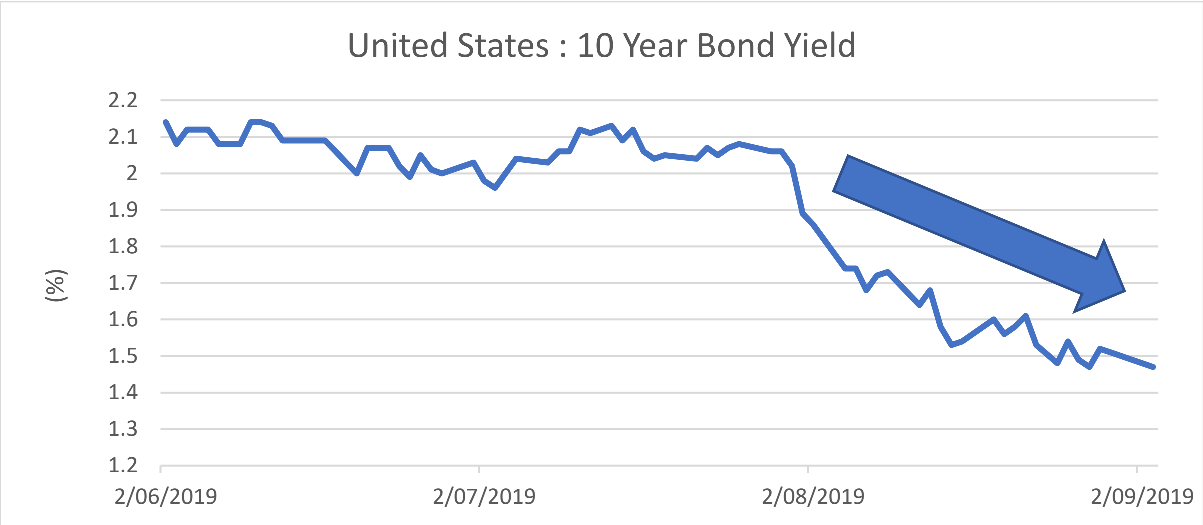
Financial Market Conditions

Global financial markets continued to experience volatility over the past month as the US and China increased trade tariffs on various goods, services and raw materials imported into their respective countries.

The US-China trade dispute escalated in early August when US President Trump announced a 10% tariff on $300 billion USD of Chinese imports in addition to the 25% already levied on $250 billion USD worth of Chinese goods. This action then saw the Chinese impose additional retaliatory tariffs against $75 billion worth of US goods. The US President then announced the tariffs would be increased from 10% to 15% and from 25% to 30% which then saw the Chinese announce additional retaliatory tariffs on crude oil and other agricultural products. However, markets were buoyed in early September when both parties agreed to hold high level talks in Washington in early October. The continued trade war and average US data have almost assured that the US Federal Reserve will cut their reserve rate by 0.25% at their meeting on the 17th of September.

The recently elected UK Prime Minister, Boris Johnson, was unable to negotiate a better exit deal with the European Union, so in late August he tried to suspend parliament and called for early an election in an effort to force a hard exit from the EU. Both these measures were unsuccessful and instead the UK parliament passed legislation stopping a no deal Brexit on the 31st of October.

The continuing trade dispute and concerns about global economic growth placed extreme downward pressure on the yields of highly rated bonds around the globe, highlighted by the US 10-year treasury bond falling from 2.02% to 1.51% during August.



Australian financial markets were also adversely affected by the trade dispute and concerns about global growth expectations over the past month. The Australian unemployment rate for July held steady at 5.2 % even though 41,000 new jobs were added to the economy. In early September the ABS data showed that the Australian economy grew by 0.5% in the June quarter taking the year on year growth to 1.4%, its lowest level since the GFC. The Australian dollar remained relatively static over the past month and is currently trading at $0.68 USD.

The RBA left the official cash rate on hold at 1% at their August and September meetings. RBA Governor Lowe has left the door open to further rate cuts at future RBA meetings stating that wage growth and inflation remain subdued. Considering Australia's subdued inflation, low economic growth and stagnant unemployment rate it is likely that the RBA will cut the cash rate again soon. Current futures market pricing has a 0.25% cut factored in by November this year and another 0.25% fully factored in by March 2020.

Implied RBA Cash rate as at 31/08/2019: