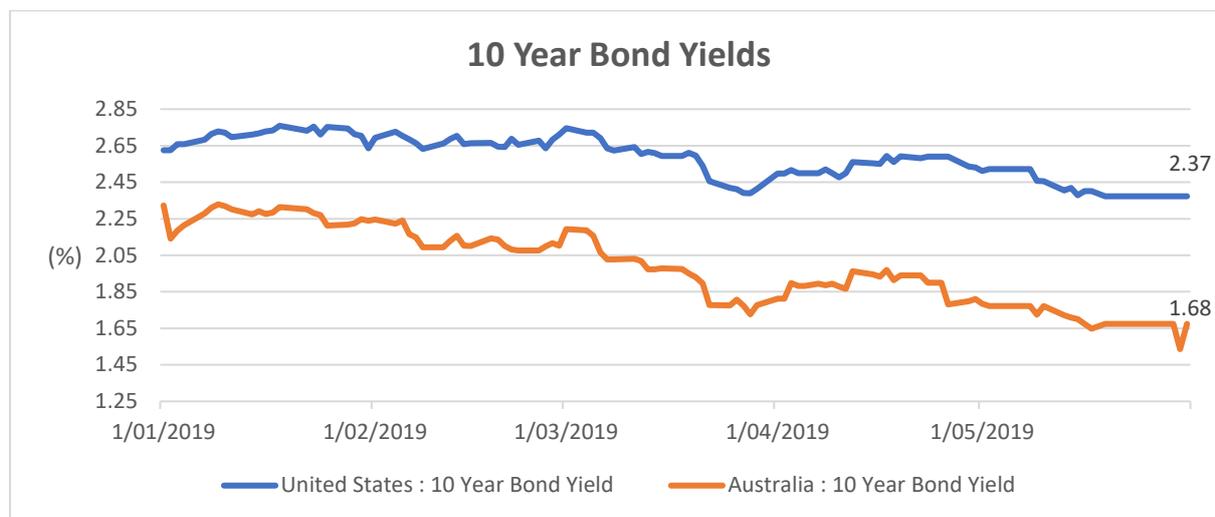


Financial Market Conditions

Global financial markets experienced some volatility over the past month due to the ongoing trade dispute between the US and China and on a more local note, due to the Reserve Bank of Australia cutting the official cash rate by 0.25% on the 4th of June.

The US - China trade deal was not resolved over the past month and in fact escalated after the US increased the tariff on a list of goods from 10% to 25% which was soon countered by increased Chinese tariffs. With no further trade talks currently scheduled between US and Chinese negotiators, many commentators are now concerned that a prolonged trade war will dampen global economic growth and increase the probability of the US Federal Reserve cutting rates in 2020. The fears of a prolonged trade war, coupled with a more dovish Fed, saw the US 10-year bond rate fall 0.14% over the course of the month from 2.51% to 2.37%.



In late May, Theresa May announced that she would quit as Conservative leader on the 7th of June meaning the party must then choose a new leader who will become Prime Minister. Recent European Union elections saw strong support for pro-Brexit parties and highlights that the issue remains unresolved with the already extended 31st of October deadline looming.

Australian financial markets experienced volatility over the past month as markets started to price in a rate cut by the RBA. In previous statements the Reserve Bank Governor, Phillip Lowe, had signalled to the market that the Reserve Bank had scope to cut rates if there was further weakening of the Australian employment market. In mid-May, the Australian unemployment rate rose from 5.1% to 5.2% taking it to its highest level since August 2018. Although not a huge increase markets took this as a sign that the RBA now had the scope to cut rates in June and increased the possibility of additional near-term cuts by the Reserve Bank.

On the 4th of June the Reserve Bank meet and decided to cut Australia's official cash rate by 0.25% to a new all-time low of 1.25%. In the accompanying statement the RBA Board stated that they lowered the cash rate to assist in reducing unemployment and to achieve more progress towards inflation targets. The reaction to the rate reduction by markets was rather benign as markets had already fully priced in the rate cut before the decision was announced. Governor Lowe made a speech at the Reserve Bank Board dinner later that evening and told the market that it was not unreasonable to expect an even lower cash rate

in the future. This view is also reflected in interest rate futures pricing which currently predicts the cash rate will be close to 0.75% by June 2020.

Implied RBA Cash rate as at 31/05/2019:

