The bill market has already hiked

Q3 trimmed mean inflation came in above the RBA band and 90-day BBSW jumped seven basis points in a day to a record 4.89%. The market is convinced of a move on Tuesday and all four majors now call one. Arculus is on the fence.

AUST 10-YEAR	US 10-YEAR	FRANCE 10-YEAR	ITALY 10-YEAR	JAPAN 10-YEAR	ITRAXX AUST	90-DAY BBSW
5.18%	4.98%	4.88%	4.49%	2.84%	77	4.89%
0 on week	-3 on week	-14 on week	-9 on week	+4 on week	-3 on week	+7 on week

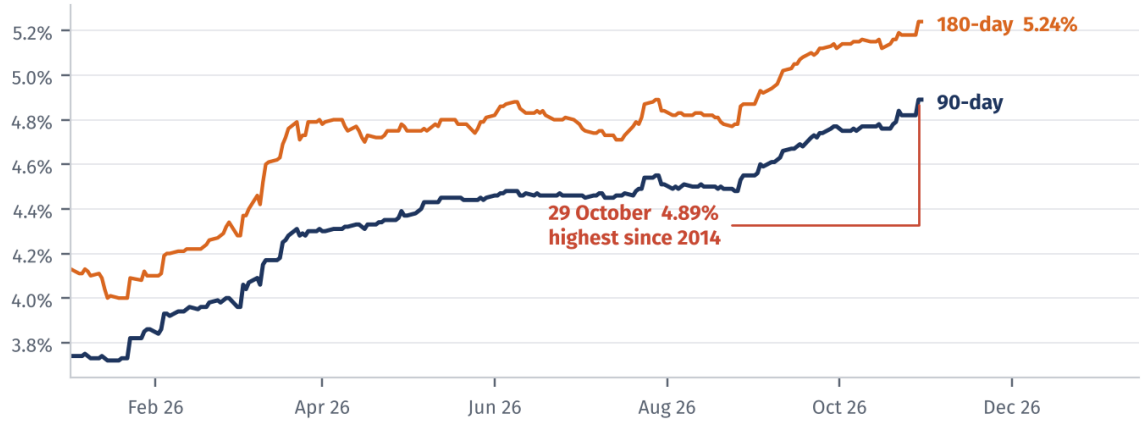
Levels at 29 October 2026 with 90-day BBSW at 30 October, and the change on the week in basis points. Source Refinitiv Datastream, Arculus

THE WEEK IN FOUR POINTS

- Q3 trimmed mean inflation printed above the RBA target band and the bill market repriced in a single session. Ninety day BBSW held at 4.82% through Wednesday and fixed at 4.89% on Thursday, the highest reading in our data back to 2014. November pricing moved from about 70% on Tuesday to about 85% after the print.
- Arculus is on the fence. We were not surprised by the print, having forecast after the Iran conflict began that the real impact on final prices would arrive six to nine months later. We do not think the board should raise on Tuesday, because aggregate demand is on the edge of a major and prolonged contraction.
- Tier 2 finally moved. Secondary widened 2 to 5 basis points over three weeks after holding flat since June, with non call five the worst at 5. Senior held up, and the three and two year points actually tightened.
- The index went the other way. iTraxx Australia peaked at 80 on 23 October, its widest since early April, then tightened 3 basis points while cash subordinated widened.

The CPI print took 90-day BBSW to a record 4.89%

90-day and 180-day BBSW, per cent, daily, 1 January to 30 October 2026



Source Arculus data file to 30 October 2026

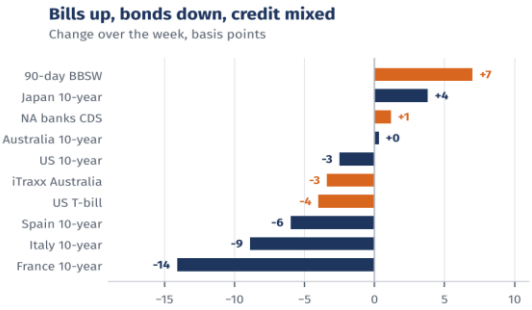
RATES

Interest rates

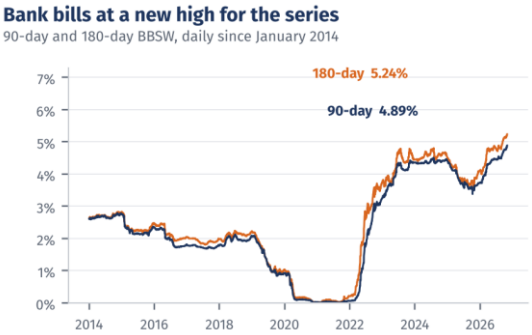
Australia

Q3 trimmed mean inflation came in above the RBA band and the bill market did the rest. Ninety day BBSW rose 7 basis points on the week to 4.89% and 180-day rose 6 to 5.24%, both the highest readings in our data back to 2014. The Australian 10-year was unchanged at 5.18%, about 20 over the US, so the whole of the repricing happened at the front.

