

Cumberland Council Economic and Investment Portfolio Commentary August 2019

Global issues:

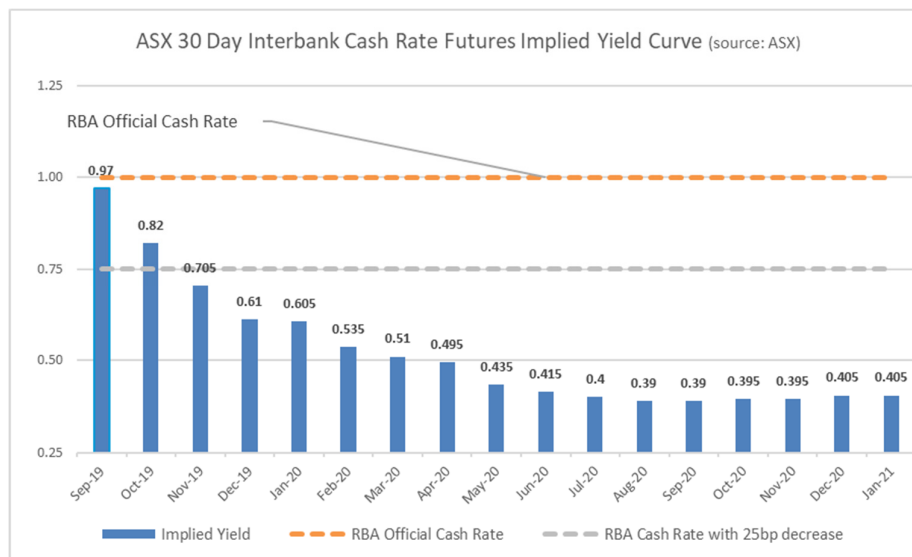
- Global markets continue to be whipsawed by speculation surrounding the progress of the US/China trade negotiations. With the US economy beginning to show signs of weakness due to the tariffs and China's retaliatory actions, it is believed by many that a solution will be sought as soon as possible to avoid an impact on the US's 2020 elections.
- Signs of weakness in the German economy has economists speculating that the European Central Bank will enact a series of monetary policy actions in September, including cutting rates and injections of cash into the banking system via quantitative easing, to help stave off a European recession.

Domestic issues:

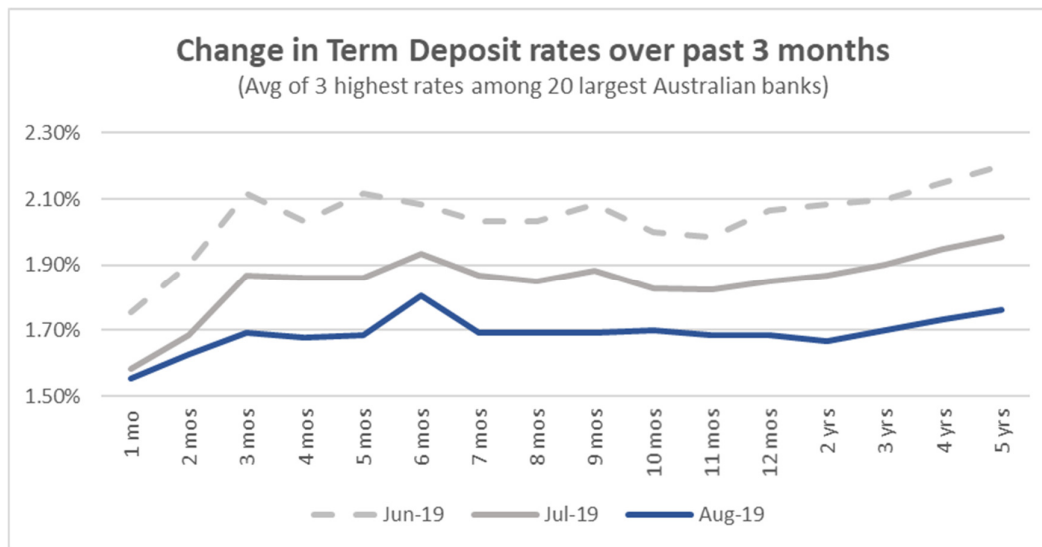
- In Australia, as in Europe, the central bank is considering a number of actions to help reverse the slowly deteriorating economy. Along with further cuts to the official cash rate, the RBA is expected to eventually introduce quantitative easing and other "non-conventional" actions to help counter the effects of the global slowdown.
- Economic data released in August continued to show signs of overall weakness as business investment, building approvals and construction activity all fell and credit growth and new home sales were weak.

Interest rates

- The RBA kept the official cash rate unchanged at 1.00% after its August meeting following 25bp cuts in both June & July. The market continues to price in another two rate cuts of 25bps each over the next 6 months:



- Term deposit rates dropped another 10-20 basis points across most maturities in August. The average highest rates on offer for 3-month TDs at month end was 1.69%, down from 1.87% in July and 2.12% in June. Likewise, the average of the highest 12 month rates was 1.68%, down from at 1.85% last month and 2.07% in June. The best rates among the lower rated banks were largely in the 1.65%-1.80% area across 3-12 months range. The 6 month area continues to offer the highest rates in the short term, but with the danger of lower rates upon their maturities.



Investment Portfolio Commentary

Council's investment portfolio posted a return of 1.74%pa for the month of August versus the bank bill index benchmark return of 0.99%pa.

Without marked-to-market influences, Council's investment portfolio yielded 2.26%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.

Floating rate note securities reversed all of their gains from July as market volatility related to the ongoing global trade war took its toll (although Council's fixed rate bonds continued to trade higher as market interest rates continued to fall). This also affected both the TCorp Cash funds which both earned sub-cash returns for the first time this year.

During August, Council's investment portfolio had a series of 3yr term deposits mature which were paying an average of 3.12%pa on \$6m. Council invested \$4m in a 6 month NAB TD paying 1.75%, reflective of the ongoing drop in interest rates across the market.

Along with the TDs, Council invested \$11.5m among four FRNs for its long term portfolio:

- \$2m in a newly issued ANZ 5 year Senior Ranked Floating Rate Note scheduled to pay quarterly interest of 3mo BBSW +0.77%:

- \$4m of a BOQ July 2024 FRN on the secondary market at a of 3mo BBSW +0.97%;
- \$2.5m of a Suncorp July 2024 FRN on the secondary market at trading margin of 3mo BBSW +0.83%; and
- \$3m in a newly issued Macquarie Bank 5 year Senior Ranked FRN paying quarterly interest of 3mo BBSW +0.80%.

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