.6% cash rate in the new year.

Bullock's comments at a press conference followed the Board's unanimous and widely expected decision to hold the cash rate at 3.6% on Tuesday, marking a third consecutive pause. (See MNI RBA WATCH: Board To Hold At 3.6%, Contemplate 2026 Outlook) The Board's discussion centred on the likelihood of a prolonged hold and the potential need for a hike sometime in 2026, she added.

RBA overnight index swaps rose sharply after her remarks, with markets fully pricing in a 25 basis point increase by June and a 4.32% cash rate by September.

"The board will do what it thinks it needs to do to get inflation back to 2.5% and it's uncomfortable the conversation we had today, [the board] is uncomfortable where it is," she told reporters, pointing to recent strong inflation prints.

INFLATION DATA
Headline inflation rose 3.8% y/y in October, 20bp above expectations, while trimmed mean inflation climbed 3.3% y/y, 30bp above forecasts, according to the first full release of the Monthly CPI. This followed Q3 headline inflation, which rose 3.2% y/y, 20bp above expectations and up from 2.1% in Q2, while trimmed mean reached 3.0%, 30bp above forecast.

"If inflation continues to be persistent and looks like it is not coming back down towards the board's target, then I think that does raise questions about how tight financial conditions are, and the board might have to consider whether or not it's appropriate to keep interest rates where they are, or, in fact, at some point raise them," Bullock noted, declining to clarify a timeline. "It's going to be a meeting by meeting decision."

The Board will focus on whether capacity constraints remain and labour market tightness continues into early 2026, she continued. "When we come back to this in February… we'll be reassessing whether or not we think capacity is still a bit tight, and we'll be reassessing whether or not we think financial conditions are really just a little bit tight, or whether or not, in fact, they are effectively not putting any downward pressure on inflation."

Bullock said the September quarter's 1.0% q/q trimmed-mean print was a key concern and downplayed the significance of the ABS's new 'full' monthly data, noting it was not seasonally adjusted. (See MNI POLICY: RBA Sees Balanced Risk, Despite Monthly CPI Shock) "What we're looking for in underlying inflation is some sort of clues to whether or not that large increase… was just a whole lot of unrelated one off factors, or whether or not it was demonstrating that there is underlying capacity pressures in the economy."

NEUTRAL DIFFICULTY
Bullock stressed the difficulty in interpreting data near neutral policy settings. "As we get closer to neutral on the interest rate, and as we get closer to balance on the economy and the employment, it just gets harder… jumping at one number would not be the appropriate thing to do," she said.

She also reiterated that policy easing is not under consideration. "I don't think there are rate cuts in the horizon for the foreseeable future. The question is, is it just an extended hold from here, or is it possibility of a rate rise?"

The Board will next meet on Feb 3.

Sell-Side Analyst Views

ANZ: "As was widely expected, the RBA's Monetary Policy Board left the cash rate at 3.60% in a unanimous decision. The tone of the post-meeting statement was a little less hawkish than markets might have been expecting, although it also appears clear that the Board is keeping its options open."

- "Risks around the outlook appear skewed to the upside for both activity and inflation. On the former the statement says that: :"the pick-up in momentum has been stronger than anticipated, particularly in the private sector. If this continues, it is likely to add to capacity pressures.""
- "On inflation the RBA Board appears inclined not to place too much weight on the new monthly CPI, although perhaps reading between the lines they may be seeing a little upside risk to the November SMP forecasts given the use of the words "a more broadly based pick-up" and "part of which may be persistent" in the following extract."
- "Looking forward, we expect the RBA Board will remain data dependent given the high degree of uncertainty around the policy stance and the extent to which the recent lift in inflation may persist.
- Our views on the outlook for interest rates are unchanged given the nature of today's post-meeting statement. We expect the cash rate to remain at 3.60% for an extended period. That said, in the wake of the Q3 national accounts and the October monthly CPI the risks of a rate hike in the first half of 2026 are rising. Encouragingly, though, business survey-based measures of price and cost pressures are not moving higher, which gives us some confidence that inflation will ultimately trend lower over 2026."

