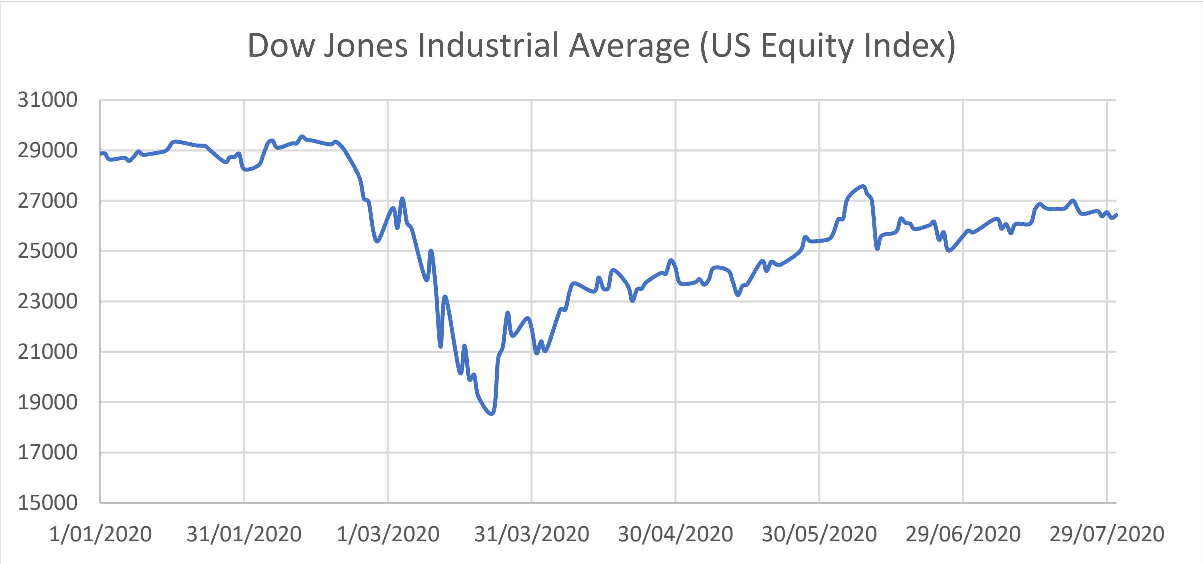
## Financial Market Conditions

Global financial markets were relatively stable over the past month despite the public health crisis and economic downturn created by the pandemic. The covid pandemic is now in varying stages around the world with high levels of community transmission in the US, fears of a second wave in Europe and low levels of community transmission in Australia, specifically in Victoria and New South Wales (NSW).

The coronavirus (COVID-19) continued to spread around the world over the past month with just over 16.3 million confirmed cases, just over 650,000 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 11.1% to 10.2% in July with 1.8 million jobs being added to the employment market despite issues created by the pandemic. US 10-year treasury bond yields fell from 0.68% to 0.54% over the course of the month which was mainly driven by concerns of lower economic growth caused by the pandemic, however, these yields increased in early August due to renewed optimism. The US Dow Jones equity index rose 2.3% over the course of the month and in early August is trading near all-time highs experience before the pandemic.




In early August, gross domestic product (GDP) data for the United Kingdom (UK) fell -20.4% over the second quarter of the year and was the worst result of any G7 nation. The fall is the largest since records began in 1955 and is obviously the result of the social distancing restrictions and lockdowns forced on the UK as a result of the pandemic. Commentators speculate that the initial resistance to lockdowns and subsequent slower pace of relaxing controls are the likely cause of the deep recession.

Australian financial markets remained cautiously optimistic over the past month, however, community transmission of the virus in Victoria and NSW and the resulting lockdowns and restrictions are likely hampering a recovery. Australian June unemployment data, released in July, showed that the Australian unemployment rate rose from 7.1% to 7.5%. During the month the Federal Government announced that Job Seeker and Job Keeper would continue in some shape or form after September and this has reduced concerns of extreme levels of unemployment in the short term. The Australian dollar rose over $0.02 USD over the course of the month and is currently trading at just over $0.72 USD.

Since our last update, the RBA met on 8 August 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 that conditions in global financial markets remained accommodative. The Governor also noted that the recovery in Australia would likely be bumpy and that the coronavirus outbreak in Victoria was having a major effect on the Victorian economy. The RBA is also predicting that the unemployment rate is likely to rise to around

10% in 2020 due to further job losses and is prepared to provide accommodative policy for as long as is required. This view is reflected by interest rate futures pricing.

Implied RBA Cash rate as at 31/07/2020: