

Financial Market Conditions

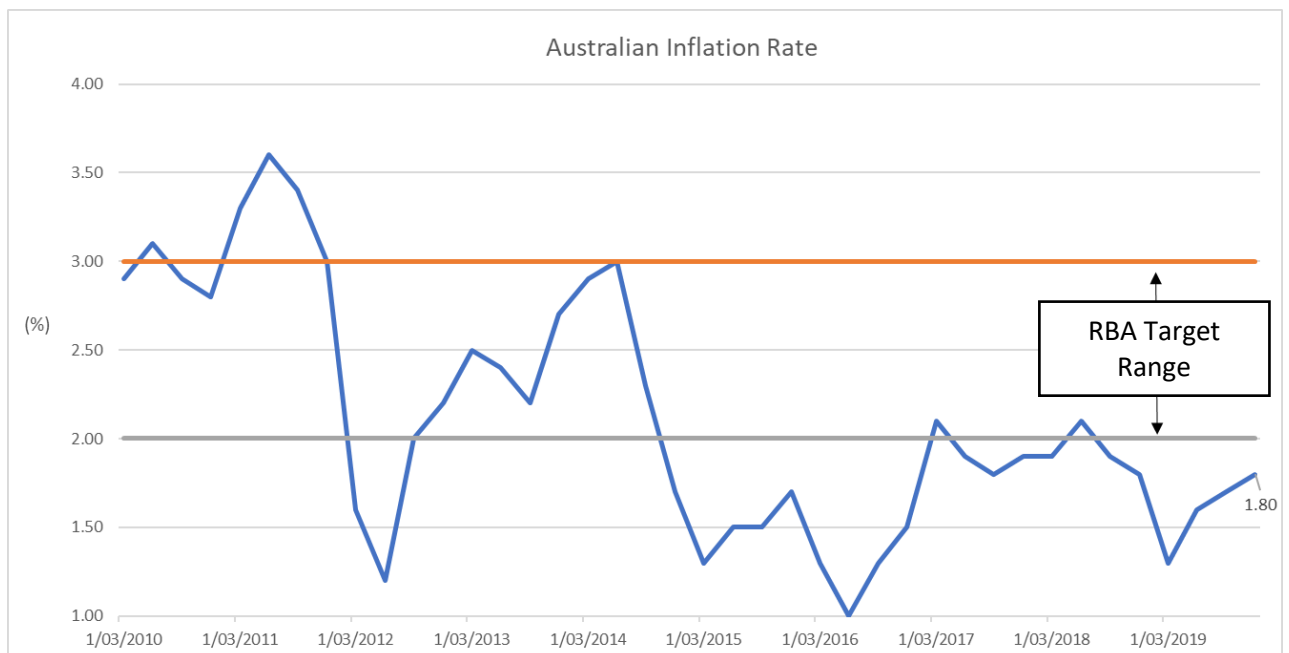
Global financial markets experienced high levels of volatility over the past month which was mainly driven by the outbreak of a coronavirus in China.

In early January, Chinese authorities announced that a new coronavirus had infected a number of people in the city of Wuhan. The virus then spread around China and around the globe with around 12,000 confirmed cases and 260 confirmed dead in China by the end of January. Chinese authorities shut down travel in and out of Wuhan and now airlines around the globe are not flying in or out of China. Many economists are now predicting that because the usual hectic Chinese Lunar New Year celebrations were interrupted by travel bans, economic output and growth has been severely dampened.

Global financial markets were mixed over the past month. Equity markets around the globe traded higher, however, the yields on highly rated government bonds fell over the past month highlighted by the US 10-year treasury bond falling from 1.88% to 1.51% (down 0.37%) over the period in question.

Late in the month the United Kingdom (UK) finally left the European Union (EU) and moved into a transition period where they effectively remain in the EU's customs union and single market. The UK and EU will both be looking for the best deal for their respective citizens.

Australian financial markets also experienced some volatility over the past month which was driven by promising domestic data and fears around the economic impact of the Chinese coronavirus. In mid-January, Australian employment data for December showed that the unemployment rate edged down from 5.2% to 5.1%. In late January, consumer price index data revealed that price inflation rose 0.7% in the last quarter of 2019 and lifted the annualised figure to 1.8% which is closer to the RBA's target range of between 2-3%.



This strong Australian data did cause the market to effectively price out the chance of a near term February rate cut, however, fears associated with the global economic impact of the Chinese coronavirus saw long term rates push lower. The Australian Dollar depreciated around \$0.02 USD over the past month and was trading at around \$0.67 USD at 31 January and is still currently trading around this level.

On 4 February 2020, the RBA met for the first time in two months and left the official cash rate on hold at 0.75%. In the accompanying statement, the RBA Governor reiterated that interest rates and inflation are very low around the globe. He also noted that the Australian unemployment rate had declined to 5.1% in December and that it was expected to remain around this level for some time. The Australian established housing market had seen higher prices especially in Sydney and Melbourne but prices in other markets have also increased. Interest rate futures market yields moved higher straight after the announcement and have moved even higher since.

Implied RBA Cash rate as at 31/01/2019:

