

Financial Market Conditions

Global financial markets were relatively stable over the past month. With the public health crisis created by the COVID-19 pandemic becoming somewhat controlled, markets began to focus on how differing nations and sectors within economies would recover from the downturn created by the pandemic.

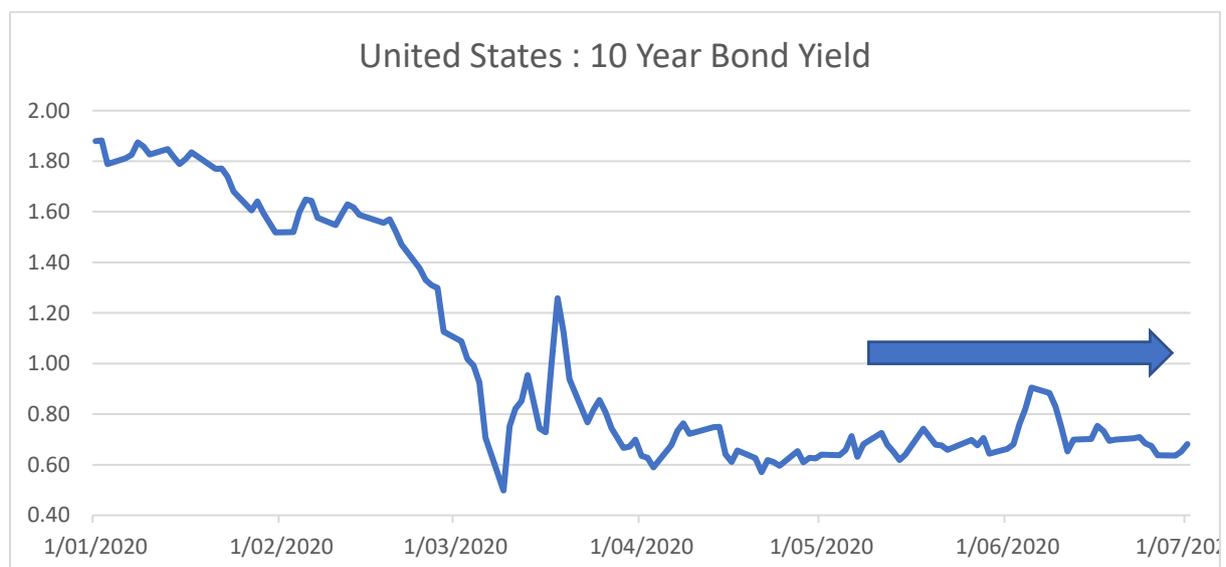
The coronavirus (COVID-19) continued to spread around the world over the past month with just over 11.1 million confirmed cases, just under 530,000 confirmed deaths and active in 216 countries. The United States (US) has struggled to contain the pandemic over the past month with many new cases of infection and community transmission being reported. The US unemployment rate fell from 13.3% to 11.1% in June with 4.8 million jobs being added to the employment market. It seems that despite the high rate of community transmission people are returning to work due to financial needs or complacency. The better than expected jobs number buoyed equity markets and saw the Dow Jones US equity index rise just under 2% in June, however, the US 10-year bond yield remained relatively static over the same time period closing at 0.65%.

The United Kingdom (UK) is attempting to re-open again after a prolonged shutdown caused by the pandemic with pubs and restaurants set to reopen in early July. The UK's unemployment rate printed at 3.9% in April which was unchanged from the prior month, however, there is a concern that the rate could go as high as 15% after government job retention schemes finish.

In China, a number of community transmission events were reported in Beijing over the past month which has hampered the easing of travel restrictions throughout the country. Chinese unemployment data for May revealed that the rate fell by 0.1% from 6% to 5.9% despite the uncertainty created by the pandemic.

Australian financial markets remained cautiously optimistic over the past month due to the relatively low number of COVID-19 cases in our country. With just less than 8,500 confirmed cases and only 104 deaths, Australia has fared relatively well compared to the rest of the world with the only major concern being the greater Melbourne area that continued to see community transmission. Because of the low number of coronavirus cases in most States, borders have begun to open for internal travel, pubs and restaurants are trading and in general a 'new normal' has started to develop in the business community. May unemployment data, released in June, showed that the Australian unemployment rate rose from 6.4% to 7.1. Further analysis of the data reveals that Job Seeker and Job Keeper are skewing the data as the rate would be 11.3% if everyone who had lost their job was still part of the labour force. The Australian dollar remained relatively static over the course of the month and is currently trading at \$0.69 USD.

Since our last update, the RBA met on 7 July 2020, and left the official cash rate at an all-time low of 0.25% and also committed to keep targeting a 3-year Australian government bond yield of 0.25%. In the accompanying statement the Reserve Bank Governor, Phillip Lowe, noted the severe global downturn resulting from the coronavirus pandemic and that the outlook remains uncertain and the recovery is expected to be bumpy. The board noted that an unprecedented 800,000 people have lost their jobs with others only retaining their job because of government support and other programs and that fiscal and monetary support would be required for some time. This view is reflected by interest rate futures pricing.



Implied RBA Cash rate as at 30/06/2020:

