

## Cumberland Council Economic and Investment Portfolio Commentary April 2019

### Global issues:

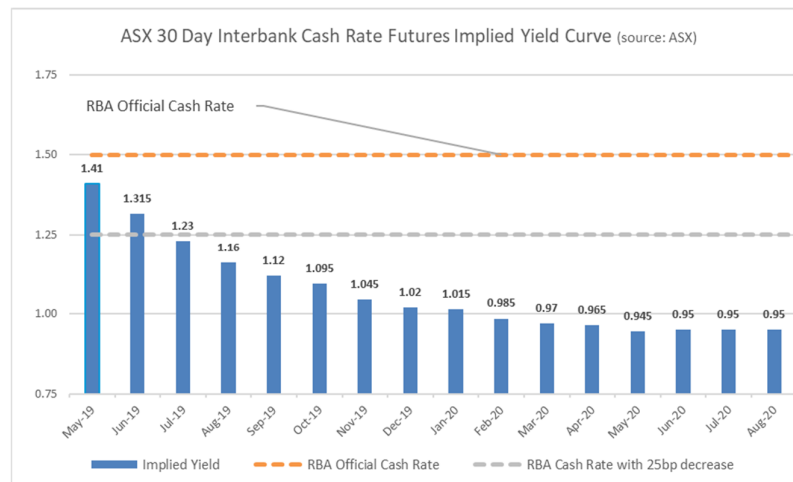
- Australia’s major trading partners, US and China, are showing signs of promising economic growth which may eventually translate to improved domestic conditions.
- In the US, corporate earnings reports for the March quarter have been strong overall and the latest Gross Domestic Product (GDP) release showed the economy had grown at a stronger than expected 3.2%pa over the year ending March giving a boost to the share market to close out the month.
- In China, latest economic releases including GDP, industrial production, retail sales and home prices all showed signs of improvement.

### Domestic issues:

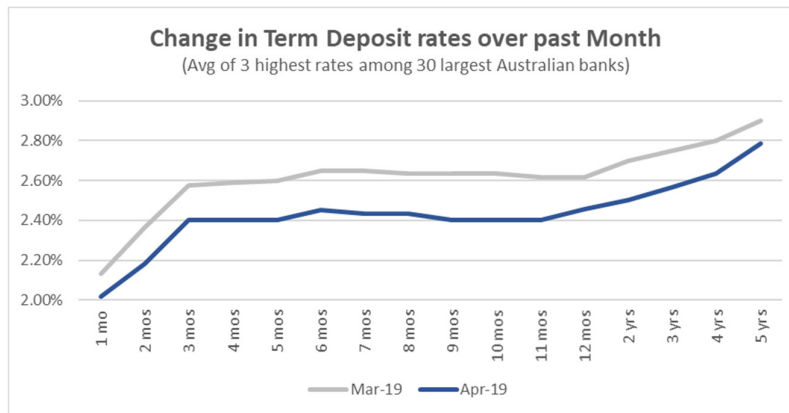
- In Australia, expectations for an interest rate cut by the RBA, possibly as soon as the May meeting, surged following the release of lower than expected inflation data at the end of April.
- Consumer Price Inflation (CPI) was flat for the March quarter and up only 1.3%pa for the year. Even when taking out the volatile items, such as fuel and food, inflation remains well below the RBA’s 2-3%pa target range.
- Along with CPI, wage inflation is still on a downward trend and house prices continue their slide making consumers less willing to spend, thus adding to weakening business confidence and conditions.

### Interest rates

- Lower than expected inflation data combined with last month’s poor GDP reading has the market widely expected the RBA to cut the official Cash Rate by 50bps within the next 9 months, possibly starting with a 25bp rate cut in May:



- Term deposit rates followed the market lower with sharp declines across all maturities. The average highest rates on offer for 3-month TDs at month end was 2.40%, down from 2.57% in March. Likewise, the average of the highest 12 month rates was at 2.4%, down from 2.65% the month prior. The best rates among the lower rated banks were largely in the 2.55%-2.70% area across 3-12 months range.



### Investment Portfolio Commentary

Council's investment portfolio posted a return of 3.56%pa for the month of April versus the bank bill index benchmark return of 2.01%pa. For the financial year to date, the investment portfolio returned 3.04%pa, exceeding the bank bill index benchmark's 2.03%pa by 1.01%pa.

Without marked-to-market influences, Council's investment portfolio yielded 2.89%pa for the month. This is based on the actual interest rates being received on existing investments and excludes the underlying changes to the market value of the securities/deposits.

The drop in interest rates continues to result in solid marked-to-market gains in Council's long term bond portfolio, particularly the fixed rate holdings. As these gains eventually go back to par value by maturity, opportunities to lock in the gains by selling before maturity will continue to be considered providing equal or better outcomes can be achieved with the proceeds.

During April, Council's investment portfolio had \$6m in 9mo term deposits mature with a weighted average rate of 2.80%pa. The proceeds were required for cash expenditure.

Council has a well-diversified portfolio invested among a range of term deposits and floating rate notes from highly rated Australian ADIs. 84% of the portfolio is spread among the top three credit rating categories (A long term/A2 short term and higher) and NSW T-Corp cash managed funds. It is expected that Council can continue to achieve above benchmark returns with prudent investment selection for its short and long term holdings.

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