

# Hedge Clippings

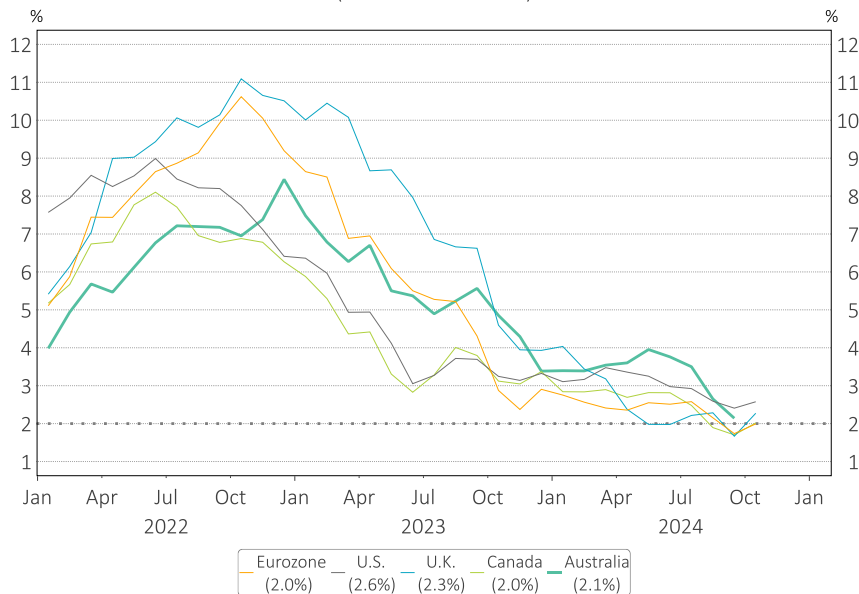
## Macro Research

Friday 22nd November 2024

### RBA and Australia's Inflation Outlook

Australia's monthly CPI inflation data for October is due this coming Wednesday November 27<sup>th</sup>. It is worth noting that of the four major economies that have already reported their October inflation data, inflation rates lifted in all cases, and some of the outcomes were higher than expected. Those economies were the U.S. (2.6%), U.K. (2.3%), Eurozone (2.0%), and Canada (2.0%).

**Headline CPI Inflation**  
(Selected Countries)



Source: PinPoint Macro Analytics, Macrobond (data as at 21/11/2024)

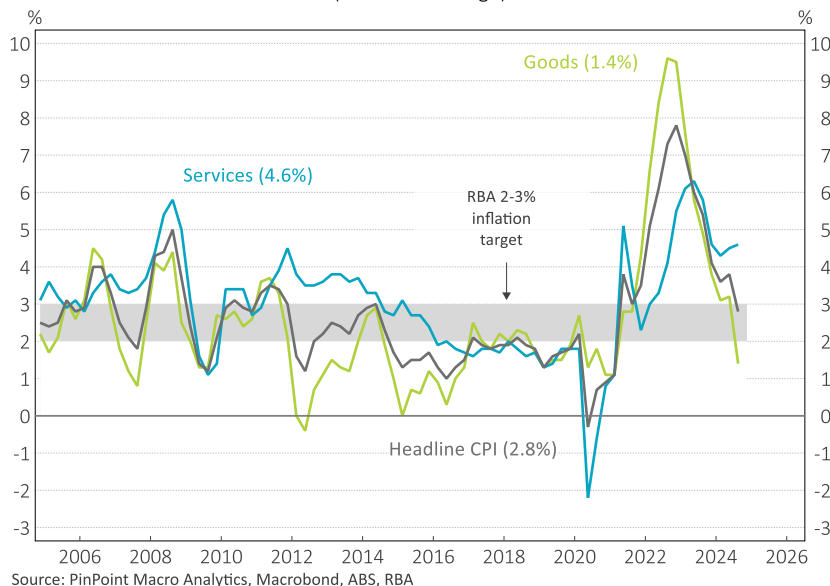
**It appears that global inflation pressures reignited in October when the recent downward pressure on goods inflation picked up. The lift in goods inflation adds to already elevated services inflation in these economies.** While Australia's annual good inflation is currently a modest 1.4%, Australia's annual services inflation notably picked up in Q3, rising 0.1% to 4.6%. The lift in services inflation was driven by higher rents, insurance, medical, dental and hospital services.

The Australian Bureau of Statistics monthly CPI updates less than three-quarters of the quarterly CPI basket in any given month. The first month of the quarter updates 62% of the CPI basket and has a relatively higher share of goods contained in the updated basket compared to services. October is the first month of the December quarter. The only three categories fully updated are education, clothing & footwear, and alcohol & tobacco. The remainder are partially updated.

The possible offset to a high October inflation number ironically comes from the housing component, which is largely made up of rents and new dwelling purchases by owner occupiers. There has been some slowing in both components, with CoreLogic reporting October's national annual rent inflation eased to 5.8%.

### Australia Key CPI Measures

(Annual % Change)



While the RBA pays attention to the monthly CPI data (which was 2.1% YoY in September), the RBA pays significantly more attention to the quarterly CPI measure, where Australia's annual inflation is running higher at 2.8% YoY. Furthermore, Australia's core inflation (trimmed mean) in the RBA's words "remains too high" at 3.5% YoY.

**The RBA stated in their November quarterly *Statement of Monetary Policy (SoMP)* that "our assessment is that demand in the economy still exceeds supply and that the labour market remains tight".** The minutes of the RBA's November 5 meeting stated that "it was important to convey that the Board remained vigilant to upside risks to inflation". RBA Board members added "**given the already lengthy period in which inflation had been above target, the Board has minimal tolerance to accommodate a more prolonged period of high inflation, even if this occurred because of factors that constrained the economy's supply capacity.**"

The RBA updated their economic forecasts in the November SoMP. The forecasts don't have headline inflation easing to the mid-point of the RBA's 2% to 3% inflation target until June 2025. The core inflation (trimmed mean) inflation forecasts don't have inflation falling to the 2.5% mid-point until end-2026. A full 18-months later.

The overnight index swap (OIS) market is the "purest" form of the market's expectation for what the RBA may do at upcoming RBA meetings, with respect to interest rate changes. The OIS market has finally begun to push out the timing of an RBA interest rate cut, as the clear message from the RBA begins to permeate, and as some of the global central bank's already cutting interest rates, pause to reflect on the recent inflation outlook.

Expect the RBA to remain on hold for a lengthy period. The RBA November statement noted that "policy will need to be sufficiently restrictive until the Board is confident that inflation is moving sustainably towards the target range" ... with respect to interest rates ... "**the Board is not ruling anything in or out**".

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