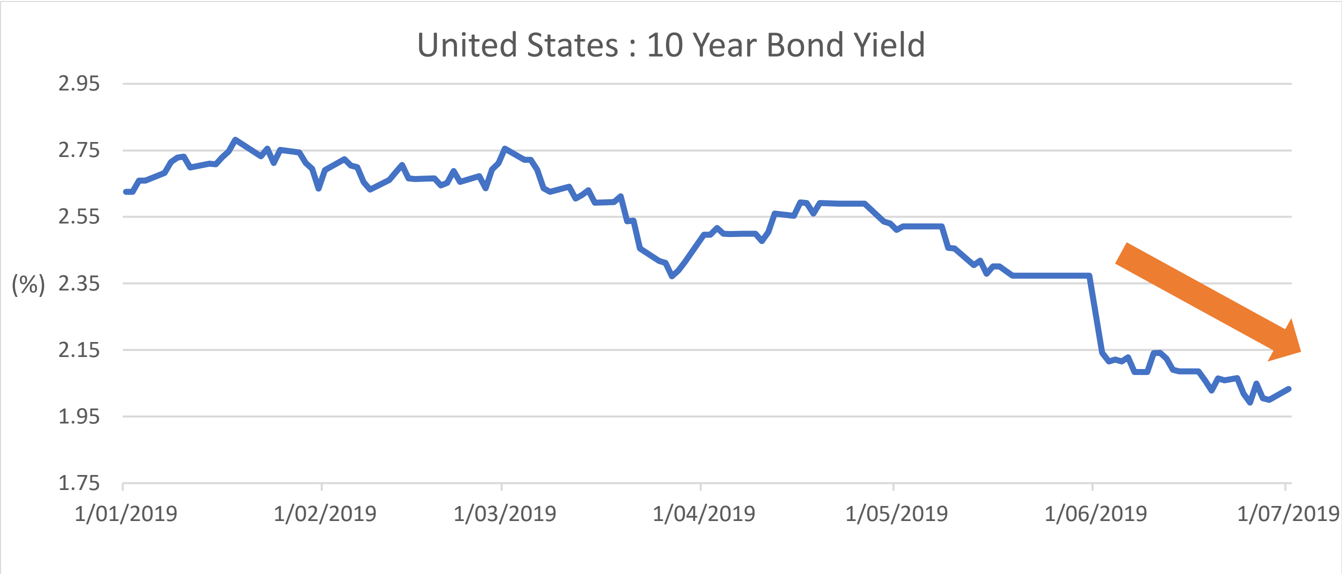
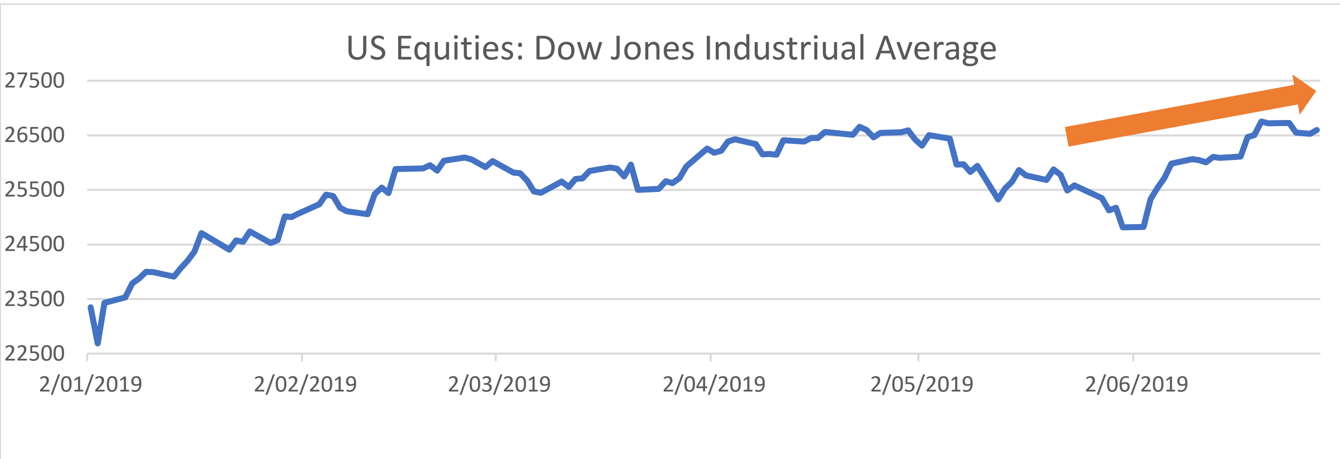
Financial Market Conditions

Global financial markets experienced some volatility over the past month as markets continued to grapple with the US-China trade dispute and concerns about lower Global economic growth as a result of the dispute.

The US-China trade dispute saw no meaningful steps towards resolution in June. Many were hoping that a scheduled meeting between US President Trump and Chinese President Xi at the G20 in Japan would see an end to the dispute but it seems that neither side were willing to yield ground. Late in the month US gross domestic production data (GDP) showed that the US economy grew by a healthy 3.1% over the first three months of this year, however, economist noted that most of the growth was driven by government spending. The US Federal Reserve met late in the month and noted that they may need to cut rates even as early as July to counteract the effects of the US-China trade dispute, a view reflected by US interest rate futures pricing. The prospect of a lower cash rate in the US saw long term bond yields fall and a flight to equity markets around the globe, highlighted by the US Dow Jones Industrial Average rising by around 7% over the past month.





Australian financial market also experienced some volatility over the past month, however, most of the volatility was driven by external factors. The Australian equity markets saw large gains over the past month which most commentators attributed to investors chasing yield in the current low interest rate environment. Property markets in Sydney and Melbourne saw some stabilisation in both clearance rates and price over the past month as looser prudential lending controls by APRA, lower interest rates and the recent Federal election result provided more certainty to property markets. The Australian unemployment rate remained steady at 5.2% in June despite the economy adding an extra 42,000 jobs. Despite the RBA cutting the cash rate by 0.5% over the past 2 months the Australian Dollar has been extremely resilient and is currently trading at around $0.70 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 cut the cash rate by another 0.25% at the RBA's December meeting.

Implied RBA Cash rate as at 28/06/2019: