Mizuho Brief: RBA

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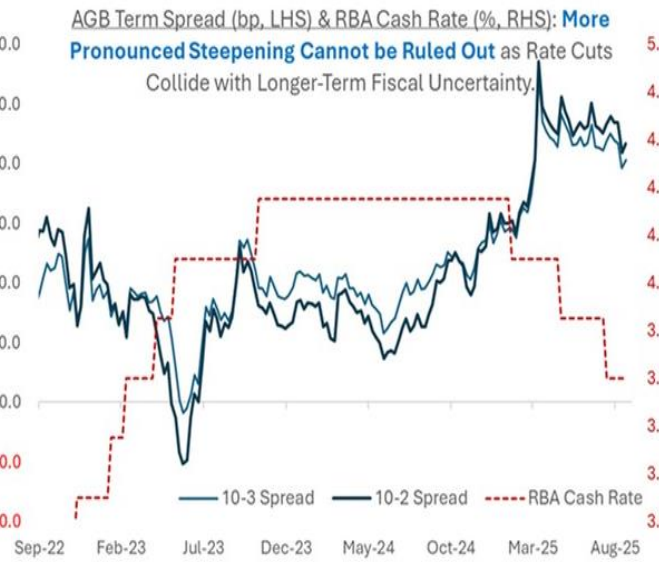
RBA: Crosswinds & Curveballs

- **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 it 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.


AGB Yields & RBA Cash Rate (%): Front-end Yields are Consistent with Further, but Calibrated Easing (25bp in Q4 & 25bp in 2026); But Under-accounting for a Dovish Curveball.
2Y AGB
10Y AGB
RBA Cash Rate
3Y AGB
Sep-22
Feb-23
Jul-23
Dec-23
May-24
Oct-24
Mar-25
Aug-25


AGB Term Spread (bp, LHS) & RBA Cash Rate (%, RHS): More Pronounced Steepening Cannot be Ruled Out as Rate Cuts Collide with Longer-Term Fiscal Uncertainty.
10-3 Spread
10-2 Spread
RBA Cash Rate
Sep-22
Feb-23
Jul-23
Dec-23
May-24
Oct-24
Mar-25
Aug-25