

RBA holds rates steady as inflation heats up and growth outperforms

The Reserve Bank of Australia holds its cash rate steady at 3.6%, in line with expectations. The cautious stance reflects concern over rising headline CPI inflation. As it stands, we think the probability of a rate cut at the November meeting has meaningfully diminished. The Aussie dollar remains supported



Michele Bullock,
Governor of the
Reserve Bank of
Australia

The Reserve Bank of Australia held the cash rate steady at 3.6%, aligning with both market consensus and our expectations. Its tone has become less dovish. This decision reflects a more cautious stance in light of the recent uptick in headline CPI inflation, which is now approaching the upper bound of the RBA's 2–3% target range.

Whether the August CPI spike to 3% Year-on-Year is a temporary blip or indicative of deeper, emerging inflationary pressures remains uncertain. Notably, housing-related components—such as rents and the cost of new dwellings—showed renewed strength, indicating that the sector may already be responding to earlier rate cuts. Additionally, prices for services, such as holidays, travel, and insurance, rose sharply (1.5–3% Quarter-on-Quarter), pointing to a rebound in consumption demand.

For the RBA to consider further rate cuts in November, it will require clear evidence that inflation is sustainably tracking toward the 2.5% midpoint of its target. A key uncertainty remains trade-related risks, which could complicate the growth and inflation outlook.

On the growth front, stronger-than-expected GDP in the first half of the year was driven by robust consumer spending. Concurrently, the decline in the unemployment rate over July and August introduces ambiguity around the extent of labour market softening. While indicators of economic momentum lend support to a policy hold through November, the trajectory of inflation remains pivotal. A sharp correction in September CPI, scheduled for release on 29 October, would be required to reopen the door to further easing. As it stands, we assess the probability of a rate cut at the November meeting to have diminished meaningfully.

We continue to expect the Aussie dollar to maintain its good performance into a seasonally favourable fourth quarter. With the RBA now sounding more cautious on rate cuts, AUD can attract good buying flows until the data offers more clarity. The stabilisation in US-China trade relations also underpins our bullish AUD/USD call (targeting 0.68 near term). But we still see good value for AUD against other commodity/high-beta currencies, thanks to lower exposure to oil prices compared to CAD and NOK and the RBA's standout hawkish stance.

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