

MNI RBA Review – July 2025

Meeting Date: Tuesday, 8 July 2025

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

Contents

- **Page 2:** Post-Meeting RBA Dated OIS Pricing
- **Page 3:** RBA 8 July 2025 Meeting Statement
- **Page 4:** MNI RBA Watch:
- **Page 5-7:** Sell-Side Analyst Views

MNI POV (Point of View): Easing Bias Still Intact, Q2 Inflation Key For August Meeting

The RBA surprised the market and the majority of sell-side economists by keeping rates on hold at the July policy meeting. This leaves the cash rate at 3.85%.

It appears that the central bank wants to see a little more evidence that inflation is sustainably tracking lower before easing further, it noted in the statement: " While recent monthly CPI Indicator data suggest that June quarter inflation is likely to be broadly in line with the forecast, they were, at the margin, slightly stronger than expected. With the cash rate 50 basis points lower than five months ago and wider economic conditions evolving broadly as expected, the Board judged that it could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis."

It noted international uncertainties remain elevated, even if worst case trade/tariff scenarios are likely to be avoided. The RBA stated that: "Setting aside overseas developments, private domestic demand appears to have been recovering gradually," as well as "At the same time, various indicators suggest that labour market conditions remain tight." There are uncertainties regarding the outlook for domestic demand and the labour market it added. The RBA stated it was well placed to respond to international developments as well.

Finally, the statement added: "The Board has decided to publish an unattributed record of votes in the post-meeting statement. Today's policy decision was made by majority; 6 in favour, 3 against." The 3 against the decision were in favor of a 25bps cut.

RBA Governor Bullock elaborated on these themes during her press conference, noting the board was not split around the direction of interest rates, but the timing of further easing. The RBA still maintains an easing bias she stated, but they wanted to see Q2 quarterly inflation data before acting further. The Governor noted that its Q2 trimmed mean inflation forecast was +0.6%, but that the risks were skewed a bit higher.

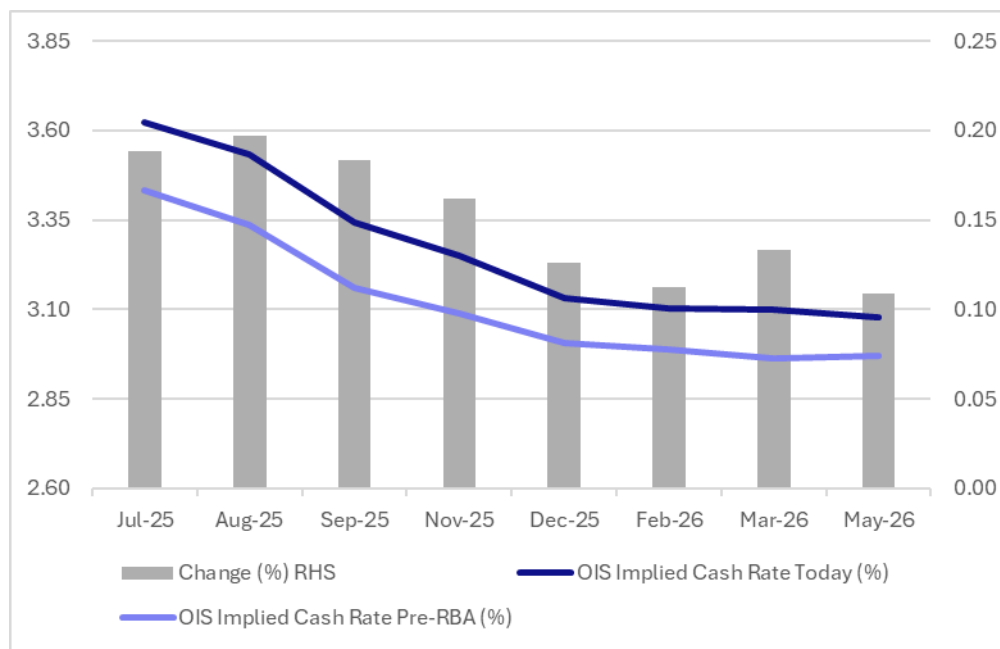
All in all, the RBA wants to see more evidence of that inflation will sustainably reach the 2-3% target. At the end of this month the Q2 (and June monthly print) inflation data is out. The next policy outcome is due on Aug 12. How the trimmed mean prints, relative to expectations will dictate whether the RBA eases at the August meeting. A 0.8%q/q outcome would see the y/y pace hold steady at 2.9%, which might not be enough to convince the RBA we are on a sustainable inflation path towards the midpoint of the 2-3% target band. Note though on the monthly CPI print for May, the trimmed mean y/y pace was 2.4%.

Post-Meeting RBA Dated OIS Pricing

RBA-dated OIS pricing is modestly firmer across meetings today after shunting higher following yesterday's surprise decision by the RBA to leave the cash rate at 3.85%.

- A 25bp rate cut yesterday was given a 92% probability by the market ahead of the decision.
- At the time of writing, pricing across meetings was 11-19bps firmer than yesterday's pre-RBA levels.
- A cumulative 71bps of easing is priced by year-end (based on an effective cash rate of 3.84%) versus 75bps pre-RBA.

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



Source: Bloomberg Finance LP / MNI

RBA 8 July 2025 Meeting Statement

At its meeting today, the Board decided to leave the cash rate target unchanged at 3.85 per cent.

Inflation has continued 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. In the March quarter, headline inflation, which has partly been affected by temporary cost of living relief, was at the midpoint of the target range while trimmed mean inflation was at 2.9 per cent. The baseline forecast in May was for underlying inflation to continue to moderate to around the midpoint of the 2–3 per cent range with the cash rate assumed to follow a gradual easing path. While recent monthly CPI Indicator data suggest that June quarter inflation is likely to be broadly in line with the forecast, they were, at the margin, slightly stronger than expected. With the cash rate 50 basis points lower than five months ago and wider economic conditions evolving broadly as expected, the Board judged that it could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis.

The outlook remains uncertain.

Uncertainty in the world economy remains elevated. While the final scope of US tariffs and policy responses in other countries remains unknown, financial market prices have rebounded with an expectation that the most extreme outcomes are likely to be avoided. Trade policy developments are nevertheless still expected to have an adverse effect on global economic activity, and there remains a risk that households and firms delay expenditure pending greater clarity on the outlook.

Setting aside overseas developments, private domestic demand appears to have been recovering gradually, 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, various indicators suggest that labour market conditions remain tight. 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 from its peak 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. The March quarter national accounts confirmed that domestic demand has been picking up over the past six months. The forecasts in May were for growth in household consumption to continue to increase as real incomes rise. There is a risk that the pick-up is a little slower than earlier expected, which could result 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. There are also uncertainties regarding the lags in the effect of recent monetary policy easing and how firms' pricing decisions and wages will respond to the balance between demand and supply for goods and services, tight conditions in the labour market and continued weak productivity outcomes.

Maintaining price stability and full employment is the priority.

The Board continues to judge that the risks to inflation have become more balanced and the labour market remains strong. Nevertheless it remains cautious about the outlook, particularly given the heightened level of uncertainty about both aggregate demand and supply. The Board judged that it could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis. It 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.

Decision

The Board has decided to publish an unattributed record of votes in the post-meeting statement. Today's policy decision was made by majority; 6 in favour, 3 against.

MNI RBA Watch: Board Shocks With Hold As Trade Fears Ease

By Daniel O'Leary

MELBOURNE - Concerns over stubborn domestic inflation led the Reserve Bank of Australia board to keep the cash rate at 3.85% on Tuesday, in a six-three split decision that defied fully-priced-in market expectations for a 25-basis-point cut as global trade fears eased.

Governor Michele Bullock was unapologetic following the call, noting the Reserve had limited ability to influence market pricing ahead of the decision, largely due to the new board voting structure that makes rate moves less predictable. "I can't go out and suggest to the market that the decision might be x if the decision hasn't been made, and the decision is made by a board of nine people, all independent," she said. "We can't send Reserve Bank people out there to tell the market to expect something different, because we don't know what the board necessarily is going to decide." (See [MNI: RBA Rate Cut Expectations Overblown- Ex-Officials](#))

Markets [had priced in over a 95% chance of a cut](#), with the vast majority of external economists also forecasting a move lower. The board eased 25bp in May, adding to the quarter-point move it made in February, but, as MNI reported on July 2, officials have since become less concerned by the risk of a global slowdown prompted by U.S. trade policy. (See [MNI POLICY: RBA Trade Concerns Abate, Focus On Domestic Market](#))

Following the decision, traders pared back their end-of-year rate cut expectations to 62bp of cumulative easing from 75bp prior to the meeting.

DOMESTIC FOCUS

A renewed focus on domestic conditions drove the decision, with Bullock stressing the importance of reviewing Q2 inflation data, and reiterating the RBA's long-standing concerns over the monthly CPI indicator, which it sees as highly volatile.

[While May's indicator](#) showed trimmed-mean inflation falling, Bullock said prices for housing construction and durable goods remained concerning. The labour market also remained tight, she added.

However, Bullock pushed back on suggestions that the Bank was "keeping its powder dry" in anticipation of global economic turmoil, saying the board agreed on the direction of rates but differed on timing. "What we're focusing on is the domestic economy and where we think the domestic economy is headed," she argued, pointing to May's forecasts that included three very different tariff-driven scenarios.

She noted the shift from [May's discussion of a possible 50bp](#) move to Tuesday's hold reflected how quickly the international backdrop had changed. While global trade conditions remain significantly worse than before April despite recent stabilisation, Bullock noted Australia is less exposed than other countries due to its stronger ties to China rather than the U.S.

VOTING RECORDS

While Tuesday's decision also marked the first time the board published unattributed votes, Bullock stressed there were no plans to publish attributable votes in future. Australia's system works best with anonymous voting, which encourages frank debate and shields board members from lobbying, she added. "It would mean that people could speak freely," she continued. "It means that we can have this very good discussion and quite active discussion with people knowing that, yes, the votes will be recorded, but they individually can speak freely."

Sell-Side Analyst Views

ANZ:

- “We suspect the downside risks that had focused the Board’s attention in May have receded significantly, which has subsequently been reflected in a different tone to today’s post-meeting statement.
- Looking ahead we expect the RBA Board will decide to cut the cash rate in August, particularly given the following line in the post meeting statement: With the cash rate 50 basis points lower than five months ago and wider economic conditions evolving broadly as expected, the Board judged that it could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis.
- We also see an additional easing beyond August as more likely than not. As a result, we remain of the view that the ‘terminal’ cash rate for this easing cycle will be 3.35%. Given what appears to be a preference for easing at SMP meetings (February, May and not July), and still patchy consumer demand (despite the robust trend in incomes growth) cuts in August and November seem most likely.”

CBA:

- “■ The RBA left the cash rate on hold at 3.85% in July, against our expectation for a cut and the consensus of market economists and market pricing.
■ We had expected a cut based on the incoming flow of data, the lack of any pushback on market pricing, and the RBA’s more dovish messaging in May.
■ Instead, the RBA surprised us, pivoting back to a more cautious stance and preferring to wait and see the full quarterly CPI print due 30 July to confirm inflation is heading back to the centre of the target band.
■ The Governor was at pains to point out in her press conference that the discussion by the Board was about timing, and not the direction for the cash rate. An August rate cut appears almost certain, barring a large miss to the upside on trimmed mean CPI.
■ The next most likely timing of a rate cut is November, given the Board’s stated preference today to see the quarterly CPI before moving and to maintain a ‘cautious and gradual approach’. The risk remains of an additional rate cut in early 2026.”

CIBC:

- “The RBA voted to hold rates at 3.85%, by a 6-3 margin. Note that we went into the meeting with around 24bps of easing priced. Moreover, only 5 of the 32 respondents to the Bloomberg survey expected policy inertia. However, the bank decided that it “could wait for a little more information to confirm that inflation remains on track” to reach the 2.5% target on a sustainable basis.

The no change decision needs to be set against the backdrop of a better than expected NAB business confidence and conditions survey, the latter tends to be a reliable indicator of growth, registered its strongest monthly gain since February 2022, the headline reading (+8.7) has not been higher since March 2024. The uptick in sentiment supports immediate policy inertia.

Having held rates now the market may be forced to consider re-pricing August given RBA post decision commentary, including references to waiting for Q2 CPI (July 30th) and or the next employment report (July 17th) prior to the next decision.”

Goldman Sachs:

- “In her post-meeting press conference Governor Bullock stressed that the decision to pause the easing cycle was “about timing rather than direction” with the RBA just “looking for further confirmation we are on the forecast path”. The Governor reasoned a “cautious approach” was warranted because year-over-year growth in the quarterly trimmed mean inflation had only just returned to the 2-3% target band (2.9%yoy), the labour market remained resilient, and also due to elevated global uncertainty.

From our perspective, today's decision highlights continued volatility in the RBA's reaction function and particularly given a 50bp cut was considered when the RBA cut 25bp in May and the fact that private consumption surprised to the downside again in the 6 weeks since then. We were also surprised to see the publication of Board votes today as these were not accompanied by an updated Statement on the Conduct of Monetary Policy (SOCOM). The existing SOCOM required unattributed votes to be published in April and May, after the new Board commenced, but was seemingly ignored.

For now, absent a global shock, it appears the RBA has a strong bias to only adjust policy gradually at meetings following the comprehensive quarterly CPI report and RBA forecast rounds. We now forecast 25bp cuts in Aug, Nov and Feb to a terminal rate of 3.1% (prior: July, Aug, Nov to 3.1%).

