# RBA Update November 2024

The Reserve Bank of Australia (RBA) Board kept interest rates unchanged at the November meeting, with the cash rate target remaining at 4.35% and the interest rate on Exchange Settlement balances staying at 4.25%. The decision was in line with market expectations.

A separate set of data showed that RBA government bond holdings remained broadly unchanged at A$311.7b in October.

## Post-meeting Statement

The post-meeting statement by the RBA Board was reshuffled a little.

While the Board acknowledged that headline inflation had declined to 2.8% in Q3, they stressed that this had been due to electricity relief measures and lower fuel prices, while underlying inflation remained 'too high', at 3.5%.

The statement also stressed that labour market conditions were tight and had ceased easing by some measures, with productivity growth remaining weak. They continued to cite multiple uncertainties around their economic outlook.

Forward guidance was little changed from the previous statement, if not slightly more hawkish. It continues to underscore that the RBA does not rule anything in or out, with future decisions being data-dependent. The focus is now on inflation sustainably returning to the target range and approaching its mid-point, and on underlying rather than headline inflation.

## Statement on Monetary Policy

The outlook implied from the highlights of the updated economic projections included in the November Statement on Monetary Policy is roughly unchanged, but a slightly more bearish. However, it still does not offer much hope for easing in the coming months.

The forecasts for the underlying inflation were revised around 0.1ppts downwards across the horizon, while the outlook for headline inflation remained bumpy. Both rates are expected to reach mid-point of the target range towards the end of the horizon in late 2026.

The forecasts for the peak of the unemployment rate in this cycle were revised 0.1ppts upwards, to a still-low level of 4.5%.

GDP growth outlook was downgraded slightly, amid slower growth in private consumption and investment, partly offset by faster growth in public demand. The RBA no longer expects significant acceleration in productivity growth in the coming quarters.

The RBA also provided a summary of its recent liaison discussions with businesses across the country, with the bottom-line being that labour market conditions are easing but are still high, while detached home building activity is likely to stabilise or even pick up in the coming year.

## Press Conference

In the press conference, Governor Bullock again sounded a bit hawkish, stressing that monetary policy settings need to remain restrictive until the RBA Board is confident inflation is coming back to the mid-point of the 2-3% target range.

The Governor cited elevated services price inflation and plenty of upside risks to the inflation outlook, such as the likely positive output gap, slower than expected productivity growth, still tight labour market conditions and the upward revision to government spending forecasts.

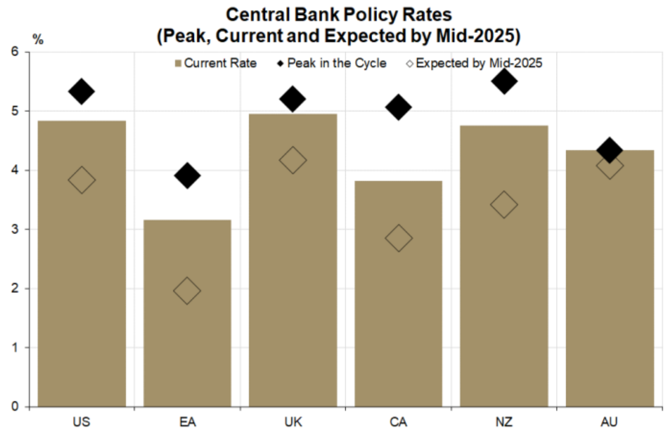
However, she also underscored that the RBA will be ready to act if the domestic economic conditions surprise to downside.

## Market Impact

The market's reaction to the decision, post-meeting statement and updated projections was quite calm. However, there was some, albeit still muted, reaction to the quite hawkish press conference, as a result of which:

- 3-year Commonwealth bond yields rose to 4.09% from 4.06% just before the decision; and
- 10-year yields ticked up to 4.57% from 4.55%.

The Australian dollar appreciated marginally from US$0.6590 to US$6595.




## Comment

All the above communication from the RBA today again implied that any cash rate cuts are unlikely in the coming months. The RBA had not increased its policy rates to such an extent as many other major central banks, which are now in position to remove some monetary policy restriction. The Aussie central bank has chosen a lower policy path that helps preserve job gains, but also implies restrictive policy for a bit longer. The futures market continues not to fully price in a cash rate cut until May 2025, with only one more reduction later in 2025.

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