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Technology : Research : Investing

Paid to Wait, Down Under: What the RBA Minutes Tell Us About Real Yields and the Australian Dollar

The Reserve Bank Reads the Global Bond Sell-Off the Way We Do — and Warns That a Floating Currency Offers No Shelter From a Rising Global Price of Capital

October 2026

Executive Summary

In *Paid to Wait* we argued that the 2026 global bond sell-off is a repricing of safe capital, not an inflation scare: long-term yields have risen almost entirely through real yields, while long-run inflation compensation has not moved.¹ The minutes of the Reserve Bank of Australia's 29 September meeting, at which the Board raised the cash rate by 25 basis points to 4.60%, reach the same diagnosis in central-bank language.²

"The rise in longer term bond yields mainly reflected a rise in real yields, rather than higher long-term inflation expectations" — RBA Board minutes, 29 September 2026

The RBA attributes the rise in real yields to some combination of a higher neutral rate and higher term premia, and cites "*changes in the investor base for government debt*" among the causes of the latter — the captive-buyer mechanism at the heart of our note. The minutes then draw a conclusion that matters for every Australian investor: if the global neutral rate has risen and Australian rates do not follow, the adjustment falls on the Australian dollar. A floating exchange rate, the Board observes, "*does not insulate Australia against secular shifts in global equilibrium interest rates*".

We explain why that follows, why the Australian dollar has nonetheless risen this year, and why we think the global move owes more to term premia than to neutral rates — a distinction with direct consequences for Australian bonds, the currency and the cash rate.

1. The RBA Reads the Bond Market the Way We Do

The minutes and *Paid to Wait* begin from the same decomposition. Long-term yields in advanced economies have risen sharply; long-term inflation compensation remains consistent with central bank targets; the move is therefore in real yields. Australia is no exception: Australian government bond

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yields “had also risen materially, reflecting higher real yields and broadly unchanged longer term inflation compensation”.²

The RBA then offers two candidate explanations for higher real yields. Each maps directly onto the framework of our earlier note:

Table 1: The RBA’s Two Explanations and Our Framework

RBA explanation	What it means	In Paid to Wait
Higher neutral rate	The real policy rate consistent with full employment and stable inflation has risen	The “price of time” (Section 1); higher return on real capital from AI investment (Section 8)
Higher term premia	Investors demand more compensation to hold long-dated debt	Captive buyers retreating: the Fed and Japanese life insurers (Sections 4, 9, 10)

Sources: RBA Board minutes, 29 September 2026; Lethame Capital Management.

The RBA’s list of causes for higher term premia — increased issuance by governments and AI companies, “changes in the investor base for government debt” and greater policy uncertainty — is close to word for word the argument of *Paid to Wait* and of *The Savings Glut in Reverse*.^{1,3} Australia was directly exposed to that change in the investor base: Australian government bonds were among the foreign holdings of Japan’s life insurers,⁴ and the Australian 10-year yield crossed 5% this year for the first time since 2011.

2. Neutral Rate or Term Premium? Why the Split Matters

The most useful contribution of the minutes is to spell out why the source of higher real yields matters. For a given path of the cash rate, the two explanations push financial conditions in opposite directions:

Higher term premia ⇒ tighter financial conditions • Higher neutral rate ⇒ looser financial conditions

If long yields rise because investors demand a larger term premium, borrowing costs rise without the central bank doing anything: the bond market does part of the tightening. If they rise because the neutral rate has risen, an unchanged cash rate is less restrictive than it looks, and the central bank must do more simply to stand still.

Australia sharpens the asymmetry. Because most Australian households borrow at variable or short fixed rates, the RBA notes that higher term premia do relatively little to tighten domestic conditions. A higher neutral rate, by contrast, loosens them in full if the cash rate is left unchanged. That asymmetry helps explain the September decision: one of the Board’s reasons for raising the cash rate was that, if the global neutral rate has risen, 4.35% was less restrictive than it had been two years earlier.²

3. Why a Rising Global Neutral Rate Weakens the Australian Dollar

The minutes link the neutral rate to the currency in a single sentence: a rise in the global neutral rate that is not fully reflected in Australian interest rates could put downward pressure on the Australian dollar. The mechanism is interest parity, the condition at the core of open-economy macroeconomics since Mundell and Dornbusch.^{5,6} It works in four steps:

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- **Global neutral rates rise**, raising the real return available on capital abroad.
- **If Australian rates do not follow**, the real return on Australian assets falls relative to the rest of the world, and the real interest differential narrows or turns negative.
- **Capital moves towards the higher real return**. For an investor to remain willing to hold Australian assets at a lower yield, the Australian dollar must fall now, by enough that its expected subsequent recovery compensates for the yield it gives up.
- **The floating exchange rate relocates the constraint rather than removing it**. Australia can set its own cash rate, but it cannot set its rates below a rising global equilibrium without the exchange rate paying the difference.

