

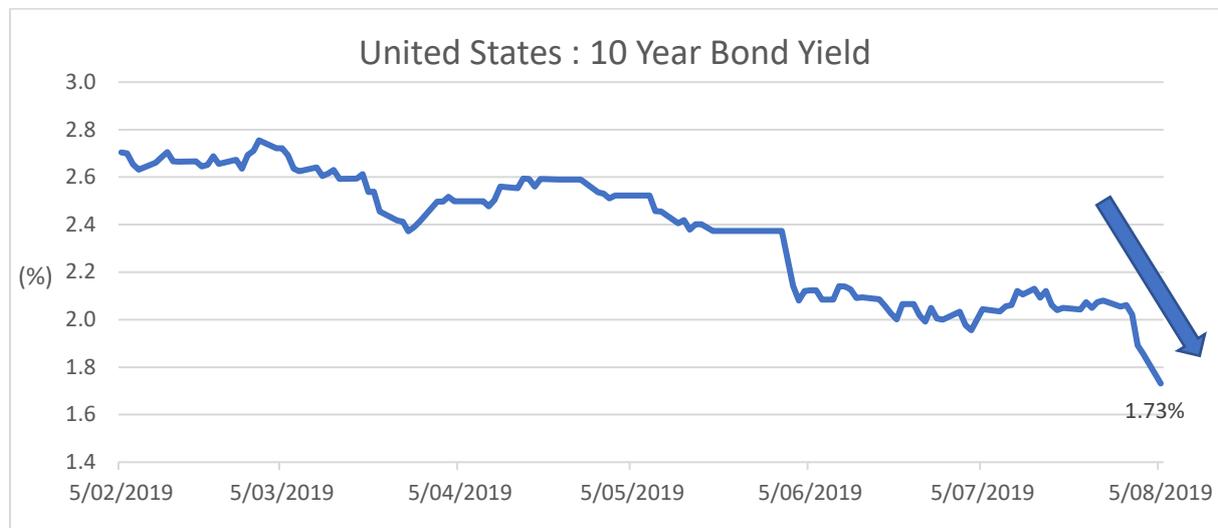
Financial Market Conditions

Global financial markets experienced some volatility over the past month as fears of a global slowdown triggered by the US-China trade dispute saw bond yields push lower and global equity markets move higher.

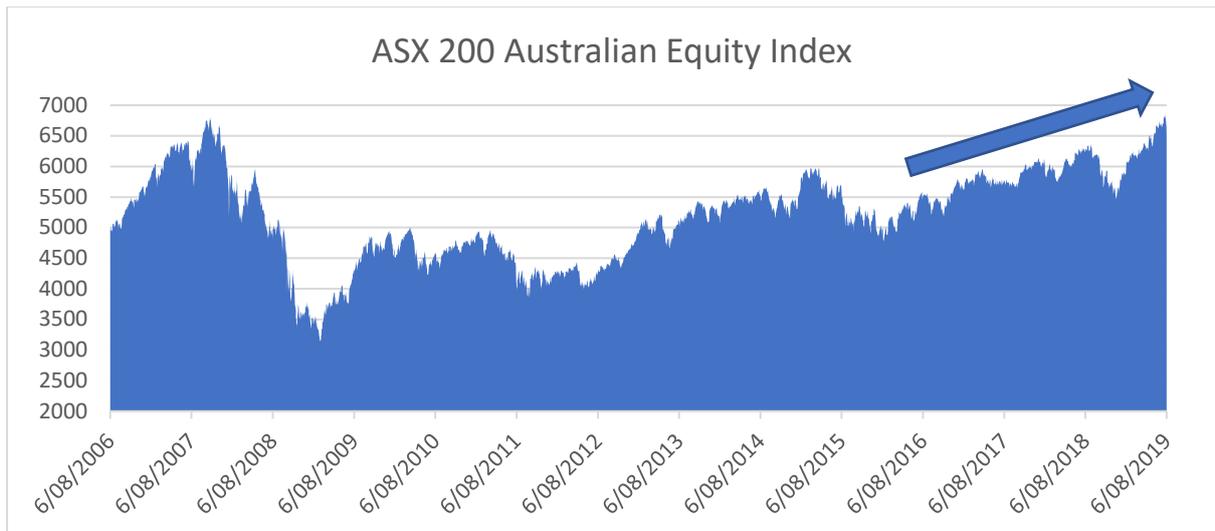
The US-China trade dispute remained unresolved in July, however, in early August the US President said he would place a 10% tariff on \$300 billion of additional Chinese goods that had not already been taxed. It is widely anticipated that the Chinese will have to take necessary measures to counteract these new tariffs. In late July the Federal Reserve cut their reserve rate by 0.25% and is now targeting a rate between 2.00-2.25%. This is the first cut by the Fed since December 2008 and was sold as a pre-emptive cut in the face of weaker growth prospects resulting from the ongoing trade dispute between the US and China. The market is now pricing in further cuts by the Fed and currently predicts the US cash rate will be below 1.25% by January 2021.

In mid-July the UK conservative party voted in Boris Johnson as their new leader and in turn became the UK's latest Prime Minister. Mr Johnson has declared that the UK will leave the EU on 31/10/19, deal or no deal and has resulted in the British Pound being at its lowest level in over 2 years.

The prospects of lower interest rates in the US and fears of a global slow down saw the yields on highly rated bonds fall across the globe over the past month, however, an even larger fall was experienced in early August when the US president threatened additional tariffs on Chinese goods.



Australian financial markets also experienced some volatility over the past month. Australian employment data, released mid-month, showed that the unemployment rate held steady at 5.2%. Financial markets are currently watching this data more closely than usual as RBA governor Lowe has stated that they will need to keep reducing the cash rate until they see a lower level of unemployment. Late in the month, the Australian ASX 200 Equity index posted its highest level surpassing the previous high set just before the onset of the Global Financial Crisis.



The Australian Dollar fell around \$0.02 USD over the past month due to fears of a global slow down and a larger interest rate differential between Australia and the US. The AUD is currently trading at \$0.68 USD.

On the 2nd of July the RBA cut the official cash rate by 0.25% to a record low of 1%. In the accompanying statement the RBA stated that they cut the cash rate to help make further inroads into spare capacity within the economy. This move was already factored into market pricing and many commentators are now predicting that the RBA will continue to cut rates if they don't see lower unemployment and higher wage growth over the next year. Interest rate futures market pricing currently predicts that the official cash rate is likely to be cut by another 0.25% before the end of this calendar year.

Implied RBA Cash rate as at 31/07/2019:

