

Economics and Markets Research

Rates Strategy



Key Views Update: CPI drives further front-end reprice, long end still looks low

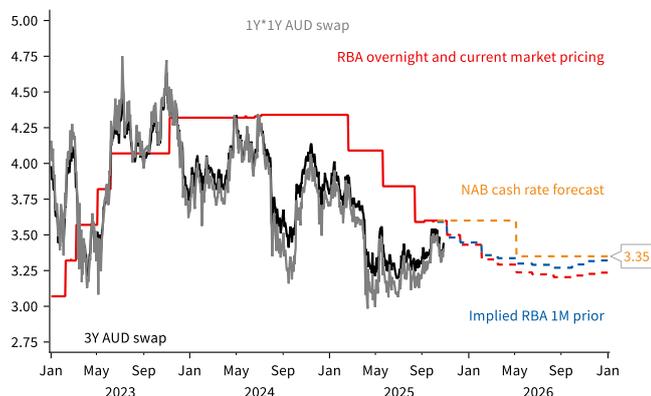
- The [Q3-25 CPI report](#) has definitely forestalled a November cut from the RBA. Our central case is still no rate cut until May 2026, even with the higher unemployment rate during September. Market pricing since the CPI has largely landed in line with this view.
- At the long end, the 10Y UST continues to resist rallying materially through 4.0%. The FOMC will cut tonight but we think there's a risk the Committee and Chair aren't as dovish as market pricing (which still has a December cut as near certain). In 2026 the term premium theme will come up again as Fed independence becomes topical again, weighing against long end rates coming down as the Fed eases.
- The rapid move wider in AUD swap spreads does have some justification in both flows and fundamentals, but to the extent there's been high correlation with USD moves it's at risk of being overdone. Once we feel positioning is a bit cleaner, we'll re-evaluate.
- We also update our regular Key Views.

Front end: pay swap around terminal forecasts

Q3-25 trimmed mean CPI of 1.0% qoq is more than high enough to forestall a November rate cut from the RBA, even with the September unemployment rate of 4.5%.

The market now prices nearly a full 25bp rate cut by May 2026 and a terminal rate of 3.35%. This is essentially in line with our forecasts of one more RBA cut in May and a terminal rate of 3.35%.

Chart 1: Front end AUD swap rates and RBA pricing



Source: National Australia Bank, Macrobond, Account in-house, Bloomberg

The 4.5% unemployment rate is now the clearest domestic point of focus. The market still has a total of 6bp of cuts priced for December, which feels like a reasonable risk to apportion to the unemployment rate not meaningfully retracing its

September jump when we get the October data on 13th November.

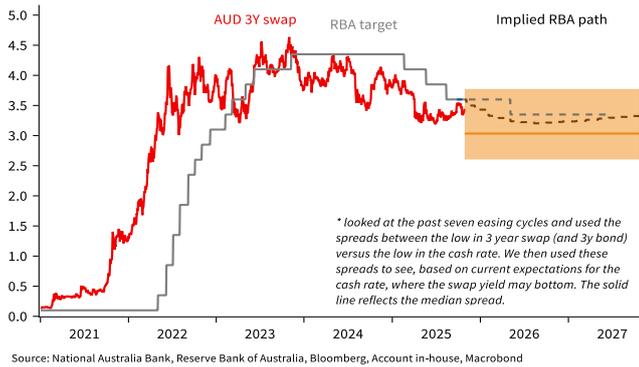
Whilst a sticky unemployment rate near 4½% might be enough to see the RBA cut earlier than we expect, we're still confident in building a trading view on only one more cut in the cycle.

1. Inflation in Q3 has re-emerged across the traditionally persistent items, not just the volatiles.
2. In her most recent public appearance, the Governor said the Bank still sees some residual tightness in the labour market. Persistence of higher unemployment will be evidence they may be wrong on this, but it also presents a higher hurdle for easing whilst inflation is still high.
3. Some of the broader global risks may be moderating. The US-China trade war détente looks more likely to be extended rather than escalated in the near term and China is still finding reasonable growth via exports. Market volatility directly arising from US policy volatility is far from ended, but some of the 'left-hand tail' of the global risk distribution has been trimmed.

