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The Antipodean Strategist

Dare disturb the sound of silence

- RBA messaging this week seems fulsome in the wake of terse Fed comms. Largely playing to script, the RBA left the cash rate steady as prior tightening provided space to "assess the response" of the economy. The statement noted that another hike will be delivered if required, a reminder that will, in our view, be maintained in upcoming meetings given that annual inflation will remain high, requiring some pushback against pricing which now implies only a slight hiking bias (+15bp to terminal). Still, plugging our expectation for the data into the now more data-dependent reaction function, it does seem likely that the hiking cycle is done.
- On a 3m basis the RBA is no longer over-delivering vs prior forwards, as it was in say mid-March, leaving the policy stance now in an indeterminate range for curve shape. Take profit on belly outperformance trades which had been expressing the tighter financial conditions/stern reaction function theme: received belly AUD 2s5s10s IRS, long belly of the ACGB May30/May32/May34 fly.
- We maintain the AUD-USD 2Y1Y (IRS-SFR) spread tightener entered in early May, in part acknowledging the evolving Fed outlook. The case can be made for adding further domestic bullish proxies, but the broader context is important, as global growth risks are tilting upward. For the first time in quite a while, the global backdrop supports tactical steepening in ACGB 3s/10s, particularly vs US. The ACGB-UST 10Y spread is tight relative to model inputs, in the context of still-dominant global supply-side factors. We look to enter curve steepeners (e.g. 3s/10s) boxed to US on any cheapening after next week's AUD labour force data. We expect a partial reversal of the recent rise in unemployment, which has been influenced by technical factors.
- In NZ, GDP data this week keep the RBNZ on track for a first hike next meeting. Growth was in line with relatively elevated expectations and more importantly, came with upward revisions which better align the late 2025 data with the robust survey readings at the time. The money market curve is steep, but it is hard to fight when inflation is likely to hold above target, and policy is still not priced to stay below the RBNZ's short-run neutral estimate for through end-28.
- We are also cognizant of the relative richness of the NZD front-end as calibrated to the broadly hawkish evolution of the RBNZ's rhetoric, and that of other G10 central banks. This jars with the global supply-side inflation risk, which usually pushes valuation residuals to the cheap side, given the NZ economy's stagflationary track record. Stay paid the NZD-AUD 5Y5Y spread given prospect for reassessment of NZD intermediate yields.

Australian and New Zealand Interest Rate Strategy

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- **The RBA was on hold as expected, arguing it had space to assess the economy**
- **The hiking bias was reaffirmed, though the turning data and acknowledgement of tighter financial conditions leave us comfortable that the cycle is over**
- **Stay received 2Y1Y AUD-USD (IRS-SFR) spread given policy divergence vs an evolving Fed outlook**
- **Close AUD intra-market belly outperformance/flattening trades which had been expressing the stern reaction function theme (received AUD 2s/5s/10s IRS fly, long belly of ACGB May30/May32/May34 fly)**
- **Broader AUD cross market steepeners (e.g. 3s/10s) are starting to present value as a bullish proxy, for the first time in a while ...**
- **… this reflects AUD 10Y outperformance in the context of improving global growth prospects**
- **NZ GDP growth was strong with upward revisions, keeping the RBNZ on track for a first hike in July**
- **Stay paid NZD-AUD 5Y5Y on scope for a market reassessment of financial conditions and so NZD intermediate yields**
- **Trade portfolio: Close received position in AUD 2s/5s/10s IRS. Stay received AUD-USD 2Y1Y spread, and paid the NZD-AUD 5Y5Y spread**

Strategy Update: Too much of a good thing

RBA messaging this week seems fulsome in the wake of terse Fed comms. Largely playing to script, the RBA left the cash rate steady as prior tightening provided space to "assess the response" of the economy. The statement noted that another hike will be delivered if required, a reminder that will, in our view, be maintained in upcoming meetings given that annual inflation will remain high, requiring some pushback against pricing which now implies only a slight hiking bias (+15bp to terminal). Still, plugging our expectation for the data into the now more data-dependent reaction function, it does seem likely that the hiking cycle is done. Next week's May CPI report, for example, should consolidate that 2Q is tracking below SoMP forecasts.

