

RBA: The Importance of Being Earnest



"In matters of grave importance, style, not sincerity is the vital thing." – The Importance of Being Earnest

Unequivocally Hawkish Allusions

- The **RBA's distinctly hawkish hold** comes as **no surprise**. Nor does the **>60% odds of another RBA hike by year-end**.
- Governor Bullock has characterized **another hike** as **"quite possible"**, adding that **inflation risks are front of mind** amid **Middle East risks** and **AI boom**.
- Notably, she added the RBA is **not worried about private credit fragility** – relegating this as a likely containable tail risk in the RBA calculus.
- Crucially, Governor Bullock said the **softening housing market** is **not the RBA's main game assessing that it is not a big risk to financial stability**.

Housing & Overtightening Risks

- But **unlike private credit, housing potentially poses an economy-wide** (across banks and households) **balance sheet risk**.
- Arguably then, **mounting housing risks could effectively nudge the bar for another hike appreciably** (even if not prohibitively) **higher**.
- What's more, the **RBA views the cash rate as still being a bit restrictive** and that she **doesn't want the unemployment rising above (the unobservable) "NAIRU"**.
- Taken together this is arguably a **tell that of the RBA's aversion to inadvertently over-tightening**.

Calibrated Hawks – Earnest, Not Aggressive

Nonetheless, it is critically important that the **RBA** remains **earnestly hawkish in its bias**, to ensure front-loaded tightening is not squandered.

Although, *two-way uncertainty* and *sharpening policy trade-offs* mean that the RBA cannot afford to be committedly and aggressively hawkish.

Instead, *any further hike cautious and calibrated*. In Oscar Wilde's words, *hawkish style may matter more than (committed, upfront) sincerity*.

In fact, if the RBA does not hike by late-2026, then the **case for further tightening may actually diminish** (rather than harden) *on emerging housing/jobs risks*.

Tactical-Structural Curve Tensions

- This has clearly taken the edge off front-end ACGB-UST spreads, , alongside *measured re-steepening in the ACGB curve* (alongside USTs).
- Admittedly, **earnestly hawkish RBA checks scope for unmitigated ACGB steepening** (certainly impeding bull steepening).
- But *if structural UST curve steepening* interrupted in H1 2026 were to resume more emphatically, this could seep into ACGBs heading into 2027.
 - *Tactically*, a hawkish RBA might argue for opportunistic flatteners.
 - But *global long-end sell-off* may *reinstate a steeper curve further out*. **Especially if the RBA's hawkish bias fades**.

* Based on the “Phillips Curve” (which establishes a negative relationship between unemployment and inflation), the non-accelerating inflation rate of unemployment (NAIRU) refers to the unemployment rate at which inflation is stable (and not accelerating). Above this rate, risks of disinflation or outright deflation could mount.

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