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SARI Commentary: Lock it in Eddie

When the evidence changes, we change our view. July's CPI and household spending data, combined with the hawkish tone of the August board minutes, have turned what looked like an extended RBA pause into a near-certain September hike, and we have repositioned the Fund accordingly.

03/09/2026



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Market Review

Australia: Change of view

In last month's commentary we argued that the Reserve Bank of Australia (RBA) was on an extended pause, with the case for further tightening outweighed by the prospective drag from weaker house prices on consumer spending, softening business confidence and the lagged impact of 75 basis points of tightening already

delivered in 2026. New data released in late August has materially changed that assessment.

The evidence that forced the reassessment arrived in two pieces on 26–27 August. First, the July monthly consumer price index (CPI), released 26 August, showed headline inflation easing to 3.5% year-on-year from 3.8% in June - broadly as expected - but the composition was concerning. Monthly trimmed mean inflation jumped 0.5% month-on-month, taking the annual rate to 3.6% and leaving it unchanged from June, where the RBA had been hoping to see improvement. The six-month annualised pace of monthly trimmed mean has now lifted to 3.9% while the three-month rolling average of monthly trimmed mean lifted to 1%, providing a forward-looking signal that Q3 quarterly trimmed mean inflation will exceed the RBA's August forecast of 0.8% quarter-on-quarter.

The composition of the July CPI was arguably more alarming than the headline. Market services inflation, excluding housing and volatile items, accelerated 0.9% month-on-month to reach 4.4% year-on-year, its strongest reading in the series' history.

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The Au

The August RBA Board minutes, released 25 August, deserve careful reading because they provide the analytical framework within which the September decision will be made. The Board held unanimously at 4.35%, but the minutes reveal that a pre-emptive 25 basis point hike was actively debated at the meeting. The case for hiking in August rested on: the risk of a prolonged Middle East conflict driving oil prices sharply higher; more complete pass-through of cost pressures into consumer prices than forecast; a larger than anticipated AI and data centre investment boom; and persistently weak productivity. The case for holding rested on signs policy was already restrictive, inflation slightly below June quarter forecasts at that point, and some softening in the labour market. The Board ultimately held but, critically, included explicit language that "if the risks around the inflation forecast were judged to be significantly skewed to the upside, it may be appropriate to mitigate those risks somewhat by tightening monetary policy pre-emptively." That language was conditional, and the July CPI and household spending data counter the case for holding.

The Board also has to weigh the RBA's stated posture. Governor Bullock has been explicit in the post-August press conference and in preceding communications that the Board has no tolerance for upside inflation surprises relative to its own forecasts. Market pricing shifted sharply in response, with September hike probability jumping from 17% to 36% on the CPI release, and further repricing is occurring in real time as forecasters update their view. ANZ, Barrenjoey and Deutsche Bank - all of whom were previously holding or had November calls - have moved to September as their base case. CBA and NAB have moved to November but cannot rule out September.

We assess the balance of evidence as pointing clearly to a September hike at the 29 September meeting. The Board set its own trigger - upside risks materialising relative to their last SMP forecast - and the data has met that trigger. Waiting six weeks to confirm with the quarterly CPI would be inconsistent with the Board's own stated framework and would risk entrenching the very inflation dynamics it has been fighting. The unconditional language of the August statement, the SMP's own inflation intolerance framework and the trajectory of incoming data leave us comfortable with our view that a September hike remains underpriced.

Portfolio

Reducing Duration

The change in duration was driven by the two-tighten pause, Post the exposure in short-term yields was

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yields were trading at approximately 4.50% before the CPI - a premium of just 15 basis points over the current cash rate. A 25 basis point hike would likely push three-year yields toward 4.70–4.80% as the market reassesses the terminal rate path.

We also made some changes to our US duration positioning. Firstly, we increased US duration exposure mid-month from zero to +0.25 years as weaker data, particularly lower inflation, reduced our expectations for a US Federal Reserve (Fed) tightening prior to the mid-terms in early November. Secondly, we have been running a US yield curve steepening position for the past few months and have since reduced it by half following the US Treasury's announcement to increase off-the-run buybacks, a move that saw the curve reverse its steepening trend. We added back to the steepener at month end following Fed Chair Warsh's more hawkish speech at the Jackson Hole conference which added some value back into shorter maturities as Fed rate hike probabilities for September moved above 70%.

In addition, we have significantly modified the foreign currency positioning of the Fund. Under an RBA extended hold view, the Australian dollar (AUD) would be

vulnerable to weakness due to a weakening economy and narrowing interest rate differentials as other central banks have greater potential to raise rates. With the RBA expected to tighten further, the short-term outlook for the AUD changes. We had started modifying our positioning early in the month, reducing total foreign currency long position from 7.5% to 5% after the second quarter household spending data, released on 4 August, showed surprising resilience in discretionary spending along with stronger than expected Australian PMI data. We have continued to reduce the foreign currency position further to 4%. In addition, we changed the mix of foreign currency away from the USD (now zero exposure) and added to the Euro (+2.5%). We did this for two reasons: 1) following the US Treasury's announcement of increasing off-the-run buybacks in 20 and 30 year Treasury securities, funded by higher issuance of Treasury bills (less than 1-year securities) makes us concerned that the US Treasury is attempting a soft version of yield curve control – which is USD negative; and 2) better than expected US inflation and softer retail trade data, which shift potential tightening by the Fed to the end of the year.

Maintaining credit positions

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expenditure requirements. US securitised remains attractive, with US recession risk very low, a robust consumer and attractive spreads.

Active management requires the discipline to update positioning when the evidence changes, especially when that means moving against a view recently held. The July CPI and household spending data run against the RBA on-hold view, and we think it is enough to shift the RBA's decision towards a September hike. Too big a delay runs the risk of inflation becoming embedded leading to larger action down the track and then dislocation in the economy. Arguably we are already there - trimmed mean inflation has been above the mid-point of the RBA's target range since the December quarter of 2021 - over 4 and a half years - and the RBA's expectation is for it to remain above the mid-point until early 2028, extending the run to over 6 years. We enter the September meeting with positioning that we believe is appropriate to the shifting evidence and the RBA's stated decision framework from its August meeting minutes.

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