We maintain the AUD-USD 2Y1Y (IRS-SFR) spread tightener entered in early May, in part acknowledging the evolving Fed outlook. The case can be made for adding further domestic bullish proxies, but the broader context is important, as with global growth risks tilting upward, and the RBA having moved ahead of the Fed, cross-market steepeners appear a better expression than outright longs. The AUD 3Y sector has been sliding rich relative to the whites (Figure 1) and so further outright performance increasingly requires cuts to priced in 2027. Moreover, YM has largely closed its valuation gap on yield level models (Figure 2) via compression to US.

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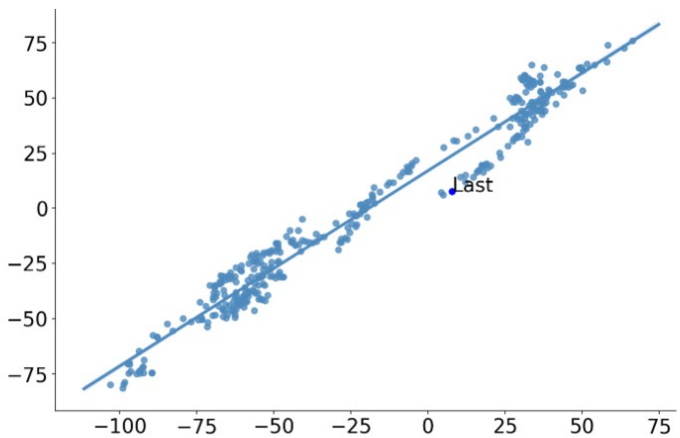
Figure 1: The more hawkish RBA and weaker data trajectory of 1H26 drove front-end flattening, leaving 3Y yields rich to the whites

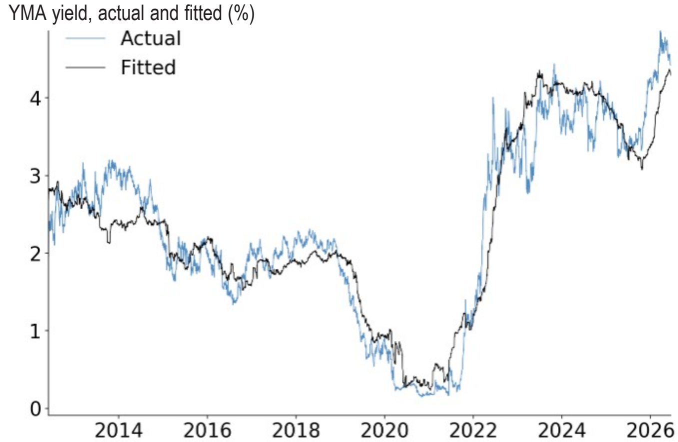
X axis: AUD 1m/12m1m OIS spread (Bp); Y axis: ACGB 3Y futs yield - cash rate (%)



Source: J.P. Morgan.

Figure 2: YM is no longer cheap on models after the rally/ outperformance to US, and valuation shift from delivered hikes and a more hawkish Fed

YMA yield, actual and fitted (%)



Note: Model is of the form YMA yield = f(constant, AUD 3m3m OIS, RBA HDS, Fed HDS, AUD inflation forecast (FHI), AUD unemployment 3m ch, NAB Cap U index). Daily data since 2012. Source: J.P. Morgan.

Even leaving near-term cuts off the table, on a 3m basis the RBA is no longer over-delivering vs prior forwards, as it was in say mid-March. Extreme policy surprises of this nature are clearly important domestic catalysts of changes in curve shape (Figure 3), and with delivery back on the expected path, the policy stance is now in an indeterminate range for curve shape. Take profit on belly outperformance trades which had been expressing the tighter financial conditions/stern reaction function theme: received belly AUD 2s5s10s IRS, long belly of the ACGB May30/May32/May34 fly.

On the broader curve, a number of global factors now support tactical steepening in ACGB 3s/10s, particularly vs US. First, the ACGB-UST 10Y spread is tight relative to model inputs. We have highlighted in recent publications that the 10Y spread has been, even more than usual, just a beta to policy spreads, and this has probably gone too far now with the 10Y spread rich on regression to ACGB3Y-UST2Y, RBA HDS, global bond-equity correlation, and AUD/USD FX (Figure 4).

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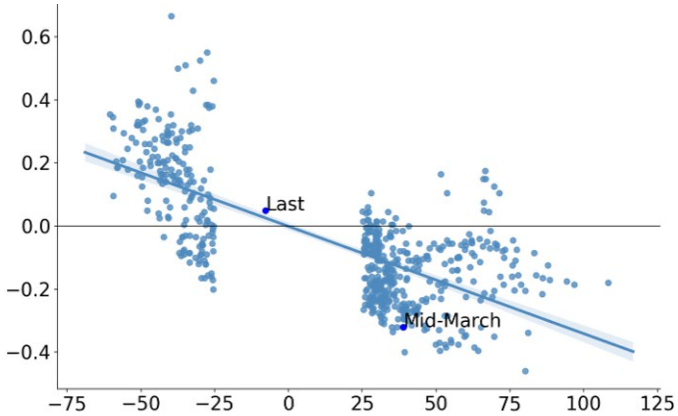
Figure 3: With policy no longer out-hawking prior expectations, the RBA's contribution to local curve flattening has waned ...

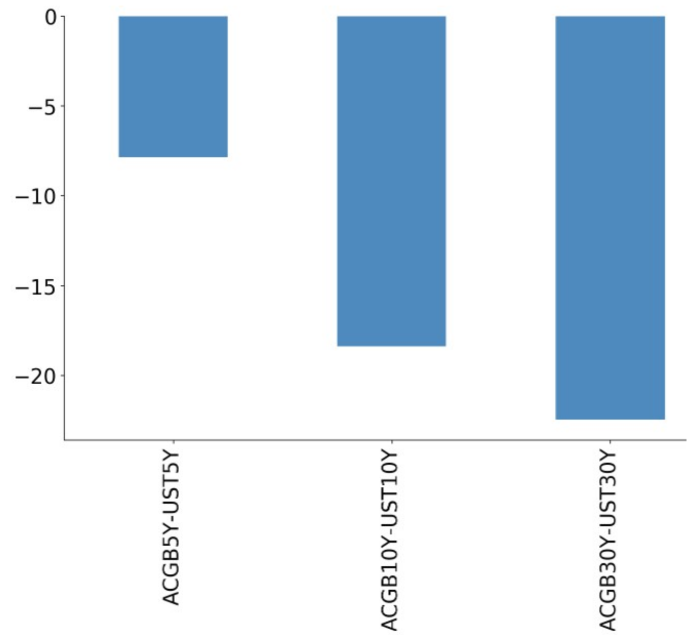
X axis: RBA under/over-delivery vs 3m-ago forward pricing (Bp); Y axis: ACGB 3s/10s (3m change, Bp)



Note: Daily data since 2012. Line fitted through observations for which the X axis value is >25bp or <-25bp.
Source: J.P. Morgan.

Figure 4: ... while the curve is now also looking flat vs US...

ACGB-UST nominal yield spread model residuals (Bp)



Regressions of the form ACGB-UST par yield spread = f(constant, AGGB3Y-UST2Y, RBA HDS, global bond/equity correlation, AUD/USD FX). Daily data since 2014.
Source: J.P. Morgan.

The real yield component of this outperformance is particularly unusual (Figure 5) because AUD normally underperforms on upward global growth revisions, particularly in a world of still-elevated supply-side uncertainties, which have rarely been so high (Figure 6).

