

RBA expected to lift interest rates next week: CBA economists

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Key points

- CBA expects the cash rate to rise 25bp to 4.60% on 29 September.
- Higher oil prices, stronger inflation data and recent RBA commentary have brought the call forward from November.
- Another rate rise remains a clear risk and will depend on upcoming inflation prints and the Middle East conflict.

CBA's Australian Economics team now expects the Reserve Bank of Australia to increase the cash rate by 25 basis points next Tuesday.

Head of Australian Economics Belinda Allen said a combination of higher oil prices, stronger-than-expected economic data and increasingly hawkish signals from the RBA had shifted the balance towards an earlier move.

"We now expect the RBA to hike the cash rate by 25 basis points to 4.60% at its 28-29 September meeting," Allen said.

"Our previous call was for a rate hike in November once the full quarterly CPI confirmed the materialisation of upside risks to inflation."

Why has CBA changed its call?

Allen said several developments over recent weeks had strengthened the case for a September increase.

One was the sharp rise in global oil prices amid the conflict in the Middle East. Brent crude has climbed from around \$US80 a barrel to above \$US100, increasing the risk of higher petrol and diesel prices flowing through to Australian inflation.

Market expectations have also shifted substantially. A September rate rise is now about 90% priced by financial markets, compared with roughly 30% before the July inflation figures.

Allen stressed that market pricing alone would not determine the RBA's decision, but said leaving rates unchanged could carry risks if the central bank's inflation concerns continued to grow.

Recent economic data has also remained stronger than the RBA expected, including inflation figures and GDP growth.

RBA signals growing concern over inflation

Recent comments from senior RBA officials have continued to focus on inflation risks.

Allen pointed to comments from RBA Governor Michele Bullock to a parliamentary committee, where she said “some of these upside risks to inflation appear to be materialising”.

The RBA has highlighted a broad range of possible inflation pressures, including the Middle East conflict, the AI investment boom and extreme weather, while its liaison program has found many businesses passing higher input costs on to customers.

CBA expects this week's labour market figures to show the unemployment rate holding steady and says it would probably take a large downside surprise to change its September call.

Could rates rise again?

CBA expects the RBA to leave open the possibility of further rate rises if inflation remains too high.

But another rate increase is not CBA's base case at the moment

The economy is slowing, the labour market is moving closer to balance and the housing market is undergoing a significant downturn. A cash rate of 4.60% would also leave monetary policy firmly restrictive.

A strong September-quarter trimmed mean inflation result of 1% or more could nevertheless put another increase on the table. CBA said a move to 4.85% would represent a significant shift towards prioritising inflation risks and could produce a larger hit to economic growth and house prices.

Rate cuts pushed further into 2027

CBA continues to expect 50 basis points of interest rate cuts in 2027, but has pushed back when those cuts are expected to begin.

The first reduction is now forecast for August 2027, rather than May, followed by another in November.

Allen said the timing remained uncertain, with investment associated with AI, renewable energy and defence, alongside government deficits, potentially putting upward pressure on growth, inflation and the economy's neutral interest rate.

That could keep interest rates higher for longer even as economic growth slows.

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