The messaging had already turned before the print. Hawkish comments from Hauser, Kent and Hunter kept a bid in November. Hauser had pointed to liaison feedback hinting at inflation getting unanchored. Both played down labour market and housing weakness while Kent pointed out that a change in the value of the currency was needed for monetary policy to have a real impact. After the print Bullock and Hauser said the CPI data was too high, and by Thursday all four major banks calling a 25 basis point move.



Source Refinitiv Datastream, Arculus

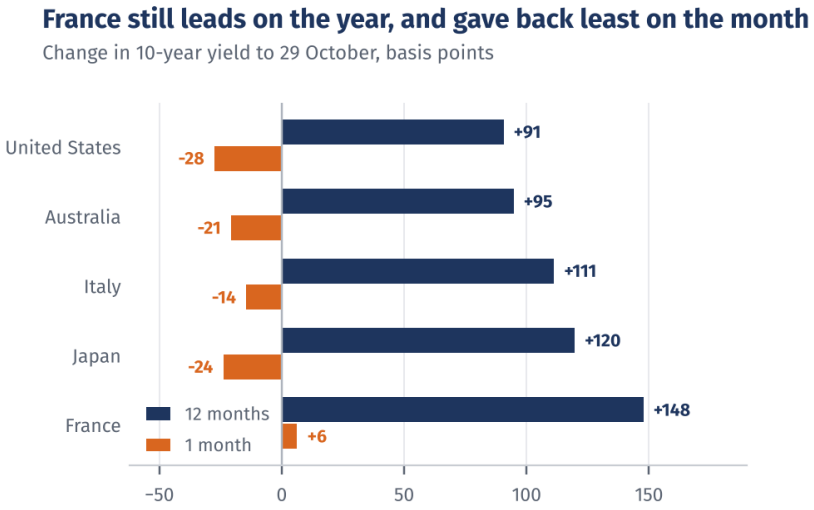


Source Arculus data file to 30 October 2026

United States

The FOMC held on Thursday morning Australian time. The 10-year fell 2.5 basis points on the week to 4.98% and a further 3 on Friday to 4.97% as technology earnings disappointed, and the 3-month bill eased 4 to 4.00%.

The data pointed the other way. Q3 GDP rose 3.4% annualised with real private investment up 19.4%, September core PCE rose 0.3% on the month, and the four week average of initial jobless claims fell to its lowest since 1969. The inflation trajectory warrants further tightening. Chair Warsh prefers more than one intermeeting data point before moving.

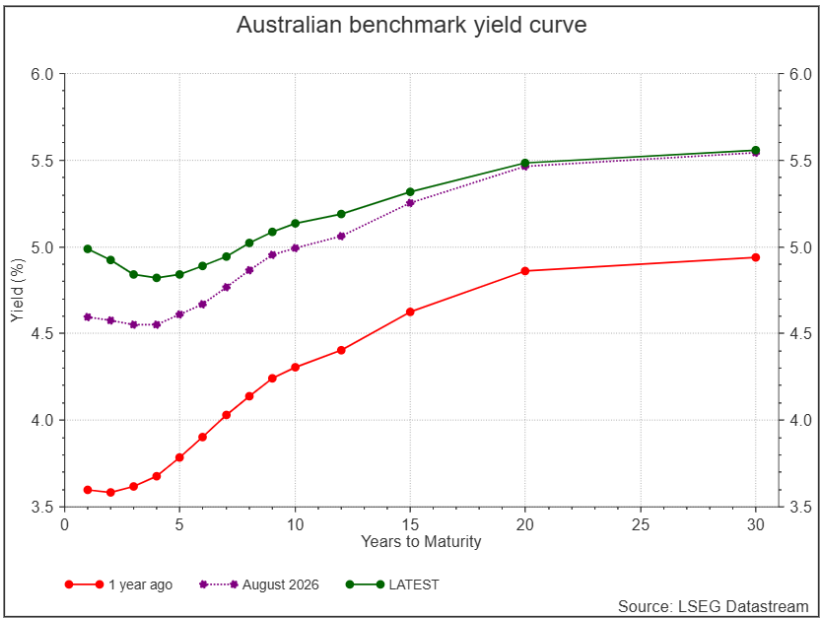


Source Refinitiv Datastream, Arculus

The benchmark curve

The whole Australian curve has moved up and the shape has changed with it. Against a year ago the front of the curve is more than 130 basis points higher while the 30-year is around 60 higher, so the curve has flattened sharply as the tightening cycle has been priced in. Against the August reading the move is smaller and

concentrated between one and fifteen years, with the very long end close to unchanged. The dip through the three to four year area is the market pricing the end of the cycle before yields rise again further out.



