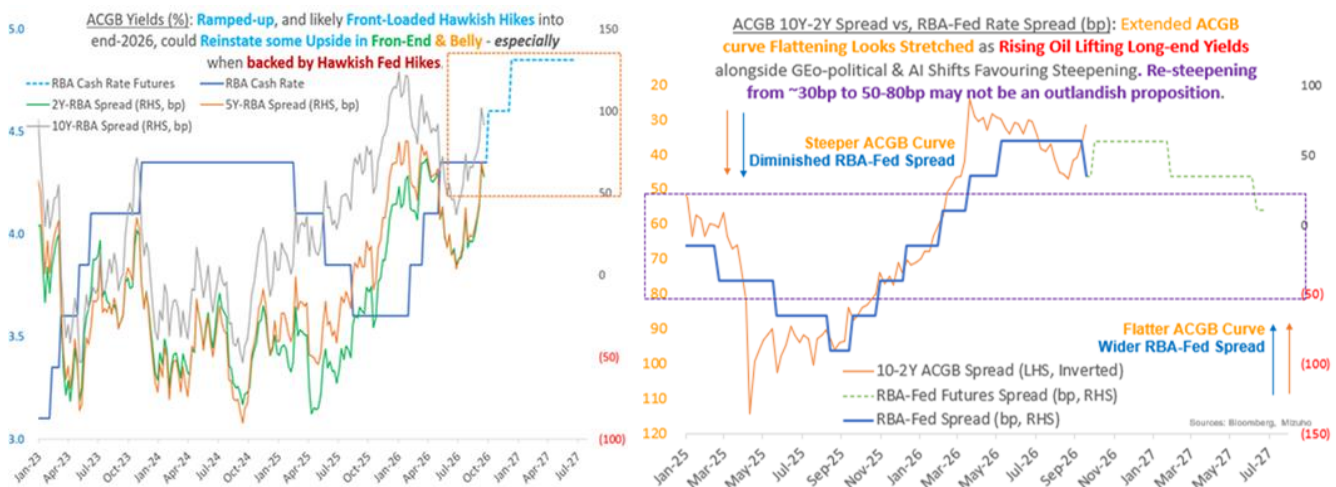


RBA Hawks: Ahead of the Curve (Rebound)?

"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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