Perhaps the market has come to the same conclusion that we have: the likelihood of sustained demand-driven inflation in Australia is low, so inflation risk premia should be lower and reflect purely supply-side factors. But the timing is a bit odd, in that this could have been priced when the RBA appeared most hawkish (March, hiking into an oil supply shock) and was showing less domestic data-dependence. We look to enter curve steepeners (e.g. 3s/10s) boxed to US on any cheapening after next week's AUD labour force data. We expect a partial reversal of the recent rise in unemployment, which has been influenced by technical factors.

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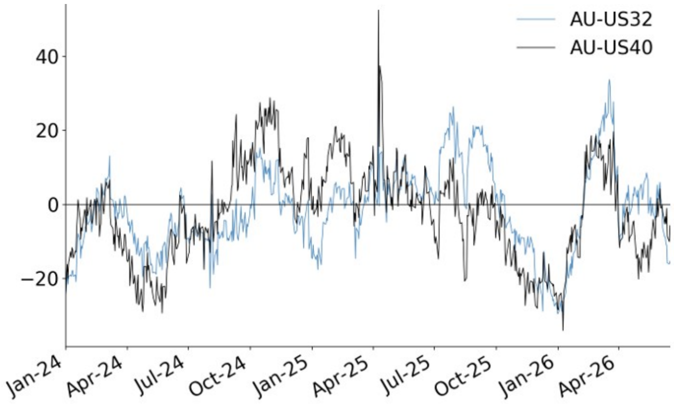
Figure 5: … with AUD real yields having outperformed to an unusual degree ...

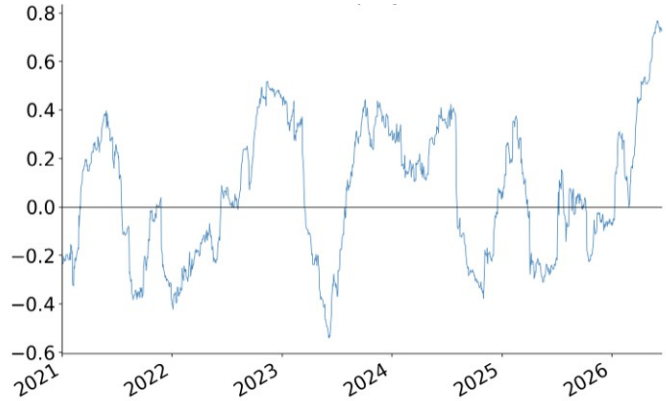
Bp residual in models of ACGBi-USTi real yield spreads (Bp)



Models of real yield spreads of the form: Spread = f(constant, ACGB3Y-UST2Y nominal yield spread, RBA-Fed Hawk Dove Score spread, AUD 3s/10s nominal curve shape, Bond-equity correlation (AUD assets less global assets). Daily data since 2022.
Source: J.P. Morgan.

Figure 6: … in the context of still-elevated global supply-side risks ...

Global bond/equity correlation

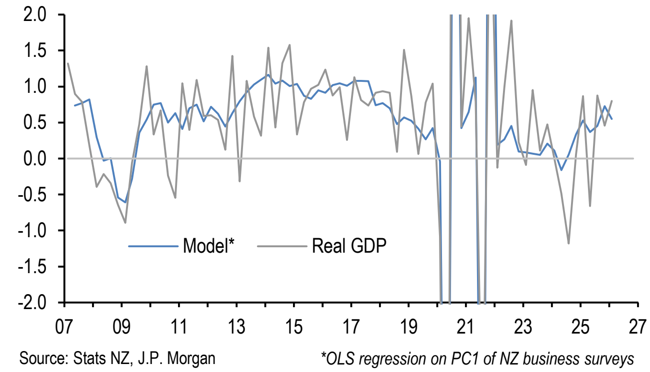


Note: Rolling 3m correlation of daily returns between MSCI World (local ccy) and JPM Global Bond Index (local ccy).
Source: Bloomberg Finance L.P., J.P. Morgan.

In NZ, GDP data this week keep the RBNZ on track for a first hike next meeting. Growth was in line with relatively elevated expectations in 1Q at 0.8%q/q, and more importantly, came with upward revisions which better match the robust survey readings at the time. Upward revisions drove a +0.5%-pt upside surprise to the annual rate, at 1.5%oya. This is seemingly outpacing supply of the labour input, and even a flat outcome on 2Q would put annual growth at 2%.

Figure 7: … Positive NZ GDP revisions align the hard data better with the survey indicators

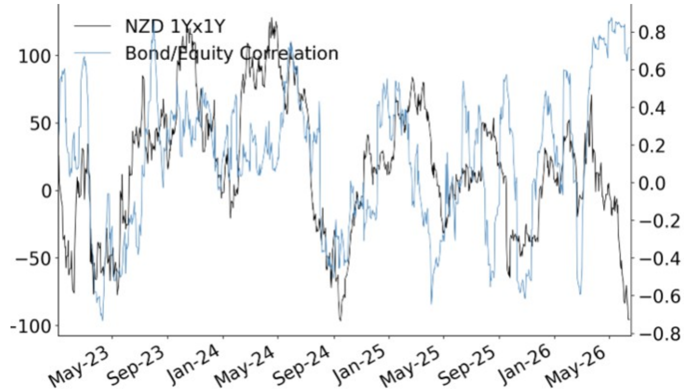
%q/q sa



Source: Stats NZ, J.P. Morgan.

Figure 8: The NZD reds still look rich relative to global factors

LHS: Residual of NZD 1Y1Y against HDS model (Bp); RHS: Global bond/equity correlation



Note: Residual from model of NZD 1Y1Y on a constant, PC1 and PC2 of G10 HDS, own-economy HDS, US GDP FRI, US CPI FHI. Fitted to daily data, sample is last 5Y. See "Talk is Cheap: Valuing DM Rates Markets with Central Bank Speak".
Source: J.P. Morgan.

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The money market curve is steep, but it is hard to fight when inflation is likely to hold above target, and policy is still not priced to stay below the RBNZ's short-run neutral estimate for through end-28. There is skepticism in the durability of the recovery, though population inflows are likely to both boost growth and trigger stronger outcomes in housing, a key bellwether for the perceived tightness of financial conditions. We are also cognizant of the relative richness of the NZD front-end as calibrated to the broadly hawkish evolution of the RBNZ's rhetoric, and that of other G10 central banks (see Figure 8).

Although such models probably overstate richness, this still jars with the global supply-side inflation risk noted above, which has usually tended to push valuation residuals to the cheap side in recent years, given the NZ economy's stagflationary track record (Figure 8again). The return of domestic spare capacity may explain this change, but the degree of slack appears less significant clear post-GDP. Stay paid the NZD-AUD 5Y5Y spread given prospect for reassessment of NZD intermediate yields.

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Summary of main views

Duration	Curve	Swap spreads	Swap spread curve	Inflation	Cross-market
Receive bias AUD-1Yx1Y	Neural AUD 3s/10s curve	Pay AUD 10Y EFP	AUD 3s/10s EFP curve steeper		Receive bias AUD-NZD 1Y1Y IRS spread
Neutral NZD front-end	Tactical steepening bias NZD 2s/10s curve	NZD swap spreads wider			
					Receive AUD 2Y1Y IRS vs US
					Pay NZD-AUD 5Y5Y IRS spread