However, we see the balance of risks to our central scenario as skewed towards a deeper easing cycle if the RBA's focus on year-over-year changes in the quarterly CPI data potentially proves to be too backward looking and risks "falling behind the curve". In particular, we note sequential measures of quarterly trimmed mean inflation that have already retreated to the lower half of the target band (6mth annualized: +2.46%) and also clear disinflationary signals across the more timely monthly measures (May trimmed-mean: +2.4%yoy)."

ING:

- "In a surprising decision, the Reserve Bank of Australia held the cash rate steady at 3.85% today, defying both market consensus and our expectations. The vote was split, with six of the nine monetary policy board members supporting the move.
- While we had anticipated a rate cut given the recent softness in headline CPI inflation - now aligning more closely with the RBA's 2-3% target -the central bank emphasised the need for further confirmation that "inflation remains on track to reach 2.5% on a sustainable basis."
- This outcome appears to reflect a matter of timing rather than a shift in policy direction. The RBA will closely monitor upcoming quarterly inflation and monthly employment data ahead of its next meeting in August. Governor Michele Bullock also flagged concerns around rising costs in home construction and durable goods, which will be key areas to watch in the next CPI release.
- We continue to expect a moderation in trimmed CPI inflation in 2Q, keeping the door open for a potential rate cut next month. The RBA also placed particular emphasis on global developments and trade-related risks, and how these may affect domestic conditions - factors that should become clearer by the time of the next meeting."

J.P.Morgan:

- "The RBA surprised us and the market today, keeping the cash rate on hold at 3.85%, despite -24bp being priced in. For the first time, the statement gave a voting record (6-3) that indicates a tight call, and the concluding section noted the board "could wait for a little more information to confirm that inflation remains on track to reach 2.5% on a sustainable basis."

The nod to more information seemingly sets up August as the base case for the next cut, and Governor Bullock noted the direction of travel is still to easing. We move our baseline back to August, and November (as before) for the remaining cuts in our forecast, keeping our terminal rate assumption at 3.35% for this year.

There was still a nod to global downside risks as "policy is well placed to respond decisively to international developments if they were to have material implications" locally. But the decision and commentary clearly jar with the talk of a 50bp cut in last meeting's very dovish press conference/minutes, as well as the market pricing for the remainder of 2025, which followed it. In the May minutes, the leadership had invoked the "insurance" metaphor, adding weight to its consideration of a 50bp discussion. Though that path was not taken, the minutes nevertheless advocated for front-loading, hinting at a back-to-back 25bp move in July. Now, the board doesn't want to purchase the insurance anymore, which today's statement and presser tied

primarily to less-bad global outcomes. Of course, no one wants the insurance if the bad thing doesn't happen, but if you get that choice, it's not really insurance.

Today's statement seemingly shifts the board back to the quarterly CPI/SoMP-driven cadence that looked likely before May. This is at least a reversion to type for the RBA, reflecting the domestic soft landing. So, even though it's hard to understand the degree to which the leadership leaned into the dovish pricing through May/June, from here the overall path at least feels somewhat easier to calibrate on the data, compared to a preference for front-loading which is in the eye of the beholder."

Westpac:

- "The RBA Monetary Policy Board defied widespread expectations and kept the cash rate on hold at its July 2025 meeting. The post-meeting statement noted the gradual recovery in private sector demand and a tight labour market as justification for the decision. It also said that the Board judged that it could wait for a "little more information", which the Governor subsequently clarified included the quarterly CPI and another labour force release.

In its May minutes, the Board had expressed a preference to be "cautious and predictable" in its conduct of monetary policy. Today it erred on the side of the former. The general tone of today's post-meeting statement was of a central bank that has not been updating its view of the economy that quickly.

The decision was split 6–3. In the post-meeting media conference, Governor Bullock emphasised that this was a question of timing, not direction. A majority of Board members simply opted to wait for more information, principally the Q2 CPI release.

We read the tone of the media conference as flagging that the rate cut is still on for August, provided the trimmed mean inflation rate for June quarter does not surprise too much on the upside. Accordingly, we reinstate the likely timing of the next cut to August, though there is a small chance even this is delayed. We also retain the spread-out timing (November, February, May) of subsequent cuts as being in line with the cautious approach the RBA has flagged.

At the media conference, the Governor confirmed that, should market pricing again move out of line with what the RBA ends up doing, the RBA will not use an inter-meeting speech to guide market expectations, as this would prejudice the Board's subsequent decisions."

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