Source LSEG Datastream

Forward interest indicators

Bank Bill Swap rates are now at new highs for the series. The more useful number is the shape. The spread of 180-day over 90-day compressed to 35 basis points from 36 a week earlier and 39 on 9 October, which is what a near term hike being pulled into the ninety day window looks like. The level of the strip has absorbed the November move close to in full, so the open question is no longer November, but what is priced beyond it.

Floating rate coupons reset off these levels, so the rise flows straight into running yields across bank paper. It also cuts the other way for the first time in this sequence. Ninety day BBSW has risen 12 basis points since 9 October while one year senior FRN margins widened only 1.5, so the funding leg is now moving faster than the spread leg.

Front end demand

Demand for short dated paper remains the firmest thing in the market. Thursday ACTB supply printed a 5.4 times coverage ratio for February 2027s and 4.68 times for April 2027s. Short dated SSA paper remains well supported as local and offshore real money prioritise safe yield. Semi supply picked up to A$5.3 billion and semi spreads came under pressure into the afternoon of 27 October, led by the long end as selling accelerated.

CREDIT

Credit markets

The Australian credit index came off its October high

Five-year CDS indices, basis points, daily, 1 October 2025 to 29 October 2026

Source Refinitiv Datastream, Arculus

Global credit

North American bank CDS widened a further basis point on the week to 65, taking the index 3.6 basis points wider since 9 October and back to levels last seen in early April. The driver was the equity tape rather than anything in bank credit. United States technology earnings disappointed through the week and the Nasdaq Composite fell 2.0%, pulling risk appetite with it, while the AI financing debate that has set the tone for a month ran on unchanged.

The index and the cash market parted company

iTraxx Australia peaked at 80.2 on 23 October, the widest reading since early April, then tightened 3.4 basis points through the week to 77 while the cash subordinated grid widened. North American bank CDS went the other way, rising a further basis point to 65. An index that tightens while cash widens usually says the cash move is technical, and that is how we described it.

The widening is not a credit signal, so it does not argue for selling into it. It is also not a signal that the marks retrace quickly, because the technical behind it is supply season, blackout and an event calendar, none of which clears before the midterms.

Australian dollar credit

Tier 2 finally caught up. The subordinated complex traded with a weaker bias from Friday 23 October as selling broadened from a low base, and the on the run FRN grid moved 2 basis points on 26 October and a further 1 on 28 October. Against the 8 October observation the grid is now 2 to 5 basis points wider, with non call five at BBSW+129 the worst point. That is the first real move in the complex since June, and it arrived in two steps rather than as a drift.

Senior held up far better and the belly found a buyer. Major bank senior FRN mids are only 0.5 to 1.5 basis points wider than 8 October, and on Wednesday the three year tightened 1 and the two year 0.5 on the return of local real money demand. The three year point has underperformed, the three to five year curve sits at all time tights only weeks out from supply season, and AUD screens attractively against USD. On that basis the three year may be trending back to plus 60 if the buying persists and the risk backdrop holds.

Kangaroo paper remains the underperformer and the dispersion within it is widening. Established issuers with deep liquid curves such as Lloyds have outperformed, while newer single line issuers such as Commerzbank and Nationwide have been more vulnerable. Mutuals were the domestic underperformer, 1 to 2 basis points wider on 26 October as the weight of recent supply told.

Corporates bore the brunt early and then turned. By 28 October a more constructive two way tone had emerged in senior corporates with buying focused on mid curve infrastructure and utility names. The data centre complex

proved relatively resilient, with CDC attracting solid demand led by insurance buying in the ten year senior line and NXTAU Tier 2 settling in a 93 to 94 cash price context on offshore real money buying.

Major bank line	Margin (bp)	Since 8 Oct	Running yield
Senior FRN 1 year	43.0	+1.5	5.32%
Senior FRN 3 year	62.0	+1.5	5.51%
Senior FRN 5 year	70.5	+1.0	5.60%
Tier 2 FRN 2031-26	77.0	+1.0	5.66%
Tier 2 FRN 2032-27	88.0	0.0	5.77%
Tier 2 FRN 2035-30	**129.0**	**+5.0**	**6.18%**
Tier 2 FRN 2036-31	137.0	+4.0	6.26%
Tier 2 FRN 2041-36	166.0	+4.0	6.55%

Source ANZ Credit Trading indicative mids over BBSW at 28 October 2026, Arculus. Running yield is 90-day BBSW of 4.89% plus margin. The comparison is to the 8 October grid because no dated grid is held between those two observations

On a spread duration of about 4.5 years for a non call five Tier 2, the 5 basis point move is worth roughly 0.23% of price. Three weeks of accrual on that line at 4.89% plus 129 is roughly 0.35%, so the widening has taken close to two thirds of the carry earned over the period.