Trade recommendations

- **Open a Nov-26/May-27 RBA OIS flattener**
  Pay 25K DV01 Nov-26 RBA OIS at 4.508%, receive 25K DV01 May-27 RBA OIS at 4.520%, a spread of +0.6bp. P/L since inception (11 Jun): -5.0bp
- **Pay the NZD 5Y swap spread**
  Own 25K DV01 May-31 NZGB at 4.138%, pay 25K DV01 NZD 5Y IRS (S-Q) at 3.923%, a spread of -21.55bp. P/L since inception (28 May): -1.5bp
- **Receive the AUD-USD 2Y1Y (IRS-SFR) spread**
  Receive 25K DV01 AUD 2Y1Y IRS at 4.770%, pay 25K DV01 USD 2Y1Y SFR at 3.579%, a spread of +119.09bp. P/L since inception (7 May): +51.2bp
- **Pay AUD 10Y swap spread**
  Pay 25K DV01 M6 10Y EFP at a spread of +7.25bp. P/L since inception (7 May): -1.1bp
- **Pay the NZD-AUD 5Y5Y IRS spread**
  Pay 25K DV01 NZD 5Y5Y IRS (Q-Q) at 4.705%, receive 25K DV01 AUD 5Y5Y IRS at 5.242%, a spread of -53.66bp. P/L since inception (7 May): +4.8bp
- **Close the long in the belly of the ACGB May-30/May-32/May-34 fly**
  Long 50K DV01 ACGB May-32 at 4.792%, short 25K DV01 ACGB May-30 at 4.686%, short 25K DV01 ACGB May-34 at 4.917%, a spread of -1.83bp. Closed at -4.03bp. P/L since inception (23 Apr): -2.2bp
- **Close the received position in the belly of the AUD 2s/5s/10s IRS fly**
  Receive 50K DV01 AUD 5Y IRS (S-S) at 4.660%, pay 25K DV01 AUD 2Y IRS (S-S) at 4.578%, pay 25K DV01 AUD 10Y IRS (S-S) at 4.876%, a spread of -13.4bp. Closed at -28.3bp. P/L since inception (5 Mar): +14.9bp

Note: One star (*): High-conviction trade and no star: moderate-conviction trade. New and closed trades marked as at point of submission. Existing trades marked as of the close of business (Sydney) on 17 June 2026.

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Forecasts

	Current	Sep-26	Dec-26	Mar-27	Jun-27
United States					
Fed Funds	3.75	3.75	3.75	3.75	3.75
2-year note	4.17	4.15	4.20	4.20	4.20
10-year note	4.46	4.65	4.70	4.75	4.75
2s10s curve (bps)	29	50	50	55	55
Australia					
RBA cash rate	4.35	4.35	4.35	4.35	4.35
90-day rate	4.47	4.50	4.50	4.50	4.50
3-year yield	4.42	4.30	4.10	4.10	4.00
10-year yield	4.77	4.70	4.50	4.60	4.50
3-year swap spread (bps)	0	-5	-5	-5	-5
10-year swap spread (bps)	6	10	10	10	10
3s10s curve (bps)	35	40	40	50	50
AUD-USD 10-year spread (bps)	32	5	-20	-15	-25
New Zealand					
RBNZ OCR	2.25	2.75	3.00	3.25	3.25
90-day rate	2.68	2.90	3.30	3.40	3.40
2-year bond	3.40	3.50	3.50	3.50	3.50
10-year bond	4.45	4.40	4.30	4.20	4.15
2s10s swap curve	70	70	60	50	45
NZ-US 10-year spread	-1	-25	-40	-55	-60
Foreign Exchange					
AUD/USD	0.70	0.71	0.69	0.69	
NZD/USD	0.58	0.62	0.61	0.61	
EUR/USD	1.15	1.15	1.14	1.13	
USD/JPY	160.64	160.00	164.00	164.00	
AUD/JPY	113.03	113.60	113.16	113.16	
NZD/JPY	93.04	99.20	100.04	100.04	
AUD/NZD	1.22	1.15	1.14	1.14	

Source: J.P. Morgan forecasts. Current values are from Bloomberg Finance L.P.

