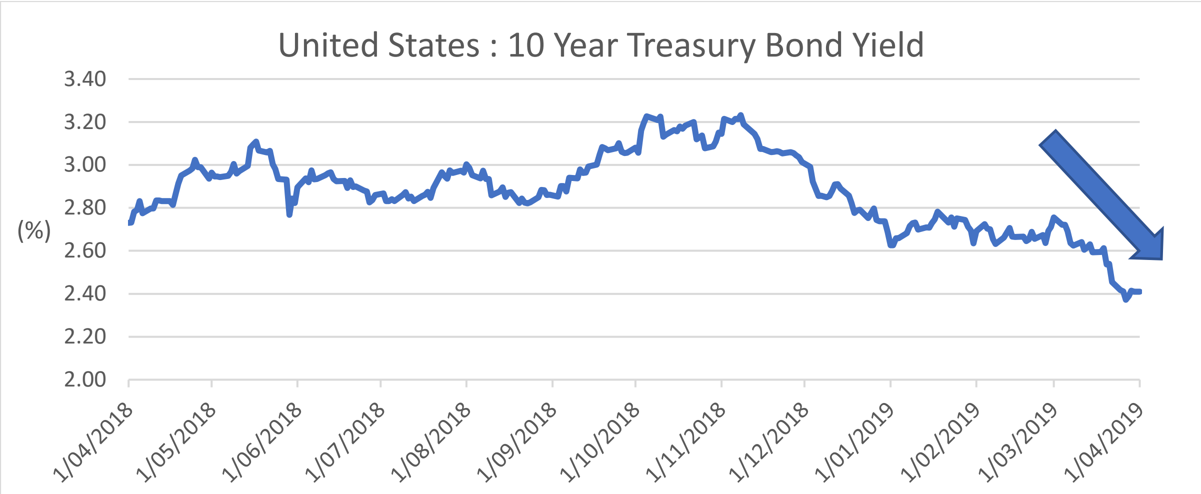
Financial Market Conditions

Financial markets remained volatile over the past month as continued uncertainty around the US-China trade dispute, Brexit and lower global growth expectations saw bond yields move significantly lower.

The seemingly never-ending US-China trade dispute did not find a resolution in March. The main sticking point remains the protection of intellectual property rights of US companies manufacturing in China. The US Federal reserve met in late March and left the Federal Reserve rate unchanged targeting a range between 2.25 – 2.5%. This announcement was widely anticipated by the market, however, the Fed also reduced their economic growth forecast from 2.3% to 2.1% and suggested that there would be no rate rises this year, after indicating to the market there could be two this year, at their December meeting. Global bond markets took this as a dovish tone, reducing the yield of US 10-year treasury bonds by 0.3% to 2.41% over the course of the month.

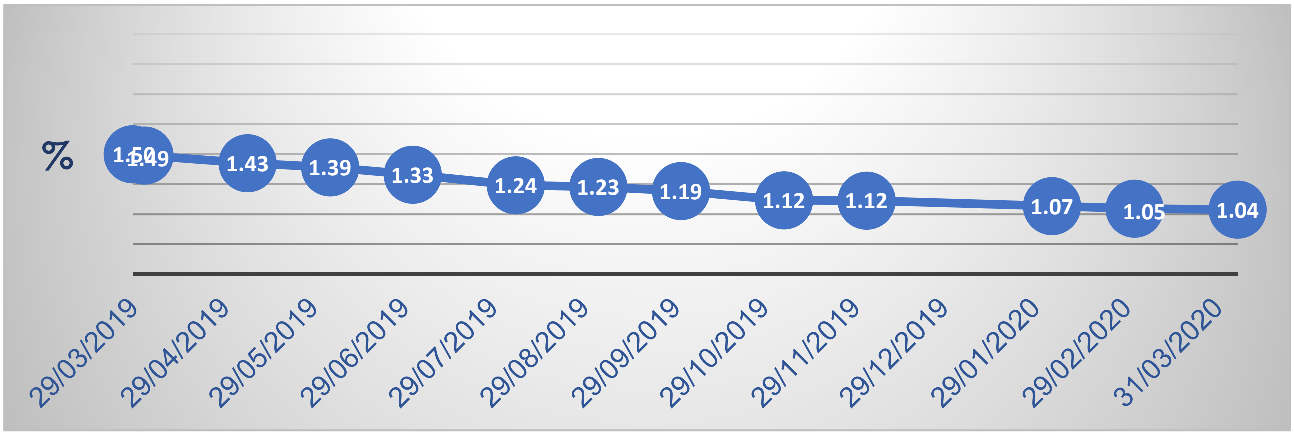


The UK government have been unable to pass the required legislation to enact the orderly Brexit negotiated by Prime Minister Theresa May. The UK government is now negotiating with the opposition to make sure a no deal, hard Brexit, is not enacted on the 12th of April. In early March the European Central Bank left their reserve rate at 0% and gave guidance to the market that rates would remain at their present levels till at least the end of 2019. The ECB also revised down their economic growth forecasts this year from 1.7% to 1.1% and reduced their inflation forecast from 1.6% to 1.2%.

Australian financial markets experienced similar volatility due to the prospects of lower global growth. Australian equity markets faired rather well over the last month, however, Australian bond yields experienced large falls highlighted by the Australian 10-year bond yield falling 0.37% to 1.87% over the course of the month. Late in the month the market was surprised when the Australian unemployment rate for February fell by 0.1% to 4.9%, its lowest level in 8 years. The Australian dollar faired rather well during this period of uncertainty and remained relatively static over the month and is currently trading at around $0.71 USD.

The Reserve Bank (RBA) met in early April and left the official cash rate unchanged at 1.5%. The statement accompanying the decision points out that global growth has slowed and that downside risks have increased. Interest rate futures pricing has a 0.25% rate cut factored in by August this year and almost 0.5% of rate cuts factored in by April 2020.

Implied RBA Cash rate as at 29/03/2019:



Business Conditions

According to the Bank SA State Monitor business confidence remains around an 8-year high but a note of caution is creeping in. The looming Federal election and some weakness in the housing market has businesses less confident about economic conditions in the future.