



August 2026

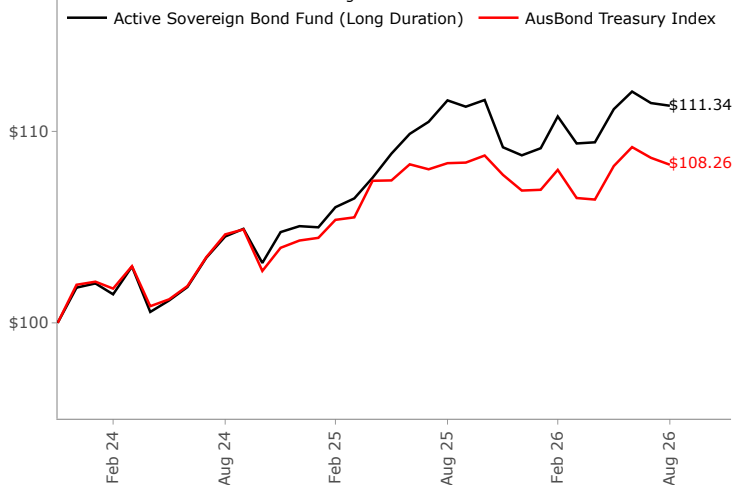
Objective: The Active Sovereign Bond Fund - Long Duration Class targets returns in excess of its Benchmark, the Bloomberg AusBond Treasury 0+ Yr Index (BATY0) after management costs, by 3.0% to 5.0% per annum over rolling 3 year periods.

Strategy: The Fund aims to generate diversifying excess returns above the Benchmark for each Class through exploiting relative value mis-pricings in high quality government bonds and related Derivatives that have a low correlation to equity and credit markets and the level of interest rates. The Long Duration Class aims to deliver the Fund's investment strategy over its Benchmark, the Bloomberg AusBond Treasury 0+ Yr Index (BATY0). It offers fixed-rate bond exposure by matching its interest rate duration to that of the Index, which may be a source of interest-rate risk.

Period Ending 2026-08-31	Gross Return	Net Return	Bloomberg AusBond Treasury 0+Yr Index	Gross Excess Return [†]	Net Excess Return [†]
1 month	-0.07%	-0.12%	-0.33%	0.26%	0.21%
3 months	0.33%	0.16%	0.07%	0.26%	0.09%
6 months	0.84%	0.51%	0.25%	0.59%	0.26%
1 year	0.43%	-0.25%	-0.08%	0.51%	-0.17%
Inception pa Dec. 2023	4.99%	4.03%	2.96%	2.03%	1.07%

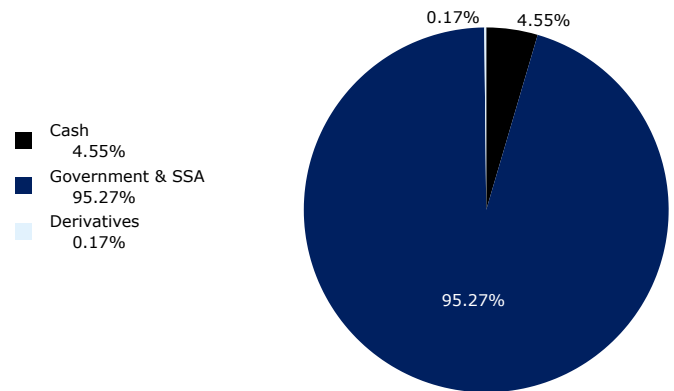
Value of \$100 Invested Since Inception

31 August 2026



Active Sovereign Bond Fund (Long Duration) Portfolio Composition (GAV)

31 August 2026



Data Source: Coolabah Capital Investments

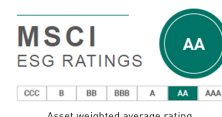
[†] The Excess Return column represents the gross and net return above the Bloomberg AusBond Treasury 0+ Yr Index

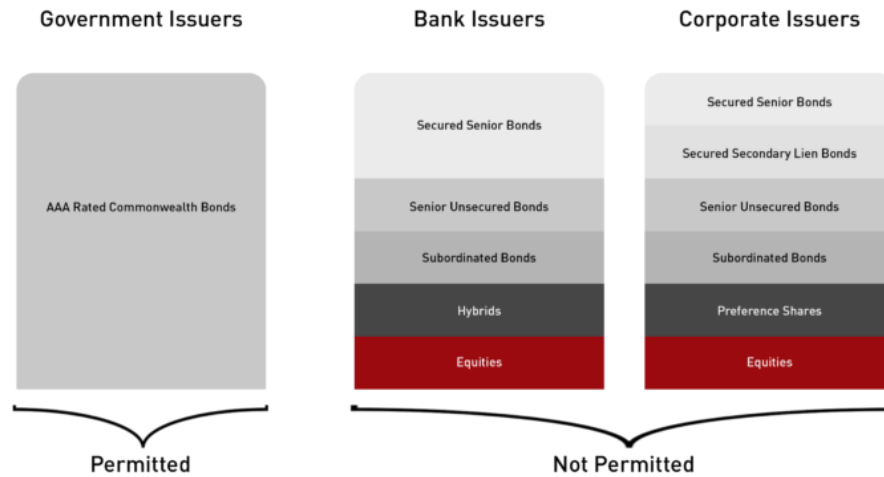
Disclaimer: Past performance does not assure future returns. Returns are shown net of management fees and costs unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. To understand Fund's risks better, please refer to the Product Disclosure Statement available at Coolabah Capital Investments' [website](#).

Note: all portfolio statistics other than yields and duration are reported on gross asset value

Av. Portfolio Credit Rating	AAA	Modified Interest Rate Duration	4.79 years
Portfolio MSCI ESG Rating	AA	Gearing Permitted?	Yes
Gross Portfolio Weight to Govt. Bonds	95.3%	Net Annual Volatility (since incep.)	4.17%

Ratings: Recommended (Zenith)





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The since inception gross (net) return of 4.99% pa gross (4.03% pa net) is the total annual return earned by the fund since Dec. 2023, including interest income and movements in the price of the bond portfolio after all fund fees (assuming net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement). The net return quoted applies to the Coolabah Active Sovereign Bond Fund - Long Duration Class, with quarterly distributions reinvested. Investment return will vary depending upon investment date and any additional investments and withdrawals made. The annualised volatility estimate of 4.17% pa is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Coolabah Active Sovereign Bond Fund - Long Duration Class.

Portfolio Managers Christopher Joye, Ashley Kabel, Roger Douglas, Matt Johnson (Coolabah Capital Investments)

APIR Code	ETL5578AU	Fund Inception	13-Dec-23
ISIN	AU60ETL55786	Distributions	Quarterly
Benchmark	Bloomberg AusBond Treasury 0+Yr Index	Unit Pricing	Daily (earnings accrue daily)
Asset-Class	Government Bond	Mgt. & Admin Fee	0.65% pa
Target Return	3-5% pa above Benchmark after mgt. fee & costs	Perf. Fee	20% of excess outperformance above the benchmark after mgt. fees
Investment Manager	Coolabah Capital Investments (Retail)	Custodian	Citigroup

Portfolio commentary: In August, Coolabah's Active Sovereign Bond Strategy returned -0.07% gross (-0.12% net), outperforming the Bloomberg AusBond Treasury Index (-0.33%) in a solid month for our relative value strategy.

Since inception, the Strategy returned 4.99% pa gross (4.03% pa net), outperforming the Bloomberg AusBond Treasury Index (2.96% pa).

The month was characterised by a large increase in global term premium – which steepened curves – and sharp swings in both local and global monetary policy expectations. The most interesting development was the off-cycle announcement by the US Treasury Secretary that the US Treasury would increase buyback operations in long-term bonds. The first of these operations had not yet taken place at the time of writing; however, the announcement seems to have presaged a modest flattening of the 10s30s curve in the US Treasury market. That flattening of the US long end caused some flattening in ACGBs.

Changed monetary policy expectations have also affected curve shapes. A dovish late-July FOMC meeting and early-August RBA meeting had short-term money markets pricing out policy tightening, and curves steepening. However, hawkish speeches, minutes, and hot data re-priced both Australian and US monetary policy expectations, causing flattening later in the month. In particular, the Minutes of the August RBA meeting put the market on notice that the September meeting was live, and a hot July CPI print saw the market move to price a ~70% chance of a hike – this flattened the Australian 3s10s curve back to ~40bps, from a peak of ~50bps in mid-August.

That mid-August peak was associated with both the consensus judgement that the RBA probably wouldn't lift its policy rate any further, and the AOFM's issuance of a new May 2038 bond. We participated in the May 2038 deal, buying the new issue for the bond book.

Bond-futures basis was a modest tailwind in August, with our funding conditions generally cheaper than the rates implied by futures. There were opportunities during the month to buy bonds at very favourable levels, and we took advantage of them. Basis tightened by around 0.2bps across the month, with YMU6 tightening ~0.2bps to +0.2bps and XMU6 tightening ~0.2bps to flat.

Strategy commentary: August was characterised by a global duration shock, with many longer-dated sovereign bond yields reaching multi-year highs. The rise in yields was largely driven by concerns around fiscal debt sustainability, persistent inflation and ongoing hyperscaler issuance.

The surge prompted US Treasury Secretary Scott Bessent to unexpectedly announce that buyback operations for longer-dated Treasuries would be increased "by at least double", and that the Treasury could use its General Account to help fund them. This drove a pullback in 30-year yields.

Fed Chair Warsh's hawkish speech at Jackson Hole also flattened yield curves, as he signalled there was "work to do" on inflation.

By month-end, the market was pricing a 65% chance of a hike at the September meeting. Commentary from the ECB and BoJ was similarly hawkish, leaving markets almost fully pricing hikes from both in September.

The month began on a risk-on footing. Positive developments in US-Iran talks combined with strong ISM data to drive a broad rally in the opening days of August, while credit continued its summer grind tighter, led by financials and subordinated debt, on thin supply and favourable seasonality.

A dramatically weaker-than-expected US non-farm payrolls report the following week, showing a 23,000 decline in employment against expectations for an 83,000 gain and accompanied by a sizeable downward revision to the prior month, reinforced the move, richening rates and bull-steepening curves.

That momentum reversed once high-grade bond issuance resumed in earnest after the quiet early-August lull. Rates sold off and curves moved slightly flatter through the back half of the month, with German long-end syndications, including a 30-year tap, clearing at the highest yields since 2011.

Strategy commentary cont'd: Hawkish central-bank rhetoric compounded the sell-off into month-end. The ECB's Isabel Schnabel flagged that further tightening would be necessary given inflation was unlikely to return to target, and Fed Chair Kevin Warsh delivered a hawkish speech at Jackson Hole, reiterating the Fed's focus on above-target inflation and signalling there was "work to do", which flattened yield curves.

By month-end the market was pricing a 65% chance of a hike at the September FOMC meeting, a notable shift given the political calendar. Commentary from the ECB and the Bank of Japan was similarly firm, leaving markets almost fully pricing September hikes from both.

Yields consequently finished August higher, although the moves were much smaller than July's. The 10-year US Treasury yield increased 4bps to 4.75%, leaving it 52bps above its level a year earlier. German 10-year Bund yields climbed 12bps to 3.32%, extending their highest levels in more than a decade, while 10-year UK Gilt yields were little changed at 5.06%. French OAT yields rose 18bps to 4.18% and Italian BTP yields 13bps to 4.15%, with the OAT/Bund spread widening 6bps to 85bps and the BTP/Bund spread 1bp wider at 83bps. Japanese 10-year government bond yields increased a further 15bps to 2.94%, 134bps higher than a year ago.

The battle between the bond market and policymakers over the long-term cost of capital remained the dominant theme. Warsh, operating under what we have described as an implicit contract with President Trump not to lift the policy rate ahead of the November mid-term elections, has instead encouraged higher term premia and an upward repricing of long-term yields.

The 30-year Treasury yield has done the heavy lifting, spiking to its highest level in almost two decades, and dragging the 30-year fixed mortgage rate, which prices off that benchmark, up roughly 70bps from its February lows near 6% to about 6.7%. Warsh has, in effect, foisted de facto rate hikes on American borrowers while leaving the cash rate untouched, which we regard as the least worst policy solution given the constraints.

The US Treasury has been pulling in the opposite direction. Having joined the coordinated yen-buying operation at the end of July, the first since 1998, which it funded by selling euros out of US reserves to avoid putting upward pressure on Treasury yields, Bessent's buyback expansion lifts purchases of 10- to 30-year bonds from US\$2bn to US\$4bn or more per operation, funded by skewing new issuance towards short-term bills. In direct opposition to Warsh's stated preference for letting markets set the price of money, this is artificial yield suppression by another name, as Bessent's own mentor, Stanley Druckenmiller, has publicly protested.

Investors have begun to fret that if the Fed and the Bank of Japan fall too far behind the curve, they may have to lift rates much more aggressively to expunge entrenched inflationary pressures. History suggests that melees between markets and manipulators tend not to end well for the latter.

The inflation backdrop justifies that concern. Underlying US inflation has been running at around 3.5% on a six-month annualised basis (3.3% year-on-year), well above the Fed's 2% objective, and core inflation has now been stuck above target for five and a half years. Our Taylor Rule modelling continues to imply the policy rate should sit 75-100bps above the current 3.50% to 3.75% range, and we think a US hike before year-end remains likely. A belated and globally synchronised hiking cycle is already under way across Australia, New Zealand and Europe, and in all likelihood the US will join it.

One driver is a theme we have long flagged: artificial intelligence is proving highly inflationary in the short to medium term. There is no imminent deflationary wave. Instead, AI is propagating an enormous spending and demand shock that has created bottlenecks throughout critical technology supply chains, bidding up the price of chips, memory, compute and almost anything associated with data centres. For the first time in modern history, technology costs are contributing to goods inflation rather than subtracting from it.

Compounding the squeeze are surging global military spending, profligate public spending, weak productivity outside the US, and never-ending supply-side shocks from the wars in Iran and Ukraine. This is why central banks have failed to hit their price-stability targets since the pandemic.

Strategy commentary cont'd: Currency markets reflected the policy tension. Despite the late-July intervention, the yen resumed its slide, with USD/JPY rising 1.5% to 159.74 amid concerns that the Bank of Japan remains behind its own inflation curve. The euro appreciated 0.8% against the US dollar to 1.162.

Despite elevated yields and uncertainty around the US-Iran conflict, risk assets surprisingly took the moves in their stride. The S&P 500 gained 2.6% (2.7% total return), setting a fresh record high mid-month before paring back some of those gains, and technology led the way, with the Nasdaq 100 rebounding 4.2% following July's AI-driven drawdown. European markets lagged, with the Euro Stoxx 50 rising 1.0%, the Euro Stoxx Banks Index gaining 1.9% and the FTSE 100 slipping 0.4% (0.2% total return).

The Nikkei 225 recovered 3.0% after its 8.1% July decline. Gold jumped 9.7% to US\$4,437/oz on safe-haven demand amid rising inflation fears, taking its gain over the past year to 28.7%, while bitcoin, often treated as a barometer of risk appetite, bounced 25.4% to US\$78,854, still 26.9% below its level a year earlier.

Oil's flat finish masked considerable intra-month volatility: Brent crude fell 12% at the beginning of the month on hopes of fresh talks between the US and Iran, then climbed as the likelihood of those talks diminished, ending just 0.4% higher at US\$90.49/bbl, with WTI up 1.3% to US\$85.76/bbl and both around one-third higher than a year ago. European natural gas, by contrast, ended the month 18.2% higher.

Credit spreads tightened across synthetic indices. US CDX IG tightened 3bps to 50bps and CDX HY 12bps to 301bps. In Europe, iTraxx Main tightened 2.5bps to 51bps, Xover 13bps to 248bps and senior financials 2bps to 54bps. Over the past year, Xover has compressed 48bps and CDX HY 33bps.

Cash credit was steadier. US investment-grade corporate spreads tightened 1bp to 77bps, sterling corporate spreads tightened 2bps to 86bps, and euro aggregate corporate spreads drifted 1bp wider to 79bps as European primary markets reopened. With government yields rising only marginally, duration was a lesser factor in corporate bond returns than in July: the Global Aggregate Corporate Index hedged to US dollars gained 0.26%. This index's duration-hedged equivalent outperformed, delivering 0.32%.

US primary market activity was robust in August, with US\$164bn of investment-grade supply—corporates accounted for 65%, according to Bank of America. With the US money-centre banks absent following their post-earnings supply in July, financials issuance was led by UK and European banks. The standout was a 6NC5 operating-company deal from UBS, which printed US\$1.25bn on 5.2 times books and tightened 2bps on the break. In corporates, the highlight was Alphabet's US\$25bn ten-tranche transaction. Its secondary curve moved 7-10bps wider on announcement, but demand proved materially stronger than Amazon's July trade, with final books 4.5 times covered against around 1.6 times for Amazon, and the new bonds rallying 1-8bps.

In Europe, primary issuance picked up modestly as some participants returned from the summer break, with €43.6bn of investment-grade supply pricing, of which €19bn came from financials, according to Barclays. With spreads near all-time tights and the market wary of a seasonal uptick in September supply, investors were more selective in both the deals they participated in and the size of their orders, with financials averaging a subscription rate of just 1.9 times. The pick of the financials was a dual-tranche holding-company deal from Mizuho, which printed €1.5bn on €3.7bn of books, with the bonds rallying 2-4bps on the break. In corporates, the marquee transaction was GSK's multi-tranche offering to finance its acquisition of Nuvalent, which printed €3.5bn across 1.5-year, 4-year, 8-year and 11-year tranches on €11.6bn of books, with the bonds rallying 3-4bps.

Australian primary markets were exceptionally busy. Approximately A\$22.9bn of investment-grade credit was issued in August, 27% more than the circa A\$18.1bn issued in August 2025, taking year-to-date supply to A\$144.4bn compared with A\$111.2bn at the same point last year.



Strategy commentary cont'd: The major banks returned following the reporting season with a mix of senior and Tier 2 transactions. Westpac issued A\$1.5bn of 10NC5 fixed and floating Tier 2 notes against A\$5bn of demand, followed by ANZ, which raised A\$4.25bn across a 5-year senior FRN, 15NC10 fixed and floating Tier 2 notes and a 20-year fixed Tier 2 bond, attracting A\$9.8bn of orders. Both deals performed after pricing as strength in the major banks persisted. Macquarie Group preceded the majors with a A\$1.5bn 5-year senior transaction in fixed and floating format.

The transaction that captured the market's attention, however, was Alphabet's inaugural Australian dollar deal. The A\$5.5bn six-tranche offering, spanning 3-year and 5-year fixed and floating notes alongside 10-year and 20-year fixed-rate bonds, drew more than A\$18bn of demand for average subscription of around three times. It was the first hyperscaler issuance in Australian dollars and came in the same month as the company's US\$25bn US dollar transaction, underscoring the scale of the AI-related funding task.

Kangaroo issuance continued apace, with TD pricing a 5-year senior transaction in fixed and floating format, Credit Agricole a 6NC5 senior non-preferred deal and BFCM a 5-year senior preferred bond, demonstrating the continued appetite of offshore issuers for Australian dollar funding. Semi-government syndicated supply added a further A\$5.0bn through TCV, QTC and WATC.

Australian government bonds underperformed global peers. The 10-year Commonwealth bond yield rose 17bps to 5.09%, pushing through the 5% threshold that the US 10-year is still approaching, and has traded as high as 5.24% in recent sessions. The bulging supply calendar weighed on domestic credit spreads even as global indices tightened: 5-year major-bank senior spreads widened 2bps to 65bps, subordinated spreads widened 6bps to 126bps and hybrid spreads moved a further 15bps wider to 175bps, following their 22bps move in July. The Australian iTraxx Index bucked the trend, tightening around 4bps to 67bps.

Domestic fixed-rate benchmarks were again weighed down by higher yields, with the AusBond Composite Index declining 0.22% and the AusBond Credit Index falling 0.07%, whereas the AusBond Credit FRN Index gained 0.40%. The Australian dollar appreciated 2.1% against the US dollar to US\$0.7167 and is now 9.6% higher over the year. Australian equities rose, with the ASX200 price index gaining 1.1% and the total-return index 1.5%.

New Zealand markets were quieter. The 10-year New Zealand government bond yield rose 6bps to 4.54%, the New Zealand dollar appreciated 0.7% against the US dollar to US\$0.5917, and the NZX50 price and total-return indices gained 1.3% and 1.6% respectively.

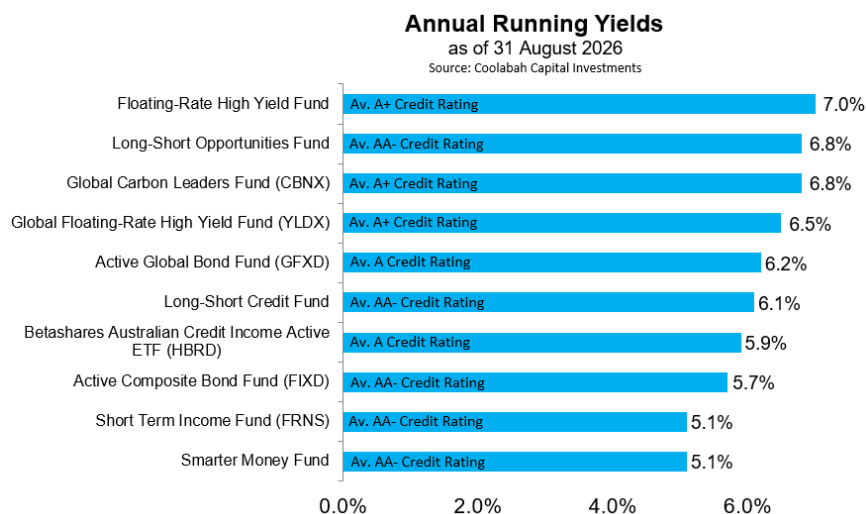
The domestic policy debate has sharpened. On our Taylor Rule modelling, the appropriate RBA cash rate sits between 4.75% and 5%, against 4.35% today, and all the data suggest the RBA should lift rates at its September meeting. Core price pressures have accelerated: the monthly trimmed mean measure jumped to a 4.7% annualised pace over the three months to July, up from 3.9% on a six-month basis and 3.6% over the year, all far north of the 2.5% target. Residual seasonality probably flattered the July monthly outcome modestly, but not by enough to alter the decision-making calculus. As in the US, technology is now adding to inflation, with audio-visual and media services costs leaping 10.4% over the year to July, and the data centre construction boom is visible locally, with annualised investment running at circa A\$50bn to A\$55bn and a backlog we estimate at around A\$110bn, or some 4% of GDP. Market pricing anticipates the cash rate rising above 4.6% by year-end.

