Financial Market Conditions

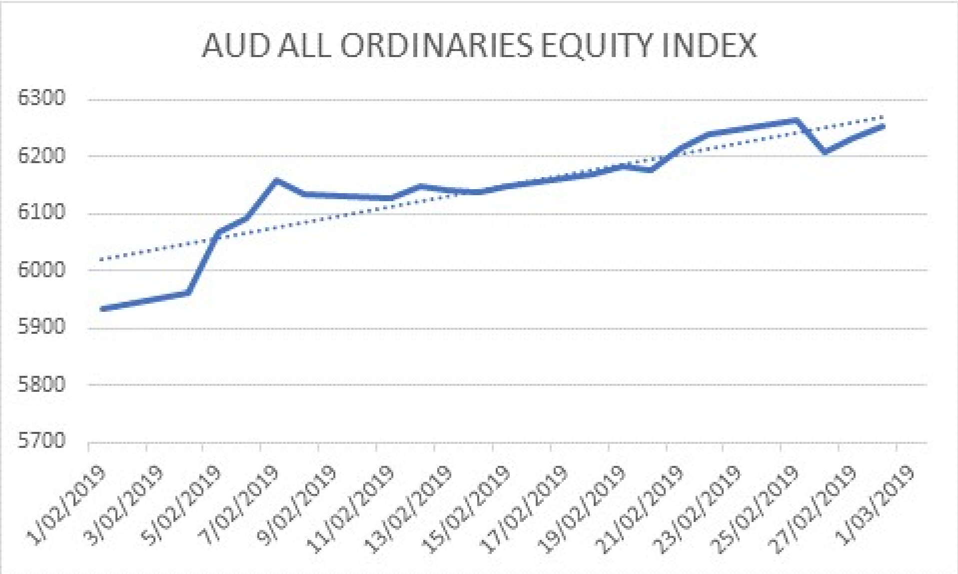
Financial markets remained volatile over the past month due to the ongoing US-China trade dispute and uncertainty about the UK's exit from the European Union.

The US and China did not reach an agreement regarding the removal of tariffs on US and Chinese goods and so far, the US has not increased tariffs as they had threatened. It is believed the two countries are close to a deal with the main sticking point being how to protect the intellectual property rights of US corporations. Mid-month the US Federal Reserve released minutes from its January meeting which revealed the Fed are now being patient about further rate hikes.

Brexit negotiations have once again stalled as the EU is not willing to offer any further concessions and the UK government is unable to pass the required legislation. Most commentators seem convinced that the UK government will not opt for a hard Brexit on the 29th of May and will instead vote to delay the whole process.

As a result of the above specific issues many central banks have removed all or some of their tightening basis on interest rates with many now forecasting a period of low economic growth around the globe. Despite this uncertainty and more dovish tone from central banks, high quality bond yields rose over the past month highlighted by the US 10-year Treasury bond yields closing the month around 0.08% higher at 2.71%.

Australian equity markets experienced a large gain over the past month with the All Ordinaries index rising 5.3%. The rise was driven by many factors however it was largely driven by gains in banking stocks after the Royal Commission final report placed no additional burdens on the sector. Late in the month respected market economist Bill Evans changed his interest forecast now factoring 0.5% of rate cuts this calendar year, taking the official cash rate down to 1%. The Australian Dollar had a relatively stable month and is currently trading at around $0.71 USD.



The Reserve Bank (RBA) met in early February and left the official cash rate unchanged at 1.5%. The statement remained relatively unchanged noting that the labour market remained strong while inflation remained low. In early February, Governor Lowe spoke at the Nation

Press Club in Canberra about the year ahead. During his speech he spoke about the accumulation of downside risk within the global economy and recent housing price declines, especially in Sydney and Melbourne. The Governor also stated that future changes to monetary policy was more evenly balanced than what it was a few months ago and that the RBA has the flexibility to cut rates if required. This more dovish RBA view coupled with Bill Evan's revised forecast has seen interest rate futures pricing in a 0.25% cut to the cash rate by January next year.

Implied RBA Cash rate as at 28/02/2019: