MNI RBA Preview - February 2023

Meeting Date: Tuesday 7 February 2023

Announcement Time: 14:30 AEST / 03:30 GMT

Link To Statement: https://www.rba.gov.au/monetary-policy/int-rate-decisions/2023/

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MNI POV (Point Of View): Inflation To Drive Another 25bp

The Q4 CPI data all but confirmed a hike at the February 7 RBA meeting. It is widely expected that the central bank will raise its policy rate a further 25bp to 3.35% bringing cumulative tightening this cycle to 325bp and the highest cash rate in over 10 years. Some analysts are highlighting a heightened risk that it could be greater than 25bp due to increased underlying price pressures. On the other side, there are 2 in the Bloomberg survey who are forecasting a pause and 1 a 15bp rise. Given the almost unanimous view, the statement and forecast update are likely to be the focus for any change in tone.

The AUD OIS market has 23bp or a 92% chance of a 25bp hike priced in for the February meeting. Hike expectations received a considerable bump following the Q4 CPI print released in late January. With inflation elevated, the market believes the RBA has little choice but to lift the cash rate to 3.35%. Not even very soft December retail sales and the fact that the RBA has considered a pause at each of the past two meetings appears to be holding the market back from almost fully pricing in 25bp hike. Beyond the February meeting, the market has a terminal rate of 3.73% priced for July-23. While expectations have lifted 20bp from pre-Q4 CPI levels, the terminal rate remains below the end-22 level of 4.0% and the cycle peak of 4.25% in Oct-22.

RBA Governor Lowe and other Board members have stated on numerous occasions that they are trying to navigate a “narrow path” between keeping the economy in positive territory and returning to price stability. The latest inflation data was a reminder of how difficult this task is. Q4 CPI posted an increased 1.9% q/q rise to be up 7.8% y/y, which was below the RBA’s 8% forecast but the December figure was above at 8.4%. The most concerning thing about the inflation data was the numerous measures pointing to increased domestically-driven price pressures and it was this that made further rate hikes likely. Trimmed mean rose 6.9% y/y from 6.1% in Q3, above RBA forecasts, and non-tradeables rose to 7.4% from 6.5% while services were 5.5% from 4.1% (for an update on the Australian economy see Australian Macro Chart Pack) . Given the elevated rate of inflation and the broadening of pressures, we expect that the Board won’t change its guidance materially and will maintain the flexibility to react to the “incoming data” as it sees fit.

On February 10, the RBA publishes its Statement on Monetary Policy with revised forecasts extended to June 2025. The focus is likely to be on whether inflation returns to the target band before the end of the forecast horizon. RBA’s Kohler stated this month that inflation peaked at around 8% in Q4. There is a good chance though that the trimmed mean CPI will be revised up as inflation pressures broaden from the global components to the more domestically-driven ones. On the positive side, global shipping costs and cost pressures in the NAB business survey have eased, but on the other side inflation expectations seem stuck above 5% and the January MI inflation gauge rose to a new high. The wage projections are likely to be revised up given increased pressure for higher negotiated and minimum wages and continued staff shortages. The December SEEK advertised salary index rose to 4.7% y/y and negotiated wages to 4.1%. The RBA continues to discuss the risks of a wage-price spiral and Governor Lowe pointed out that wage inflation is close to no longer being consistent with the inflation target. With

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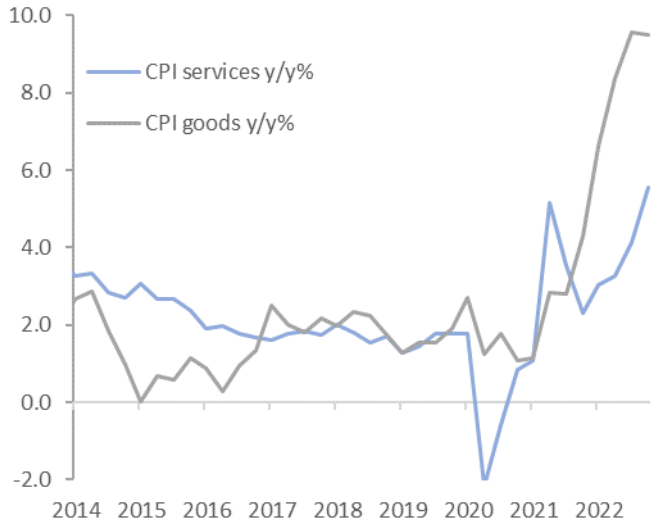
the labour market remaining very tight, despite the fall in December jobs, and the unemployment rate close to multi-decade lows, the Bank's labour forecasts are likely to be little changed.

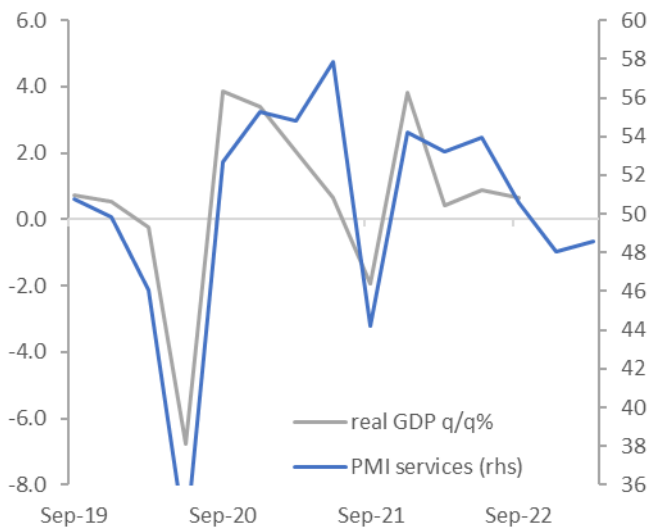
The RBA is very aware of the impact that its tightening plus inflation pressures is having and likely to have on households going forward. Excess savings and the tight labour market have been cushioning the impact so far but there is a high degree of uncertainty as to the consumer outlook. Nominal retail sales were volatile at the end of 2022 due to seasonal issues but Q4 real retail sales fell driven by non-food discretionary items but remain well above pre-pandemic levels. However, goods account for around a third of spending and the increase in services inflation was another indication that the shift from retail to services spending continues. The Q4 national accounts released on March 1 will give us more colour on how total spending developed at the end of last year. While house prices fell for the ninth consecutive month in January, they are only 9.7% below their peak and the correction to date has been orderly. The RBA is likely to be pleased that some of the heat has come out of demand but will be monitoring consumer developments closely.

Figure 1: Domestic price pressures rising



Source: Source: MNI – Market News/Refinitiv/ABS

Figure 2: Growth outlook lacklustre



Source: MNI – Market News/ABS/Bloomberg

The Australian economy is likely to avoid a recession but still slow to its lowest growth rate since 1991, apart from the pandemic. On the business side, NAB business conditions remain above average but have cooled whereas the confidence measure is below the series average. The global environment is looking brighter than at the last RBA meeting in December with China reopening and growth in the US and Europe looking more resilient. Commodities have continued to provide a windfall into the economy and government revenue. Given the Board's previous statements regarding global headwinds, there may be an adjustment in February to reflect a slightly better outlook.

We expect the RBA not only to hike rates 25bp at the February meeting but again in March following the WPI data on February 22. Then it is possible that there is a pause in early April given monetary policy lags and the Q1 CPI data due on April 26. There is a good chance that the tightening cycle is prolonged, especially if inflation proves sticky. The meeting statement, Statement on Monetary Policy and minutes will be watched closely for indications of an imminent pause. Governor Lowe is also scheduled to speak before the House of Representatives Standing Committee on Economics on February 17.

RBA December 6 2022 Meeting Statement

At its meeting today, the Board decided to increase the cash rate target by 25 basis points to 3.10 per cent. It also increased the interest rate on Exchange Settlement balances by 25 basis points to 3.00 per cent.

Inflation in Australia is too high, at 6.9 per cent over the year to October. Global factors explain much of this high inflation, but strong domestic demand relative to the ability of the economy to meet that demand is also playing a role. Returning inflation to target requires a more sustainable balance between demand and supply.

A further increase in inflation is expected over the months ahead, with inflation forecast to peak at around 8 per cent over the year to the December quarter. Inflation is then expected to decline next year due to the ongoing resolution of global supply-side problems, recent declines in some commodity prices and slower growth in demand. Medium-term inflation expectations remain well anchored, and it is important that this remains the case. The Bank's central forecast is for CPI inflation to decline over the next couple of years to be a little above 3 per cent over 2024.

The Australian economy is continuing to grow solidly. Economic growth is expected to moderate over the year ahead as the global economy slows, the bounce-back in spending on services runs its course, and growth in household consumption slows due to tighter financial conditions. The Bank's central forecast is for growth of around 1½ per cent in 2023 and 2024.

The labour market remains very tight, with many firms having difficulty hiring workers. The unemployment rate declined to 3.4 per cent in October, the lowest rate since 1974. Job vacancies and job ads are both at very high levels, although they have declined a little recently. Employment growth has also slowed as spare capacity in the labour market is absorbed. Wages growth is continuing to pick up from the low rates of recent years and a further pick-up is expected due to the tight labour market and higher inflation. Given the importance of avoiding a prices-wages spiral, the Board will continue to pay close attention to both the evolution of labour costs and the price-setting behaviour of firms in the period ahead.

There has been a substantial cumulative increase in interest rates since May. This has been necessary to ensure that the current period of high inflation is only temporary. High inflation damages our economy and makes life more difficult for people. The Board's priority is to re-establish low inflation and return inflation to the 2–3 per cent range over time.

The Board recognises that monetary policy operates with a lag and that the full effect of the increase in interest rates is yet to be felt in mortgage payments. Household spending is expected to slow over the period ahead although the timing and extent of this slowdown is uncertain. Another source of uncertainty is the outlook for the global economy, which has deteriorated. The Board is seeking to keep the economy on an even keel as it returns inflation to target, but these uncertainties mean that there are a range of potential scenarios. The path to achieving the needed decline in inflation and achieving a soft landing for the economy remains a narrow one.

The Board expects to increase interest rates further over the period ahead, but it is not on a pre-set course. It is closely monitoring the global economy, household spending and wage and price-setting behaviour. The size and timing of future interest rate increases will continue to be determined by the incoming data and the Board's assessment of the outlook for inflation and the labour market. The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that.

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MNI RBA WATCH: 25bp Hike Expected; Eyes On Revised Forecasts

By Robert Guy

(MNI) Perth - The Reserve Bank of Australia is expected to deliver another 25bp hike on Tuesday, with updated forecasts at the first meeting of the year set to shape market pricing of the peak rate as policymakers confront inflation that remains well above target.

A ninth consecutive hike - and fourth straight 25bp increase - would take rates to 3.35%, the highest since 2012, after a hotter-than-expected Q4 Consumer Price Index was viewed as forcing the central bank's hand to continue the most aggressive tightening cycle since the 1990s. The Q4 trimmed mean, a gauge of underlying inflation, exceeded the RBA's estimate.

It's expected policymakers will canvas a pause, a 25bp hike or a 50bp hike - similarly to their deliberations in December - but settle on 25bp given Q4 headline inflation printed at 7.8% y/y, but the full impact of last year's cumulative 300bp in tightening is yet to be felt. One economist, who correctly forecast October's step down to 25bp from 50bp, sees a "non-trivial risk" of 40bp - and a possible pause - to return rate moves to traditional increments. The need for additional hikes will narrow the RBA’s already "narrow path" in balancing its inflation fight against avoiding recession.

The debate over the number of prospective hikes and timing of a pause has been fuelled over the past two months since the RBA's last meeting by data showing the economy is cooling. December retail sales fell 3.9%, the fourth-largest monthly decline, though strong earnings updates from retailers have cast some doubt over the read. House lending fell for an 11th consecutive month in December as rate hikes raised borrowing costs and squeezed the size of new loans.

Unemployment held steady at 3.5% in December but a decline in jobs suggested the labour market is no longer tightening. However, wages are expected to continue rising, complicating RBA efforts to bring inflation back to its 2-3% target. The RBA's head of economic analysis, Marion Kohler, told a Senate committee on Feb 1 that wage hikes were set to play out "a bit further". (See MNI POLICY: RBA Inflation Fight Aided By Increased Migration)

The Q4 Wage Price Index is due Feb 22, and may prove key in shaping rate expectations for March. Overnight index swaps have priced in another 25bp hike by May, with a peak around 3.6% by mid-2023.

The RBA will also likely consider shifts in other central banks’ thinking. December’s minutes noted that "no other central bank had yet paused". Since then, Norges Bank kept rates steady last month, while the Bank of Canada indicated it was prepared to pause should growth align with its forecasts.

UPDATED FORECASTS

The RBA will provide a taste of its updated forecasts in the meeting statement, ahead of the more detailed release in the Statement on Monetary Policy on Feb 10. The first forecasts for 2025 are expected to show a return to the 2-3% inflation target range.

The RBA had forecast inflation to peak at around 8% in Q4 in November's Statement on Monetary Policy, and Q4’s 7.8% y/y print could deliver a modest downward revision to headline CPI estimates. However, forecasts for the near-term trimmed mean are likely to increase after Q4’s 6.9% y/y, above RBA expectations for 6.5%. Kohler’s comments suggest the Bank may boost some of its Wage Price Index forecasts.

While domestic growth is expected to slow, the RBA will take comfort from the reopening of China's economy and the positive impact on key exports like iron ore and coal. Benchmark iron ore prices have rallied from USD80 a tonne in November to USD125. (See China Related Assets Consolidate - A Bump In The Road Or Something More Threatening?)

Sell-Side Analyst Views

ANZ (+25bp): We see the RBA tightening by 25bp on Tuesday given the strength of inflationary pressure evident in the Q4 CPI data. Intense domestic inflationary pressures, evident in the acceleration of non-tradeables and services inflation growth have locked in a rate hike, in our view. Another upgrade to inflation forecasts in the RBA's February Statement on Monetary Policy will provide further support for an increase in the cash rate.

- While a 25bp hike next week is the most likely option, we expect the Board to consider a 50bp hike, as it has done since it moved to 25bp hikes last October. Early signs of a slowdown in consumer spending and a softening in business conditions should be enough though for the RBA that demand is responding to higher rates, allowing it to stick to 25bp.It's worth noting that at the time of writing the market is almost fully pricing a 25bp hike next week, with close to a 50% chance of a pause in March.
- In its February Statement on Monetary Policy (SoMP) due Friday, 10 February, the more important question will be how quickly the RBA sees inflation subsiding over the extended forecast horizon to mid-2025. We expect the RBA to lift its end-2023 trimmed mean inflation forecast from 3.8% to 4.2. Importantly, we think the February forecasts will include a return to 3% y/y inflation, which is the top of the target band, in Q2 2025. The higher starting point of inflation, as well as evidence of stronger momentum than the RBA had earlier expected, will see inflation (particularly trimmed mean) and wage growth forecasts upgraded across the horizon. The RBA's new inflation forecasts will be key to the near term policy outlook, but GDP forecasts are also likely to be tweaked a little in the SoMP.
- We expect the RBA's assumed path of the cash rate to be little changed (presuming it continues to use a combination of expectations derived from surveys of professional economists and financial market pricing). In the November SoMP, the cash rate was assumed to peak around 3½% in mid-2023 before easing to around 3% by end-2024. While market pricing has shifted down since November, economists' expectations have shifted up. Currently the average of market pricing and economists' estimates are 3.7% for the peak, which is the same as November, and 3% for end-2024, which is a little lower than the 3.25% average in November.

Bank of America (+25bp): We expect the RBA to hike by 25bp following an unexpectedly hot 4Q22 CPI print. A 50bp hike cannot be ruled out. But the bank is likely to stick to its gradualist approach given the expected deterioration in household balance sheets and the desire to proceed cautiously considering the "substantial cumulative increase in interest rates since May".

Barclays (+25bp): In line with still-high inflation, we expect the RBA to deliver another 25bp hike. In our view, this will be the last hike before the bank pauses, as it remains concerned on growth. A softer print for retail sales, Q4 inflation lower than the bank's expectation, falling commodity prices and indications of easing spare capacity in the labour market should allow the RBA to pause after February.

Citi (+25bp): The RBA will raise the cash rate target by 25bps next Tuesday to 3.35%. In our view, this would make monetary policy conditions mildly restrictive if inflation was at the upper end of the target band. However, with inflation well above the target band at 7.8%, the real policy rate remains negative and likely to remain there until around mid 2024.

- The monthly policy statement should remain consistent with December in that we expect a repeat of the sentence "the board expects to increase interest rates further over the period ahead, but it is not on a pre-set course". Any removal of this sentence would be interpreted by the market as being a pause to the hiking cycle. The probability of removing this sentence remains low.
- The net-balance of economic data since the last Board meeting does not support a change in policy guidance. The labour market is consistent with at or above full-employment, wages will accelerate while inflation pressures remain broad with no sign of moderation. We acknowledge the weaker than expected December retail sales result. However, price data on discretionary spending showed that consumer demand in this area remained strong overall in Q4. More monetary tightening is required, which is why we lifted our terminal cash rate view from 3.35% in Q1 to 3.85% in Q2.
- Price categories that are sensitive to the labour market have accelerated significantly, and this is closely linked to underlying inflation and also wages growth. Strength in market based goods and services items suggest that strong underlying consumer demand is driving price rises. A multi-decade low unemployment

rate will put pressure on labour costs and for firms to maintain profit margins. Risk is that inflation psychology is broadening and the probability of a prices wage spiral is increasing. Consequently, we revised our CPI forecasts upward; year-ended headline inflation for 2023 is now forecast to be 1.4pp higher to 5.4%. Meanwhile, underlying inflation is also 1.3pp higher at 5.0%. We expect the RBA to lift the inflation forecasts to June 2024, ie, inflation remains higher for longer in the February SMP.

- On balance, we believe risks are tilted to the hawkish side. There is a non-trivial likelihood of a 50bp increase given the Bank will increase its inflation forecast. We place a higher probability of a 50bp increase than no change next week.
- The SMP will be the first opportunity for the RBA to update investors on feedback from the Bank's business liaison on economic conditions and outlook for 2023.

CBA (+25bp): The RBA is widely anticipated to raise the cash rate at the February Board meeting. We expect a 25bp hike to 3.35% and ascribe a 65% chance to this outcome. We believe there is a non-trivial risk the RBA raises the cash rate by a larger 40bp to 3.50% and also announce an intention to hold the policy rate steady over the period ahead if economic developments evolve broadly in line with their updated forecasts (we ascribe a 25% chance to this outcome; a 10% residual probability is attributed to any other outcome).

- We think that the RBA is close to pausing in their tightening cycle. Markets should be aware of the risk that the RBA restores the cash rate to a conventional metric in February and announces an intention to pause. We believe if the RBA delivered an outsized hike of 40bp in February it would be coupled with a stated expectation from the Board to keep the cash rate on hold over the period ahead while it assesses the impact of the cumulative rate increases (this in our view would see the cash rate target peak at 3.50%).
- We expect the RBA to leave their headline and underlying inflation forecasts for end-2023 largely unchanged (the forecast for headline inflation in Q2 23 should be downwardly revised, while trimmed mean inflation in Q2 23 will be nudged up to reflect actual outcomes).
- We expect the RBA to downwardly revise their forecast for GDP growth in 2023 and slightly upwardly revise their forecast for the unemployment rate.

Goldman Sachs (+25bp): Since December's meeting, data have been mixed but broadly in favour of further tightening from the RBA.

- In particular, the 4Q2022 inflation data showed that trimmed mean CPI inflation rose to 6.9%yoy, well above the RBA's target and above the RBA's November's forecasts. While some timely data point to an easing in headline inflation pressures over the coming months, other data point to an ongoing rise in wage pressures and rents inflation. The Government's recent intervention in the energy market is likely to mitigate energy inflation in FY2024, but there is still a high level of uncertainty about the magnitude.
- On the growth side, our current activity indicator for Australia has cooled a bit but remains above most global peers. Globally, the main development has been the re-opening of China, which has already boosted commodity prices and is likely to add ~20bp to Australia GDP growth.
- More worryingly, Australia's housing data has remained weak, with broad based declines across prices and new mortgage approvals over recent months. Whether this is starting to spill over to consumer spending is less clear. Retail sales fell sharply in December, but retail sales only account for 30% of total spending.
- On balance, we expect the RBA will view the recent data as suggesting more rate hikes are needed, even if there is increasing evidence that the tightening over 2022 is starting to impact the economy. We expect the Board will opt to hike the cash rate +25bp to 3.35% after discussing the same options as December's meeting (no hike, +25bp or +50bp). While we don't rule out +50bp or a pause completely, we don't think the data justifies either option. At the margin, we think a pause is a bit more likely that +50bp, particularly given a few other G10 central banks recently paused their tightening cycles.
- In terms of the forward guidance, our base case is that the RBA maintains its tightening bias. That said, we view this as a close call and wouldn't be surprised if the RBA softened its guidance somewhat. A pivot to an explicit pause would be a dovish surprise to us, and would signal that our forecasts for rates beyond February (+25bp in March/April/May) would be unlikely to be met.
- We don't expect any major revisions to the RBA's forecasts in February. Risks around the growth forecasts for 2023 and 2024 are fairly two-sided. Growth in the wage price index is likely to be revised up marginally (10bp) in the near term. On the inflation front, we expect the forecasts for headline inflation to be revised down a bit given the softer 4Q2022 outcome and the Government's recent intervention in the domestic energy market. We would be surprised to see major revisions to trimmed-mean inflation.

HSBC (+25bp): The RBA has another challenging year ahead of it. Inflation is still too high and the CPI figures are yet to show convincing signs that it has peaked. This is in contrast to the US, Canada, and New Zealand, where CPI figures show a peak in inflation. Given this, we expect the central bank will judge that it needs to keep tightening further.

- The higher than-expected core inflation figures for 4Q22 mean an even narrower pathway, as it implies that more tightening is likely to be needed.
- We also see some asymmetry in the balance of risks around the RBA's tightening from here as, once further hikes have been delivered, it will be difficult to reverse them (that is, to cut) without inflation first falling substantially, which could take some time.
- On the positive side, there are signs that the significant local monetary tightening is working. It has weakened local activity and business surveys show that local cost pressures have peaked, including the momentum in labour costs.
- The recent rapid re-opening of China's economy shouldprovide a bulwark against a local recession, although it may also add to inflation.
- We stick by our rule of thumb that the RBA will pause its hiking when the unemployment rate has clearly troughed, which has not happened yet. We see this as likely in the next couple of months, but not in time to stop another 25bp hike in February to 3.35%, and likely one in March too, before a pause.

ING (+25bp): On 7 February, the Reserve Bank of Australia (RBA) is expected to hike rates by 25bp. Some months ago, when the RBA adopted the smaller 25bp hike approach, it became obvious that the central bank was not operating on a data-dependent policy. As it got closer to the peak in rates, it would simply proceed at a slower pace to avoid, or at least limit, the risk of overtightening. Considering the much higher than-expected inflation readings over the past two months, we have increased our peak RBA cash rate forecast to 4.1% from 3.6%, assuming that there are two further months of 25bp hikes ahead. We see a slight softening of the labour and housing markets, but this is not likely to be decisive for future rate decisions.

JP Morgan (unchanged): At this week's meeting, we look for the RBA to hold the cash rate steady at 3.10%. Since the 4Q CPI result, markets are pricing a higher chance of a 25bp hike, which is the clear risk to our call. Though we remain convinced a pause is coming soon, an outcome of 25bp hike, with more open-ended guidance (for example, removing the expectation of rate hikes "over the period ahead," while emphasizing ongoing data dependence) is similarly plausible. A further string of several 25bp hikes from here we think is unlikely; the RBA's continued use of discretion and respect for policy lags suggest it won't keep moving when the cash rate is already restrictive and earlier hikes are gaining traction in the activity data. This traction includes a clear moderation in consumption and GDP growth so far, as well as in the leading indicators of the labor market discussed below.

- We do not view the last CPI result as significantly disrupting the RBA's framework, which has assumed a peak in inflation in 4Q at 8%; the data suggest the timing and magnitude of that peak (7.8%) was broadly correct, and the board already downshifted to 25bp increments and flagged a potential pause, conditional on those forecasts. The drivers of inflation also have moderated.
- In the Feb SoMP forecasts, this year's core inflation projections are likely to be revised up on carryover from the 4Q data, but the unemployment rate forecast is also likely to be moved higher, reaching 4% this year. Moreover, global goods inflation has slowed to near-zero in recent months, and AUD/USD has rallied 15% from the October lows that guided the last SoMP forecast inputs. This combination is likely to lower the inflation path beyond Dec-2023.
- Our terminal rate forecast (3.6%) remains close to market pricing (3.75%), though we see this being achieved on a slower timeline, with a resumption of hikes in 2H.

Morgan Stanley (+25bp): We expect the RBA to hike 25bps at its February meeting, taking the cash rate to 3.35%. We expect commentary will be relatively hawkish, flagging further tightening and noting that broadening inflation pressures require a sharper economic slowdown. Updated forecasts should lower the near-term inflation path (on government power price caps) but a higher wages path will still make the return to inflation target gradual. We continue to see a terminal rate of 3.6% reached in March, which will require further evidence of slowing across inflation, jobs and spending over the next two months.

NAB (+25bp): We expect the RBA to raise rates by 25bp on Tuesday. Markets are well priced for 25bp, though with 22bp priced for February, and another 14bps by March, allowing a sizeable risk of a pause after February. A 25bp hike is the strong consensus among analysts; the pick of 22 of 25 respondents in the Bloomberg Survey. NAB's view is that the RBA will raise rates by 25 bp at the February and March meetings to a peak of 3.6%.

- As with the flurry of offshore central banks this past week, Tuesday is more likely to be about any signal for the path forward than the decision on the day. And the RBA will have to acknowledge the change in tone coming from the major central banks, as well as greater signs of global disinflation, which will likely be felt in Australia with a lag.
- On the domestic side, data flow since late last year has seen wages and underlying price pressures surprise the RBA's November forecasts higher. That underscores the need for the RBA to continue to hike.
- Importantly, we still think the RBA will be cautious on the potential impact of higher rates. The RBA will be encouraged by signs in retail sales data that household goods consumption is beginning to slow.
- We don't anticipate much redrafting for the key final paragraph. We expect the RBA will retain a hiking bias, while keeping its options open. We would expect a further evolution of the guidance ahead of a pause and note the risk that less explicit hiking guidance emerges in Tuesday's statement.
- The December minutes revealed the RBA considered a full gamut of 50bp, 25bp, and (for the first time) 0bp at the December meeting, inching the door ajar to a pause. And it is likely the RBA will consider all options again, but of course settling on a 25bp hike.
- The post-meeting statement will also reveal key updated forecasts, but we will likely need to wait until Friday's SoMP for much new insight into the outlook. We expect the forecasts to continue to draw a path to a soft landing, but the characterisation of the risks will be key to determine whether the RBA continues to be confident that it can return inflation to target without pushing rates deep into restrictive territory.
- Governor Lowe traditionally does a 'year ahead' speech in Sydney around the release of the February forecasts, but there is nothing in the calendar so far. Governor Lowe appears in front of parliament in semi-annual testimony on 17 February. Watch out for a speech to pop up.

Natwest (+25bp): We expect the RBA to hike the cash rate by 25bp next week, which would mark a fourth consecutive 25bp increase in the policy rate and is widely expected by the consensus. The February meeting will include a new Statement on Monetary Policy, including new forecasts for growth and inflation, in which the RBA will need to balance an improving backdrop in China against the risks emanating from the transmission of its tighter policy stance to consumption and housing markets.

- On balance, we judge that the possibility of a pause in the near term has increased given the concerns of a lag in policy transmission. As is the case in many global economies, current inflation remains high but several major components driving inflation like housing and oil prices have moderated.
- The RBA highlighted at its December meeting that risks to higher wage growth may be growing, given the tight labour market, but the February meeting is set to take place before fourth quarter wage inflation figures are released – an unchanged pace of tightening, with a close eye on upcoming wage data, is prudent in our view.
- The AUD has clearly been a relative beneficiary of China's reopening and the improved macro backdrop, although the relatively dovish stance of monetary policy vs.its peers has left us more cautious (and short) AUD on the FX side.
- As the world's central banks shift toward maintenance mode on tightening cycles, AUD's policy rate may settle among the lowest among risk-sensitive currencies in G10, and well below that of New Zealand. Market pricing is for another 20bp and 34bp for 1 month and 2 month, respectively, which in each case is lower than our baseline view of hikes at each of the February and March meetings.

Societe Generale (+25bp): We expect the RBA to increase the cash rate target from 3.10% to 3.35% at its 7 February policy meeting, marking its fourth consecutive 'baby-step' hike of 25bp since October last year. Most market participants also seem to expect a 25bp hike in February.

- The RBA policymakers are clearly more focused on the slowdown of economic growth, although macroeconomic indicators (especially inflation and employment) do not support a termination of the rate-hike cycle at this juncture. We maintain our base scenario that the RBA will end the tightening cycle at a terminal policy rate of 3.85% in April.
- Persistently rising inflation should be the main argument supporting a further 25bp rate hike this month. A sizeable jump in trimmed mean inflation suggested that the rise in inflation was rather broad-based, not just confined to a few specific drivers such as electricity price. A sharp rise in monthly inflation, from 7.3% in November to 8.4% in December, was also an adverse sign for the inflation outlook. In summary, we have yet to confirm the peaking of inflation in Australia.

- Meanwhile, an abrupt 3.9% decline in December retail sales may have to be interpreted as a sign of weakness in consumption, which endorsed the policymakers' expectations of a slowdown in household spending in the policy statement at December meeting. The contraction in employment and hours worked in December could also point to a slowdown in economic activity, although the unemployment rate stayed at the historically low level of 3.5%, indicating that labour market conditions remain tight.
- China's reopening boom should benefit the Australian economy. We already saw the trade surplus rebound in November, and iron ore prices have been rising significantly over the last three months. However, we don't think the RBA policy will be affected by the positive impacts from China.

Royal Bank of Canada (+25bp): We expect the bank to raise the policy rate by another 0.25% to 3.35%. Given the surprisingly high Q4 CPI, and particularly the strength of core/sticky/services components within the report, it's too early for the bank to call an end to the hiking cycle. There's an outside possibility of a >25bp hike at this juncture given CPI, while conversely we think the chance of no change to the cash rate is very low. Given 25bp is priced in, if this is delivered on Tuesday then focus will quickly move on the tone of the statement and the updated quarterly forecasts. These will be released in full on Friday, but we'd expect some numbers to be in Tuesday's statement. We're particularly interested in likely upward revisions to the RBA's core inflation profile, given Q4 trimmed mean came in at 6.9% y/y, well above the RBA's 6.5% Nov forecast.

Scotia (+25bp): Most of consensus expects another 25bps hike. Markets are mostly priced for a quarter point. The central bank had suggested that a pause was considered at the prior meeting in December which makes this call less than a slam dunk. Still, what tilts the balance of opinion toward another hike was the strong upside surprise to Australian inflation not only in Q4 but also for the final month of the year. Annualized changes in trimmed mean CPI and weighted median shot higher in Q4. There may be pause guidance at this meeting, but the hot inflation figures and China rebound narrative challenge whether the RBA should instead keep its options open.

TD Securities (+25bp): Accelerating services inflation locks in a 25bps hike. We f/c a follow-up 25bps hike in Mar taking terminal to 3.6% but the statement may open the door to pausing after next week. Official forecasts will be released 10th Feb, but the statement will provide a flavour of what to expect. Wage f/c's to be revised higher but the inflation trajectory to be left broadly unchanged.

Westpac (+25bp): We expect it is highly likely that the Board will decide to raise the cash rate by 25 basis points while maintaining the guidance used in December for the next meeting on March 7. On February 10 the Bank will release its February Statement on Monetary Policy where the interest will be in the Bank's forecasts of inflation, wages and growth.

- The Minutes of the December Board meeting noted that the Board discussed options of 50 basis points, 25 basis points and on hold. It seems likely that all options will again be on the table. If we consider the situation facing the Board at the February meeting compared to December, the stand-out is the higher than-expected measure for underlying inflation and the associated lift in services inflation that aligns with a stronger domestic demand and wages growth environment. Accordingly, it seems likely that the Governor will maintain his wording from the December Statement: "The Board expects to increase rates further over the period ahead, but it is not on a pre- set course".
- We expect the RBA Board will be cautious around the December retail print. It will not base its decision on one month's data. Our Westpac Card Tracker (which covers credit and debit card turnover across the Westpac Group) suggests wider turnover held up reasonably well in December but with some weakening in spending in retail offset by a strong surge in non-retail components – travel and recreational services in particular. Note that this is over and above regular seasonal increases around the holiday period.
- While there is evidence that some supply-side inflation pressures are easing in Australia – along the lines of the US – services inflation is still rising. While that will partly be about demand, it is also consistent with the idea that Australia's wages cycle is lagging the US: while wage inflation is easing in the US, wage pressure is still building in Australia.
- Despite having a higher trajectory for the cash rate than most other analysts, many of whom also expect a recession, we think the Australian economy will avoid a recession in 2023.
- Westpac expects that after the 25 basis point move in March there will be scope for a pause in April, to await the March quarter inflation report. Another 25 basis point increase in May, in response to a likely 6.5% Trimmed Mean inflation print, will mark the end of the tightening cycle with the cash rate peaking at 3.85%. As the RBA awaits the June quarter Inflation Report the evidence around inflation; wages; and demand will be sufficient to avoid an August move with rates on hold for the remainder of 2023.