The obvious constraint on Martin Place is the A\$12.8 trillion housing market. The latest Cotality indices imply national dwelling values are falling at a record 11.4% annualised pace on the past three months of data, with Sydney and Melbourne declining at annualised rates of 16% and 14% respectively and the boom-time markets of Perth and Brisbane now shrinking at annualised rates of 4% to 8%. Based on the elasticities observed thus far, whereby each effective 25bp increase knocks about 2 percentage points off national prices, we estimate a peak-to-trough drawdown of 8% to 9% by mid-to-late 2027 if the RBA stopped here, in line with the records of 1982-83, 2017-19 and 2022-23, and around 12% by late 2027 or early 2028 if it delivers the further two hikes our modelling implies, which would be the largest correction in modern Australian history. Consumer spending remains intact for now, although the wealth effect will almost certainly bite at some point. A chastened RBA was the first central bank to raise rates this cycle and has impressed by holding its nerve; the longer it takes to finish the job, the more painful the adjustment will be.

Strategy commentary cont'd: For fixed-income investors, the repricing has markedly improved the opportunity set. The RBA's 4.35% cash rate sits well above its 2.80% average since 2007, and floating-rate notes, the lion's share of Australian debt securities, pay coupons that rise with the policy rate and should outperform as rates climb. At the long end, a 10-year Commonwealth yield above 5% compares with a 4.16% average since 1999, the Treasury's estimate of the term premium at 0.9 percentage points exceeds its 0.5 percentage point long-run average, and the implied real yield of roughly 2.75% is the highest since the global financial crisis. Given the RBA's own estimate of neutral at 3.5% to 4% plus a term premium of 0.5 to 1 percentage point, we continue to advocate averaging into fixed-rate exposure as 10-year yields trade through 5%. If the housing correction eventually tips Australia into recession, the RBA could cut well below neutral, and fixed-rate bonds would likely be the single best-performing asset class. It is hard to find many assets today offering better value than their 25-year averages; cash and long-term risk-free bonds do.

Coolabah's strategies delivered decent returns in August even as government bond yields resumed their climb. The three best-performing funds in the suite were the av. AAA rated, zero duration, and daily liquidity Coolabah Active Sovereign Bond Fund (Zero Duration), which returned 0.53% net (0.63% gross) against the RBA overnight cash rate of 0.36% and a 0.33% decline in the AusBond Treasury Index, and the av. AA- rated, daily liquidity and zero interest rate duration Long Short Opportunities Fund, which returned 0.46% net, ahead of both the cash rate and the AusBond Floating-Rate Note Index (0.40%).

Gross running yields remained elevated as global risk-free rates pushed higher, more than offsetting the modest compression in credit spreads. The av. A+ rated, daily liquidity and zero interest rate duration Floating-Rate High Yield Fund was producing a gross running yield of 7.0% at the end of August while the Long Short Opportunities Fund offered a 6.8% gross running yield.



Please note that past performance is not a reliable indicator of future performance. Investors should read the relevant Product Disclosure Statement and Target Market Determination before making any investment decision and consider obtaining advice from an independent financial adviser to determine whether an investment is appropriate for their objectives, financial situation and needs.

The ECB is on track to raise rates

The ECB still seems likely to raise rates by 25bp given above-target core inflation and ongoing upside risks to inflation.

President Lagarde said after the July ECB policy meeting that, "some governors ... asked ... whether we should not consider a hike [today]", with the Governing Council "unanimously decid[ing] that we ... be very attentive in the next few weeks to the development of the [Middle East] situation and to the [key inflation, GDP and survey] data that we will be receiving... [because] we will make our decision in September".



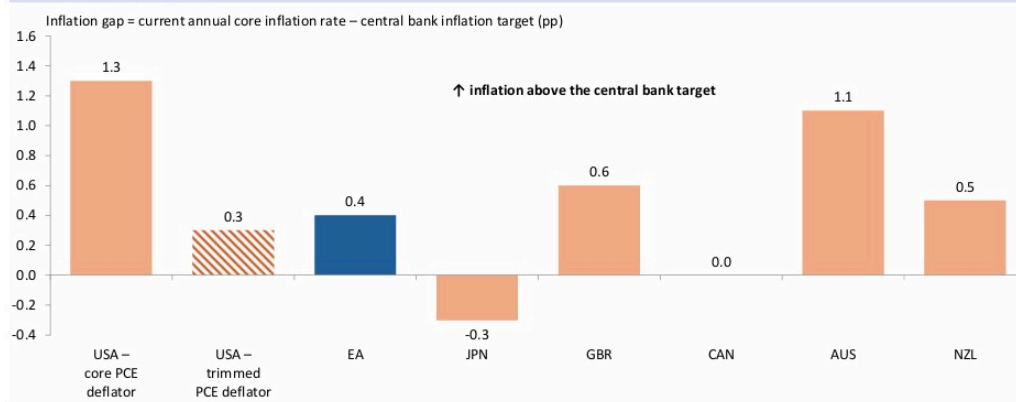
Strategy commentary cont'd: With GDP in line with ECB forecasts, historically low unemployment matching the estimated NAIURU, ongoing upside risks from the Iran war, and persistently above-target core inflation, it still seems likely that the ECB will resume raising rates at the 9-10 September policy meeting, with policy rules pointing to two rate rises this year to take the policy rate from 2.25% to 2.75%.

On the latest inflation numbers, the euro area core CPI rose by 0.2% for the third month in a row in July on CCI's seasonal adjustment. Annual inflation has edged up from a low of 2.2% in January and has held steady at 2.4% over the past few months. Inflation to date has been close to the ECB's central case, which forecasts inflation will peak at about 2.7% by early next year.

Euro area services inflation unexpectedly eased in July, while goods inflation has picked up recently. Some of the relative strength in goods prices likely reflects ongoing supply-side pressure from the Iran war, as well as upward pressure from strongly-rising world tech prices.