Bank capital

Perpetuals traded modestly firmer after well sized Japanese real money buying of the MUFG AT1 appeared.

The MUFG line is worth following. It priced at the tight end of fair value at 7.375% on 8 October and broke softer than expected with dealers and fast money offloading early. Three weeks later it traded just below par and then drew well sized Japanese real money. The buyer base rotated from the fast money that took it on the break into real money and wealth, which is the opposite of what a deteriorating technical would have produced.

Reporting season

The major banks begin reporting on 2 November. A rising bill curve lifts the replicating portfolio and the deposit book, which supports margin, while front book competition and the slowdown in lending volumes work the other way. Rate rises help the liability side first and hurt the asset side later, so the first half of FY27 should look better than the second.

CALENDAR

Week ahead

The RBA decision and the Statement on Monetary Policy land together at 2.30pm on Tuesday, with United States midterm results arriving through the same session. The October Employment Situation closes the week. No broker calendar was supplied this week, so the table below is compiled from the RBA, ABS and BLS published schedules only and carries no consensus forecasts.

Day	Australia	United States	Europe and Asia
Monday 2 November	Building Approvals for September at 11.30am. RBA Monetary Policy Board meeting, day one of two.	Major bank reporting season begins in Australia. Quiet United States calendar.	—
Tuesday 3 November	**RBA cash rate decision and Statement on Monetary Policy at 2.30pm. About 85% of a 25 basis point move priced and all four majors calling one.**	**Midterm elections. Job Openings and Labor Turnover Survey for September, 2.00am Wednesday Sydney time.**	**—**
Wednesday 4 November	Selected Living Cost Indexes and the Monthly Household Spending Indicator for September, both at 11.30am.	—	—
Thursday 5 November	International Trade in Goods for September at 11.30am.	Productivity and Costs, preliminary Q3, at 12.30am Friday Sydney time.	—

Day	Australia	United States	Europe and Asia
Friday 6 November	No scheduled ABS release.	Employment Situation for October at 12.30am Saturday Sydney time.	—

Sources RBA media release on 2026 Monetary Policy Board meeting dates, ABS release calendar for November 2026 and the BLS November 2026 release schedule. United States clocks move back on Sunday 1 November, so Eastern Time is sixteen hours behind AEDT from that date. ABS notes that release dates may change

Where the forecasters stand on Tuesday

Source	Position	As at
ANZ	Expects a hike. Described about 70% priced as still cheap before the CPI print	27 October
Mizuho	About 85% of a 25 basis point move priced after the print	28 October
Major banks	All four calling a 25 basis point move	29 October
Arculus	**On the fence. We do not believe the board should raise, and expect it to remain on hold into early 2028**	**31 October**

Source ANZ AUD Rates Comment 27 October, Mizuho AUD Closing Commentary 28 and 29 October, Arculus Australian inflation outlook 31 October

Further out, the US October CPI is on 10 November and PPI on 13 November, the Victorian State election is on 28 November and the RBA meets again on 7 and 8 December.

THE VIEW

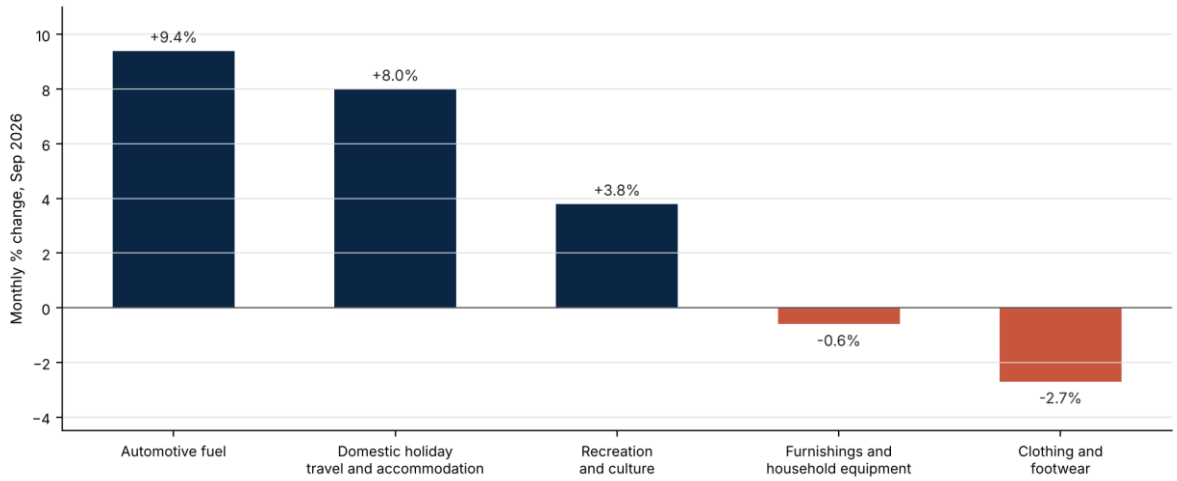
Macro

Inflation has peaked.

Unlike the market, we were not at all surprised by last week's CPI data. We forecast, just after the commencement of the Iran conflict, that the real impact on final prices would only begin to arrive six to nine months later, the same lag that occurred with the Russian invasion of Ukraine. It also needs to be appreciated that unlike the Federal Reserve, the ECB and the BoE, our central bank interest setting board failed to achieve a period of negative monetary growth after the pandemic spending let the inflation genie out of the bottle.

It is now clear that inflation has become embedded at a rate above the 2 to 3% target range. The biggest contributor was transport and it is now feeding into final goods prices, driven by automotive fuel with the expiry of the subsidies. Higher transport costs are feeding into travel and recreation, while households appear to be cutting discretionary expenditure elsewhere, with clothing and furniture showing monthly falls.

Figure 3 · Selected price changes, September 2026 month



Source · ABS, Consumer Price Index Australia, September 2026.

There is relief coming from two directions. Agricultural prices fell over the September quarter and that will flow into final goods prices in the December quarter. Urea, the nutrient most exposed to the Strait of Hormuz, rose from roughly US$360 before the conflict to US$763 on 9 April, fell to US$500 by 19 June as the memorandum restored shipping and reached US$392 by 14 August, with the last verified Middle East print at US$465 on 25 September. If the Strait is fully opened the oil price may fall and this would alleviate much of the current inflationary pressure.

Agricultural prices turned lower through October

Index, 29 October 2024 = 100, daily to 29 October 2026

Source LSEG Datastream, Arculus. Raw sugar ISA daily, corn, CMCI Arabica coffee and No.2 soft red wheat, each indexed to its 29 October 2024 price. The wheat print of 23 April 2026 is a single day round trip of 30% up and 22% down and is most likely a bad print rather than a market move

On these four series the fall is an October move rather than a September quarter one. Over the September quarter raw sugar rose 21%, wheat 9% and corn 8%, while coffee fell 2%, for an equally weighted gain of about 7%. Since 30 September corn has fallen 9%, wheat 6% and coffee 4% against a further 5% rise in sugar, an equally weighted fall of about 4%. The quarter that fell on this basis was the June quarter, down about 3%.

On the other side of the mandate the RBA has made an earnest attempt to claim that NAIRU is 4.90%. It has shifted its position on NAIRU several times over the past two years. Under Governor Philip it was estimated at 4.75%, which remains our estimate. The board was cutting rates when unemployment was near 4.25%, so at the time its modelling must have put NAIRU below that level, or it was cutting ahead of a Federal Election when inflation had fallen only because of Federal and State energy subsidies.

Our house view is that aggregate demand is on the edge of a major and prolonged contraction. It is still too early to be adding duration because of offshore factors, and we expect higher inflation over the next twelve months to keep the RBA on hold into 2028. On that basis we do not believe a central bank interest setting board should be increasing the official rate this week.

The risks that need acknowledging

- **Victoria.** The likely change of government in a state where the situation is so dire it is jeopardising the entire Australian economy. No matter who is elected there will be a prolonged period of depressed activity until the debt is paid down.
- **Data centres.** While not as advanced as in the United States, the build out is at risk of collapse under a debt burden that is drowning the sector as rates rise. Even without a collapse it is hard to see where an investment will be commercial in a private capacity.
- **Private credit.** Bathla may well prove to be the biggest corporate collapse in Australia's history and it would be foolish to believe there will not be more to follow. The risk is that bad lenders drag good lenders into the same very deep hole. Even without a collapse of the model in the short term, we cannot see how bank system lending growth will not decline over the next twelve months and bring about a fall in land values, particularly in outer metro areas.
- **Iron ore.** Australia is highly reliant on the export of iron ore and the fall in the price is a reminder of how vulnerable the economy has become to China. There are forecasts of it falling from the current US$91 a tonne to US$74 over the next few months.

- **China and Taiwan.** An invasion of Taiwan would draw the entire Western world into conflict with China, and we are sourcing the solar, wind and battery capacity meant to replace our ageing coal fired generation from that same country.

In summary, we see inflation having peaked in the September quarter until the prospect of big jumps in public sector wages drives it higher, with claims of 9% already being made by some public sector unions. Aggregate demand will be weaker over the next twelve months and we are at risk of entering a prolonged period of economic contraction.

