

MNI RBA Review – May 2026

Meeting Date: Tuesday 5 May 2026

Link To Statement: <https://www.rba.gov.au/media-releases/2026/mr-26-12.html>

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MNI POV (Point of View): Hikes Give RBA “Space”

In an 8-1 vote the RBA hiked rates 25bp to 4.35% as was widely expected. The one dissenter voted to pause and was concerned about downward risks to growth and employment from the oil shock. It was a more definite decision than March's 5-4 vote though. This was the third consecutive increase and brought rates back to where they were before 2025's easing. The RBA believes that policy is now a “bit restrictive” but that tightening has given it “space” to monitor risks in both directions to growth, employment and inflation. Governor Bullock said that if “things change, we'll change”. It seems that the Board now has a slight tightening bias and is keeping its options open as it monitors geopolitical developments, business liaison responses, leading indicators and hard data closely. However, it didn't indicate whether it is more prone to pause or hike again, it just now has some time.

The May hike was driven by “indications” that higher fuel prices would likely have “second-round effects on prices for goods and services more broadly” and that the Iran War is already “adding to inflation”. The increase in inflation over H2 2025 and Q1 2026 is seen as driven by capacity pressures and predates the onset of Middle East hostilities, thus making the current supply shock a greater concern to the Board. With trend growth around 2%, demand growth needs to be less than that to bring inflation down. Inflation risks remain to the upside.

The RBA revised up its trimmed mean profile to Q2 2027 with it not within the band now until Q4 2027, a 6-month delay, the Board likely retains a slight tightening bias. Trimmed mean inflation was revised up 0.3pp to 3.5% in Q4 2026 and 3.1% in Q2 2027. It still reaches the band mid-point by Q2 2028 helped by the 75bp of hiking this year and another 50bp assumed between Q2 and Q4 2026, based on market pricing, which reduce demand and capacity pressures. Thus, modelling suggests further hikes are needed to return underlying inflation to the band by end-2027. The RBA assumes that the Iran War is resolved soon and that oil prices decline but a longer conflict with higher energy prices drives stronger inflation and lower growth. This scenario would also increase long-term inflation expectations.

The RBA doesn't believe it is unreasonable for firms to pass on higher transport, fertiliser, etc costs to customers but it is concerned that excess demand is making it easier to do so and risks higher pass through than justified. After the initial increase, Bullock said that it must then “stop”. It is important that these price rises are not ongoing and seen as “normal” pushing up long-term inflation expectation. Bullock is concerned that this is the second inflation shock in around 5 years and so economic participants may no longer believe that high inflation is transitory and thus their expectations will rise and they'll demand higher wages. Bullock stated that the tightening this year won't impact inflation over the next 6 months.

Growth has been revised lower as real household disposable income growth is softer. Q4 2026 GDP is down 0.5pp to 1.3% while Q4 2027 is -0.2pp to 1.4%. There was little change to public demand forecasts as the budget is not released until 12 May but Bullock said in the press conference that capacity pressures in the economy mean that

governments should be thinking about not adding to them and thus inflation and that help for households “makes it harder to dampen demand”. Previously, she has avoided commenting on fiscal policy.

Employment growth was revised lower from 2027 onwards but slightly higher in 2026. The unemployment rate trends higher over 2027-2028 ending the forecast horizon at 4.7% up from 4.6%. Underutilisation is higher from mid-2027 reflecting the expectation that slower growth will be concentrated in hours worked rather than labour shedding. Higher inflation is expected to result in slightly stronger wage growth which has been revised up 0.1pp over 2026 and 2027 to around 3.2%. The Fair Work Commission’s decision on minimum and award wage increases for FY27 will be announced in June.

Given that the RBA is already seeing the effect of the Middle East crisis on underlying inflation and expectations and it has delayed its return to the band, another rate hike in coming months is definitely plausible. Also, more tightening in 2026 is assumed in the return of inflation to target projection. However, Bullock indicated that three consecutive hikes now give the Board “space” to monitor events and data thus allowing it some flexibility going forward. The next decision is 16 June and dependent on outcomes could easily see it pause. The next staff forecast update is 11 August and another rate hike seems more likely then ... dependent on geopolitics, inflation and employment.

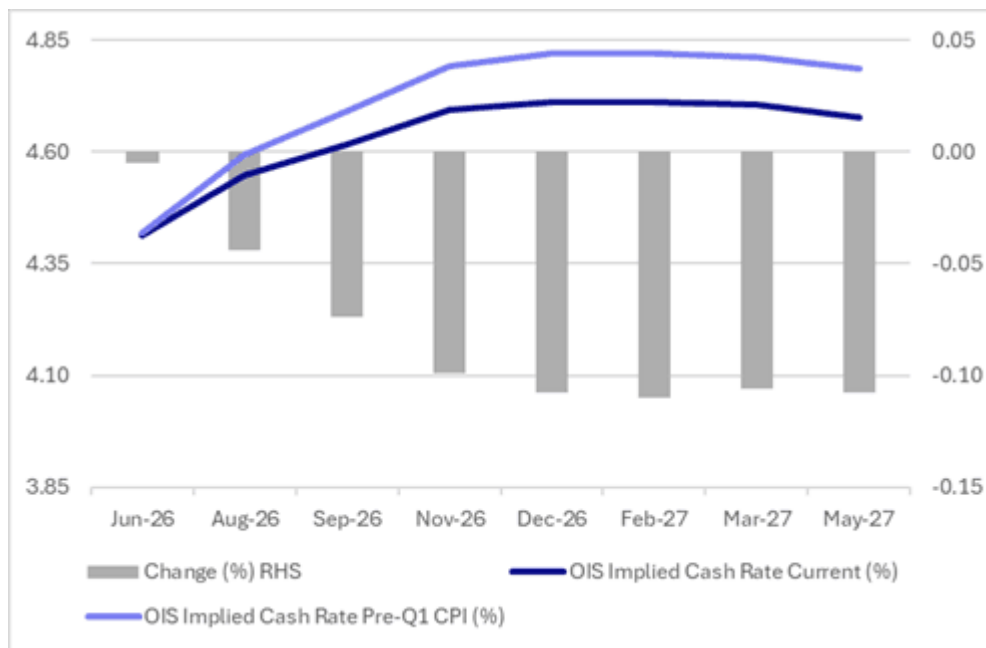
Post-Meeting RBA Dated OIS Pricing

RBA-Dated OIS Holding Post-CPI Softening After Yesterday's RBA Decision

RBA-dated OIS pricing is flat to 13bps softer across meetings versus pre-CPI levels, with late 2026 / early 2027 leading.

- In an 8-1 vote the RBA yesterday hiked rates 25bps to 4.35% as was widely expected. The lone dissenter voted for a pause. The tightening was driven by "indications" that higher fuel prices would "likely have second-round effects" broadly on prices and that the Iran War is already "adding to inflation". It revised up its trimmed mean profile to Q2 2027 with it then reaching the band mid-point by Q2 2028 as higher rates reduce demand and capacity pressures.
- While modestly softer than pre-RBA levels, OIS pricing continues to show tightening across all meetings, with the probability of a 25bp hike rising from 26% for June to 107% by September and 144% by December 2026.

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



Source: Bloomberg Finance LP / MNI

RBA 5 May Meeting Statement

At its meeting today, the Board decided to increase the cash rate target by 25 basis points to **4.35 per cent**.

Inflation picked up materially in the second half of 2025, and information since the beginning of this year confirms that some of this increase reflected greater capacity pressures. In addition, the conflict in the Middle East has resulted in sharply higher fuel and **related commodity prices, which are already adding to inflation. There are early signs that many firms experiencing cost pressures are looking to increase prices of their goods and services.** Short-term measures of inflation expectations have also risen.

The Bank has updated its forecasts to incorporate recent data and developments in the Middle East. The baseline forecast, which assumes that the conflict is resolved soon and fuel prices decline, sees underlying inflation peaking higher than was expected in February. It then declines as demand growth slows and capacity pressures ease in response to higher interest rates.

Financial conditions have tightened this year. Money market interest rates and government bond yields have risen, and the exchange rate has appreciated. But credit is readily available to both households and businesses.

There are materially heightened uncertainties about the outlook for domestic economic activity and inflation. **With the conflict in the Middle East continuing, there are plausible scenarios where inflation is higher and activity lower than envisaged under the baseline forecast.** A longer or more severe conflict could put further upward pressure on global energy prices; this would push up near-term inflation and could also increase inflation further out as **these costs are passed through and if** price rises get built into longer term inflation expectations. But higher prices and prolonged uncertainty may cause growth to be lower in Australia's major trading partners and also in Australia.

Decision

As expected, developments in the Middle East are having an impact on inflation. Higher fuel prices are adding to inflation and there are indications that this is likely to have second-round effects on prices for goods and services more broadly. This inflation impulse is in addition to the high inflation recorded around the start of 2026, reflecting capacity pressures in the economy.

In light of these considerations, the Board **assessed** that inflation is likely to remain above target for some time and that the risks **remain** tilted to the upside, including to inflation expectations. It was therefore judged 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. **Having raised the cash rate three times,** 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: **eight members voted to increase the cash rate target by 25 basis points to 4.35 per cent; one member voted to leave the cash rate target unchanged at 4.10 per cent.**

***phrases marked in red denote changes from the March statement**

MNI RBA Watch: 8-1 To Hike; Inflation-Growth Equation Worsens

By Daniel O'Leary

SYDNEY - The Reserve Bank of Australia Board voted eight-one to raise the cash rate by 25 basis points on Tuesday, presenting a more unified front as it confronts persistent inflation alongside the impact on output of the Middle East-driven oil shock, Governor Michele Bullock told reporters.

Bullock said the accompanying Statement on Monetary Policy highlighted a sharper trade-off between inflation, unemployment and growth than noted in February.

"This oil shock, driven by events in the Middle East, has complicated things immensely. It makes the trade-off much worse — for any given inflation rate, you get lower growth and higher unemployment," she said following the widely expected hike. (See [MNI RBA WATCH: Board To Hike On Inflation Concerns](#))

"It's quite possible we wouldn't have needed to increase rates a third time if the shock hadn't occurred. But it did occur at a time when inflation was already too high."

Tuesday's move takes the cash rate to its highest level since November 2023 and marks the third increase this year, reversing earlier easing.

Bullock said the lone dissenter – March's decision was carried five-to-four – placed greater weight on downside risks to demand. (See [MNI RBA WATCH: Timing Drove Split Vote, Not Direction-Bullock](#)) "They were less convinced about the extent of excess demand and more concerned about the impact the oil shock could have on activity," she said, adding all members considered both inflation and growth risks.

The Australian dollar weakened slightly following her comments, which emphasised two-way risks to the outlook, while futures were pricing in a 4.68% rate by the end of the year, down from 4.86% last week.

FORECASTS

The [Statement on Monetary Policy](#) showed the cash rate is assumed to reach 4.7% by the December quarter, 50bp higher than in February, while trimmed-mean inflation is projected at 3.5% y/y, up 30bp.

Unemployment is expected to hold around 4.3% through this year before rising to 4.6% by end-2027, while GDP growth and labour productivity are forecast to weaken.

Bullock reiterated the Bank's focus on inflation as a precondition for sustainable employment. "We can't control the full employment rate directly. What we can do is keep inflation low and stable — that creates the conditions for businesses to invest and hire. You can't have full employment without low and stable inflation in the long run."

She said the Bank is seeking a moderation in demand to better align with supply constraints. "We've got a supply problem and very weak productivity growth. Until that improves, stronger growth will run up against capacity constraints, and that also limits real wage growth."

OIL CONCERNS

Bullock warned the oil crisis delivers a negative income shock for households and could complicate wage dynamics.

"I fully expect workers will try to recover the real income they've lost by seeking higher wages. How much they achieve will depend on labour market conditions," she said. "What worries me is this is the second shock of this

nature in a few years. With a still-tight labour market, it's possible stronger wage outcomes become more persistent and feed into inflation expectations."

Responding to a question on potential fuel shortages, Bullock said near-term inflation from higher energy costs is unavoidable. "These rate increases won't affect inflation over the next six months — that's already locked in. What we're trying to guard against is those price increases becoming embedded in expectations."

It is reasonable for firms to pass on higher costs, she argued, but warned against a shift in pricing behaviour. "What we want to avoid is people thinking it's normal for prices to keep rising at 4% or 5%. That's the challenge."

Sell-Side Analyst Views

ANZ: “As was widely expected the RBA’s Monetary Policy Board raised the cash rate by 25bp to 4.35%. Eight members voted in favour of the decision, with one preferring to keep the cash rate on hold. The tone of the post-meeting statement was more hawkish than we expected. While the post meeting statement did note that the Board has “raised the cash rate three times” there was not the clear opening to a pause in June that we expected. That does not necessarily mean that another rate increase is a foregone conclusion but instead signals that the Board’s preference is to keep its options open. Indeed, the press conference has started with more of the tone and potentially ‘pause related language’ we expected in the postmeeting statement.”

- “Our expectation remains that the Board will pause in June, with the 5:4 vote in March suggesting a strong preference among some board members for moves in Statement on Monetary Policy (SMP) meetings. By August – in the absence of a rapid resolution to the conflict in the Middle East and a resumption of oil flows – we expect the activity data in Australia to be looking sufficiently soft to keep the RBA on hold. That said, risks would now appear more skewed to a rate hike in August than prior to this meeting given the ongoing focus on capacity pressures and the more hawkish tone than we anticipated in the postmeeting statement.
- The RBA staff also appear to be anticipating a 1.0% q/q Q2 trimmed mean inflation outcome, which would make it difficult for the Board to hold rates steady in August in the absence of a soft activity picture. Our forecast is for a slightly lower trimmed mean outcome, which would follow the Q1 trimmed mean being a little lower than the RBA’s February forecast. We also think the risk to the RBA’s Q2 unemployment rate forecast is skewed toward a higher unemployment rate.
- The RBA staff forecasts are predicated on an assumption of a cash rate peaking around 4.7%. That would clearly be restrictive.”

CBA: “The RBA Monetary Policy Board lifted the cash rate in May by 25bp to 4.35%, the third consecutive hike to the cash rate.

- It was a 8-1 decision by the Monetary Policy Board, compared to a 5-4 decision in March.
- Inflation and inflation expectations remain the main concern, with risks continuing to be tilted to the upside for both.
- But uncertainty remains heightened given the Middle East conflict and growth concerns are lingering.
- The statement highlighted that the cash rate has been raised three times and monetary policy is well placed to respond to developments.
- The press conference reiterated the Board now have space to monitor developments from here and we affirm our view of the RBA on hold from here in the remainder of 2026.
- We see the risks lie to another hike in August but will be dependent on the data flow. The main watch points are: Federal and state budget decisions, wage outcomes, Q2 26 trimmed mean inflation and the path of consumer spending.
- The refreshed forecasts in the Statement on Monetary Policy show growth lowered and inflation measures lifted due to the conflict in the Middle East. Trimmed mean CPI is expected to return to the mid point of the target in Q2 28.
- Our base case forecasts see the RBA cutting the cash rate twice in 2027 but there is a high degree of uncertainty over the path from here.
- Third rate hike in a row should be enough to bring inflation down.”

CIBC: “The RBA hiked the cash rate by 25 bps (to 4.35%) as widely expected by consensus. In a mild hawkish surprise, however, the 8-1 vote showed a stronger committee consensus vs the March meeting (5-4). After the lower than expected March monthly CPI releases last week, we (and other economists) noted that the split vote pointed towards some risk of no change. On the face of it, the voting result at this meeting pointed towards risk of another rate hike at the June meeting.”

- “The tone of the press conference strongly suggests that a June hike is not a given (contrary to the 8-1 vote). At the same time, a June hike cannot be fully ruled out. On the “wait and see” element, the current restrictive policy rate means the RBA can afford to be a bit more patient. However if incoming monthly CPI data surprises to the upside, the RBA could move to act again. Our base case continues to be for a hold in June, but the external risks around oil and the US-Iran conflict could still pose additional shocks onto the

Australian economy. If monthly CPI data reinforces the notion that inflation expectations are becoming “embedded”, then another consecutive hike is still possible next month.”

- “The trimmed mean revision still shows that the external oil shock plus limited spare capacity is expected to bleed into higher core inflation, adding to risk of higher inflation expectations.”
- “On inflation forecasts, Governor Bullock argued that monetary lags and the oil supply shock meant that the RBA had little control over CPI for the next six months. Her primary concern was that near-term elevated prices would lead inflation expectations to become embedded. Those concerns prompted the board to hike with a near-unanimous vote.”

Goldman Sachs: “The RBA raised the cash rate 25bp to 4.35% at today's meeting, in line with our and consensus expectations (GSe/BBG: 4.35%). The decision reflected a majority 8-1 vote across the Board.”

- “We expect the RBA to increase the policy rate once more this tightening cycle to 4.60%. We view this forecast as broadly consistent with the Bank's macro forecasts for i) trimmed mean inflation to persist materially above target until 2H2027, ii) a large positive output gap (of around 1% of GDP), iii) an unemployment rate tracking materially below the RBA's NAIRU estimate until 2H2027, iv) financial conditions that now are only “a bit restrictive”. Further, we note that these RBA forecasts are calibrated on an assumption the policy rate rises to 4.7% over 2H2027 and the “Strait of Hormuz is reopened soon”.
- “In the brief statement attending the decision, the RBA front-focused concerns on the upside risk to inflation and inflation expectations from higher fuel prices - with related downside risks to growth presented as more of a secondary consideration.
- While the statement noted that the Board had now “raised the cash rate three times” and that “financial conditions have tightened”, this was balanced by the observation “the extent to which financial conditions in Australia are restrictive remains uncertain and some indicators suggest that conditions may be neutral or slightly restrictive”.
- The attending Statement on Monetary Policy featured material upward revisions to forecast inflation and downward revisions to growth. In year-over-year terms, trimmed mean inflation is now forecast at 3.1%yoy to 2Q2027 (prior: 2.8%yoy) before easing to the 2.5% mid-point of the target band by 2Q2028 (prior: 2.6%yoy). Growth is forecast to decelerate to 1.3%yoy to 2Q2027 (prior: 1.7%yoy), with these forecasts calibrated on the assumption for the policy rate to rise to 4.7% over 2H2027 and to remain around that level.”

ING: “The Reserve Bank of Australia lifted the cash rate to 4.35% in a decisive vote, while pairing the move with a sharp downgrade to the growth outlook and only modest upward revisions to inflation. With policy now near the top of the neutral range, we expect the RBA to keep rates on hold in June unless inflation data materially surprises to the upside.”

- “The RBA's forecasts and messaging point to a more balanced outlook. Growth projections were downgraded materially, with GDP growth for 2026 cut by 0.5pp to 1.3% and the unemployment rate revised up by 0.1pp to 4.6% by end-2027, underscoring rising concern about activity. By contrast, inflation forecasts were revised up only modestly: the trimmed mean CPI forecast was lifted by just 0.1pp to 3.8% for mid-2026 and is still expected to peak around then, while CPI inflation is projected to fall slightly more by December 2027.
- The RBA's communication also suggests the current cash rate sits within - but close to the upper bound of - the range of model-based estimates of the nominal neutral rate.”
- “The noticeable downgrade to growth and the rising unemployment track suggest the Bank is becoming more alert to downside risks. While the forecasts still bake in a higher peak cash rate of 4.7% by end-2026, the tone of the communication points to a willingness to pause and assess.”

J.P.Morgan: “The RBA raised the cash rate 25bp today to 4.35%, as expected by JPM and most economists. The board voted 8-1, more convincing than March's 5-4 split. Though the debate last time was more about timing than action, with this meeting's full forecast round being the more standard moment to calibrate the response to an external shock.