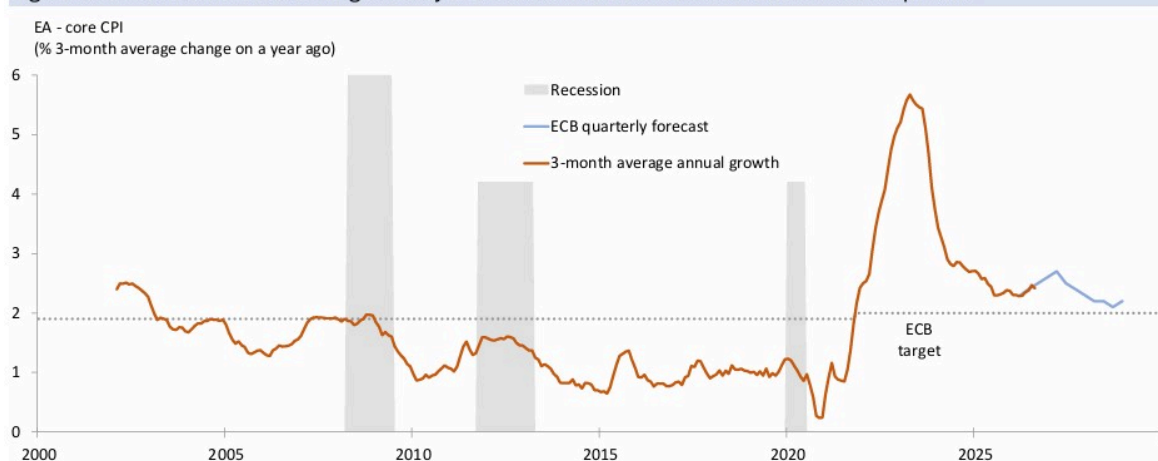
- Core services prices barely grew in July, up 0.1%, which was the smallest increase since May last year. Annual inflation is still well above the 2% target, but eased to 3.1%, the best result since April.
- Core goods prices – which historically increase at a glacial pace in the euro area – are rising at about 0.1% per month, almost rounding up to 0.2% in July. Goods prices are up 1.1% over the past year, which is the fastest ex-COVID growth since 2012.

Figure 1: Euro area core inflation is still above the central bank's target, and the same holds true for many other advanced economies



Source: Australian Bureau of Statistics, Bank of Canada, Bank of England, Bank of Japan, Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, Cabinet Office, European Central Bank, Eurostat, Reserve Bank of Australia, Reserve Bank of New Zealand, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

Figure 2: Core inflation is tracking broadly in line with the ECB's central case forecast profile

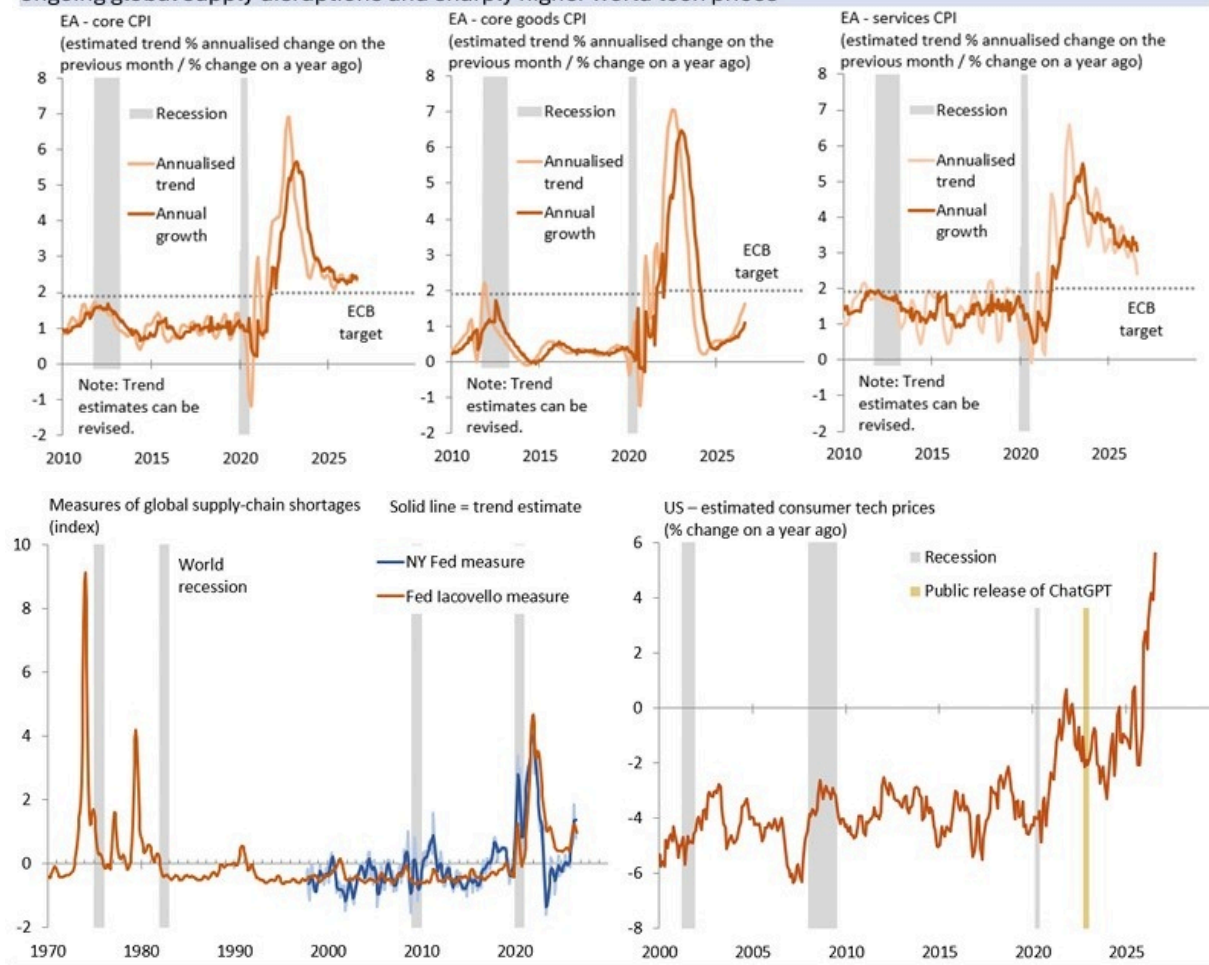


Source: European Central Bank, Eurostat, Coolabah Capital Investments



Strategy commentary cont'd:

Figure 3: Services inflation unexpectedly improved on July, while goods prices continue to pick up amid ongoing global supply disruptions and sharply higher world tech prices



Source: Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, European Central Bank, Eurostat, Iacovello, Coolabah Capital Investments

The RBA to narrowly vote to hike rates in September given high inflation

The RBA seems likely to narrowly vote to raise rates in September, barring surprise results for either Q2 GDP or August unemployment. Still-high inflation has picked up, even allowing for possible residual seasonality in the numbers, and is tracking above the RBA's forecast profile. The RBA is closely watching the downturn under way in the housing market, but seems more concerned about the AI boom, where we estimate that tech prices have swung from subtracting from inflation to adding to inflation.

The RBA board next meets on 28-29 September and seems likely to narrowly vote to raise the cash rate by another 25bp given still-high inflation is tracking above its forecast profile, barring a major surprise from either Q2 GDP or the August unemployment rate.

Core inflation has been stuck above the RBA's 2.5% target for about five years now, with annual trimmed mean inflation currently running at 3.6%.

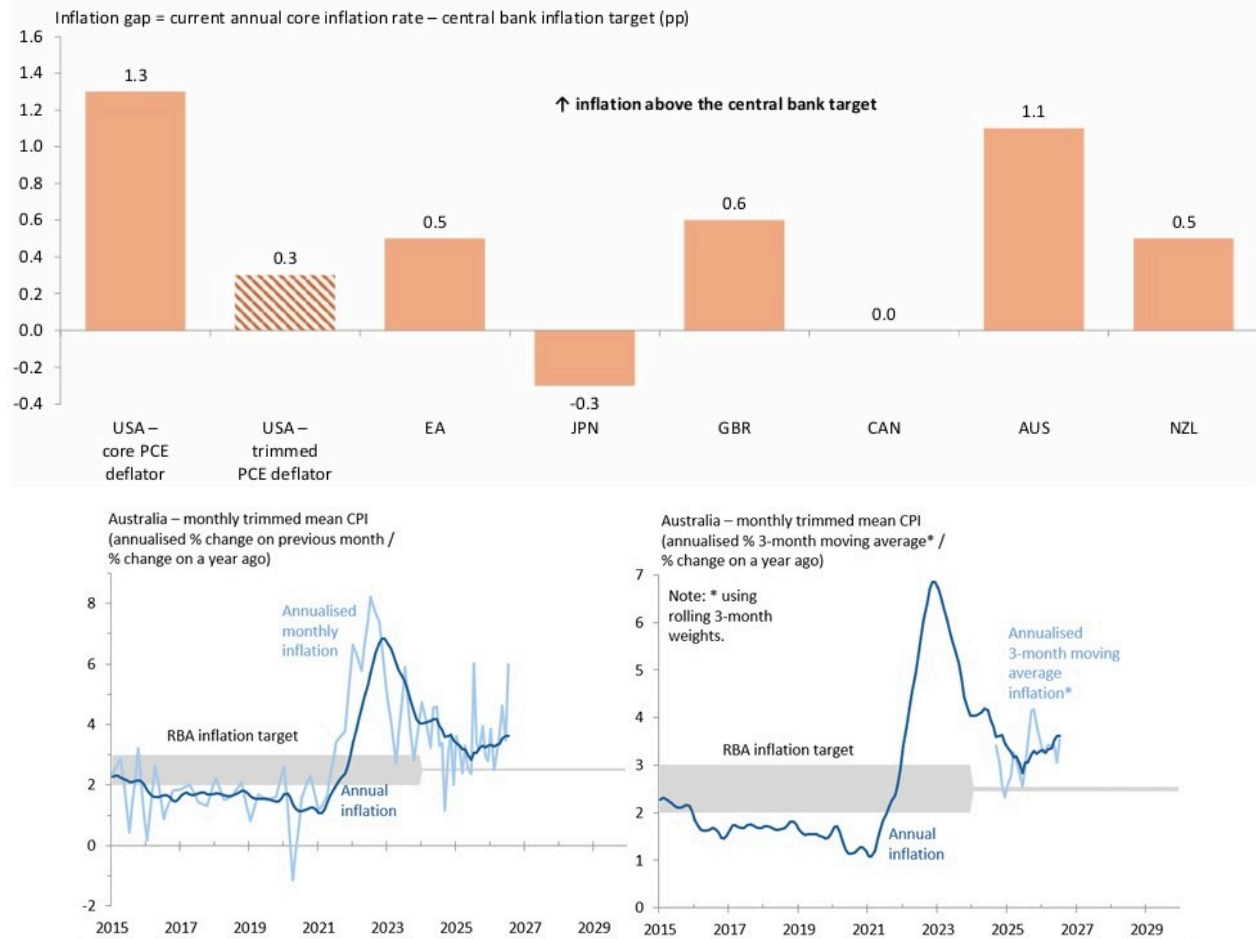
Importantly for the RBA, inflation looks to have picked up and is running above the staff's forecast that the quarterly trimmed mean CPI would post another 0.8% increase in Q3.

The monthly trimmed mean CPI rose at a much faster rate in July, increasing by 0.5% after rising by 0.3% in June. CCI's nowcast based on the July numbers is for the trimmed mean CPI to increase by fractionally more than 1% in Q3, higher than the staff estimate of 0.8%.



Strategy commentary cont'd: Nowcasts based on only one month of the quarter are necessarily imprecise, although actual inflation – as measured by the 3-month moving average inflation rate, calculated using rolling weights – has also picked up, increasing from 0.8% in June to 0.9% in July.

Figure 1: High core inflation in Australia has picked up and is running above the RBA's forecast profile



Note: The monthly trimmed mean CPI is spliced with quarterly data in history.

Source: Australian Bureau of Statistics, Bank of Canada, Bank of England, Bank of Japan, Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, Cabinet Office, European Central Bank, Eurostat, Reserve Bank of Australia, Reserve Bank of New Zealand, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

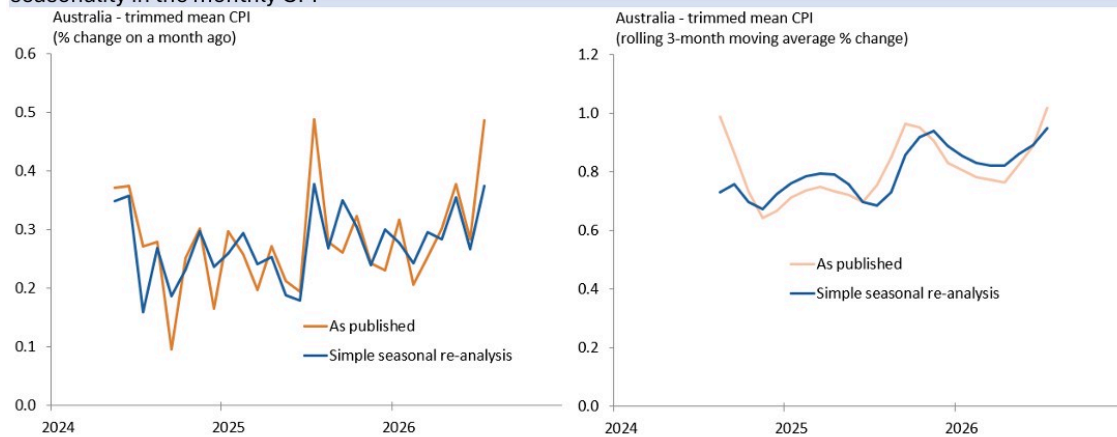
We are also mindful that the increase in inflation in July could be overstated by residual seasonality in the numbers, such that earlier published gains were understated. This possibility arises because some prices included in the monthly CPI have too short a history for them to be seasonally adjusted by the ABS using traditional techniques.

CCI's simple seasonal re-analysis of the figures suggests that the trimmed mean CPI picked up in July to 0.4% rather than the published increase of 0.5%, with earlier gains revised up. However, the re-analysis still suggests that inflation is tracking above the RBA's forecast of 0.8% for Q3, with 3-month moving average growth increasing to 0.95% in July.



Strategy commentary cont'd:

Figure 2: Inflation still looks to be tracking above the RBA's staff forecast allowing for possible residual seasonality in the monthly CPI



Source: Australian Bureau of Statistics, Coolabah Capital Investments

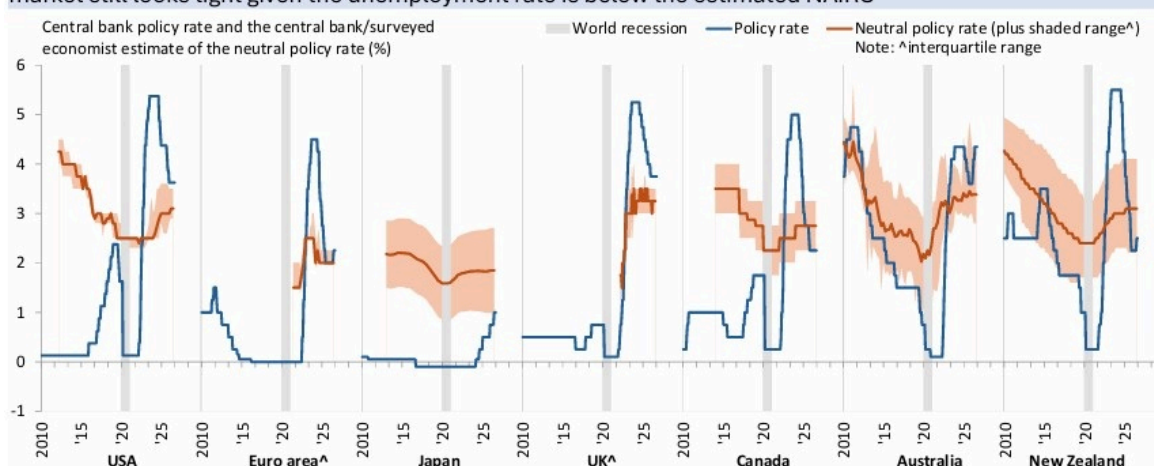
For the RBA, a narrow majority of policymakers are worried about upside risks to inflation, with the [minutes](#) of the August board meeting noting, "Several members judged that it was quite possible that the upside risks to the inflation forecast would crystallise, requiring some further tightening [of policy, while] other members noted the potential for downside risks to offset them".

