

## Material global growth risks are needed to temper RBA hawkishness

### Key points

- As markets are opened in Asia to start the week, the energy complex has continued to move higher and with it near-term RBA pricing.
- A supply side shock to oil places upward pressure on inflation but if sustained, also weighs on domestic and global growth. A reasonable starting point is little net effect on the appropriate stance of monetary policy.
- Given the starting point of elevated inflation and robust growth, the RBA probably has more tolerance to absorb a modest hit to growth and less tolerance for anything that starts to resemble a sustained shock to prices relative to other central banks.
- Our modal forecast for a 25bp hike to 4.1% in May remains intact, but uncertainty is elevated, and we outline some scenarios around that central case.

At the end of last week, we outlined how we thought inflation and growth outcomes would respond to developments in the oil price (see [here](#)). Since then, oil has moved higher. The March surge in fuel prices looks likely to tip Q1 trimmed mean to a 0.9% qoq outcome. The peak in inflation remains highly sensitive to energy price movements, but we now think headline inflation could peak around 5% yoy in Q2.

At the same time, market pricing has moved such that the AUD front-end is now priced for a further 63bp of rate hikes over the course of this year (a terminal cash rate just shy of 4.5%). 3Y AUS government bond yields are at their highest level in almost 15 years.

### *How might we think about these developments as they pertain to the RBA outlook?*

At a top-down level, geo-political events of this nature would largely argue for watchful caution in the first instance from central banks. In this context, we think the chance of a March rate hike is probably over-priced. Were the RBA to hike next week, a cash rate of 4.1% would take the broader policy stance (in a nominal context) to a modestly restrictive setting. It is likely too early for the Monetary Policy Board to know with any confidence whether that would be an appropriate outcome.

The nature of a supply side shock to oil means that it will place upward pressure on inflation and if sustained, it will lower GDP growth too. This is an uncomfortable set of

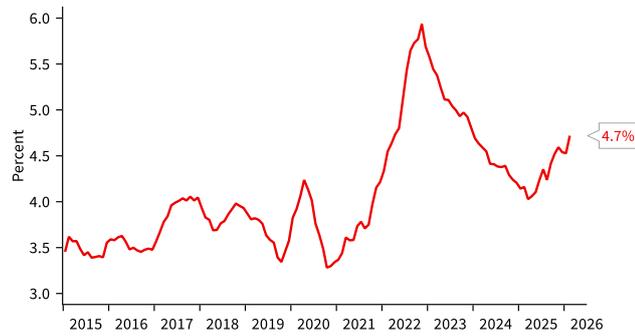
outcomes for any central bank, as it sees movement away from both inflation and full employment mandates. In this instance, minimal change in the appropriate stance of policy is probably a good starting point from which to assess the case for further action.

The framework that central banks have used in the past to assess negative supply side shocks has been to look through inflation spikes, and rather, to focus on growth outcomes. However, starting points matter. And for Australia, the starting point is one of inflation that is elevated (both headline and core measures), while GDP growth is at or slightly above trend and the labour market is tight. There are a couple of takeaways from this. First, with elevated inflation and robust growth, compared to peer central banks the RBA probably has *more* tolerance to absorb a modest hit to growth. Second, the starting point for inflation means the RBA has *less* tolerance for anything that starts to resemble a sustained shock to prices. While the inflation spike will be temporary, policy makers will be concerned about second order impacts (higher input costs that are passed on to consumers). Third, central bank credibility and inflation expectations matter. On this topic, the RBA Governor noted last week that:

*“Another concern is that the longer inflation stays above target, the greater the risk that people expect inflation to stay high. While measures of longer term inflation expectations remain stable, near-term expectations have increased a little over the past six months. We are alert to this risk, and we closely monitor expectations using surveys, our business and community liaison program, and financial market-based measures.”*

The Melbourne Institute’s measure of consumer inflation expectations is quite volatile month-to-month. But a six-month moving average of the series which smooths some of this volatility has risen 70bp since March 2025 (see Chart). Note that this rise has occurred even as retail petrol prices have declined in the past quarter.

### Consumer Inflation Expectations, 6-mma



Source: National Australia Bank, Melbourne Institute of Applied Economic & Social Research, Macrobond

The starting point of robust growth, a tight labour market, elevated inflation and some concern about short-term consumer inflation expectations leaves the RBA in a less favourable starting point than other central banks and lends a near-term hawkish tone to the outlook (which is well priced, in our view). In addition, as a net energy exporter, Australia should benefit from a positive terms-of-trade shock. Against this backdrop, should the risk of global recession start to become material we would expect a dovish impetus and downward pressure on the AUD and front-end yields relative to current market pricing.

### Scenario analysis

From here, we think much will depend on how things evolve. To help think about possible outcomes, we have identified some scenarios.

**Scenario 1:** Partial de-escalation within the next 2-3 weeks, shipping resumes through the Strait of Hormuz, albeit at lower volumes relative to pre-conflict levels, minimal second round inflation impacts:

- Brent settles ~\$80/bbl
- Modest upgrade to AUS inflation forecasts, small hit to growth (both domestic and global) but enough to minimise second round inflation effects
- No change to the RBA view; 25bp hike in May with risk of a further hike in 2H26 as the RBA manages elevated inflation, inflation expectations and the risk of cost-push inflation
- Probability: moderate to high

**Scenario 2:** Similar to the above, but inflation risks are materially higher and demand a more aggressive RBA response:

- RBA tightens 50-75bp this year as inflation pressures dominate the demand-side impacts and RBA loses comfort on inflation expectations
- RBA more willing to generate excess capacity in the labour market
- But a more material slowing in growth and rise in the unemployment rate towards 5% means additional tightening more than reversed in a cutting cycle beginning in 2027