The factors above point to considering the next cut, but it's not out of the question now to consider whether the RBA could be done with easing. But the labour market is going to need to show some definitive signs of firming to build confidence in that scenario.

Chart 2: If terminal is 3.35%, 3Y swap could have seen the lows already

3Y swap pay value zone



Source: National Australia Bank, Reserve Bank of Australia, Bloomberg, Account in-house, Macrobond

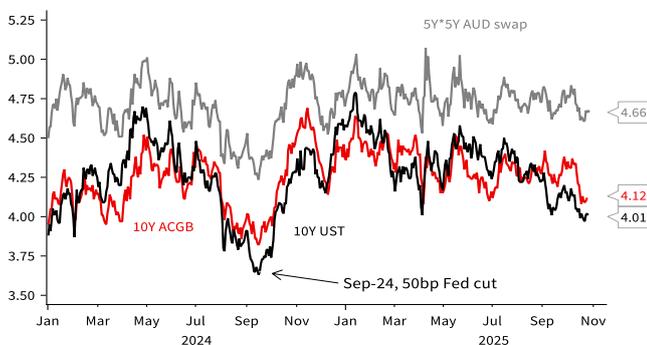
Trade views:

- Trade a range in 1Y to 3Y swap from just below our terminal rate forecast (3.30%) to the pre-liberation day level (3.70%).
- Consider paying RBA meeting dates in December or February where pricing for cuts looks excessive.

Long end: 4% yields on 10Y still offering no value

The 10Y UST yield continues to resist rallying materially through 4.0%, even with Fed funds target pricing below 3.0%.

Chart 3: Bottom end of the 2025 range for long end rates...



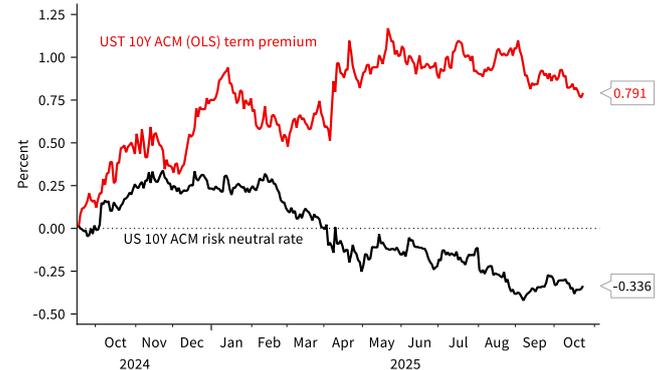
Source: National Australia Bank, Macrobond Financial AB, U.S. Department of Treasury, Macrobond, Account in-house, Bloomberg

We think the Fed will cut 25bp this week as priced but, as noted above, we don't expect the Fed to be fully supportive of market pricing for further cuts:

1. There is very little official data to support decision making at the moment. The Fed's confidence in flying blind, especially when it is balancing policy so finely, might be diminishing. Further dovish guidance might be nuanced.
2. The limited data the Fed is receiving is still not showing accelerating weakness (consider the further strengthening in the PMI last week, and that unofficial estimated jobless claim numbers are still steady).

Chart 4: ...but a reminder that the composition of US long rates has changed. Higher term premium, lower expected short rates since the 50bp cut in 2024

Change in term premium and risk neutral rates



Source: National Australia Bank, Federal Reserve Bank of New York, Macrobond, Account in-house, Bloomberg

These points speak to the short-rate expectations being constrained from moving lower in the short term. But additionally, the term premium component of longer US yields could easily see more pressure (toward higher yields) in the medium term.

Whilst the 'Fed independence under threat' theme has faded a little in the past few weeks, it will re-emerge next year. There are two clear pressure points for this: one is when Fed Governor Miran's short term expires in January, and again as Chair Powell's chairmanship ends in May.