The board wanted to wait for more information before deciding on rates in September, with the minutes adding, "inflationary pressures might turn out somewhat stronger than [the] central case if some of the upside risks crystallised ... [although there was] time to leave monetary policy unchanged while assessing [the] incoming data, ... [where] members noted that, by the following meeting, they would have received additional monthly reports on inflation and the labour market and the June quarter national accounts, [and] additional information about ... the housing market and the ... conflict in the Middle East".

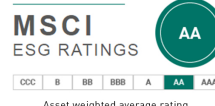
Oddly enough, given this preference for waiting for more information, the board has not bumped the September board meeting to early October given the August CPI is published the day after the decision on interest rates.

For our part, simple policy rules have pointed to further policy tightening for some time given that inflation is above the 2.5% target, the labour market is tight in that the unemployment rate is below estimated NAIUR, and policy is not particularly tight when judged using the neutral cash rate.

Figure 3: Monetary policy is not particularly tight in Australia based on the neutral cash rate, while the labour market still looks tight given the unemployment rate is below the estimated NAIUR

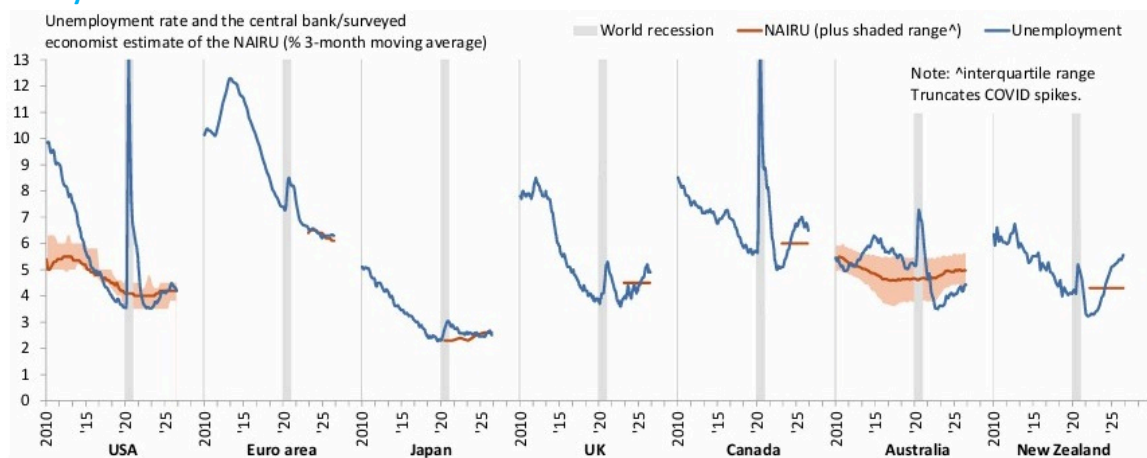


Signatory of:





Strategy commentary cont'd:



Source: Australian Bureau of Statistics, Bank of Canada, Bank of England, Bank of Japan, Board of Governors of the Federal Reserve System, Bureau of Labor Statistics, Cabinet Office, European Central Bank, Eurostat, Reserve Bank of Australia, Reserve Bank of New Zealand, Statistics Canada, Statistics New Zealand, Coolabah Capital Investments

The obvious growing risk to this view has been that the downturn under way in the housing market could take the place of further policy tightening, depending on the impact on the broader economy. The housing market was rolling over before the RBA started raising rates and the government's **tax changes** should accelerate the decline in house prices.

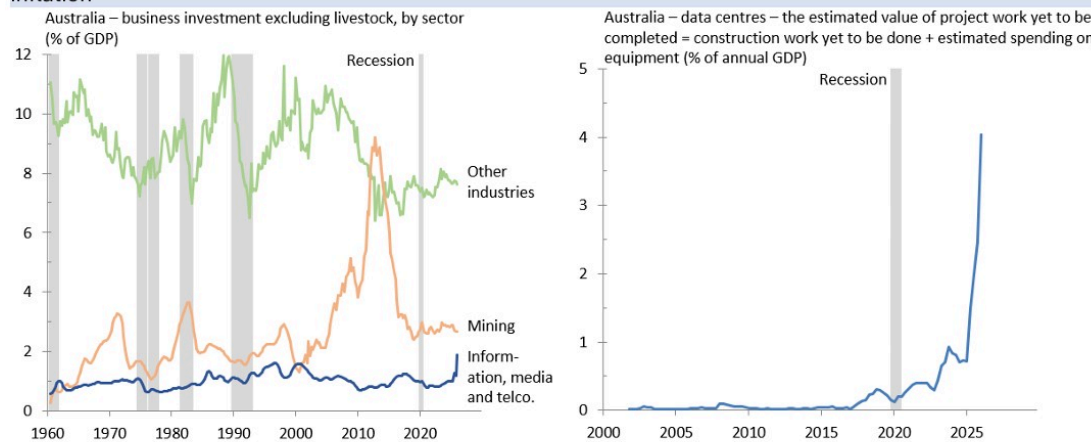
The board is watching the downturn closely, but does not seem fazed at this point given consumers are yet to curb their spending and a record number of homes under construction – about 1.5 times the number of homes normally built in a year – could act as a buffer to reduced demand to build new homes.

Instead, in addition to the ongoing risks stemming from the Iran war, the board seems more concerned about risks related to the AI-driven boom in investment, both here and abroad, with AI mentioned several times in the board's discussion after not coming up at all in the previous set of minutes.

The AI boom in business investment does not provide much of a boost to GDP because the related equipment is imported, but CCI estimates that more costly tech goods are now adding about 0.1-0.2pp to annual core inflation after consistently subtracting about 0.2-0.5pp from annual inflation over recent decades.

The construction of the data centres is also likely to raise the cost of building new homes – which has the largest weight in the CPI – by drawing away tradespeople and adding to the price of materials.

Figure 4: A data centre boom is under way in Australia that won't add much to GDP, but is already adding to inflation

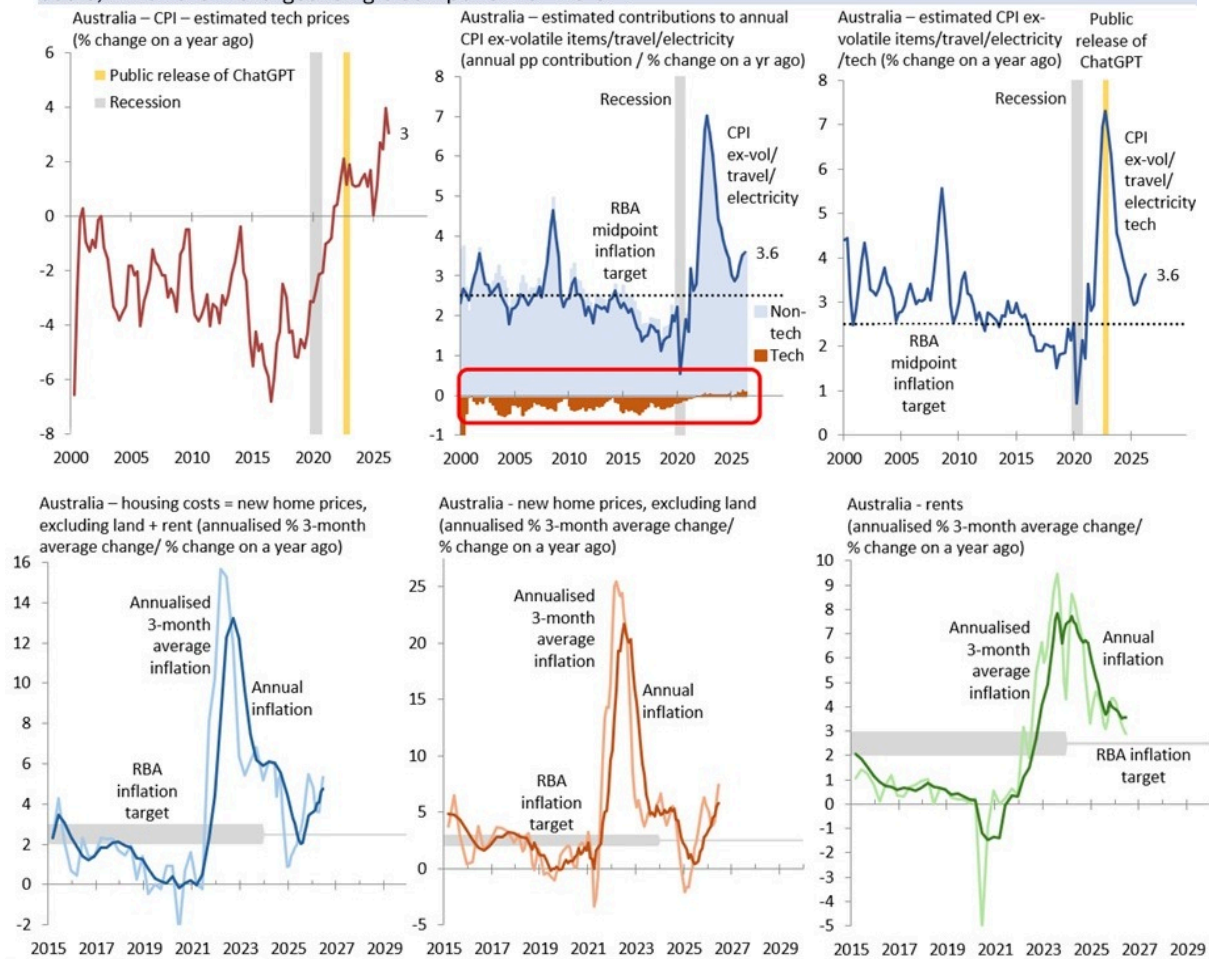


Source: Australian Bureau of Statistics, Coolabah Capital Investments



Strategy commentary cont'd:

Figure 5: Tech prices are directly adding to inflation, and data centres will likely boost the housing construction costs, which are the largest single component of the CPI



Note: Monthly prices are spliced with quarterly data in history.

Source: Australian Bureau of Statistics, Coolabah Capital Investments

The RBNZ hikes rates again, with more to come

As seemed likely, the RBNZ has continued to raise rates, following in the RBA's footsteps by lifting the cash rate by another 25bp from 2.5% to 2.75% in a "consensus" decision by the Monetary Policy Committee.

The RBNZ characterised the decision as "gradually removing monetary stimulus", which it thinks "reduces the risk that the [cash rate] needs to increase by more later".

The RBNZ also signalled that more rate hikes are likely ("Conditional on the central economic outlook, members judged that the [cash rate] may need to increase further").

The decision was not surprising given underlying inflation has been stuck above the 2% target for some time, even though the RBNZ is now highlighting the average of a range of measures tracking at about 2.5% rather than its own sectoral factor model running at around 2.75%.

Our base case is still for further rate rises, with another hike likely this year – probably when the RBNZ updates its outlook at the 9 December policy meeting rather than the 28 October meeting ahead of the 7 November election – and an expected peak in the cash rate of about 3-3.5% based on simple policy rules and the current economic outlook.



Strategy commentary cont'd: If realised, this peak in the cash rate would represent a slightly tight monetary policy given the RBNZ still thinks the long-term neutral cash rate is 3.1%.

The RBNZ's updated economic forecasts were mostly little changed.

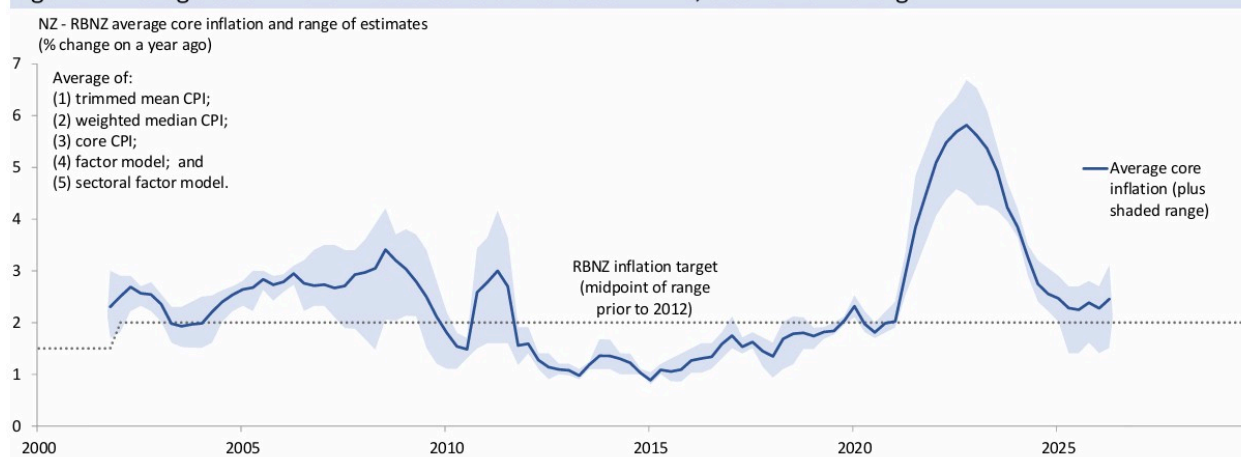
- There was an almost identical forecast profile for the cash rate, with the policy rate expected to reach 3% by Q1 2027, rising to 3.2% by end-2027, and eventually settling at 3.3% in 2029.
- An "uneven" economic recovery is under way, such that the unemployment rate is expected to stay at around 5.5% for the rest of this year, slowly improving from next year.
- Headline inflation – where the RBNZ does not publish forecasts of underlying inflation – is expected to ease to 3.7% by the end of this year, reaching the 2% target in 2028, half a year later than previously assumed.

Figure 1: The RBNZ still expects to slowly raise a couple more times



Note: Reserve Bank of New Zealand, Statistics New Zealand, Coolabah Capital Investments

Figure 2: Average core inflation has been stuck at about 2½%, above the 2% target



Note: Reserve Bank of New Zealand, Statistics New Zealand, Coolabah Capital Investments



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