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Trades closed last 12M

TRADE	ENTRY	EXIT	P&L
DURATION			
Receive AUD 6Mx6M OIS	24-Oct-24	12-Dec-24	24.4
Receive NZD 1Yx1Y IRS	19-Dec-24	12-Feb-25	-15.7
Receive AUD 3Yx1Y IRS	23-Jan-25	06-Mar-25	8.1
Long YMM5	27-Mar-25	10-Apr-25	49.0
Pay August '25 RBA OIS	10-Apr-25	08-May-25	21.1
Pay October '25 RBNZ OIS	15-May-25	05-Jun-25	13.6
Receive February '26 RBNZ OIS	18-Sep-25	25-Sep-25	4.3
Pay NZD 2Y IRS	06-Nov-25	11-Dec-25	50.8
Receive Nov '26 RBA OIS	12-Mar-26	26-Mar-26	-25.2
CURVE			
Paid belly of NZD 2s/5s/10s IRS fly	01-Aug-24	12-Sep-24	11.4
Paid AUD 1s/2s IRS spread	29-Aug-24	17-Oct-24	6.9
Paid Nov '24/Feb '25 RBNZ OIS spread	15-Aug-24	16-Oct-24	5.0
Received Feb '25 RBNZ OIS/NZD 2Y IRS spread	24-Oct-24	12-Dec-24	13.0
Sell ACGB 3s/10s futs curve vs rec AUD 2Yx1Y IRS	10-Apr-25	23-Oct-25	9.6
Receive Feb '25 RBNZ OIS/Pay NZD 2Y IRS	25-Sep-25	06-Nov-25	7.3
AUD 1s/3s IRS flattener	05-Feb-26	05-Mar-26	7.6
AUD 1s/3s IRS flattener	12-Mar-26	07-May-26	13.0
COUNTRY SELECTION/RELATIVE VALUE			
Paid Aug '25 RBA-RBNZ OIS spread	03-Jun-25	10-Jul-25	19.4
Short belly of ACGB Sep-26/Nov-28/Apr-33 fly	06-Feb-25	31-Jul-25	-15.2
AUD 3s/10s swap EFP box steepener	20-Mar-25	31-Jul-25	7.7
Paid AUD-USD 2Yx2Y (IRS-SFR) spread	12-Jun-25	28-Aug-25	37.5
Paid Dec '25 RBA-FOMC OIS spread	12-Jul-25	04-Sep-25	15.1
1s/3s AUD-USD BBSW-SOFR basis steepener	08-May-25	02-Oct-25	0.9
Receive AUD-USD 5Yx5Y (IRS-SFR) spread	11-Sep-25	23-Oct-25	-1.8
NZD-USD 2s/10s box flattener	21-Nov-25	06-Nov-25	-23.1
Long ACGB Dec-2035, short UST 4 1/2 Feb-2036	30-Oct-25	11-Dec-25	-30.0
Pay NZD 2s/5s IRS curve vs AUD 2s/5s IRS	14-Aug-25	05-Feb-26	-30.2
Pay NZD 10Y swap spread	06-Nov-25	05-Feb-26	19.9
Receive AUD-USD 5Yx5Y (IRS-SFR) spread	22-Jan-26	05-Mar-26	-20.8
Receive 3m fwd AUD 2s/5s/7s IRS fly	18-Dec-25	05-Mar-26	7.9
Paid AUD-USD 3Yx1Y/rec AUD-USD 5Y(IRS-SFR)	23-Oct-25	05-Mar-26	-12.3
Mar-26/May-26 RBA OIS flattener	05-Feb-26	12-Mar-26	-0.1
Receive AUD-NZD 1Yx1Y IRS spread	30-Oct-25	16-Apr-26	1.4
Pay 1s/5s BBSW-SOFR basis curve spread	02-Oct-25	23-Apr-26	-1.3
Pay Jun-26 RBA OIS - Jul-26 RBNZ OIS spread	16-Apr-26	05-May-26	2.2
Long belly ACGB May-30/May-32/May-34 fly	23-Apr-26	18-Jun-26	-2.2
Receive belly AUD 2s/5s/10s IRS fly	05-Mar-26	18-Jun-26	14.9
INFLATION			
Long 2025 ACGBi BEI	14-Sep-23	26-Oct-23	11.3
Long 2025 ACGBi BEI	06-Dec-23	25-Sep-24	-52.0
ACGBi-USTi 2027/2051 real yield box flattener	12-Jun-25	31-Jul-25	22.5

Source: J.P. Morgan.

Disclosures

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IB clients**	100%	86%	100%

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