

International Commentary — July 10, 2025

## Down Under Central Banks Take Rate Cut Time-Outs

### Summary

- The Reserve Bank of Australia (RBA) surprised markets this week by holding its policy rate steady at 3.85%, in contrast to widespread expectations for a rate cut. While acknowledging the latest slowing of inflation, the central bank said data were marginally stronger than expected and that private domestic demand is recovering gradually. As a result the RBA said it could wait for a little more information to confirm that inflation is trending towards target.
- Based on the RBA's announcement, we expect a gradual quarterly pace of rate cuts to continue. That said, we see potential for a more extended easing cycle than previously. We are less convinced of the underlying strength of domestic demand. Should inflation pressures continue to ease, we expect 25 bps rate cuts in August, November and February, bringing the RBA's policy rate to a low of 3.10% by early next year.
- For the Reserve Bank of New Zealand (RBNZ), this week's decision to hold its policy rate steady at 3.25% was widely expected. The central bank said elevated export prices and lower interest rates were supporting growth, but that global trade and tariff uncertainties provided some offset. The RBNZ said that as medium-term inflation pressures continue to ease as projected, it expects to ease monetary policy, which we view as broadly consistent with our outlook for 25 bps rate cuts at the August and November meetings, which would see the RBNZ's policy rate reach a low of 2.75%.

Economist(s)

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## Reserve Bank of Australia Surprises Markets By Holding Rates Steady

The Reserve Bank of Australia (RBA) sprung a surprise at its monetary policy announcement this week, holding its policy rate steady at 3.85% in contrast to widespread expectations for a 25 bps rate cut. The outcome was a majority decision, with six policymakers voting in favor of holding rates steady, and three against.

Expectations for a rate cut at this week's meeting had built up in the wake of a subdued first quarter GDP growth outcome and, especially, May CPI figures that showed a slowdown in both headline and trimmed mean inflation. Still, even while acknowledging the latest slowing in the May CPI, the RBA said it was "at the margin, slightly stronger than expected." The RBA also indicated that "private domestic demand appears to have been recovering gradually, real household incomes have picked up and there has been an easing in some measures of financial stress." The central bank also said that various indicators suggest labor market conditions remain tight.

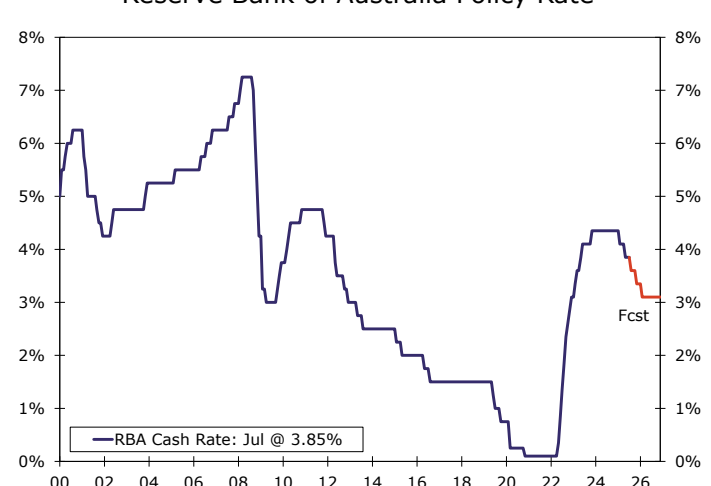
Overall, the RBA judged "it could wait for a little more information to confirm that inflation remains on track to reach 2.5 percent on a sustainable basis. It noted that monetary policy is well-placed to respond decisively to international developments if they were to have material implications for activity and inflation in Australia." In that sense, should Q2 CPI data prove relatively benign and confirm a further ebbing of inflationary pressures, we would expect the RBA to lower interest rates 25 bps at its August announcement.

We were among the economists that were surprised by the decision to hold rates steady this week, and comments from RBA Governor Bullock appear consistent with the central bank maintaining a gradual and cautious approach to monetary easing going forward. Bullock said the central bank does not want to end up fighting inflation again, and want to have inflation nailed down, while also indicating that this week's decision was about timing rather than direction. Bullock also said the central bank has been cautious and that it's paying off. Given these comments, we suspect a once per quarter rate cut pace could be the most likely path for the Reserve Bank of Australia, although we do see some potential for the central bank to lower interest rates by more than we previously expected over the course of its easing cycle. We are less convinced by the recent strength in private demand and whether it can be sustained. A modest growth performance, combined with a continued slowing of inflation pressures, could translate into a more prolonged easing cycle. A more prolonged easing cycle would also be consistent with the RBA suggestion that model-based estimates of the neutral interest rate have moved lower in recent quarters, perhaps to a range of 2.75%-3.00%. **Should growth remain subdued and inflation slow, we now expect 25 bps rate cuts in August, November and February, bringing the RBA's policy rate to a low of 3.10% by early next year.**

Australian Real Output Measures



Reserve Bank of Australia Policy Rate

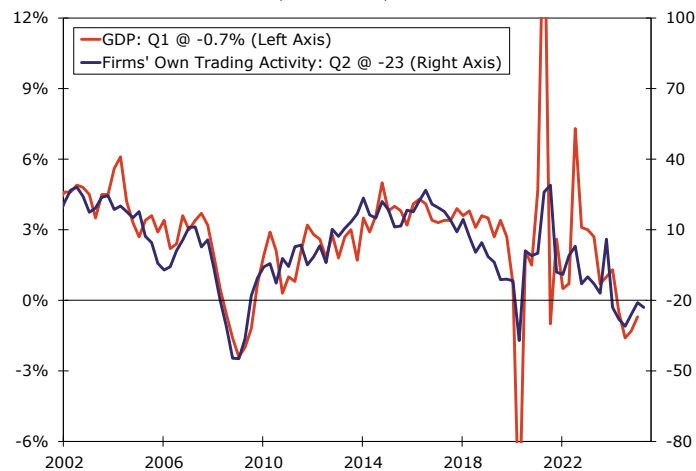


## Reserve Bank of New Zealand Also Pauses At Its July Announcement

The Reserve Bank of New Zealand (RBNZ) also held its policy rate steady at 3.25% at this week's meeting, an outcome that was much more widely expected. While the central bank sees CPI inflation ticking higher in the near-term, it is expected to remain within the inflation target band, and return close to 2% by early next year.

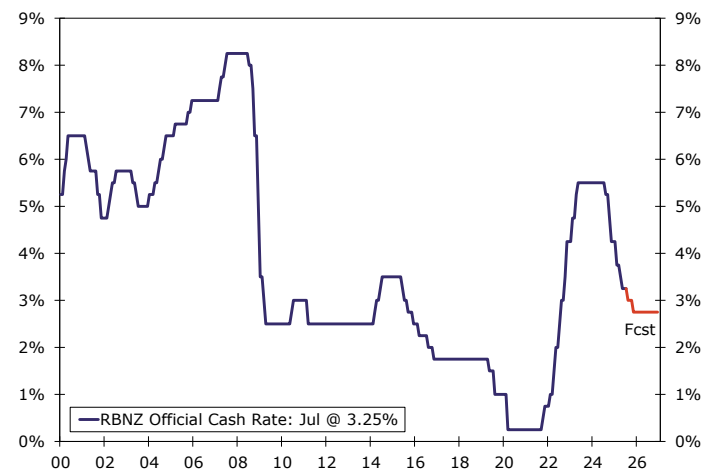
The RBNZ said elevated export prices and lower interest rates are supporting economic recovery, but that heightened global policy uncertainty and tariffs were something of an offset. In that context, RBNZ policymakers are awaiting further data on the pace of NZ economic recovery, the persistence of inflation, and the impact of tariffs, in assessing their next policy rate moves. That said, the RBNZ did offer some directional guidance, saying that if "medium-term inflation pressures continue to ease as projected, the Committee expects to lower the Official Cash Rate further." **Overall, we view the RBNZ announcement as consistent with our view for further gradual monetary easing, and our outlook remains for 25 bps rate cuts at the August and November meetings, which would see the RBNZ's policy rate reach a low of 2.75%.**

New Zealand GDP Growth vs. Firms' Trading Activity  
Year-over-Year; Net Balance, Past Three Months



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Reserve Bank of New Zealand Policy Rate



Source: Bloomberg Finance L.P. and Wells Fargo Economics

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