Report to General Manager

Attachments:
1. Monthly Investment Report as at 31 March 2020

SUBJECT: Investments and Loan Borrowings Held as at 31 March 2020

AUTHOR: Garry Ross, Manager Financial Services

ENDORSED BY: Margaret Palmer, Director Corporate Services

EXECUTIVE SUMMARY:

This report provides details of the performance of Council's investment portfolio and borrowing limits for the period ending 31 March 2020.

Investment Portfolio:
The Investment portfolio provided an annualised return of 2.35% for the year to date as at 31 March 2020, 1.12% above the reportable BBSW Bank Bill Index.

In the current environment of high regulation and scrutiny, all domestic ADIs continue to carry high levels of capital, particularly amongst the lower ("BBB") and unrated ADIs. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC. APRA's mandate is to "protect depositors" and provide "financial stability".

Council's current exposure to unrated ADI's is limited to a single $1,000,000.00 term deposit which will mature in December 2020.

Borrowings:
Council entered into a fixed interest loan of $9.5 million with quarterly interest and principal payments on 31 July 2018. The principal outstanding as at 31 March 2020 is $8,306,826.48.

FINANCIAL IMPLICATIONS:

The 2019/20 budgeted returns on investments is estimated to be $1,529,055.00. This is significantly less than previous returns due to the declining cash reserve balances and continued low interest rates. Any surplus funds generated in excess of adopted estimates will be transferred to Council's internally restricted reserves.

Comment by Responsible Accounting Officer:
Investments and Loan borrowings funding comply with Council's Financial Management Policy.

RECOMMENDATION:
1. THAT the report on Investments and Loan Borrowings held as at 31 March 2020 be received.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

Direction: 5. Our Civic Leadership

Outcome: 5.1 Council leads the strategic direction of North Sydney

BACKGROUND

The Responsible Accounting Officer must provide Council with a monthly report detailing all funds:

a. Invested under Section 625 of the Local Government Act 1993. This report must include certification that the investments have been made in accordance with the Act and the Regulations made thereunder, the revised Investment Order issued by the Minister for Local Government and Council's Financial Investment Policy.
b. Borrowed under Section 624 of the Local Government Act. This report must comply with the borrowings Order issued by the Minister for Local Government and Council's Debt Management Policy.

CONSULTATION REQUIREMENTS

Community engagement is not required.

SUSTAINABILITY STATEMENT

The following table provides a summary of the key sustainability implications:

QBL Pillar	Implications
Environment	• There are no perceived short or long-term environmental implications.
Social	• There are no perceived short or long-term social implications.
Economic	• Provides Council with a significant source of income.
Governance	• Compliance with all legislative requirements and statutory obligations.

DETAIL

Investment Portfolio
The following table provides details of the performance of Council's investment portfolio (excluding cash deposits) against the benchmark for the month of March 2020 and annualised for the year to date as at 31 March 2020 (including investments which have matured prior to 31 March 2020).

	March 2020	Annualised YTD as at 31 March 2020
Actual Return	0.16%	2.35%
Benchmark	0.10%	1.23%
Variance	0.06%	1.12%

Investment Performance

Investment returns continue to exceed the indicative benchmark (BBSW Bank Bill Index). All funds have been invested in accordance with the Act and the Regulations made thereunder and with Council's Financial Investment Policy. Further, Council's investment portfolio complies with the revised Investment Order issued by the Minister for Local Government, which places restrictions on the type of investments permitted. These restrictions have placed greater emphasis on obtaining competitive investment options and the need for sound investment advice from Council's independent advisor.

Council continues to seek independent advice for all investments and is actively managing the portfolio to ensure that returns are maximised taking into account diversification and risk. A complete analysis of the performance is covered in the Monthly Investment Report prepared by Council's Investment advisor. (refer attachment 1.)

The actual investment returns for the year to date as at 31 March 2020 have been reviewed and are $283,544.00 greater than the revised budget.

Summary of Returns from Investments:

Year	Original Annual Budget	Revised Annual Budget	YTD Budget (March)	YTD/Annual Actual (March)	YTD Budget to Actual Variance (March)
2019/20	**$1,500,000**	**$1,529,055**	**$1,199,055**	**$1,482,599**	**$283,544**
2018/19	$1,590,000	$1,730,000		$2,253,497	$523,497
2017/18	$2,300,000	$2,490,000		$2,589,813	$99,813
2016/17	$2,000,000	$3,000,000		$3,276,518	$276,518
2015/16	$2,320,000	$3,640,000		$4,105,146	$465,146
2014/15	$3,400,000	$4,150,000		$4,414,692	$264,692
2013/14	$2,700,000	$3,400,000		$3,983,515	$583,515
2012/13	$2,000,000	$2,887,751		$4,238,785	$1,353,069
2011/12	$2,000,000	$3,400,000		$3,728,080	$328,080

Financial Investment Policy

The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio shall be:

Long Term Rating Range	Maximum Policy Holding	Distribution as at 31 March 2020
AA Category	100.00%	53.87%
A Category	60.00%	11.52%
BBB Category	35.00%	30.85%
Unrated ADIs (NR)	10.00%	3.76%

Loan Borrowings

Council's Debt Management Policy provides the framework for Council's borrowing activities and defines key responsibilities and the operating parameters within which borrowing and related risk management activities are to be carried out.

The Policy's objective is to control Council's exposure to movements in interest rates through the application of fixed, floating or a combination of both in order to maintain its risk averse strategy.

Loan borrowing will be undertaken in line with the following principles:

a) That the capital cost of infrastructure be recognised over the period during which the benefits will be enjoyed.

b) That loan funds are a resource to fund the replacement and upgrading of existing infrastructure and fund the creation of new infrastructure.

c) That loan funds will be limited to:

- acquisition or enhancement of income producing assets;
- construction and/or upgrading of buildings; and
- infrastructure assets that have a life expectancy of greater than 10 years.

The current Debt Facility is as follows:

The current facility is a fixed loan financing option, fully amortising the drawn down amount of $9,500,000.00 over 10 years, fixed interest rate with quarterly repayments of interest and principal.

The current loan details are as follows:

Loan amount:	**$ 9,500,000.00**			
Loan term:	**10 years**			
From:	**31/07/2018**			
To:	**31/07/2028**			
Interest rate:	**4.02%p.a.(fixed)**			
Repayment:	**Quarterly**			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
1/07/2019	**$ 8,910,951.91**			
31/7/2019	**$ 8,711,603.51**	**$ 90,291.14**	**$ 199,348.40**	**$ 289,639.54**
31/10/2019	**$8,510,235.19**	**$88,271.22**	**$201,368.32**	**$ 289,639.54**
31/01/2020	**$8,306,826.48**	**$86,230.83**	**$203,408.71**	**$289,639.54**

The next loan instalment is due on 30 April 2020.

Loan Funded Capital Projects as at 31 March 2020:

Project 1: Upgrading the Car Park in Alexander Street, Crows Nest
A **$5 million** loan has been sourced to fund this project.
Current length of Loan as per LTFP: 10 years to 2028

Project 2: Upgrading of On-Street Parking Management System
A **$4.5 million** loan has been sourced to fund this project.
Current length of Loan as per LTFP: 10 years to 2028

Monthly Investment Report

March 2020

IMPERIUM MARKETS
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Council's Portfolio & Compliance

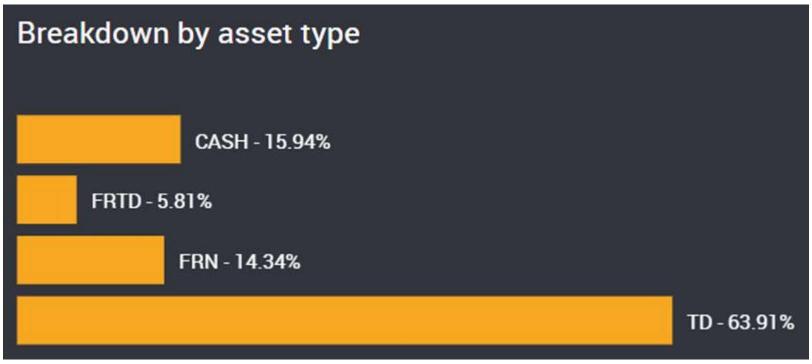
Asset Allocation

As at the end of March 2020, the portfolio was mainly directed to fixed and floating rate term deposits (70%). The remaining portfolio is directed to FRNs (14%) and overnight cash accounts (16%).

With credit securities widening and the majority of recent issuances of senior FRNs now trading at a discount, we would consider increasing the allocation to liquid senior floating rate notes (FRNs), if there are attractive offers in the secondary market. This will not only offer additional upside with regards to the portfolio's investment returns, but also provide additional liquidity (FRNs are saleable – generally accessible within 2 business days).

The higher rated ADIs also tend to dominate primary (new) issuances of FRNs and so the overall portfolio's credit quality may naturally increase as a consequence.

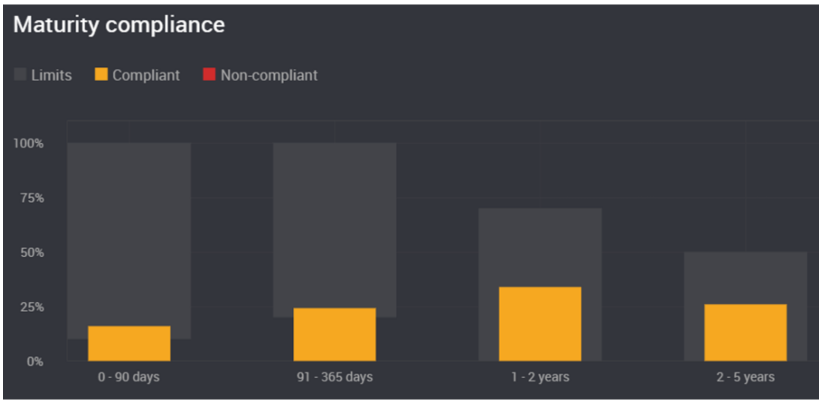
With official interest rates now at the RBA's effective zero bound, the priority should be to lock in any attractive medium-longer dated fixed deposits that may still be available to address reinvestment risk.