The ACGB long end will in very broad terms track these US trends. We think it could outperform a little where the US selloff is being driven by term premium, or where market fears of Australian inflation somehow dissipate. We see limited value in 10Y UST and ACGB at 4%.

Trade views:

- Continue to trade 4.0-4.5% range on 10Y ACGB

Swap Spreads

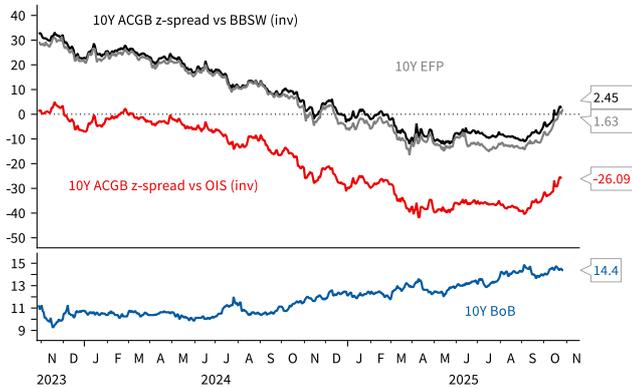
AUD swap EFPs have risen rapidly since early September. Both 3Y and 10Y EFPs have traded positive for the first time in nearly a year. The move has been led by a 18bp widening in the 10Y spread, which is still positive.

Drivers of the move have been on both fundamentals and flow.

1. AOFM has slightly reduced the pace of weekly nominal ACGB tenders (from \$2.2bn to about \$2.0bn), and the Commonwealth's fiscal outcome for FY25 was about \$10bn better than expected. Less bond issuance might usually point to wider spreads, although we don't think this change can fully explain the size of the recent swap spread move.
2. Low outright rates (until very recently) have supported some paying flows, and some hedging flows.

- Speculative received spread trades have been a near-consensus trade for at least two years. There's been significant exiting of these positions.
- Issuance-related receiving flow has been a bit lower – just \$2bn of Kangaroos has been issued in October to date, after over \$7bn in September and more than \$62bn in the calendar year to date.

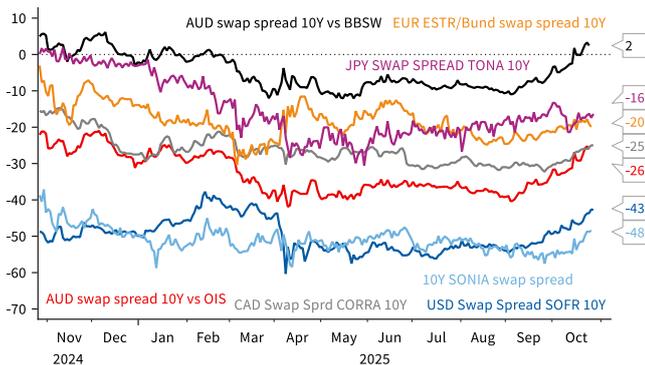
Chart 5: 10Y swap spreads sharply wider as bonds richen to OIS



Source: National Australia Bank, Account in-house, Bloomberg

Chart 6: Many global swap spreads moving wider, but AUD has been amongst the fastest

Global 10Y swap spreads

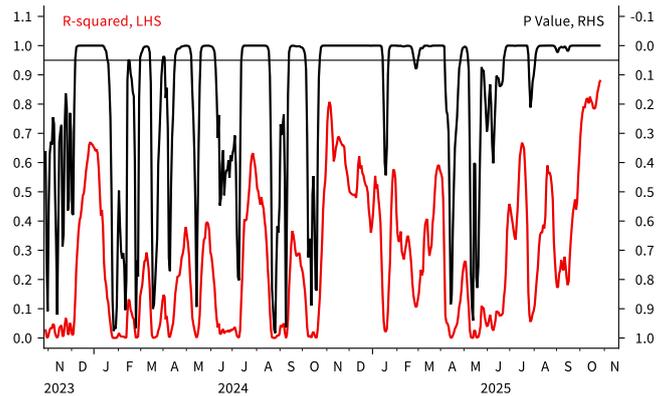


Source: National Australia Bank, Account in-house, Bloomberg

The move has been well-correlated to a move wider in offshore spreads, especially USD SOFR swap spreads. The US move has been driven by at least two factors: one is growing expectation that quantitative tightening will end very soon. This will effectively decrease the net supply of bonds to the market – although it will depend on how the Fed chooses to reinvest. Skewing reinvestment away from the current issuance-weighted process to instead focus on bills, for example, would possibly increase the coupon issuance offered to private investors.

Another driver in the US spread widening is a continued move toward easier capital regulations on some banks that might allow greater holdings of Treasuries. There have been reports during October that possible policy changes may be becoming even more market-friendly.

Chart 7: One-month rolling regression outcome of using daily changes in US swap spreads vs AUD swap spreads.



Source: National Australia Bank, Macrobond

The use of these offshore moves to justify local spread moves is tenuous. Chart 7 shows that a regression using changes in USD swap spreads against changes in AUD spreads. The regression has a very high r-squared at the moment, and a low p-value .

This indicates some statistical significance to the correlation between AUD and US spreads. But we have almost no reason to believe the *drivers* between the two markets are linked. We're wary that the local spread move could easily overshoot – especially as flows can be very hard to estimate or anticipate.

Trade view:

- Wait for the positioning clean-out to end, then re-evaluate. However the lows in spreads for the cycle have been seen.

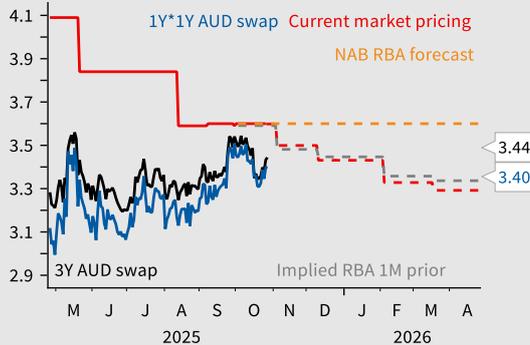
Key Views Update

28 October 2025

Market

Views

Short end rates



Source: National Australia Bank, Macrobond, Account in-house, Bloomberg

Tactical (1-3 months): Q3-25 trimmed mean CPI at 1.0% qoq will keep the RBA on hold in November. We don't expect another cut until May. Market pricing is largely in line with this view. Trade a range of 3.3–3.7% on 3Y swap, ie the range from just below our terminal rate forecast (3.35%) to around the pre-Liberation day level.

Strategic (3 months +): Policy is still slightly restrictive, by the RBA's assessment. Private consumption is accelerating only slowly, but the inflation backdrop has re-emerged as a constraining factor on the RBA easing again. We expect one more easing for the cycle, in May 2026. If the unemployment rate retraces toward 4¼%, prepare for more discussion about the RBA being done with easing.

Long end rates



Source: National Australia Bank, Macrobond Financial AB, U.S. Department of Treasury, Macrobond, Account in-house, Bloomberg

Tactical: The limited US data available during the shutdown still generally points to the Fed easing because the labour market is as at risk of slowing, rather than actually slowing. 10Y USTs will continue to resist materially rallying through 4.0%. Meanwhile in Australia, higher inflation has reduced the scope for long-end outperformance., we still trade a 4.0–4.5% range on the 10Y.

Strategic: If our expectation of terminal policy rates just above 3.0% in the US after a pause for much of 2026 is correct, it's hard to justify 10Y UST yields below 4.0% in the near term. We'll continue to fade rallies toward that level in both 10Y ACGB or UST rates.

Further increases in term premium in US rates will be an important dynamic for next year and beyond, especially if the Fed begins to run what the market sees as unnecessarily loose policy.

Curve



Source: National Australia Bank, U.S. Department of Treasury, Macrobond, Account in-house, Bloomberg

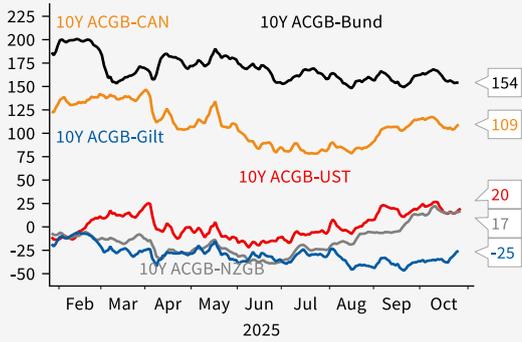
Tactical: The 3Y/10Y curve is at its flattest since March (+66bp) after the repricing on the RBA. We are biased toward steepeners due to our view that long end valuations are a little rich, but are tempering this with our view that the conversation might tilt toward no more RBA cuts if the unemployment rate falls.

At the front end, the 1Y/3Y curve has been positive since September, for the first time since just before the November 2023 rate cut. Delayed cuts due to sticky inflation may see some flattening pressure on this part of the curve.

Strategic: Higher US risk premia will keep longer-end rates elevated in both the US and (to a lesser extent) Australia and keep curves relatively steep.

Market

Offshore Spreads



Source: National Australia Bank, Macrobond, Account in-house, Bloomberg

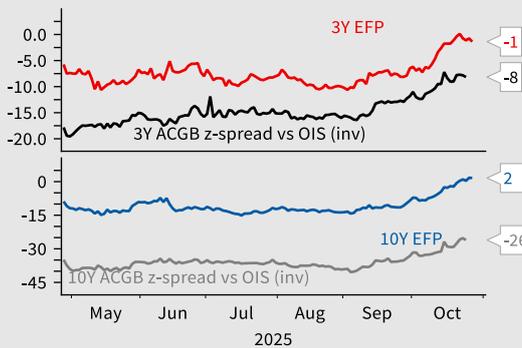
Views

Tactical: Our less-dovish RBA view has lifted our expected trading range on the 10Y AU-US spread. Fair value based on the short rate differential is around 24bp. Target buying 10Y ACGB vs UST around +30bp.

AU-NZ rates differentials are very wide after the dovish RBNZ repricing, and our BNZ colleagues have noted that the long-end rates spread between the markets is looking stretched.

Strategic: The Australian inflation outlook has changed rapidly and left us less confident Australia will have a negative policy rate spread to the US beyond the next couple of Fed meetings. However, the neutral rate in Australia is probably still flat or below the Fed, and our bias remains toward looking for the spread to trade down to lower levels in the medium term.

Swap spreads

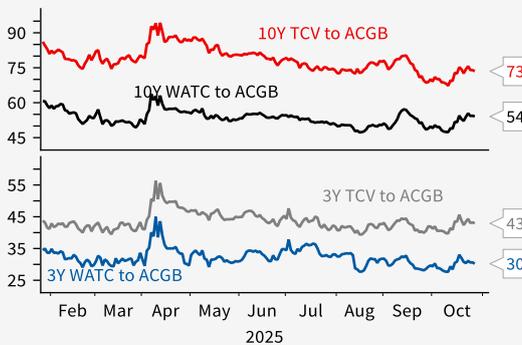


Source: National Australia Bank, Macrobond, Account in-house, Bloomberg

Tactical: AUD swap spreads are sharply wider in October on both some domestic flow factors (profit taking, speculative paying, hedging, less issuance) and some fundamentals (slightly lower ACGB issuance). But correlation with US spread widening has been high, despite the drivers of the US move having little direct relevance to AUD spreads. We're still biased toward receiving once we feel positioning has been cleaned up.

Strategic: ACGB issuance is still higher than prior years. Ongoing Kangaroo issuance (which generates receiving) is going to remain a force that keeps spreads relatively low. However, the trade has been crowded, and there could be more positioning clean-out before a level is found and we're comfortable with entry.

Semis

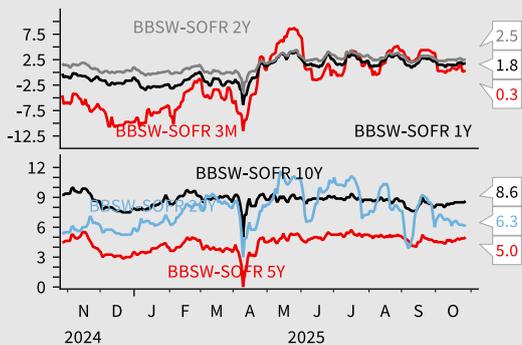


Source: National Australia Bank, Macrobond, Account in-house, Bloomberg

Tactical: Semi spreads to ACGB have widened from recent lows but are still at mid-range for the year. Tight asset swap spreads (due to wide swap spreads) mean marginal bank demand is reduced. But offshore demand remains robust. We continue to target buying when spreads are near the wider end of the very recent range, ie +80bp to +85bp for TCV 10Y Semi zero spreads. We prefer holding TCV and TCorp over QTC.

Strategic: Currently spreads are in from the peaks of mid-2024. However, the bigger picture is that Semis are not far from decade-plus wides to ACGB and are finding enough foreign interest to absorb marginal supply. Issuance remains very high, and we don't expect spreads to tighten substantially beyond recent lows, but the carry pickup is compelling. In general, we like holding Semis but prefer to add on spikes wider.

Cross Currency Basis



Source: National Australia Bank, Macrobond

Tactical: Cross currency spreads remain in fairly tight ranges, especially in the past month. We like received positions for rolldown, and if offshore issuance through November (after bank issuance blackouts end) there could be receiving opportunities.

Strategic: Outside of the April volatility, XCCY spreads have been relatively stable in the past year, holding tight ranges. The longer-run dynamic of hedging flows from super funds (who receive the basis) becoming the dominant front-end driver and keeping it steep is continuing.

Trade Recommendations

Closed Trades Entered since January 2022

	Entry	Close	P/L (bp)	Entered	Closed
Receive NZD 5Y swap	3.34%	3.51%	-17^	14-Mar-22	6-Apr-22
NZGB 2031-2041 steepener	18bp	38bp	20	11-May-22	1-Jun-22
Receive NZD 5Y vs USD 5Y swap	76bp	96bp	-20	18-May-22	30-May-22
Long LGFA Apr-27 vs NZGB Apr-27	65bp	48bp	20^	2-May-22	7-Jul-22
ACGB May-32 / Jun-51 steepener	14bp	37bp	23	24-Jun-22	3-Aug-22
Pay NZD 1Y*1Y swap	3.69%	3.88%	20^	29-Jul-22	11-Aug-22
Pay AUD 1Y*1Y swap	3.28%	3.60%	32^	28-Jul-22	18-Jul-22
Pay NZD vs AUD 5Y*5Y swap	-22bp	-4bp	18^	29-Jun-22	20-Oct-22
NZD 5Y/10Y swap steepener	4bp	-10bp	-14^	25-Aug-22	19-Oct-22
Long NZGB Apr-29 vs MMS	23bp	41bp	18^	30-Aug-22	25-Oct-22
Buy belly of NZGB '32/'37/'41 butterfly	17bp	7bp	10^	24-Aug-22	24-Nov-22
Buy NZGB May-32 vs ACGB May-32	75bp	60bp	15^	20-Oct-22	24-Nov-22
Buy NZGB May-28 vs ACGB May-28	90bp	120bp	-30^	24-Nov-22	9-Mar-23
Pay 6M AUD OIS	3.68%	3.62%	-6^	16-Mar-23	30-Mar-23
Receive AUD 3Y EFP	54bp	38bp	16^	16-Mar-23	11-May-23
ACGB Apr-33 / Jun-51 flattener	49bp	30bp	19^	16-Mar-23	16-Jun-23
Sell belly of ACGB PCA weighted fly: Apr-26 / May-28 / Nov-32	-33.5bp	-44bp	-11^	28-Jul-23	5-Oct-23
Receive NZD 5y swap vs AUD 5Y swap	67bp	86bp	-18	9-Aug-23	9-Oct-23
AUD 1Y*1Y / 2Y*2Y swap flattener	+2bp	-2bp	4^	25-Oct-23	10-Nov-23
Buy NZGB Apr-33 vs NZGB Jun-51	13bp	34bp	21^	30-Oct-23	15-Jan-23
Pay AUD OIS on Feb RBA dates	4.44%	4.32%	-12^	10-Nov-23	7-Feb-23
Receive NZD 2y swap vs AUD 2Y swap	119bp	87bp	28^	13-Feb-24	21-Mar-24
AUD OIS steepener on Aug-Nov RBA dates	+1bp	-9bp	-10^	23-Jul-24	31-Jul-24
Receive AUD 10Y swap vs September futures	+13	+9	+4	20-Aug-24	13-Sep-24
Buy NZGB May-34 vs ACGB May-34	+27bp	+17bp	10^	24-Sep-24	10-Oct-24
Receive AUD 10Y swap vs December futures	+9bp	+4bp	5^	20-Aug-24	23-Oct-24
Pay AUD 2Y swap vs NZD 2Y swap	-34bp	-12bp	-21^	14-Feb-25	18-Mar-25
Pay AUD 1y*1Y swap	3.19%	3.18%	-1	8-Aug-25	12-Aug-25
Receive AUD 1Y*1Y swap versus USD 1Y*1Y swap	+27bp	+31bp	-4bp	11-Sep-25	24-Sep-25
		Total	+134bp	<i>^Includes carry & roll</i>	

