

Australia: Reserve Bank hikes 25bp

Straddling the range of consensus, the Reserve Bank of Australia (RBA) has hiked rates by 25bp taking the cash rate target to 0.35%



0.35%

Cash rate target

25bp hike

Higher than expected

In its first policy rate change since cutting its cash rate target to 10bp in March 2020, the RBA has hiked rates by 25bp. The consensus was mainly looking for a smaller 15bp rate hike taking the cash rate target to 0.25%, or alternatively, like us, a 40bp hike to 0.5%. Instead, the RBA has shown that it isn't too bothered with round numbers, and has hiked rates by a quarter point taking the cash rate target to 0.35%.

The Exchange Settlement (ES) rate was also raised by 25bp to 0.25%. We had thought that the RBA may try to close the gap between the cash rate target and the ES rate to push the overnight cash rate closer to its target given still ample liquidity. This remains an option for the future.

[The statement published with the decision](#) justified the hike decision by saying "*The economy has*

proven to be resilient and inflation has picked up more quickly, and to a higher level than was expected". There is also an interesting hint ahead of the 18 May wage price index in the comment "*There is also evidence that wages growth is picking up,*" which may mean that we are headed for a 3% plus wage growth figure when it is released later this month. That was previously the hurdle the RBA had imposed before conceding that the current inflation increase was "sustained".

The AUD/USD exchange rate has pushed up a little on the decision, rising from about 0.7085 to a peak of 0.7148 before drifting lower to about 0.7115 as of writing, which is a small increase but consistent with the slight upward surprise in the rate decision. 10Y Australian bond yields have risen by about 5bp so far following the decision.

Looking ahead, there are some hints that the RBA is now committed to a period of rising rates. The RBA's expectation for both headline and core inflation is that even by the middle of 2024, inflation would still be at the very top of the RBA's inflation rate target. That doesn't necessarily imply that rates will be on an upwards path until then, given the lags involved in monetary policy, but it does suggest that rates will not be cut before this time.

At first glance, it feels as if the RBA is now committed to a slow but steady ratcheting up of monetary policy rather than a Fed-style front-loaded hiking cycle. But equally, given how misleading central bank guidance has been in recent years, it feels too soon to be taking a firm view on the future path for rates.

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