Cumberland Council
Economic and Investment Portfolio Commentary
September 2019

Global issues:

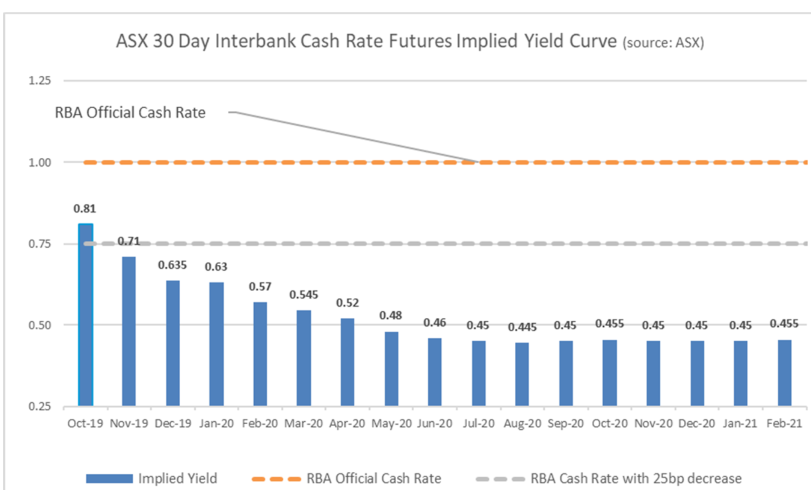
- In the US, the Federal Reserve cut the key interest rate by 25bps to the 1.75-2.00% range. Factors supporting the rate cut include weakness in business investment and exports; impact of trade tensions with China; and little sign of sustained inflation pressure.
- While making for interesting viewing, the US presidential impeachment inquiry is not expected to have much impact on the financial markets. Likewise, the ongoing Brexit saga will not likely rattle markets too much beyond the UK and Europe.
- In Europe, the European Central Bank cut the key interest rate, already negative, by a further 10bps to -0.50% and restarted its quantitative easing (asset purchases) program to inject cash into the economy.
- Attacks on Saudi Arabian oil facilities during the month caused only a minor rise in global oil prices, much lower than what the sharp price increases at domestic petrol stations would justify.

Domestic issues:

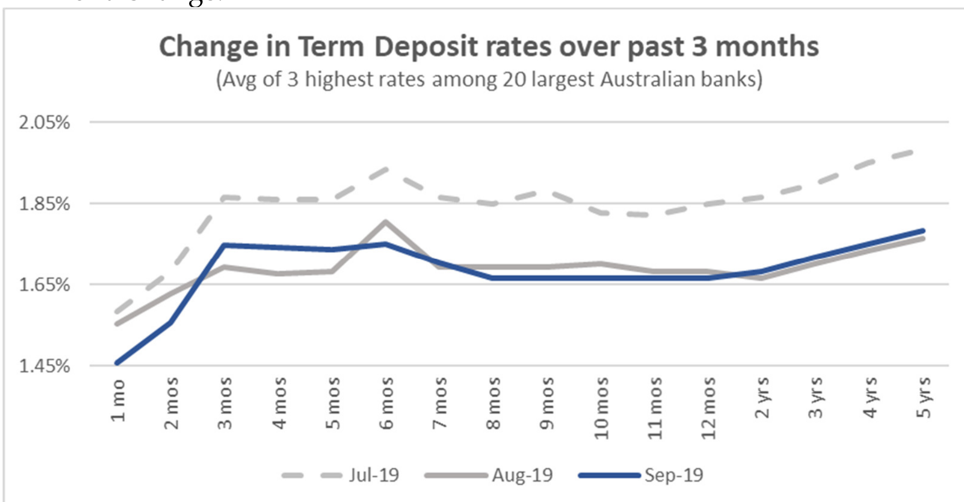
- In Australia, the latest new jobs data was higher than expected, but full time jobs actually fell and the unemployment rate rose. Job vacancies and business hiring plans are indicating that even worse employment conditions are in the offing.
- The jobs data added to the growing list of indicators that the economy is continuing to struggle. Retail sales have not benefited from the rate cuts to date, inflation remains muted and wages growth shows little potential for a sustained rise.

Interest rates

- The RBA kept the official cash rate unchanged at 1.00% after its September meeting, however the market is pricing in a cash rate of 0.50% by May 2020:



- After sharp declines across most terms for the past several months, term deposit rates largely had little change in September, particularly beyond 7 months. The average highest rates on offer for 3-month TDs at month end was 1.75%, up from 1.69% in August but still down from 1.87% in July. The average of the highest 12 month rates was 1.67%, inline with August and down from 1.85% in July. The best rates among the lower rated banks were largely in the 1.55%-1.75% area across 1-12 months range.



Investment Portfolio Commentary

Council's investment portfolio posted a return of 1.84%pa for the month of September versus the bank bill index benchmark return of 1.03%pa. For the financial year to date, the investment portfolio returned 2.42%pa, exceeding the bank bill index benchmark's 1.15%pa by 1.27%pa.

Without marked-to-market influences, Council's investment portfolio yielded 2.15%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.

During September, Council's investment portfolio had a series of 2 & 3yr term deposits mature which were paying an average of 3.09%pa on $8m. Council invested $25m in a range of TDs with maturities of 6mos to 2 years at an average rate of 1.77%, reflective of the fall in interest rates across the market over the past several months.

Council has a well-diversified portfolio invested among a range of term deposits and floating rate notes from highly rated Australian ADIs. 75% of the portfolio is spread among the top three credit rating categories (A long term/A2 short term and higher) and NSW TCorpIM 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.