Forecasts

Economics: [Forward View Australia](#), and [Forward View Global](#): October 2025

Foreign Exchange: [Global FX Strategist](#), 17 October 2025

	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26	Q1-27
RBA target	3.60	3.60	3.35	3.35	3.35	3.35
AU 3mth BBSW	3.71	3.56	3.46	3.46	3.46	3.46
AU 3y bond	3.40	3.30	3.30	3.30	3.40	3.40
AU 10y bond	4.25	4.10	4.05	4.05	4.05	4.05
AU 3y swap	3.35	3.25	3.25	3.25	3.35	3.35
AU 10y swap	4.15	4.00	3.95	3.95	3.95	3.95
Fed Funds	3.75	3.75	3.50	3.25	3.25	3.25
US 10y bond	4.25	4.10	4.00	4.00	4.00	4.00
RBNZ	2.25	2.25	2.25	2.25	2.25	2.25
NZ 2y swap	3.15	3.40	3.50	3.50	3.50	3.50
NZ 10y swap	4.15	4.05	4.30	4.30	4.30	4.30
NZ 10y bond	4.20	4.20	4.30	4.30	4.30	4.30

Source: NAB, BNZ

Australian Economic Forecasts

	2024				2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP																
Household Consumption	0.5	-0.3	0.0	0.7	0.4	0.9	0.6	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.5
Dwelling Investment	0.7	0.5	1.6	0.7	2.1	0.4	0.5	0.5	0.8	0.8	0.8	0.8	0.7	0.6	0.5	0.4
Underlying Bus. Investment	-1.7	0.2	-0.8	0.3	0.1	-1.0	1.0	0.8	0.8	0.8	0.8	0.5	1.0	0.5	1.0	0.7
Public Final Demand	1.0	1.1	2.8	0.4	-0.2	0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Domestic Final Demand	0.5	0.3	0.8	0.6	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
(% y/y)	2.3	1.6	1.8	2.3	2.0	2.2	2.0	1.9	2.3	2.4	2.4	2.4	2.4	2.3	2.2	2.2
Inventories	(contr) 0.5	-0.1	-0.3	0.1	0.3	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Exports	(contr) -1.0	-0.1	0.1	0.0	-0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Gross Domestic Product	0.2	0.1	0.3	0.6	0.3	0.6	0.6	0.5	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6
(% y/y)	1.2	0.9	0.8	1.3	1.4	1.8	2.1	2.0	2.3	2.3	2.2	2.3	2.3	2.3	2.3	2.3
Labour Market																
Employment	0.3	0.6	0.9	0.5	0.3	0.6	0.2	0.4	0.4	0.5	0.5	0.4	0.5	0.4	0.4	0.4
Unemployment Rate	(%) 3.9	4.0	4.1	4.0	4.1	4.2	4.3	4.3	4.4	4.3	4.3	4.2	4.2	4.2	4.2	4.3
WPI Wages	0.7	0.9	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
(% y/y)	4.0	4.1	3.5	3.2	3.4	3.4	3.4	3.5	3.4	3.3	3.3	3.2	3.2	3.2	3.2	3.2
Inflation																