Bank of New York: "The RBA's monetary policy committee decided to kept the cash rate unchanged at its December meeting, at 3.60%. Inflation, though well below its 2022 peak, has picked up recently, with monthly CPI data indicating a potentially broader-based rise that is persistent in some respects. Economic activity is recovering, led by stronger private demand and a continued housing upturn, while financial conditions have eased and credit remains readily available. Labor market conditions are still a little tight, with low underutilization and strong broader wage measures despite slower employment growth. Domestic momentum is stronger than expected and may add capacity pressures, while global uncertainty persists. With inflation risks tilted upward, the board has opted for caution and will closely monitor evolving data."

CBA: "The RBA Monetary Policy Board left the cash rate on hold at 3.60% as was widely expected. It was a unanimous decision by the Board.

- The statement made another step to the hawkish direction recognising the risks have tilted to the upside for inflation and activity data has been stronger than expected.
- The press conference took another large leap into hawkish territory with discussions moving towards what could see the RBA hike interest rates in 2026 in a clear message from the Governor.
- We still expect the cash rate to remain on hold from here but note risks clearly sit to higher rates in 2026.
- December quarter inflation data will be crucial, if another material miss occurs and / or if the components highlight more persistence to inflation in various components the door has been opened for a rate hike as early as February based on the press conference."

CIBC: "The RBA held at 3.6%, but the statement and Bullock commentary fed into the market's expectations for hikes. Bullock's presser noted that the board didn't consider the case for a cut, but that they discussed what might need to occur for a hike to be realized; the question is whether it will be an extended pause or hikes.

- The statement read somewhat hawkish, as even though the monthly CPI series may not yet be reliable, the RBA was comfortable noting that it suggested some broad based and persistent inflationary pressures (given market based prices are ~2.7% y/y). Importantly, they also said there is uncertainty over the extent to which the RBA remains restrictive.
- The statement noted that it will still take a little longer to assess the persistence of inflation. This is likely a signal that the RBA would like to see the upcoming Q4 CPI before making any more forceful guidance. Note that Nov CPI released on Jan 7 should enable accurate nowcasts for Q4; this is the next release to watch to gauge the potential hiking cycle."

Goldman Sachs: “The RBA left the cash rate unchanged at 3.60% at the December meeting, in line with expectations (GSe/BBG: 3.60%). The decision was "unanimous" among board members.”

- “We continue to expect the RBA to keep the policy rate at 3.60% for the foreseeable future, on the assumption the 4Q2025 CPI (29 Jan) report confirms that the historically large upside surprise in 3Q2025 was partly just volatility. However, we caution that the balance of risk continues to skew towards the next move in rates being higher. Given the recent broad-based acceleration in private demand, upside surprise in household spending, and resilient labour market, the RBA could hike as soon as February should 4Q2025 CPI surprise its current forecast to the upside (RBA: +0.8%qoq; GS: +0.73%qoq).”
- “When given the opportunity, Governor Bullock did not push back on market pricing for the policy rate to rise 40bp to 4.00% next year and noted that the “market is right that the Board is thinking about the upside risks and it will be a meeting by meeting decision”.”
- “In the brief statement attending the decision, prior language on risks to the outlook "in both directions" was omitted, with relatively less focus on downside risks to growth and relatively more focus on the upside risks to inflation.
- That said, the RBA did flag uncertainty about the new monthly CPI data and cautioned "it will take a little longer to assess the persistence of inflationary pressures."
- The RBA continues to characterise labour market conditions as a "little bit tight", but omitted prior language on weak productivity growth and flagged uncertainty about the "extent to which monetary policy remains restrictive".”

J.P.Morgan: “The RBA left the cash rate target steady at 3.60% at today's meeting, in line with JPM/consensus expectations, in a unanimous decision. The statement was particularly brief, even for a non-SoMP meeting. As flagged last week, the monthly CPI implies less upside risk for the quarterly than it appears at face value, and the board appropriately maintained its comment from last month that some of the recent increase is due to temporary factors. To that, the statement adds "there is uncertainty about how much signal to take from the monthly CPI data", and Governor Bullock noted in the press conference that the board needs to be “cautious” in its handling of the monthly report.

