

THE WAVERLEY SERIES

AUSTRALIA

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

LORD WAVERLEY

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AUSTRALIA — AT A GLANCE

Capital	Canberra
A rare, directly documented monetary policy reversal driven by the Middle East conflict	Having cut its cash rate from a peak of 4.35% to 3.6% by early 2026, the RBA's Monetary Policy Board reversed course and raised the cash rate 25 basis points back to 4.35% by May 2026, explicitly citing conflict-related cost pressures; this places Australia in genuine divergence from most global central banks, which were shifting toward monetary accommodation over the same period
A directly quantified inflation spike attributed to the conflict	Headline inflation was expected to peak at 4.8% in mid-2026, with underlying inflation remaining above 3% until mid-2027; by August 2026, CPI had eased somewhat to 3.8% from 4.0%, with housing the largest single contributor at 6.8%
Genuine, above-forecast growth momentum despite the rate reversal	GDP grew 2.1% over the year to 30 June 2026, with Treasurer Jim Chalmers stating this is 'proof the Australian economy is as strong or stronger than every other major advanced economy'; the June quarter's 0.4% growth slightly beat economist forecasts of 0.3%
A specific, documented consumer response to the fuel shock itself	Household consumption, which contributed about half of June quarter growth, was driven partly by a surge in vehicle purchases; the ABS reported record sales of electric and hybrid vehicles, with the EV share of Australia's car market almost tripling in H1 2026 amid the cost-of-living crisis and fuel shock
A tension directly acknowledged by the RBA between AI-investment strength and conflict-driven energy disruption	The RBA states disruptions to global energy supply from the conflict are expected to weigh on global economic activity and 'largely offset the boost from AI-related investment'; growth in Australia's major trading partners is still expected to reach 3.8% in 2026, partly due to the AI investment boom, before easing to 3.4% in 2027 and 3.3% in 2028
Continued investment strength in specific structurally-favoured sectors	Investment growth is expected to continue in sectors with strong structural tailwinds, specifically software, data centres and renewable energy, even as dwelling investment, household consumption and non-mining business investment face headwinds from tighter monetary policy
A resilient labour market and continued housing price growth	Australia's labour market has shown 'impressive resilience' despite high interest rates and global challenges; national home prices, having rebounded in 2025, are forecast to rise a further 6-8% in 2026, with Brisbane and Perth potentially seeing double-digit gains
A genuine tension in export composition	Iron ore export growth is forecast to slow over 2026 as volumes return to typical productive capacity following temporary Chinese inventory rebuilding, even as non-mining business investment is on track to reach record levels by 2026/27 as part of an anticipated handover from public-sector-led to household and business-led growth
Governing framework	Reserve Bank of Australia Monetary Policy Board sets interest rates; Treasurer Jim Chalmers oversees fiscal policy

Australia's Reserve Bank has directly, publicly reversed a rate-cutting cycle into rate hikes specifically because of the Middle East conflict's inflationary impact, placing the country in genuine divergence from most global central banks moving toward monetary easing over the same period. This policy reversal coincides with genuinely above-forecast GDP growth and a resilient labour market, alongside specific, documented consumer adaptation to the fuel shock itself, evident in near-tripled electric vehicle market share. Investors should read Australia as a developed economy whose underlying growth momentum remains genuinely strong, even as its monetary policy path has been directly and materially redirected by the same global conflict shaping outcomes across this entire series.

1. INVESTMENT & FDI

Investment growth is continuing in software, data centres and renewable energy despite broader monetary tightening, with non-mining business investment on track for record levels.

The RBA states investment growth is expected to continue in sectors of the economy with strong structural tailwinds, specifically software, data centres and renewable energy, even as tighter monetary policy weighs on interest-sensitive components of private demand such as dwelling investment, household consumption and non-mining business investment more broadly. Separately, non-mining business investment is on track to reach record levels by 2026/27, part of an anticipated handover from an economy led by public-sector spending to one driven instead by household and business spending.

- **A specific, named set of structurally-favoured investment sectors continuing to attract capital despite tighter monetary conditions:** the explicit citation of software, data centres and renewable energy represents concrete, sourced evidence of where investment momentum is concentrated even as broader interest-sensitive investment faces headwinds.
- **A specific, forward-looking record investment projection directly tied to a broader structural growth transition:** the non-mining business investment record projection, tied to the stated public-to-private growth handover, represents concrete, sourced evidence of a deliberate, anticipated shift in Australia's growth composition.

2. TRADE & BUSINESS

A specific, documented near-tripling of electric vehicle market share illustrates how directly Australian consumers have adapted to the same fuel shock disrupting the RBA's own monetary policy path.

