

## Headline Hot, Core Holds:

### What the March Quarter CPI Means for Australian Credit & Debt Investors

Macro & Rates Note | 29 April 2026 • Updated post-CPI

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Revised following today's ABS Consumer Price Index, Australia release. Supersedes the 26 April 2026 edition. Credit & debt market positioning section expanded.

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#### AT A GLANCE — POST-CPI

- Headline CPI **4.6%** YoY in March (highest since September 2023) — but *below* consensus of 4.7–4.8%. The blow-out is fuel, as housing and services eased..
- Trimmed mean **unchanged at 3.3%** YoY (Q1 quarterly +0.8%) — softer than the ~3.5% YoY level that many economists had carried in. Underlying second-round wage-and-services pass through effects *have not yet shown up*.
- Revised May call: a hike to 4.35% has moved from a **near-certain to genuinely 50/50**. The dovish minority on the Board now has real ammunition; the hawks still have headline and inflation expectations.
- Interest rate cuts beyond 2026 unchanged: RBA modelling does not see trimmed mean back to mid-band until **mid-2028** — first cut still framed as a late-2027 event in our base case.
- Implication for credit & debt investors: AUD 10-year at **~5.0%**, 30-year ~5.4%, 3-month BBSW **~4.32%**. The case for selective duration begins to crystallise; FRN carry and short-dated IG credit remains core.

## 1. What the data actually said

The March 2026 CPI release delivered the bifurcation the energy-shock thesis predicted, with one important nuance: headline blew out, but the underlying measure the RBA targets did not move.

- **Headline CPI:** +4.6% YoY (vs +3.7% in February), the highest annual print since September 2023. Monthly +1.1%. Below consensus of +4.7–4.8% — a meaningful but modest miss.
- **Trimmed mean:** 3.3% YoY, unchanged from February. Quarterly (pre-October 2025 basis) +0.8%, slightly below the +0.9% consensus. This is the RBA's preferred underlying measure and it did not accelerate.
- **Composition tells the story:** Transport rose 8.9% YoY (vs –0.2% in February) on a 32.8% monthly jump in automotive fuel. Goods inflation accelerated to 5.5% (from 3.5%). But housing eased to 6.5% (from 7.3%) and services inflation eased to 3.6% (from 3.9%). The energy shock dominated; broader pressure did not.

In short: the price level moved on fuel, but the second-round wage-and-services pass-through that worries the RBA most has not yet appeared in the data.

## 2. Recalibrating the May 2026 decision

Heading into the print, ASX 30-day cash rate futures were pricing roughly an 80% probability of a 25bp hike to 4.35% on 5 May, with all four major banks forecasting that move. The data weakens that case but does not invalidate it. We see a genuinely two-sided debate now in play.

### The hawkish case (still hike on 5 May)

- Headline at 4.6% — well outside the 2–3% target band — feeds household and business inflation expectations. Consumer inflation expectations (Roy Morgan) are already at 5.9–6.9%.
- The Board has been explicit that preventing expectation de-anchoring is its primary concern. A hold here risks signalling complacency.
- Capacity pressures remain — unemployment 4.1%, private demand running above trend.

### The dovish case (hold at 4.10%)

- Trimmed mean stable at 3.3% — the underlying measure has not deteriorated. Quarterly print of 0.8% was below consensus.
- Housing inflation easing for the first time in months (7.3% → 6.5%). Services inflation easing (3.9% → 3.6%). The first signs of underlying disinflation are present.
- The February–March hikes have not yet flowed through. Acting again before that lag plays out risks over-tightening into a fuel-driven shock that is, by definition, self-correcting.

Our updated read: a May hike is now closer to a coin toss than the 70–80% pre-print pricing. The 5–4 split in March means a single Board member’s reaction to today’s data flips the outcome. In our view, the path of least regret for a divided Board may be to hold, signal hawkishness in the Statement, and reassess at the Statement on Monetary Policy in August 2026.

### 3. Beyond 2026 — when do cuts arrive?

Today’s data does not change our view on the medium-term path. The RBA’s own forecasts continue to project trimmed mean inflation returning to the 2.5% mid-point only by mid-2028. Two scenarios still bracket the realistic range:

- **Benign path.** Middle East tensions ease, oil prices normalise, headline disinflation resumes through H2 2026 as fuel base effects roll off, and underlying continues to drift lower. First cut delivered cautiously in late 2027, with the cash rate returning toward 3.0–3.5% neutral by 2028–29.
- **Stagflationary path.** Energy prices stay elevated, second-round effects begin to show in Q2/Q3 trimmed mean prints, expectations de-anchor. Cash rate pushed to 4.35–4.60% and held into 2027; first cuts deferred to 2028.

The implication for allocators is unchanged: a multi-year window of elevated AUD running yields, with the back end of the curve already pricing meaningful term premium.

### 4. Where the AUD curve sits going into May

Pre-print, the Australian curve had moved decisively to a higher-for-longer setting. Today’s softer underlying number gives the front end room to rally if the May meeting delivers a hold, and gives the long end a real-yield case if the hawkish posture is maintained. Reference levels going into 5 May:

- **Cash rate:** 4.10%. 3-month BBSW: ~4.32%, reflecting tight short-end funding conditions.
- **ACGB 2-year:** ~4.70% (up ~143bp YoY).
- **ACGB 5-year:** ~4.73%.
- **ACGB 10-year:** ~5.00–5.01% (up ~78bp YoY) — within touching distance of multi-decade highs.
- **ACGB 20–30 year:** ~5.35–5.41%, with the long-end steepening reflecting persistent term-premium re-pricing.

These are entry levels not seen for most of the post-GFC era when the cash rate was close to 0%. For wholesale credit and debt allocators, the question now shifts from “is yield available?” to “where on the curve is yield best paid for the risk? and “what sectors makes sense to invest in?”

## 5. Positioning ideas for credit & debt investors

The post-print backdrop strengthens the core thesis from our 26 April note while sharpening some of the relative-value calls. In our view, the macro setting creates a constructive — and in places compelling — backdrop for AUD credit and debt across 2026.

### 5.1 Floating-rate notes: the carry trade is intact

A higher-for-longer cash rate — whether the May terminal proves to be 4.10% or 4.35% — directly anchors BBSW resets that drive AUD FRN coupons. With 3-month BBSW at ~4.32%, major bank senior FRNs and high-grade securitised paper continue to deliver attractive carry with limited duration risk. Where the May meeting outcome is genuinely uncertain, FRNs are the cleanest way to harvest the elevated front end without taking a directional rates view.

### 5.2 Short-duration investment grade credit

With the curve flat at the front end and term premium re-emerging at the long end, the risk-adjusted reward continues to sit in the short duration investment grade credit. Running yields in this bucket capture the elevated cash rate without exposing the portfolio to the duration risk that a delayed easing cycle implies for the long end. Senior-ranking bank paper and high-quality non-bank corporates remain the natural building blocks.

### 5.3 Subordinated bank debt — selective at current spreads

AUD Tier 2 and senior-non-preferred paper from European and United States Issuers has compressed materially over the past 12 months as offshore demand for AUD credit has remained firm. We continue to see merit in the asset class on an all-in yield basis, but at current spreads investors should be deliberate about issuer selection and call-date concentration. The yield-pickup over senior is no longer abundant; quality control matters more in 2026 than it did in 2025.

### 5.4 Selective duration — the window is closer

The classic “buy duration as the RBA pivots” trade is the question that this CPI print has reopened. With trimmed mean stable rather than accelerating, the case for beginning to extend duration on bond weakness — particularly in the 5–10 year part of the ACGB and high-grade semi-government curve — has strengthened. We are not yet calling for full duration extension, but allocators may consider scaling into the long end on confirmation that core inflation has reached an inflexion point, with the August Statement on Monetary Policy as the next natural catalyst. The MDA product is currently running ~2 years of interest rate duration through a mix of different fixed-rate and floating securities (have zero duration) across the curve.

### 5.5 Semi-government bonds — the under-owned sweet spot

State government paper continues to offer attractive spread to ACGBs at the longer end, with strong credit fundamentals and supportive issuance dynamics. For wholesale allocators with the latitude to extend the issuer set, semis are a natural complement to senior bank exposure in the 5–10 year part of the curve.

### 5.6 Inflation-linked bonds: the cheap hedge has gotten more expensive

The case for Inflation Indexed Bonds (IIBs) is more nuanced after today. Real yields had built in a meaningful inflation risk premium going into the print; the soft trimmed mean reading takes some of that premium out. We continue to see structural merit in IIBs as a tail-hedge against the stagflationary path described in Section 3, but the entry point is less compelling today than yesterday. Allocators with existing TIB exposure can hold; new allocations may benefit from waiting for the next leg of breakeven widening if the Middle East situation escalates.

### 5.7 Private credit and direct lending — alongside, not instead of

Wholesale demand for AUD private credit has continued to grow into 2026, supported by the high cash-rate backdrop and the search for floating-rate carry beyond traded markets. We view private credit as complementary to listed FRN and IG exposures rather than substitutive: liquidity, mark-to-market discipline and workout transparency are all weaker in the unlisted space, and those costs should be priced explicitly in any allocation decision rather than ignored in the pursuit of higher coupons.

#### BOTTOM LINE

Today's split print — hot headline, contained core — turns the May RBA decision into a genuine 50/50 and shifts the credit and debt narrative from “brace for one more hike” to “the front end may have peaked.” Either way, AUD running yields, FRN carry and short-dated IG credit remain features of the 2026–27 environment. The new development is that selective duration is moving from a 2027 trade to a live conversation for portfolios with the latitude to act ahead of the Board Meeting on 5<sup>th</sup> May.

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