CPI Trimmed Mean	1.0	0.8	0.8	0.5	0.7	0.7	0.9	0.7	0.7	0.7	0.6	0.6	0.62	0.62	0.62	0.62
(% y/y)	4.0	4.0	3.6	3.2	2.9	2.7	2.9	3.0	3.0	3.0	2.7	2.6	2.6	2.5	2.5	2.5
CPI Headline	1.0	1.0	0.2	0.2	0.9	0.8	1.2	0.6	1.1	0.7	0.6	0.6	0.6	0.6	0.6	0.6
(% y/y)	3.6	3.8	2.8	2.4	2.4	2.2	3.1	3.5	3.7	3.5	3.0	3.0	2.5	2.5	2.5	2.5

Source: ABS, NAB Economics. Quarterly percent change unless specified

Exchange Rate Forecasts

	27-Oct	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26							
Majors							Australian Cross Rates						
AUD/USD	0.656	0.67	0.69	0.71	0.72	0.71	AUD/NZD	1.14	1.14	1.15	1.15	1.14	1.13
NZD/USD	0.58	0.59	0.60	0.62	0.63	0.63	AUD/JPY	100.1	98	99	99	97	96
USD/JPY	152.7	146	144	140	135	135	AUD/EUR	0.56	0.56	0.58	0.59	0.59	0.58
EUR/USD	1.17	1.19	1.20	1.21	1.23	1.22	AUD/GBP	0.49	0.50	0.51	0.52	0.52	0.52
GBP/USD	1.33	1.35	1.35	1.36	1.38	1.37	AUD/CNY	4.66	4.74	4.86	4.93	4.97	4.86
USD/CNY	7.11	7.08	7.05	6.95	6.90	6.85	AUD/CAD	0.92	0.92	0.94	0.94	0.92	0.92
USD/CAD	1.40	1.37	1.36	1.32	1.28	1.30	AUD/CHF	0.52	0.52	0.53	0.54	0.54	0.54
USD/CHF	0.79	0.78	0.77	0.76	0.75	0.76							

Contacts

Markets Research

Skye Masters

Head of Research, Markets
+61 2 9295 1196
skye.masters@nab.com.au

Markets Economics

Taylor Nugent

Senior Economist
+61 3 8619 1008
taylor.nugent@nab.com.au

Foreign Exchange

Ray Attrill

Head of FX Strategy
+61 2 9293 7170
ray.attrill@nab.com.au

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Fixed Income

Kenneth Crompton

Head of Rates Strategy
+61 2 9293 7132
kenneth.crompton@nab.com.au

Gregorius Steven

Senior Associate, Interest Rate Strategy

Michael Bush

Head of Credit Research
+61 3 8641 0575
michael.d.bush@nab.com.au

Evy Noble

Senior Associate, Credit Research
+61 2 7226 7336
evy.noble@nab.com.au

London/Europe

Gavin Friend

Senior Markets Strategist
+44 207 710 1588
gavin.friend@eu.nabgroup.com

Group Economics

Sally Auld

Group Chief Economist
+61 2 7227 1997
sally.auld@nab.com.au

Gareth Spence

Head of Australian Economics
+61 422 081 046
gareth.spence@nab.com.au

Tony Kelly

Senior International Economist
+61 477 746 237
antony.kelly@nab.com.au

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