A floating exchange rate buys monetary independence — not immunity from the global price of capital

This is the currency-market counterpart of *Paid to Wait*. Global capital can now earn close to 3% real, risk-free and inflation-protected, in US Treasury Inflation-Protected Securities.¹ Australian assets must offer at least that return, adjusted for expected currency movements, to attract it. If Australian real yields do not rise to meet the global hurdle, the currency becomes the margin of adjustment.

4. The Puzzle: A Strong Dollar Despite a Narrowing Differential

The minutes also record a puzzle. The Australian dollar has depreciated a little since the previous meeting, but remains around 5% higher in trade-weighted terms since the start of the year — despite a narrowing in Australia's yield differential with other economies over the same period. The RBA judges the real trade-weighted index to be somewhat above the range of estimates of its long-run equilibrium.²

Interest differentials cannot explain a rising currency when the differential is narrowing. Our work on China suggests a candidate the minutes do not discuss. In *The Savings Glut in Reverse* we documented the renminbi appreciating against the US dollar in 2026, as China's need to resist appreciation — and to recycle surpluses into US Treasuries — eases.³ *Mercantilism Revisited* set out why a stronger renminbi is the logical consequence of rebalancing China's economy towards household consumption.⁷ The Australian dollar, through the terms of trade and Australia's exposure to Chinese demand, trades in part as a proxy for that adjustment.

The data are consistent with a China channel (Figure 1). Between December 2025 and September 2026 the Australian dollar rose about 7% against the US dollar, while the renminbi rose about 5% and the broad US dollar index barely moved; against the renminbi itself, the Australian dollar rose only 2%. Iron ore prices, by contrast, fell. Monthly changes in the Australian dollar have correlated with the renminbi at around 0.7 since 2022, and in a simple regression that also controls for the broad US dollar, the renminbi accounts for roughly 2.7 percentage points of the Australian dollar's 2026 gain.⁸

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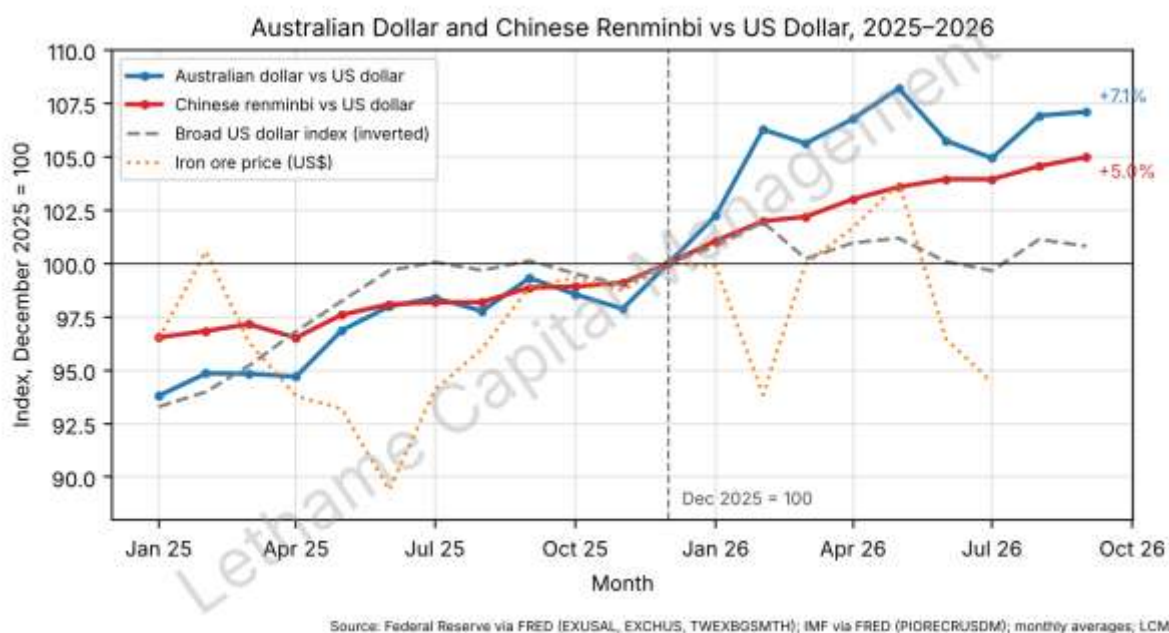


