Mizuho Brief: RBA

Economics & Strategy | Asia ex-Japan

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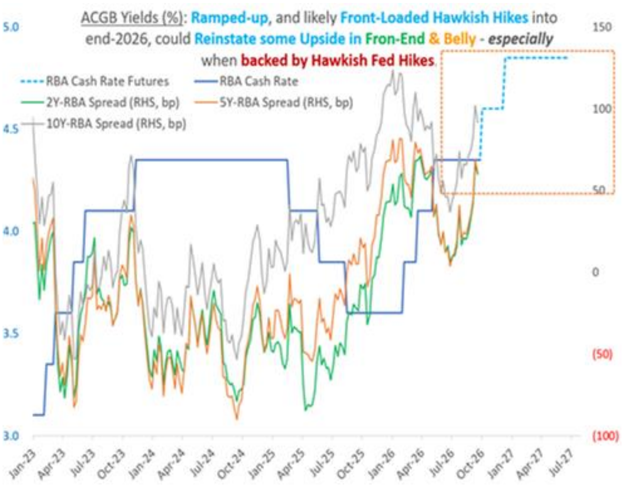
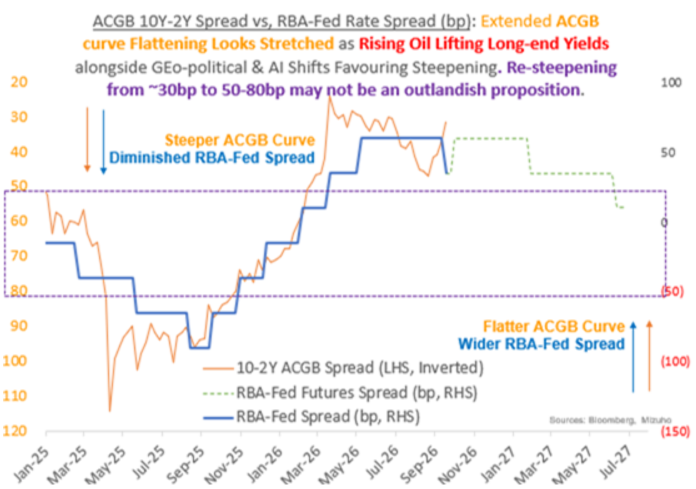
RBA Hawks: Ahead of the Curve (Rebound)?

"I have been impressed with the urgency of doing. Knowing is not enough; we must apply. Being willing is not enough; we must do." **– Leonardo Da Vinci**





Note: Projected RBA and Fed rates based on Futures are represented as discrete hikes (rather than continuous probabilities) on significant thresholds (>65% odds of a hike).

- A **hawkish RBA response *sooner***, and ***more emphatic***, is arguably, given the *flare in global oil prices*, and more importantly the *growing risk of second-round spill-over.*
- This translates into:
    1. A 25bp hike at the September meeting (next week) going from a fair bet (~50% odds) at end-August to an overwhelming consensus (89%) now.
    2. A follow-up 25bp hike (***not priced as of the end-August***) in late-2026/early-2027, with significant probability (>60%) of a third hike by mid-/Q3-2027.
- Point being, **markets have swung from no more than one patient hike** (to 4.60%) **in late-2027 to** *as many* as **three hikes with far greater urgency**.
- FX: A **hawkish RBA getting ahead of the curve**, ought to be *eventually **constructive for AUD**(back to 0.73-0.74),* looking past the interim hawkish Fed setback to potentially test 0.70.
- ACGB Curve: Whereas **ACGB yield curve impact** is likely to be **nuanced** and **time-varying**; with the **initial bear flattening** likely to relent to a **subsequent re-steepening** (but *without fully reversing the rise in yields*) **into 2027**. More specifically:

a. Front-End: ~**50bp more of RBA hikes into end-2026** may be **primed to lift 2Y ACGBs through 5%** (upside to 5.2-5.4%) **as RBA Cash rate tests 4.85%.** With *2Y ACGB premium over RBA Cash rate sustained* by hawkish views and/or spillover from elevated front-end UST yields.
b. Belly: Meanwhile, 5Y ACGBs are likely to keep pace *rather than dramatically exceed* the 2Y premium over the RBA Cash rate.
c. Long-End: While the **initial part of the hiking momentum may favour bear flattening**, an ***eventually steeper ACGB curve*** may **relent to global pressures at the long-end**, suggesting a lift through 5.45-5.95%.

- All said, the **RBA getting ahead of the curve** may *only temporarily flatten (tame) the ACGB curve, but relent to re-steepening,* which will **help underpin AUD**.

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