- Having now fully undone last year's easing cycle, the board's forward-looking message became more balanced than it has been for some time, taking stock of the adjustment. The concluding section reads

"having raised the cash rate three times, monetary policy is well placed to respond to developments and the board is focused on its mandate ...". Historically, these backward-looking statements regarding work already done tend to imply a steady baseline for the cash rate in coming meetings, consistent with our call.

- The language suggests the period of front-loading is done and the board will be more data-dependent from here. In the press conference, Governor Bullock said the board now sees policy as "a bit restrictive" and the "initial conditions" of excess demand it had previously been concerned about can be put aside. This "provides space" to deal with risks on both sides of the mandate posed by the Middle East."

NAB: "In an 8-1 decision, the RBA's Monetary Policy Board elected to increase the cash rate by 25bp to 4.35%. After 75bp of hikes, the Board described the overall policy setting as "...well placed to respond to developments". However, it also noted that risk to inflation and inflation expectations remain tilted to the upside. The risk of further tightening cannot be fully discounted" ("*NAB: NOW SEES RBA HIKE IN JUNE, TAKING CASH RATE TO 4.60%" – BBG).

- The RBA Monetary Policy Board delivered a short Statement today, noting "...materially heightened uncertainties" about the outlook for both economic activity and inflation. The Statement expresses concern about the possibility of second-round impacts of higher oil prices and notes that short-term measures of inflation expectations have risen.
- The updated forecast set in the Statement on Monetary Policy now sees core inflation above the top of the 2-3% target band until mid-2027. This necessarily leaves the RBA with a hawkish bias, although with 75bp of hikes delivered thus far, the Board have delivered a reasonable recalibration to policy settings in so far this year."
- "The SoMP also included 2 adverse scenarios. These incorporate significantly higher energy prices but the same cash rate path. Both drive higher near-term inflation pressure. Adverse scenario 1 sees more persistent inflation pressure, while adverse scenario 2 sees a larger demand response limit inflation persistence. Notably, even in the adverse scenario with a larger pullback in demand, underlying inflation is only marginally below 2.5% in mid 2028."

TD Securities: "The RBA hiked the cash rate 25bps as expected to 4.35% in a 8-1 vote, but the messaging was dovish, pointing to the RBA taking a temporary pause. With the cash rate viewed as restrictive and the Middle East delivering an expected "income shock", the Bank views risks to inflation and growth as now more evenly balanced.

- Change of Call: Nonetheless, we now expect the RBA to deliver a final 25bps hike in Aug to 4.60% assuming Q2 trimmed mean CPI exceeds the RBA's Q2 forecast."

Westpac: "As expected, the RBA Monetary Policy Board (MPB) raised the cash rate 25bps to 4.35% following its May 2026 meeting. The vote was again split, this time 8–1, after the 5–4 vote in March. In explaining the decision, the MPB cited the higher inflation stemming from the Middle East conflict, including second-round effects, with risks tilted to the upside. These added to the inflationary pressures already arising from what it sees as capacity pressures. It also noted indications that "higher fuel prices are likely to have second-round effects on prices for goods and services more broadly", as we have been highlighting."

- "We still expect the RBA to tighten rates again this year. However, we think a June move now looks more finely balanced. The Governor's language in the press conference was a bit more dovish than our read of the media release and the SMP or the implications of the RBA staff forecasts. Governor Bullock characterised the three rate hikes so far as dealing with the high inflation issue that already existed before the conflict in the Middle East started, and that this "gives space" for the MPB to see how the conflict played out. On a plain reading, this might suggest that the MPB is more inclined to pause in June."
- "The question is what might happen between now and the June meeting that would dislodge their view about the outlook. While there are several key events, including the Federal budget and National Wage Case decision, these are unlikely to turn the dial on the RBA forecasts. Meanwhile, the inflation expectations story is going to be hard to monitor in the near term."
- "While the MPB regards monetary policy as mildly restrictive, both the Statement on Monetary Policy (SMP) and the Governor pointed to credit growth and other indicators as suggesting that financial conditions are not as tight for the same level of the cash rate as was true a few years ago."

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