Figure 1: Australian Dollar and Chinese Renminbi vs US Dollar, 2025–2026 (Index, December 2025 = 100)

Source: Federal Reserve and IMF via FRED, monthly averages; LCM calculations.⁸

That leaves a substantial share of the move unexplained — expectations of RBA tightening and commodities other than iron ore will have played a part — so we present the China channel as one important driver rather than the explanation. If it is right, the Australian dollar's strength this year is in part a China story layered on top of a rates story, and the RBA's warning has two potential sources of downside: a global neutral rate that Australia does not match, and any stalling of the renminbi's appreciation.

5. Our Reading: More Term Premium Than Neutral

The RBA concludes, reasonably, that the split between neutral rates and term premia cannot be estimated with any accuracy. *Paid to Wait* offers four reasons to lean towards term premia as the larger part of the global move:

- **Timing.** The repricing tracks changes in the buyer base — the start of the Federal Reserve's balance-sheet reduction in 2022 and, in July 2022, the point at which a 10-year Japanese government bond began to out-yield a yen-hedged US Treasury — rather than any identifiable jump in trend growth.¹
- **Location.** The rise is concentrated at the long end of the curve, where captive, liability-driven buyers mattered most; a higher neutral rate would show up more evenly across maturities.
- **Composition.** Measured term premia have risen to around their pre-GFC average, and long-run inflation compensation is unchanged — the signature of a balance-sheet adjustment rather than a growth or inflation shock.
- **Holder data.** During the Fed's 2022–2025 balance-sheet reduction, a 17 percentage-point rise in the price-sensitive share of Treasury holdings accompanied a 1.1 percentage-point rise in the term premium.³

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If the global move is mostly term premium, three things follow for Australia. First, the case for the cash rate to chase a higher global neutral rate is weaker than the minutes' scenario implies. Second, the downward pressure on the Australian dollar described in the minutes is correspondingly weaker. Third, Australian long-dated yields will continue to reprice with the global term premium regardless of the cash rate — because the investors who set that premium are global, and the buyers who have left were global too.

6. Investment Implications

First: the real hurdle is global. For an Australian investor, the relevant riskless real return is set in global markets. Close to 3% real on US TIPS, and higher real yields on Australian government bonds, set a demanding benchmark for every risky allocation — including Australian equities and property.

Second: Australian long bonds are now priced off the global term premium. Because the captive buyers who left were global, Australian long-end yields can rise even with a stable cash rate. Duration should be sized against the global buyer base, not just the RBA's path.

Third: the Australian dollar carries asymmetric downside. It is above the RBA's estimate of fair value, supported by a narrowing interest differential and — we suspect — by the renminbi. A higher global neutral rate that the RBA does not match, or a stalling of China's currency adjustment, would each weigh on it. Unhedged offshore assets offer Australian investors some protection against that outcome.

Fourth: watch the split. Evidence that the global move is primarily a higher neutral rate — faster sustained growth, rising short-dated real yields across the curve — would strengthen the RBA's scenario of further hikes and a weaker currency. Evidence that it is primarily term premium — weak long-bond auctions, further retreat by official and Japanese buyers, a flat front end — would favour a steeper Australian curve and a more resilient currency.

Conclusion

The Reserve Bank of Australia has, in effect, endorsed the diagnosis of *Paid to Wait*: the global bond sell-off is a rise in real yields, not inflation expectations, driven by some mix of a higher neutral rate and a higher term premium, the latter linked explicitly to changes in who holds government debt. The minutes add an important corollary for a small open economy. When the global price of safe capital rises, Australia can choose its cash rate, but not its exposure to that price:

Match the global hurdle through higher Australian real yields — or pay for it through a weaker Australian dollar

Which of those it will be depends on how much of the global move is neutral rate and how much is term premium. Our reading of the evidence favours the latter — which implies a steeper Australian curve, less pressure on the cash rate than the minutes' scenario suggests, and a currency whose strength this year owes as much to Beijing as to Martin Place.

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