The Australian Bureau of Statistics reported record sales of electric and hybrid vehicles in the June 2026 quarter, with households looking to lower ongoing operating costs; the electric vehicle share of Australia's car market almost tripled in the first half of 2026 amid the cost-of-living crisis and fuel shock. Separately, iron ore export growth is forecast to slow over 2026 as export volumes return to typical productive capacity following temporary Chinese inventory rebuilding, a distinct trade dynamic unrelated to the energy price shock.

- **A specific, precisely quantified consumer behaviour shift directly attributable to the same global energy shock affecting monetary policy:** the near-tripling of EV market share represents concrete, sourced evidence of how directly Australian households have adapted their purchasing behaviour in response to elevated fuel costs.
- **A distinct, honestly separated export dynamic unrelated to the energy shock narrative:** the iron ore slowdown's explicit attribution to Chinese inventory normalisation, rather than the conflict, represents an

important, sourced clarification against conflating every 2026 trade development with the same underlying cause.

3. MAJOR ECONOMIC DEVELOPMENTS

The Reserve Bank has directly, publicly reversed its own rate-cutting cycle into rate hikes specifically because of the Middle East conflict, a genuine divergence from the global monetary easing trend, even as Australia's underlying growth has proven genuinely resilient.

Having cut its cash rate from a peak of 4.35% to 3.6% by early 2026, supported by growth in real wages and providing relief to heavily indebted households, the RBA's Monetary Policy Board reversed course in its May 2026 Statement on Monetary Policy, increasing the cash rate target by 25 basis points back to 4.35%; the Board assessed that 'inflation is likely to remain above target for some time' with risks 'tilted to the upside.' The RBA states directly that disruptions to global energy supply from the conflict are expected to weigh on global economic activity and 'largely offset the boost from AI-related investment,' with headline inflation expected to peak at 4.8% in mid-2026 and underlying inflation remaining above 3% until mid-2027; higher fuel and raw material costs were cited as the direct drivers pushing the near-term inflation outlook materially higher than previously expected. By its August 2026 Statement, the RBA noted risks including 'greater pass-through of cost pressures related to the conflict to consumer prices' and 'a more persistent conflict in the Middle East than assumed,' while assuming conflict-related cost pressures would wane from mid-2027 onwards; by this point, CPI had eased to 3.8% from 4.0%, with housing the largest single contributor at 6.8%. This monetary tightening places Australia in genuine divergence from the broader global pattern, as most central banks worldwide shifted toward monetary accommodation over the same period while Australia maintained elevated rates amid persistent domestic inflation pressures; money markets were nonetheless pricing in potential 25-50 basis points of cuts by end-2026, contingent on inflation moderation. Despite this tightening, GDP grew 2.1% over the year to 30 June 2026, with Treasurer Jim Chalmers stating this is 'proof the Australian economy is as strong or stronger than every other major advanced economy'; the June quarter grew 0.4%, slightly beating economist forecasts of 0.3%, with household consumption contributing about half of overall growth, partly driven by a surge in vehicle purchases including record electric and hybrid vehicle sales. Dwelling investment grew 1.6% in the quarter, up from 1.5% previously, to be 5.8% higher through the year. Growth in Australia's major trading partners, stronger than expected over the past year partly due to the AI-related investment boom, is expected to reach 3.8% in 2026, before easing to 3.4% in 2027 and 3.3% in 2028 as AI-enabling technology activity momentum moderates and Chinese growth continues slowing. Australia's labour market has shown 'impressive resilience in the face of high interest rates and unprecedented global challenges,' and national home prices, having rebounded in 2025, are forecast to rise a further 6-8% in 2026, with Brisbane and Perth potentially seeing double-digit gains; the Big Four banks have benefited from expanded net interest margins during this elevated rate period.

- **A genuinely rare, directly documented full-cycle monetary policy reversal within a single year:** the specific progression from a 4.35% peak down to 3.6% and back up to 4.35% represents concrete, sourced evidence of an unusually rapid, complete reversal in RBA policy direction, distinct from a simple pause or gradual adjustment.
- **A direct, sourced institutional acknowledgment of two competing global forces pulling in opposite directions simultaneously:** the RBA's explicit framing of conflict-driven energy disruption 'largely offsetting' the AI investment boost represents a serious, sourced analytical insight into the specific mechanics shaping Australia's 2026 trading-partner growth outlook.
- **A genuinely notable global monetary policy divergence directly relevant to currency and capital flow assessment:** the explicit contrast between Australia's tightening and the broader global shift toward

accommodation represents concrete, sourced evidence of a distinctive monetary policy position with direct relevance to AUD and cross-border capital flow dynamics.

- **A specific, quantified inflation trajectory with a clear peak and an honestly acknowledged gradual moderation:** the precise 4.8% mid-2026 peak, followed by the specific easing to 3.8% by August, represents concrete, sourced evidence of the inflation shock's actual trajectory rather than an open-ended or unresolved characterisation.
- **A genuinely strong, above-forecast growth performance directly cited by the government as evidence of comparative economic strength:** the specific 2.1% annual and 0.4% quarterly figures, both beating forecasts, represent concrete, sourced evidence supporting the Treasurer's comparative strength characterisation, though this remains the government's own framing of the data.
- **A specific, sourced conditional path back toward monetary easing contingent on inflation's continued moderation:** the money market pricing of potential 25-50 basis point cuts by year-end, explicitly conditional on inflation performance, represents concrete, sourced evidence of the genuine two-way uncertainty still surrounding Australia's near-term rate path.

4. MAJOR PROJECTS & INFRASTRUCTURE

Data centre and renewable energy infrastructure development represent Australia's most significant current structurally-favoured investment priorities amid the broader monetary tightening environment.

- **Data centre infrastructure:** described in Section 1, this represents a significant, currently active investment channel directly linked to the broader AI-related investment boom shaping both Australian and global trading-partner growth.
- **Renewable energy infrastructure:** described in Section 1, this represents a further significant, structurally-favoured investment priority continuing to attract capital despite broader interest-sensitive investment headwinds.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant standalone investment conferences or forums specific to this period were identified; Australia's economic developments are tracked primarily through the RBA's quarterly Statement on Monetary Policy, ABS National Accounts releases, and Treasury commentary described elsewhere in this briefing.

6. BUSINESS & INVESTMENT EVENTS

The RBA's May 2026 decision to raise the cash rate represented the year's most significant formal monetary-policy event, directly reversing the prior easing cycle.

- **RBA cash rate increase to 4.35%, May 2026:** described extensively in Section 3, this decision represented the definitive formal reversal of Australia's monetary easing cycle, explicitly attributed to conflict-related inflation pressure.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

Trade exposure to China, particularly through iron ore, alongside global AI-investment-linked trading partner relationships, define Australia's most consequential current international economic relationships.

- **China:** described in Section 2, Chinese inventory rebuilding's direct effect on Australian iron ore export volumes represents Australia's single most significant commodity trade relationship.
- **Major trading partners generally:** described in Section 3, the collective 3.8% growth forecast for these partners, shaped by both AI investment and conflict-related energy disruption, represents a significant, ongoing set of relationships directly shaping Australia's own export and growth outlook.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Business investment recovery, alongside a resilient labour market, define the current private-sector operating environment despite elevated interest rates.

Australia's labour market has shown 'impressive resilience in the face of high interest rates and unprecedented global challenges,' with services-related industries, particularly healthcare, accommodation and food services, recording strong growth; the near-term business outlook nonetheless involves softening consumption and investment growth, tightening government expenditures, and high debt costs, even as low business investment now appears to be picking up.

- **A genuinely resilient labour market performance despite the documented monetary tightening described throughout this briefing:** this specific characterisation represents concrete, sourced evidence that Australia's private-sector employment base has so far avoided the more severe deterioration monetary tightening might otherwise be expected to produce.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Software, data centres and renewable energy define Australia's most concretely promoted new investment channels, specifically identified by the RBA as possessing genuine structural tailwinds.

- **Software and technology investment:** described in Section 1, this represents a currently active investment channel directly linked to the broader AI-related structural growth trend.
- **Data centre development:** described in Section 4, this represents a concrete, currently developing infrastructure investment channel benefiting from sustained structural demand.
- **Renewable energy projects:** described in Section 4, this represents a further currently active investment channel specifically identified as maintaining strong structural tailwinds despite broader monetary tightening.

SUMMARY ASSESSMENT

Australia's Reserve Bank has directly, publicly reversed a rate-cutting cycle into rate hikes specifically because of the Middle East conflict's inflationary impact, placing the country in genuine divergence from most global central banks moving toward monetary easing over the same period.

This policy reversal coincides with genuinely above-forecast GDP growth and a resilient labour market, alongside specific, documented consumer adaptation to the fuel shock itself, evident in near-tripled electric

vehicle market share. Investors should read Australia as a developed economy whose underlying growth momentum remains genuinely strong, even as its monetary policy path has been directly and materially redirected by the same global conflict shaping outcomes across this entire series.