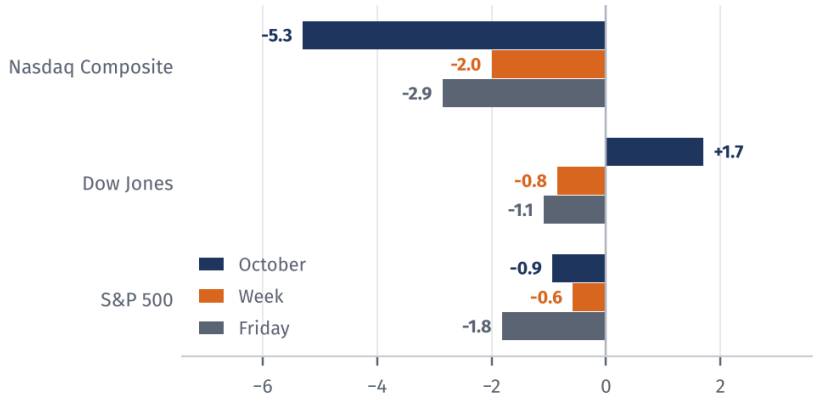
Set out in full in Arculus Funds Management, Australian inflation outlook, 31 October 2026

Equities and the bond tape

The 7,600 line we flagged last week did not hold. The S&P 500 closed Friday at 7,580, down 1.8% on the day and 0.6% on the week, after we noted a week ago that it was sitting on 7,600 support and below its 50-day average, and that a break below 7,600 may see selling momentum increase. The Dow Jones closed at 51,770, down 0.9% on the week but still up 1.7% across October and comfortably clear of the 50,500 reference. The Nasdaq Composite closed at 25,437, down 2.0% on the week and 5.3% across October, and remains above its first support near 24,000.

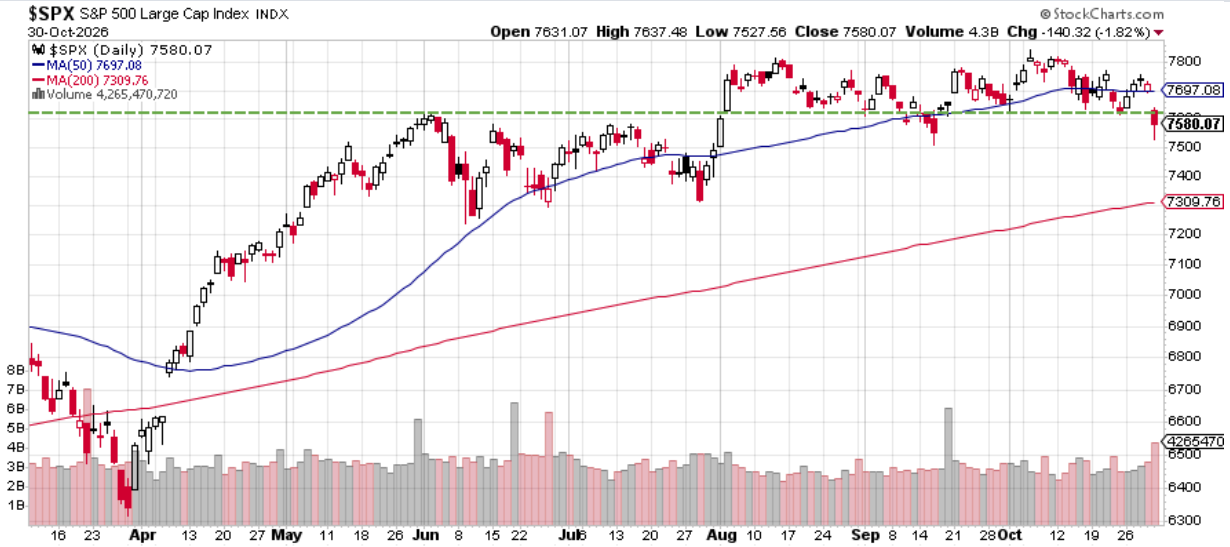
A brutal close to October for the tech tape

Per cent change to Friday 30 October 2026

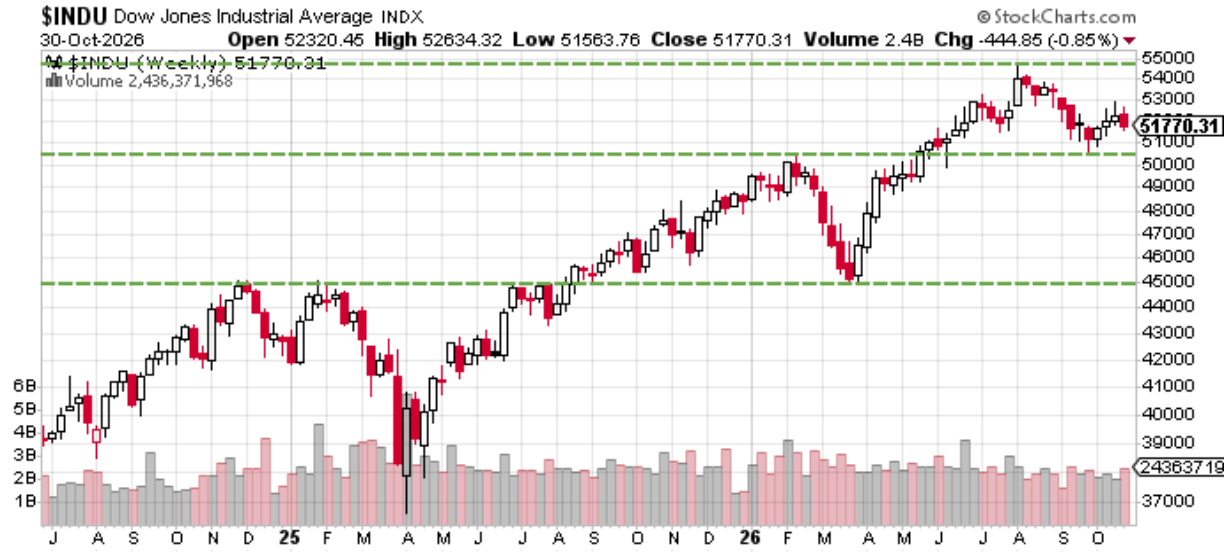


Source Investrade, Cappnotes, Arculus. Levels and changes to the close of Friday 30 October 2026

The detail says the break is real. The S&P 500 traded as low as 7,527 on Friday and closed at 7,580, below the 7,600 line and below its 50-day average of 7,697. The late rally in the last 39 minutes of trading was probably due to the close out of the one day options that now have a significant impact on daily volatility. The next reference underneath is the 200-day average at 7,310, around 270 points lower, which leaves a gap with nothing obvious in it. The Dow Jones held up better, closing at 51,770 after a weekly range of 51,564 to 52,634, and remains above the 50,500 line, although by 1,270 points against 1,715 a week ago.

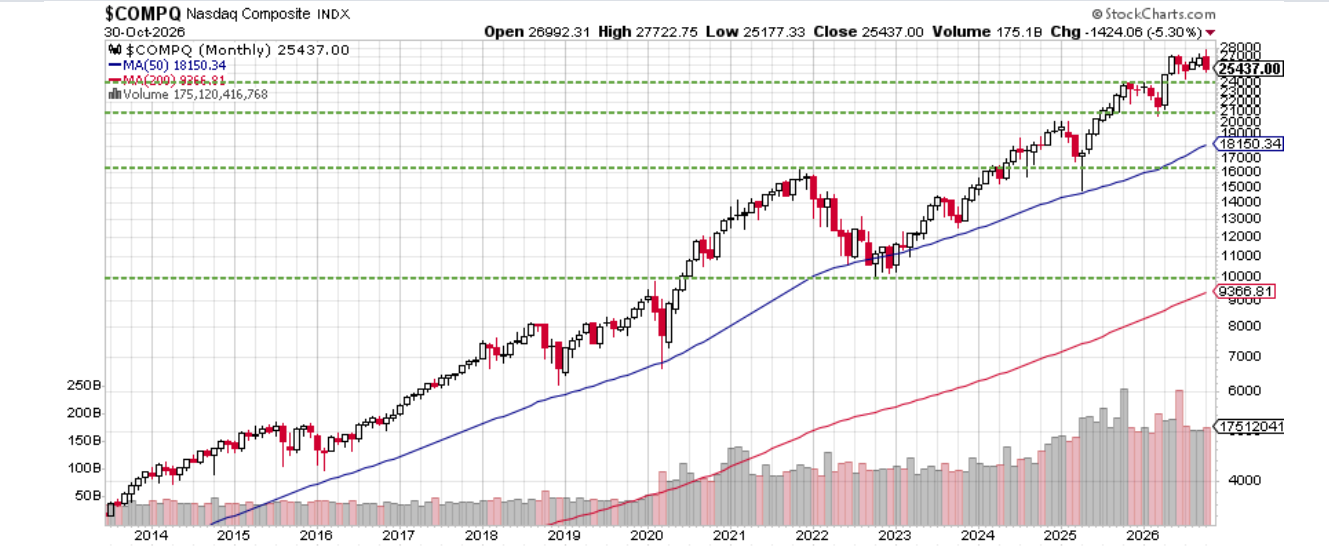


S&P 500, daily. Source StockCharts.com, Arculus



Dow Jones Industrial Average, weekly. Source StockCharts.com, Arculus

The Nasdaq monthly bar is the one to keep. October opened at 26,992, reached 27,723 and closed at 25,437, only 260 points off the monthly low of 25,177. An outside month that opens near the high and closes near the low is the shape that usually marks a change of trend rather than a pause, and it is the first such bar in this advance.