- Probability: low

**Scenario 3:** Full de-escalation in the next few weeks, shipping fully resumes:

- Brent returns to \$60-70/bbl
- Limited impact on inflation and growth outcomes
- No change to the RBA view; 25bp hike in May with risk of a further hike in 2H26 as financial conditions ease and global growth accelerates
- Probability: low

**Scenario 4:** Escalation, no progress on shipping through Strait of Hormuz for >1 month

- Brent sustains > \$120/bbl prices
- Material risk of global recession, domestic demand shock
- Large impact on AUS inflation, much greater concern on domestic and global growth outlook
- RBA outlook becomes more dovish, risk of rate cuts now material
- Probability: low

### Conclusion

The situation in the Middle East is fluid and market moves are large and have been rapid. Against this backdrop, it is difficult to make forecasts with much confidence at present. We haven't changed our forecasts for GDP growth nor the RBA, but as noted above, have lifted our forecasts for both headline and core inflation in Australia in the near-term. As implied by the scenarios outlined above, the key variables are the duration of the conflict and the length of closure of key shipping routes.

At present, our most likely scenario sees some partial de-escalation in the next couple of weeks, with Brent moving back below \$100/bbl and eventually settling close to \$80/bbl. We think this is a manageable outcome for both the domestic and global economies and one which sees the RBA deliver as per our current forecast (25bp hike in May), assuming inflation expectations remain anchored. However, the risk appears to be a longer conflict, with more material consequences for the oil price and global growth (and hence the RBA).

In summary, our modal forecast remains in place for now (rate hike in May with risk of another in 2H26). Nonetheless, this outlook is already more than priced in the AUS front-end, and risks to front-end rates from current levels are looking somewhat asymmetric. We would also note that should market pricing be correct (terminal 4.5% cash rate in Australia), then the chance of an earlier start to a larger easing cycle should also be priced in 2027. In this context, the recent movement in AUD term yields in the 1-3Y sector should start to gain some attention, in our view.

# Economics and Markets Research Contacts

## Sally Auld

Chief Economist  
+61 422 224 752  
[sally.auld@nab.com.au](mailto:sally.auld@nab.com.au)

## Teisha Bonner

Executive Assistant  
+61 452 093 086  
[teisha.bonner@nab.com.au](mailto:teisha.bonner@nab.com.au)

## Economics

### Australian Economics

**Gareth Spence**  
Head of Australian Economics  
+61 422 081 046  
[gareth.spence@nab.com.au](mailto:gareth.spence@nab.com.au)

**Taylor Nugent**  
Senior Economist  
+61 452 671 752  
[taylor.nugent@nab.com.au](mailto:taylor.nugent@nab.com.au)

**Jessie Cameron**  
Economist  
+61 491 380 013  
[jessie.cameron@nab.com.au](mailto:jessie.cameron@nab.com.au)

**Michael Hayes**  
Economist  
+61 411 186 777  
[michael.hayes@nab.com.au](mailto:michael.hayes@nab.com.au)

### International Economics

**Tony Kelly**  
Head of International Economist  
+61 477 746 237  
[antony.kelly@nab.com.au](mailto:antony.kelly@nab.com.au)

**Gavin Friend**  
Senior Markets Strategist  
+44 207 710 1588  
[gavin.friend@eu.nabgroup.com](mailto:gavin.friend@eu.nabgroup.com)

**Josh Copeland**  
Economist  
[josh.copeland@nab.com.au](mailto:josh.copeland@nab.com.au)

### Behavioural Economics

**Dean Pearson**  
Head of Behavioural Economics  
+61 457 517 342  
[dean.pearson@nab.com.au](mailto:dean.pearson@nab.com.au)

**Robert De lure**  
Senior Economist  
+61 477 723 769  
[robert.de.lure@nab.com.au](mailto:robert.de.lure@nab.com.au)

### Economics Analytics

**Brien McDonald**  
Senior Economist  
+61 455 052 520  
[brien.mcdonald@nab.com.au](mailto:brien.mcdonald@nab.com.au)

**Thao Nguyen**  
Associate Director Economics  
+61 451 203 008  
[thao.nguyen5@nab.com.au](mailto:thao.nguyen5@nab.com.au)

## Markets Research

**Skye Masters**  
Head of Markets Research  
+61 467 767 604  
[skye.masters@nab.com.au](mailto:skye.masters@nab.com.au)

**Barbara Leong**  
Research Assistant  
+61 429 127 590  
[barbara.leong@nab.com.au](mailto:barbara.leong@nab.com.au)

### Credit Strategy

**Evy Noble**  
Credit Strategist  
+61 2 7226 7336  
[evy.noble@nab.com.au](mailto:evy.noble@nab.com.au)

### FX Strategy

**Ray Attrill**  
Head of FX Strategy  
+61 2 9293 7170  
[ray.attrill@nab.com.au](mailto:ray.attrill@nab.com.au)

**Rodrigo Catril**  
Senior FX Strategist  
+61 2 9293 7109  
[rodrigo.h.catril@nab.com.au](mailto:rodrigo.h.catril@nab.com.au)

### Rates Strategy

**Kenneth Crompton**  
Head of Rates Strategy  
+61 439 411 709  
[kenneth.crompton@nab.com.au](mailto:kenneth.crompton@nab.com.au)

**Gregorius Steven**  
Rates Strategist  
+61 2 7209 8133  
[gregorius.steven@nab.com.au](mailto:gregorius.steven@nab.com.au)

## Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please [click here](#) to view our disclaimer and terms of use.