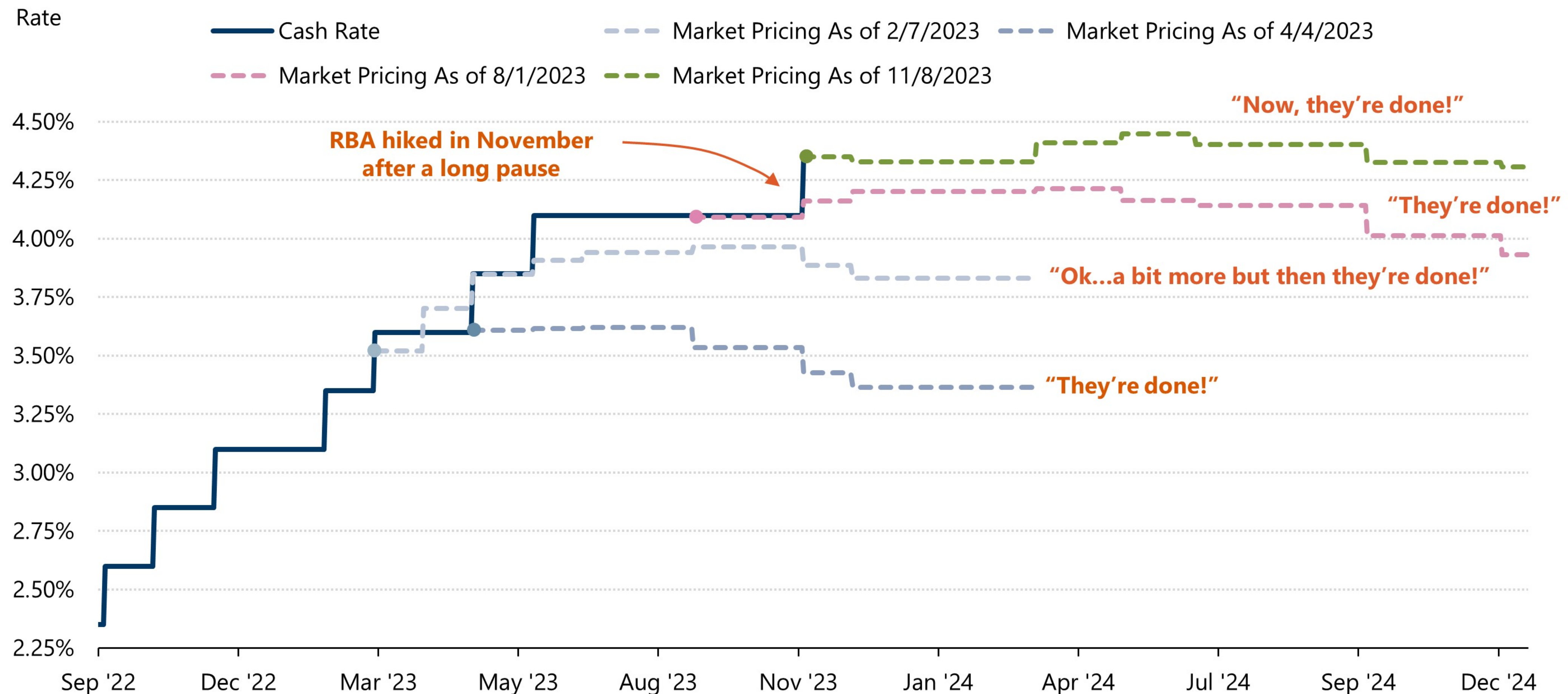


A Long Pause

Market Implied Reserve Bank of Australia (RBA) Cash Rate Versus Actual*

For The Week Ending 11/10/2023



Source: Reserve Bank of Australia, Bloomberg

*The cash rate was 0.1% in April 2022 when the RBA began the current rate hiking cycle

This week, the Reserve Bank of Australia (RBA) raised its policy rate, the cash rate, by 25 basis points. Why the sudden interest in our monetary friends in the southern hemisphere, you wonder? Well, the RBA may have thought/hoped they were "done," pausing their rate hike cycle for five months. Indeed, they were the first major central bank to move to an "on hold" stance, as the Fed has lately followed. But as we've counseled, the data will decide where rates go next, not policymakers or the market. The Aussie unemployment rate remains low, while core inflation is sticky. In the words of RBA Governor Michele Bullock, "The weight of (the data) suggests that the risk of inflation remaining higher for longer has increased." More broadly, bond investors have repeatedly guessed wrong, thinking central banks were done, only to be disappointed later. Another wave of market expectations about the cessation of hiking has swept the bond market in recent weeks. For investors, the RBA example should serve as a cautionary tale.