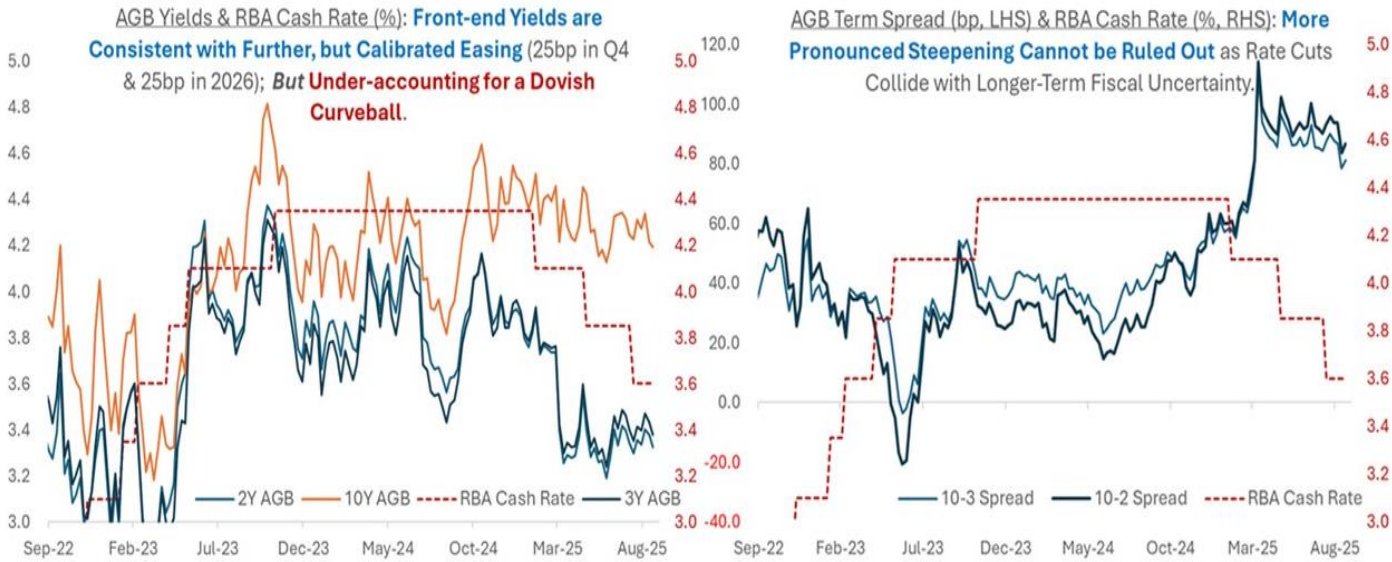


RBA: Crosswinds & Curveballs

- **Expectations of RBA easing are considerably measured** with very limited scope and inclination for calibrations left. In fact, *many believe the RBA' easing cycle to be mostly exhausted* (one more 25bp rate cut in Q4 2025 and another 25bp in H1 2026).
- Trouble is, such a **sanguine view of the RBA comfortably in a “sweet spot”**, **masked by policy crosswinds** – between *lower neutral rates* and *job market resilience*.
- But this **could prove dramatically wrong** rather suddenly. Especially **if sudden job market deterioration wrong-foots the RBA with a dovish curveball**.
- In so doing, potentially **triggering sharper rate cuts to buffer against adverse household/consumption shocks**.
- **Two key considerations feature in** flagging this significant **fattening of dovish “tail”**.
- First, an **RBA** study has concluded (as we suspected) that it has **over-estimated the neutral rate by some 70bp** (at 3.6% instead of 2.9%).
- In other words, *all else equal*, it is reasonable to suggest rates have been 50-75bp higher than the RBA had intended. Admittedly, the same study points out the RBA has been relative less restrictive than its global peers in the post-pandemic tightening.
- But that is backward-looking validation of policy restriction misgauged, which does not distract from more-than-intended restriction maintained.
- Second, and **crucially**, a **resilient job market is the cover** for the appropriateness of current policy settings.
- But as we have pointed out before, **Australia's job market, in its current transition**, is **flattered in the unemployment headlines but far more fragile under the hood**.
- Notably, job creation has weakened in quantum and arguably deteriorated in quality. Looking ahead, **downside risks via household consumption channels are prominent**.
- What this means is that the **probability of deeper (by 50-75bp) and faster rate cuts into 2026 increases**.
- Specifically, there is a growing risk (even if not yet the base case) the **RBA might have to cut below “neutral” (2.9%) to slightly accommodative** amid a mix of external and domestic headwinds.
- Yield/Curve Impact: Sharper than currently price rate cuts ought to be *consistent with more prominent AGB bull steepening*. Especially as deeper rate cuts collide fiscal strains. This will render the long-end stickier even as front-end pullback is pronounced.
- Meanwhile, the hot property market conundrum stifling room for RBA rate cuts will need to be addressed by supply-side and macroprudential measures.



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