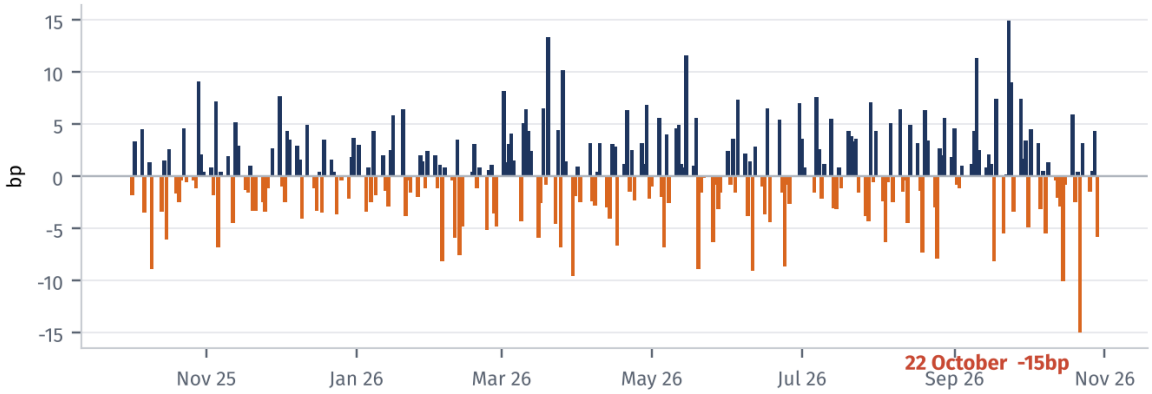


Nasdaq Composite, monthly. Source StockCharts.com, Arculus

That tape is the mechanism behind the bond rally rather than the economics, which is the caution we set out last week. The daily swings in the US 10-year have not settled down, and with the Fed on hold while the data points to further tightening, an equity market that steadies would take the main prop out from under Treasuries.

The daily swings in the US 10-year have not settled down

Daily change in the 10-year Treasury yield, basis points, 1 October 2025 to 29 October 2026



Source Refinitiv Datastream, Arculus

Gold

Gold broke down. It closed Friday at US$3,874 an ounce, down 3.7% on the day, and now sits below both its 50-day average of US$4,259 and its 200-day average of US$4,499. That is a fall of about 6% from the US$4,130 and leaves the price some 14% under the 200-day line. The market is pricing roughly an 80% chance of a December Fed hike earlier in the month, and the People's Bank of China is adding to reserves for a 23rd consecutive month, so this is not a demand story. A metal that falls while equities sell off and bonds rally is being sold for the real rate rather than for risk, and it is the **clearest market signal this week that the tightening bias is being taken seriously.**

Gold spot, daily. Source StockCharts.com, Arculus

Europe and Japan

Source Refinitiv Datastream, Arculus

France gave back 14 basis points on the week to 4.88% as protests de escalated, and now pays 39 basis points more than Italy, down from a peak of 48 on 22 October and 44 a week ago. Italy fell 9 and Spain 6. The sovereign has retraced and the bank complex has not yet followed, which is the gap ANZ is pointing at when it says a resolution would see the higher quality names that widened in sympathy outperform.

The ECB held in October and ANZ continues to expect a 25 basis point increase in the deposit facility rate to 2.75% in December. President Lagarde retained a hawkish bias and noted the Governing Council had considered a hike at the meeting. She announced she will leave on 7 February, with Pablo Hernandez de Cos and Klaas Knot named as frontrunners to replace her. The 10-year JGB rose 4 basis points to 2.84%, the only major market we track to sell off on the week.

The JGB has paused 28 basis points below its October high

Japan 10-year government bond yield, per cent, daily, 1 October 2025 to 29 October 2026

Source Refinitiv Datastream, Arculus

The 10-year JGB has paused. It sits 28 basis points below the 3.13% high it reached on 1 October, the first real pause in a climb that began below 1% in 2024. Lower JGB yields ease one channel of pressure on Australian duration, leaving US yields and domestic inflation as the drivers.

MONITOR

- **The RBA on Tuesday.** The market is at about 85% and all four majors call a hike. We are on the fence and do not believe the board should raise.
- **90-day BBSW at 4.89%,** a record for our data back to 2014, and the 180 less 90 spread at 35 basis points against 39 on 9 October.
- **Tier 2 non call five at BBSW+129.** Five basis points wider in three weeks and the first real move in the complex since June.
- **iTraxx Australia at 77** after peaking at 80 on 23 October. The late March high of 93 is the next reference point.
- **The bills to OIS spread with a four handle** after a settled eight to six range. Unexplained by flow and flagged for contagion risk.
- **Primary is shut until the midterms and the French budget outcome is clear.**
- **Iron ore at US$91 a tonne** against forecasts of US$74 over the next few months.
- **Gold below both moving averages at US$3,874,** around 14% under the 200-day line at US$4,499.

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