Opinion

What I learnt in DC with Chalmers about guarding against global shock

The immediate crisis appears to be waning, but the opportunity to act on lessons should not be passed by.

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The phrase on everyone's lips in Washington last week was cognitive dissonance, summarising the total disconnect between the grim faces at the IMF World Bank Spring Meetings [https://www.afr.com/link/follow-20180101-p5znou] this week and the smiling handshakes at the private-sector Semafor World Economy conference, held concurrently just down the road.

The worriers were the ministers and bureaucrats, deeply concerned about whether the Strait of Hormuz would return to normal operations within the three weeks suggested by commodity futures markets.

Treasurer Jim Chalmers with Britain's Chancellor of the Exchequer Rachel Reeves on the sidelines of this week's IMF meetings in Washington.

The optimists were the executives at the private-sector Semafor World Economy conference and some Trump administration officials who are focused on the potential of artificial intelligence to propel US economic growth and bring inflation down.

The US financial markets have demonstrated immunity to a short-term oil shock. Equity markets reached another new high this week on the back of Mythos-driven AI excitement and strong corporate earnings. Bond markets have been stable, including the all-important US Treasury market, where 10-year yields have been range-bound below 4.5 per cent for more than a year.

Both are divorced from consumer sentiment and their pain at the bowser with petrol now US$4.50 a gallon if you're lucky, US$6.50 a gallon if you live in California.
At the same meetings this time last year, "Liberation Day" tariffs were producing the same anxious frowns. Worst-case scenarios were avoided because the bond market melted down amid the tariff announcements, prompting President Donald Trump to cut the originally announced punitive rates of 25 per cent to 50 per cent to a manageable 10 per cent.

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The subsequent "big beautiful bill" passed on the 4th of July included significant tax cuts that offset the impact of the tariffs, with American taxpayers receiving an average of US$3500 per household. This was followed by action on deregulation that spurred business activity, resulting in a US economic outlook for accelerating growth with moderating inflation right up to February 28th.

If commodity markets are correct and oil prices decline in 2026, the impact on US growth and inflation will be transitory. The US Federal Reserve and the bond market sit in abeyance until further notice.

Next up on the political economy calendar: The summit between Presidents Trump and Xi Jinping in May, the Senate confirmation of Kevin Warsh as the next Federal Reserve Chair by June, another reconciliation bill in July with more cash for American taxpayers, the November midterm elections and a potential turning of attention to Greenland and Cuba.

Here in Australia [https://www.afr.com/link/follow-20180101-p5zo3q], we approach the Commonwealth budget and the end of our financial year on tenterhooks, waiting to see what unfolds.

The immediate crisis appears to be waning, but the opportunity to take lessons learnt should not be passed by. Here are four next steps to consider.

First, the government's welcome ability to secure access to the supply of petroleum products with Singapore, Malaysia, and others is an evident success of the persistent, under-the-radar efforts by successive governments to deepen commercial connections with our neighbours. It is smart policy, and our best option in a world of reordered global trade. This activity should accelerate and expand to other sectors where global supply chains may face future disruption: food, materials and pharmaceuticals.

Second, Australia's status as a global safe haven with low sovereign risk must be jealously guarded. The Australian dollar bond market saw issuance hit a five-year high in the first quarter of 2026; the depreciation of the US dollar against major currencies over the past 12 months indicates that diversification will likely continue. Capitalising on our ability to attract offshore investors and self-fund our own economy is a no-brainer in these uncertain times.

Third, the Middle East crisis, combined with the needs of AI computing, has put all forms of energy on the table globally. Materials such as critical minerals that are needed for renewable energy generation and storage are also dual-use in defence. President Trump is asking Congress for $1.5 trillion in defence spending; this sector will boom.

Accelerating fast-track approvals to hyperscale investment in Australia's rich energy resources is an immediate opportunity, with flow-on effects for clean tech innovation. Policy Institute Australia has advocated for reforms to contain the cost of our energy transition; this should be an active consideration when energy ministers next meet in May.

Finally, an urgent agenda awaits on regulatory reform to get the supply side of our economy kicking again. Policy Institute Australia's budget submission recommended that the existing $900 million Productivity Fund, which incentivises states to progress with regulatory reforms, be multiplied by at least a factor of 10, making sure we put enough firepower behind the revitalisation of the National Competition Council.

We hope the financial markets are right and that this shock proves short-lived. But let us be as prepared as we can, if not for this one, then for the next.

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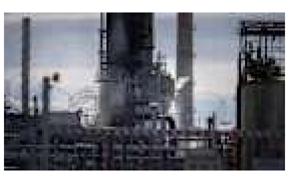

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