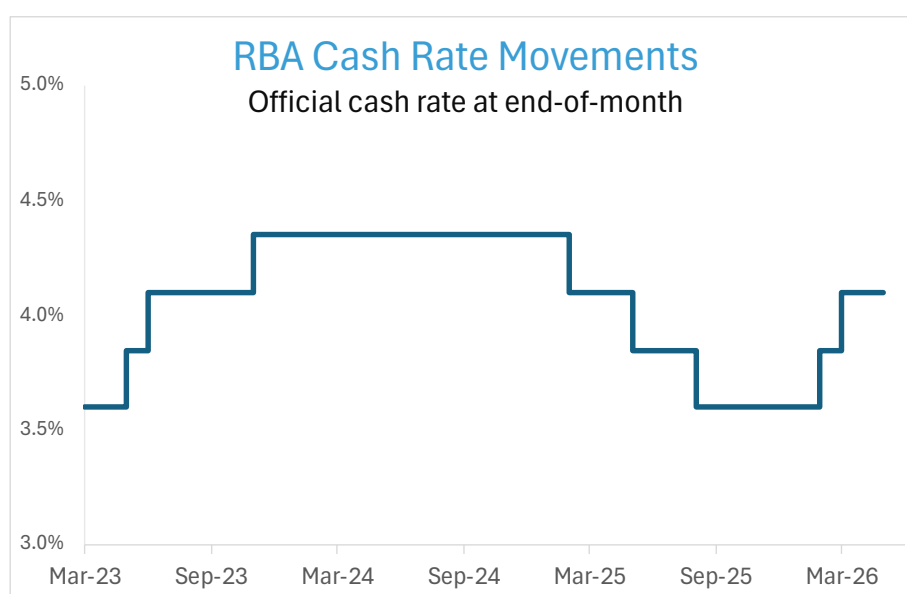




At its March meeting the Reserve Bank of Australia increased the cash rate by 25 basis points to 4.1% as it seeks to curb renewed inflationary pressures driven in part by rising oil prices. This marks the second consecutive rate hike and follows a period of easing that began only 12 months ago. For investors and businesses, these shifting rate cycles can feel like a roller coaster.

The relief felt by mortgage holders of declining interest rates was short lived, as the rate cuts that began in February 2025 – taking the RBA cash rate from its cycle high of 4.35% down to 3.6% ended in February 2026. The RBA is signalling it won't underestimate inflation again, and already markets are pricing in a further rate rise at their next Board meeting on May the 7th.



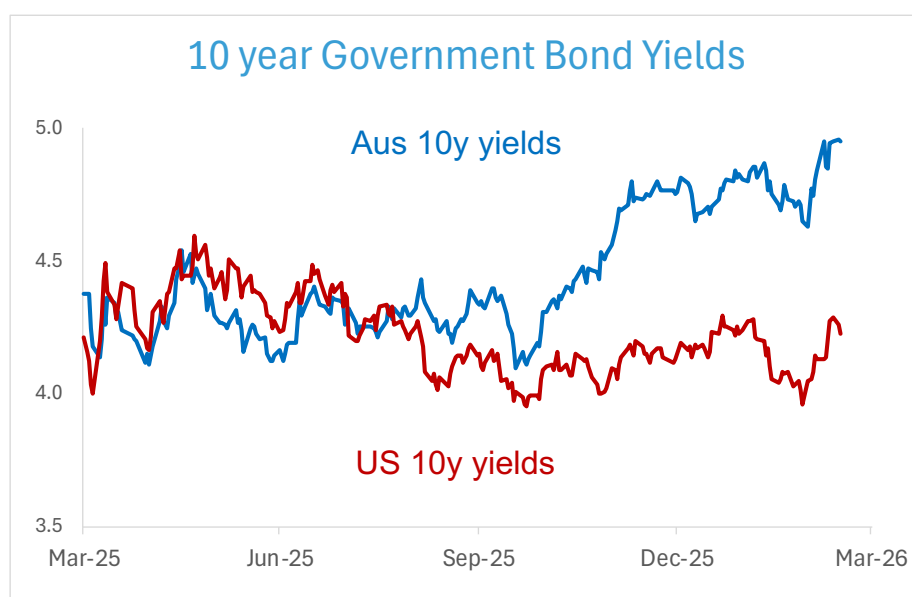
Source: www.rba.gov.au

In the post-meeting statement the RBA said: “There is a material risk that inflation will remain above target for longer than previously anticipated... The board judged that inflation is likely to remain above target for some time and that the risks have tilted further to the upside, including to inflation expectations”.

