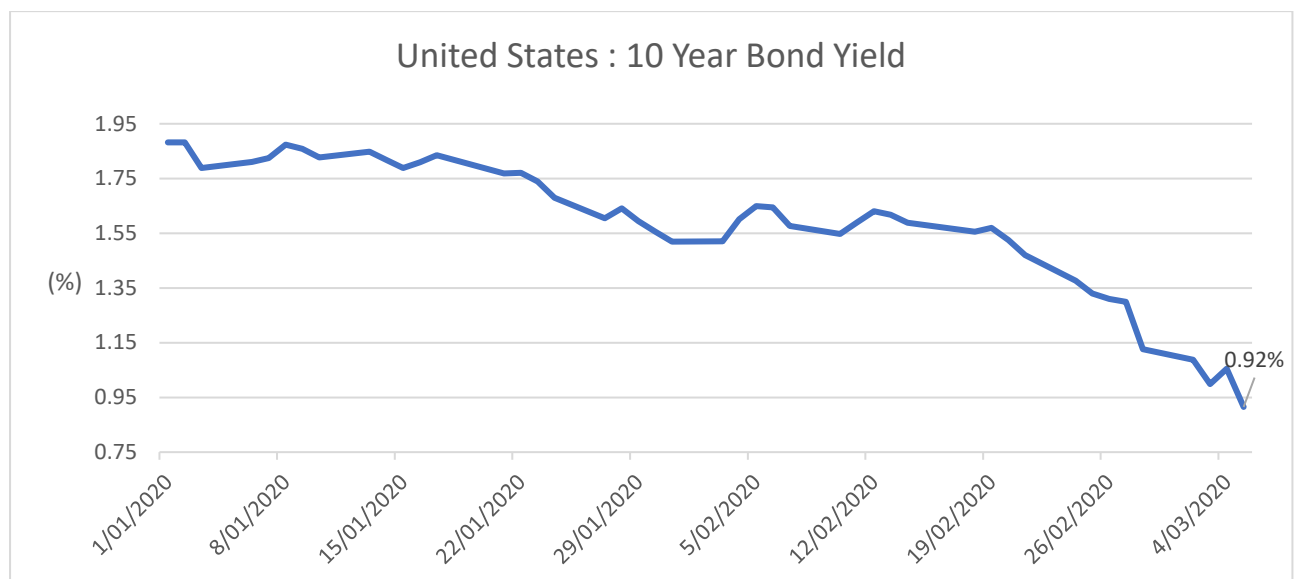


Financial Market Conditions

Global financial markets experienced high levels of volatility over the past month which was mainly driven by the outbreak of a coronavirus which originated in China that is now infecting people around the world.

The coronavirus (COVID-19) originated in China in early January and has continued to infect people in China and is now spreading around the world. Major outbreaks of the disease in Iran, Italy as well as other cases of person to person contraction in other countries forced the world health organisation to declare the crisis a pandemic and as such provided guidance on mass gatherings and how to detect and take care of ill travellers. Travel bans still apply in and out of China and many countries are now implementing travel bans in and out of Iran and Italy.

This global public health issue has resulted in a large economic down turn in China and other adjoining countries due to communities needing to isolate to contain or avoid the virus. The outbreak has also created the broader global issues of reduced tourism, interrupted trade and fractured supply chains. Financial markets reacted badly to the ongoing spread of the disease with global equity market experiencing significant falls highlighted by the US Dow Jones industrial average falling just over 10% over the course of the month. Short term and long-term interest rates fell in February as economist and market participants started to price in central banks providing stimulus, either in the form of lower interest rates or bond buying programs. The volatility is highlighted by the US 10-year bond yield falling by 0.39% from 1.52% to 1.13% over the course of the month. In early March the US Federal reserve cut the Federal Reserve rate by 0.5% now targeting a range between 1-1.25% which resulted in the US 10-year bond yield falling further to 0.92%.



Australian financial markets also experienced high levels of volatility over the past month which was driven by uncertainty about the economic impact of the coronavirus on the Australian economy. Over the course of the month the Australian equity market also experienced large falls highlighted by the ASX 200 index falling just over 9%. In mid-February, Australian employment data for January showed that the unemployment rate increased from 5.1% to 5.3%. Although the employment data was weaker than expected most of volatility has been associated with the coronavirus outbreak. The Australian dollar fell by around \$0.02 USD over the course of the month as investors scrambled back to less commodity-based currencies.

On 3 March 2020, the RBA met and cut Australia's official cash rate by 0.25% to a historic low of 0.5%. In the accompanying statement, Governor Lowe stated that the Board decided to cut the rate to support the economy as it responds to the global coronavirus outbreak and noted that several other countries have also enacted or were about to enact such policy measures. He also pointed out that the unemployment rate increased to 5.3% in January and that wage growth was expected to remain subdued. Due to uncertainty around the economic impact created by the global outbreak the RBA stated that it is prepared to ease monetary policy further to support the economy.

Implied RBA Cash rate as at 29/02/2020:

