

Australia Economic Watch

RBA review: Inflation has passed its peak

The RBA keeps rates on hold at 4.1%

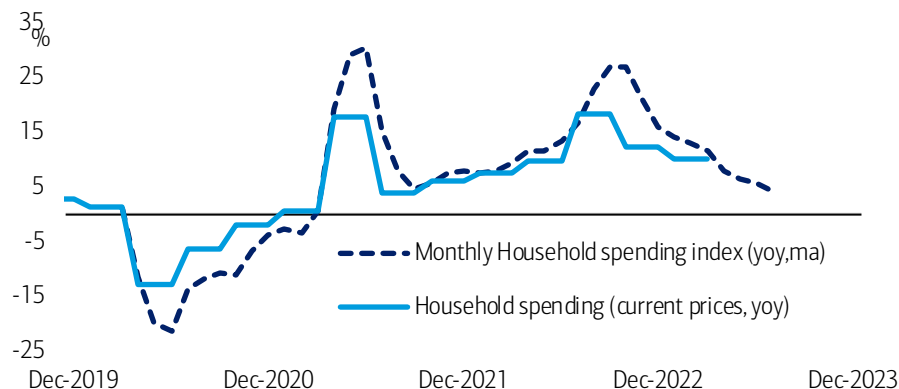
In line with our expectations, the Reserve Bank of Australia (RBA) kept the cash rate unchanged at 4.1% at today's meeting. While the Bank retains its hawkish bias, there is more confidence on the trajectory of inflation. The Bank confirms that "inflation has passed its peak" as the monthly CPI index showed a further decline into 3Q. The September quarter is normally a seasonally strong quarter for CPI, but the impact from subsidies on household utilities and softer commodity prices mean there is downside risk to the RBA's inflation forecast. See: [Asia Economic Weekly: Australia: Growth softens while RBA watches 01 September 2023](#)

The assessment of current economic conditions remains dovish with below-trend growth expected to continue for longer. The outlook for household spending remains uncertain as "households are experiencing a painful squeeze on their finances". Indeed, the ABS' monthly household spending index declined in July. This is the first decline since February 2021.

GDP data for the June quarter will be released tomorrow and focus will be on the price deflators and household spending as net exports and the public sector are expected to make a positive contribution to the quarterly outcomes.

Exhibit 1: Household spending continues to weaken

As high rates gain traction



Source: ABS, Macrobond

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OIS flatteners look attractive: receive Nov/May OIS

After a sequence of soft economic data, the RBA's decision to leave rates unchanged for the fourth consecutive meeting and declare inflation has passed its peak boosts our already high conviction in end-of-cycle trades. In the OIS market, we like November 23-May 24 flatteners at -1bp. Although we expect the RBA to remain on hold, the economic risks skew to the downside, and we like the risk/reward of receiving Nov/May OIS. The risk to the trade is that the RBA hikes rates further. The construction is attractive because November is likely the next date at which the RBA could hike rates. **We enter the trade at -1bp with a target of -22bps and a stop of 9bps.**

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Economics
Australasia

Micaela Fuchila
Economist
Merrill Lynch (Australia)
+61 2 9226 5337
micaela.fuchila@bofa.com

Oliver Levingston
Rates Strategist
Merrill Lynch (Australia)
oliver.levingston@bofa.com

OIS = Overnight Indexed Swaps

For a list of open and closed trades in the last 12 months, see the most recent [Global Rates Weekly](#)

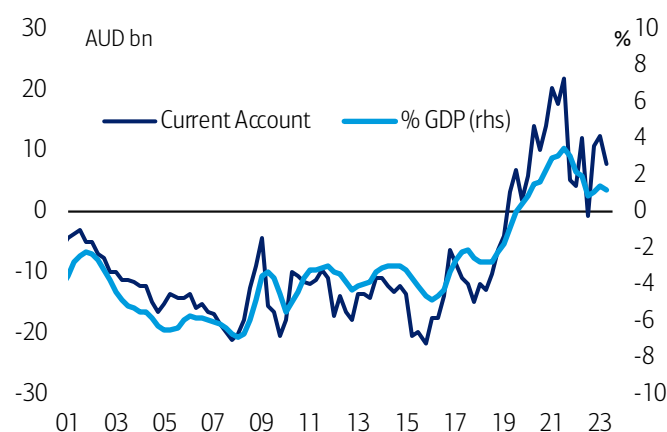
Hard to stay hawkish

The RBA kept the cash rate unchanged at 4.1% and there was little new information in the Statement. The labour market remains tight, and inflation is high, but growth is below-trend, and this is expected to continue for some time. We continue to expect rates on hold for the remainder of the year. Focus now shifts to the national accounts due tomorrow at 11.30am. We look for a 0.2%qoq rise that will push growth down to 1.6%yoy. This is on the back of soft consumption spending. Price measures in GDP are likely to soften. This, along with weak consumption and falling savings, increases the hurdle for further hikes, in our view.

A narrower current account surplus (Exhibit 2) driven by lower exports commodity prices suggests some downside pressure on the GDP price deflators. Exports of goods fell 7%, the largest fall since June quarter 2014, as prices for energy commodities like coal and LNG continued to fall from the highs seen in 2022. However, the external sector is expected to make a large 0.8ppts positive contribution to growth and offset private demand weakness. This is consistent with the large decline in monthly inflation seen in July (Exhibit 3).

Exhibit 2: The current account surplus narrows

Due to lower commodity prices.



Source: ABS

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Exhibit 3: Inflation eases

Due to subsidies



Source: ABS, Macrobond

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