But this apparent directional volte face is not a surprise to markets. The bond market anticipated that next rate change would be an increase months ago as yields rose suddenly between October to December and are now the highest they have been in more than 2 years.

The chart below shows the yield of the Australian and US Government 10 year bonds over the last 12 months. Australian yields began increasing from early October, as CPI data from the Australian Bureau of Statistics revealed inflation to be more persistent and higher than economists had predicted.

Furthermore, the chart also shows a spike in yields in both countries since the start of the conflict in the Middle East in early March, which has caused oil prices to spike and further fuelled global inflation concerns. The Australian 10 year yield is now at its highest level since 2011.



Source: www.investing.com

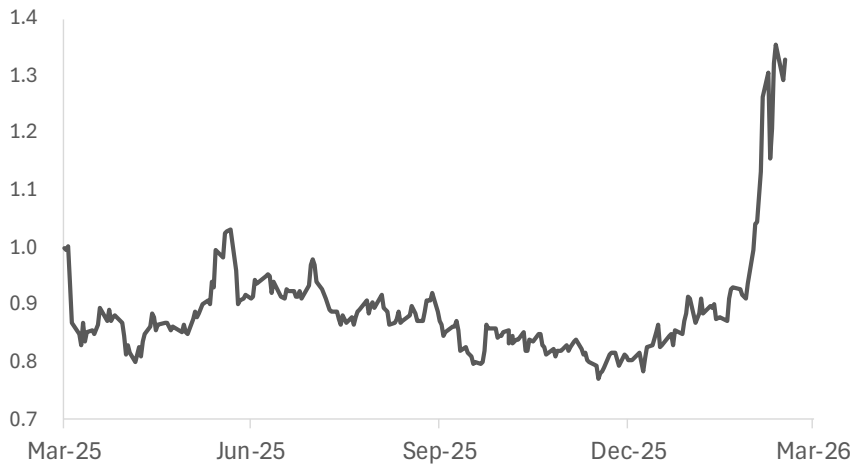
Global oil and gas prices have soared since the US-Israeli strikes on Iran that kicked off over the weekend of February 28th, disrupting energy exports from the Middle East and raising fears of supply shortages that will push up petrol prices. Sustained energy prices could weigh on growth and risk pushing inflation up.

The chart below shows this spike in a crude oil index¹, which has increased by more than 40% since the start of the conflict. While many assumed the conflict would be short lived, and therefore the rise in oil prices would be transitory, it now seems there may be a prolonged impediment to supply as the Strait of Hormuz remains closed.

¹ Dow Jones Commodity Index Crude Oil

Crude Oil Prices

Mar-2025 - Mar-2026



Source: www.investing.com

This has created an unwelcome complication for all central banks, but for the Reserve Bank of Australia in particular. While the bank could look past a supply “shock” for oil, persistent underlying inflation has made that more difficult. The spike in oil prices risks higher near-term inflation and a hit to economic growth, potentially forcing central banks to keep raising rates (or hold rates higher for longer) even if the economy is slowing.

The RBA raised the cash rate at their February meeting to stamp out stubborn inflation, which remains stuck at 3.8% – well above the bank’s 2.5% target. The March increase was a fait accompli when earlier in the month data showed Australia’s economy (GDP) expanded by 2.6% year-on-year in the fourth quarter, which was greater than market expectations.

The bond market is not following the normal playbook – typically in times of global tension, investors usually run to the safety of bonds, which causes yields to fall. Instead, the market is worried by the threat of rising prices, ignoring the risk of a global recession. For bond yields to reverse, there would need to be clear evidence that the war was affecting global economic growth.

While the changes in interest rates over the last few years feels like a roller coaster for many investors, it is important to realize that the RBA is doing what it sees as necessary to get inflation back to its 2% - 3% target band. The central bank is data dependent – as new information on the economy becomes available the bank will make an assessment on the next interest rate move.

To quote the economist John Maynard Keynes: “When the facts change, I change my mind”.

Dr Steve Garth
March 18, 2026