- Still, the broader direction of travel is hawkish, firmly stamping the end of an easing cycle. We have argued for a few months that the next move is up and that the RBA was a potential early hiker among DM, but haven’t seen the risk as overly front-loaded.
- Downside risks are now sufficiently small, however, for the Governor to make a hiking bias explicit, and in the press conference Bullock opened the door to a hike in 2026. The asymmetry is clear in that "additional cuts are not needed", and the board has pondered the broader "circumstances" for a hike "some time next year". The brevity of the policy announcement also skewed hawkish, in that the leadership seems sufficiently uncertain to warrant a transition statement that maximizes options for the future.”
- “It’s intuitive that margin/pricing behaviour would be linked to improving growth, but margins also don’t tend to trend, which is why policy cycles are usually anchored to the more persistent features of labour cost growth. The lack of a smoking gun from the labour market then requires greater than usual evidence of persistent inflation to provide the confidence to start a hiking cycle.”

Societe Generale: “RBA held rates at 3.60% but flagged upside inflation risks and stronger demand, signaling a cautious hawkish bias while awaiting more data. This points to a short-term pause, but medium-term tightening risk remains live, which will keep hike pricing sticky.”

- “The statement downplayed near-term tightening risk but kept medium-term risk wide open.
- They maintain the ‘temporary’ assessment for some of the CPI increase and discount the monthly CPI readings, which we should on the margin reduce the odds of a near-term hike.
- On the other hand, they continue to express doubts about the level of ‘restriction,’ now see inflation risks skewed to the upside, and have concerns around capacity constraints—all of which suggest that medium-term tightening risk remains live.
- We interpret RBA’s guidance to wait a “little longer” to assess the persistence of inflationary pressures as maintaining the option to tighten after 2-3 months more data, if upside risks materialize.
- RBA’s Bullock struck a slightly hawkish tone, highlighting (i) the board’s discomfort with current inflation levels, (ii) discussions around circumstances that could warrant a rate hike, and (iii) the RBA’s commitment to a meeting-by-meeting approach.”

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- "Guidance for a 'cautious,' data-dependent approach means market narratives are unlikely to change until the data does.

TD Securities: "We did not expect the RBA to turn hawkish at today's press conference and our lack of conviction in RBA messaging related to the NAIRU and the neutral rate left us comfortable with the RBA on hold in 2026 as a base case. That said we have flagged the risk of hike(s), noting the earliest the RBA could potentially hike to be May'26."

- "We have highlighted 3yr bonds lead the cash rate by roughly 6 months, so at 4.10%, they imply the possibility of two RBA hikes by May next year."
- "Our sense is that markets are likely to price in higher odds to the RBA hiking in H1'26 as we expect data is likely to come in firmer over the holiday period."
- "Today's NAB Business Survey release showed another tick up in capacity utilisation to 83.6. The key takeaway here is that capacity utilisation directionally leads the unemployment rate and the risks are pointing to the unemployment rate falling from here!"

Westpac: "The RBA kept the cash rate on hold as expected. The Board was slightly more hawkish but Governor Bullock was firmly focused on the upside risks to inflation. We are less convinced that capacity constraints will be an issue for inflation, which could bring back the debate for rate cuts."

- "Following Governor Bullock's comments in today's press conference, the probability of a rate hike has risen. This would be dependent on persistence of the current reacceleration in inflation. Instead, we see the risks as being more tilted to a prolonged pause. The evolution of the data over the coming months will see the RBA reassess the sustainability of inflation moving back to target and the restrictiveness of current policy settings."
- "Rate cuts could still be brought back to the table if our view that supply will not be a constraint and the economy can grow faster without triggering inflation is realised. As such, our current baseline is for two 25bp rate cuts but not until mid-2026. This would bring the cash rate to 3.1% –125bp below its peak this monetary policy cycle."
- "We expect core inflation to ease back toward, and eventually below, the mid-point of the target band by the end of 2026. Much of the recent increase reflects higher administrative prices, seasonal volatility and the removal of cost-of-living assistance. These are unlikely to be repeated to the same extent. Further out, as productivity improves and wage inflation moderates this will also support lower core inflation."