



WILSONS  
ADVISORY

# RBA Shocks With a Patient Hold

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Our weekly view on asset allocation.

14 July 2025

# RBA Plays the Waiting Game

Last week the RBA Policy Board defied market pricing and the great majority of economists' predictions (including ourselves) by opting to keep the cash rate on hold at 3.85%.

This contrasted with the RBA's May 25 meeting, which cut the cash rate by -25bps, and was interpreted as somewhat dovish by revealing that the board had 'considered' a 50bps cut. The six-to-three split vote (disclosed for the first time) shows that it was a finely balanced decision.

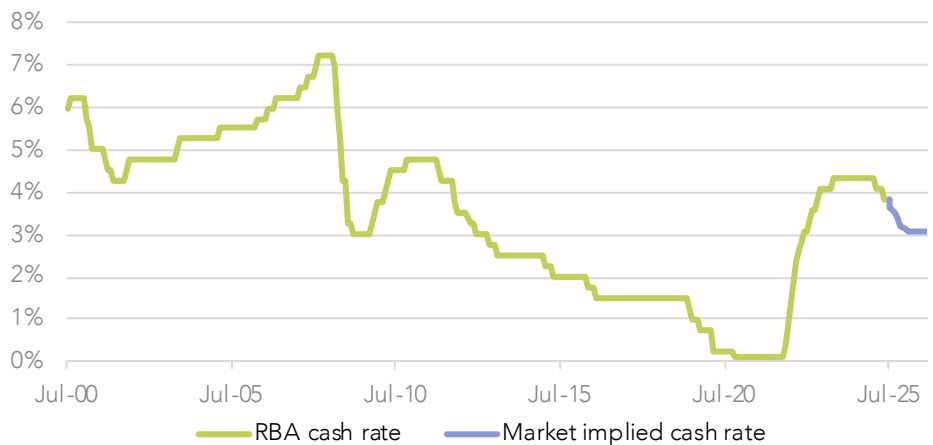
The board's statement noted that "the board judged that it could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis."

In the media conference, the RBA Governor suggested that by the time of the August 12 meeting, the quarterly CPI (July 30), another monthly labour force release (July 17), and refreshed RBA forecasts would be available.

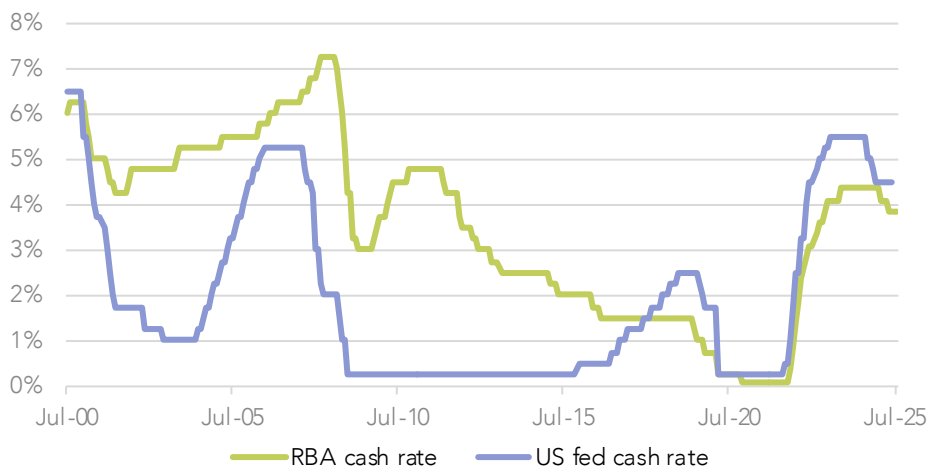
## Rate Cut Pricing Tweaked, Bond Yields and A\$ Lift

While the decision was a significant surprise, the reaction of the market was to push the expected July cut to the August meeting, which at the time of writing (July 11) is more than 90% priced. Three cuts are fully priced by March next year, which marks the expected bottom of the easing cycle at 3.1%. This is not a huge change from pre-meeting pricing, which was partially pricing the chance of a 4th cut. 10-year bond yields have pushed up post the meeting from 4.2% to 4.3%. The A\$ has clearly strengthened post the meeting to sit at an 8-month high of 65.9c. Equities don't appear to have been impacted significantly, with choppy, but ultimately flat performance since the announcement.

**Figure 1: The market still expects three more cuts by early 2026 to a terminal rate of 3.1%**



**Figure 2: The RBA and the Fed appear to be broadly in sync**



**Figure 3: Bond yields remain in a range. We see potential for lower yields on a six to 12 month view**



## RBA shows little confidence in the monthly CPI series

While the most recent (monthly) underlying inflation data is well inside the RBA's 2–3% target range and seemingly headed down, the post-meeting statement chose to highlight the 2.9% year-end rate for trimmed mean inflation as at the March quarter (the first quarter within the band for 12 quarters). This implies little confidence in the timelier monthly CPI series. Note, the monthly series was introduced in October 2022 and encompasses between 60% and 70% of the quarterly survey basket, depending on the month.

The RBA appears to be looking for confirmation from the more comprehensive Q2 inflation series to become comfortable that inflation is set to sustainably settle near 2.5%.

In the post-meeting media conference, Governor Bullock emphasised that the decision was more a question of timing, rather than direction. It seems a majority of Board members (six to three) opted to wait for more information, principally the Q2 CPI release.

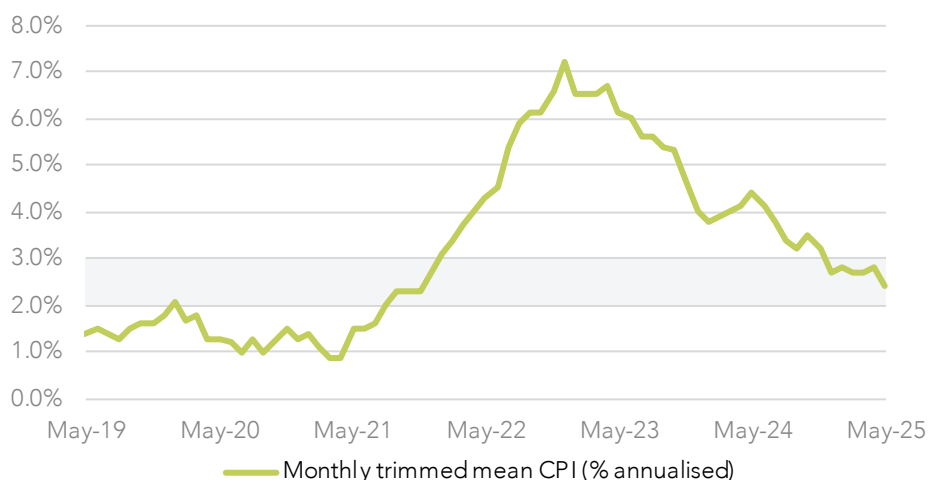
The tone of the media conference did suggest that a rate cut is still likely for August, provided the trimmed mean inflation rate for June quarter does not surprise to the upside.

We expect -25bps cuts in August, November, and now February, taking the cash rate to a “terminal” rate of 3.1%. This terminal rate is in line with our pre-meeting view, but with the cutting profile pushed into early next year following July's on-hold decision.

The fact that the economy looks close to full employment - indeed unemployment at 4.1% is below “full employment” based on the RBA's 4.5% best estimate for the NAIRU - provides some insight as to why the RBA is in no hurry to cut. This is in line with the RBA's apparent pivot back towards its dual mandate of targeting both price stability and full employment.

However, while the labour market is seemingly robust, we still see the need for the RBA to lower rates, with consumption so far having recovered more slowly than expected earlier and broader GDP growth tracking below most estimates of trend growth for six consecutive quarters (see figure 8).

**Figure 4: The monthly CPI indicator is firmly back in the band but the RBA appears skeptical**



Source: Refinitiv, Wilsons Advisory.

**Figure 5: The RBA is focused on the quarterly series which only edged into the target band in the March quarter**



Source: Refinitiv, Wilsons Advisory.

**Figure 6: Unemployment is low, allowing the RBA to be patient**



Source: Refinitiv, Wilsons Advisory.

While the unemployment rate remains low, we note that the public sector has done much of the heavy lifting and persistent sub-par growth across the economy poses a threat to the ongoing resilience of the labour market.

### All eyes on the July 30 quarterly CPI

RBA Governor Bullock was asked during the press conference on the trigger to cut rates at the next meeting in August, specifically based on the quarterly CPI print for Q2-25. Bullock noted,

"The June quarter underlying forecast is 0.6 (q/q) ... and it may be at the margin ... a little bit higher than that. I'm not going to put a number on what the trigger is to cut or not."

Our assessment is the RBA Governor is giving the RBA a little bit of scope to be able to still cut the cash rate in Aug-25 by -25bps - even if the outcome for trimmed mean CPI in Q2-25 is slightly higher than the RBA's forecast (2.6% y/y). Hence, it now seems more likely that a 2.8% y/y print would probably be required to stop the RBA from cutting in August.

While the RBA may tolerate a little bit of upside surprise, it does put the onus on the Q2 CPI to print relatively benign.

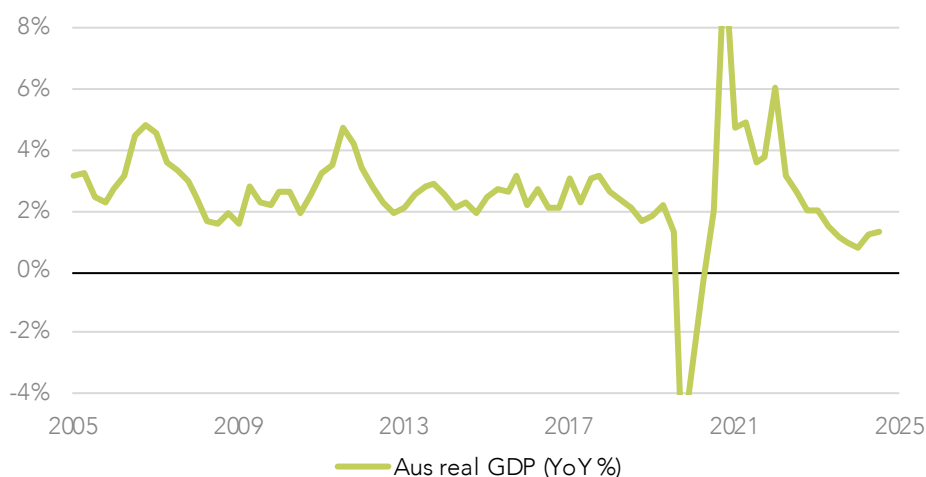
## Monetary Backdrop Still Looks Supportive for Equities and Bonds

The prospect of three RBA cuts over the next eight months remains a supportive backdrop for the local stock market, despite the risk of a short-term (global) set back. Domestic fixed interest should also perform well against a backdrop of multiple RBA cuts. The move up in bond yields last week from 4.2% to 4.3% is overdone in our view, considering the cash rate is still expected to fall to 3.1%. Of course, global factors will also be important in influencing the direction of both asset classes. We see near-term risks of a setback in global equities, but maintain a constructive 12-month backdrop as central banks ease rates globally and global growth recovers from its current slowdown phase as we move through 2026.

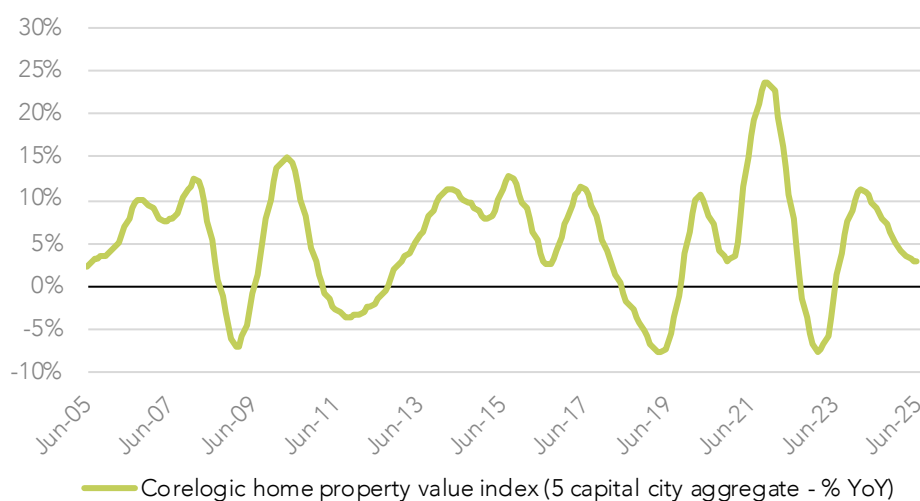
**Figure 7: Wages growth is subdued despite low unemployment**



**Figure 8: Real GDP growth has been below trend for 6 consecutive quarters**



**Figure 9: We expect a moderate pick up in house price growth as rates are reduced**



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### Wilsons Advisory contact

[david.cassidy@wilsonsadvisory.com.au](mailto:david.cassidy@wilsonsadvisory.com.au) | +61 2 8247 3149

[sam.kluge@wilsonsadvisory.com.au](mailto:sam.kluge@wilsonsadvisory.com.au) | +61 2 8247 6607

[www.wilsonsadvisory.com.au](http://www.wilsonsadvisory.com.au)