Term to Maturity

Overall, the portfolio remains lightly diversified from a maturity perspective with around 26% of assets directed to medium-term assets (2-5 years). There is still high capacity to invest in the medium-term horizon, with approximately $24.8m at month-end.

All minimum and maximum limits comply with the Policy:



Where liquidity permits, we recommend new surplus funds be directed to 2-5 year horizons given this is where the most attractive value can be found. We suggest this be allocated to fixed term deposits to address reinvestment risk.

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 90 days	$16,465,318	15.94%	10	100	$86,812,215
✓	91 - 365 days	$25,000,000	24.21%	20	100	$78,277,533
✓	1 - 2 years	$35,000,826	33.89%	0	70	$37,293,447
✓	2 - 5 years	$26,811,389	25.96%	0	50	$24,827,378
✓	5 - 10 years	$0	0.94%	0	25	$25,819,383
		$103,277,533	**100.00%**			

Counterparty

As at the end of March, all counterparties were within Policy limits, although Auswide (BBB) and BoQ (BBB+) remains close to maximum limits. **On 27th August 2019, AMP Bank was downgraded by ratings agency S&P to BBB+ (negative watch), from A- (negative watch)**. Their short-term rating was unchanged at A-2. This was a result of AMP Group selling its life insurance arm at a revised deal earlier in the month. S&P believed that the group's profits will be less diversified going forward due to this sale. We have no issues with Council's exposure to AMP Bank given they continue to have a robust balance sheet with their level of capital remaining above the minimum regulatory requirement set by APRA.

Effective 1st March 2020, Nexus Mutual (unrated ADI) merged with Beyond Bank Australia (BBB/A-2). As a result, all investors holding Nexus Mutual deposits (including Council) received a ratings upgrade effective 1st March 2020.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	ANZ	AA-	$1,995,606	1.93%	30.00%	$28,987,654
✓	CBA (BankWest)	AA-	$15,323,202	14.84%	30.00%	$15,660,058
✓	NAB	AA-	$6,964,705	6.74%	30.00%	$24,018,555
✓	Westpac	AA-	$26,000,000	25.17%	30.00%	$4,983,260
✓	Suncorp	A+	$1,228,291	1.19%	15.00%	$14,263,339
✓	ING Bank	A	$15,000,000	14.52%	15.00%	$491,630
✓	AMP Bank	BBB+	$8,144,368	7.89%	10.00%	$2,183,385
✓	BOQ	BBB+	$10,000,000	9.68%	10.00%	$327,753
✓	Auswide Bank	BBB	$10,000,000	9.68%	10.00%	$327,753
✓	Beyond (Nexus)	BBB	$3,000,000	2.90%	10.00%	$7,327,753
✓	ME Bank	BBB	$3,245,366	3.14%	10.00%	$7,082,387
✓	Newcastle PBS	BBB	$1,375,994	1.33%	10.00%	$8,951,759
✓	WAW CU	Unrated	$1,000,000	0.97%	5.00%	$4,163,877
			$103,277,533	**100.00%**		

Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the unrated ADIs.

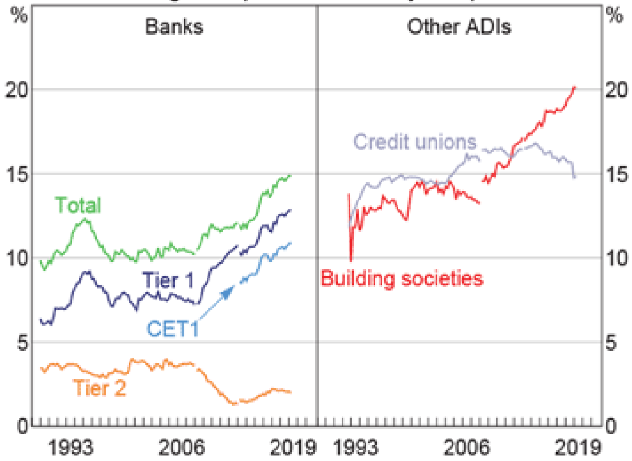
We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

APRA's Chairman affirmed that the banks had satisfactorily moved towards an '*unquestionably strong*' capital position and that bank's stress testing contingency plans were now far better positioned that was previously the case years ago. *APRA's stress test in 2018 showed that if there were a 35% correction in house prices and the unemployment rate was to rise to 11%, all ADIs would remain above the minimum capital levels required (and this was without the RBA's unconventional easing policies, as well as the Federal government's stimulus packages).*

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). We believe that deposit investments with the lower rated ADIs should be continued going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns.

In the current environment of high regulation and scrutiny, all domestic ADIs continue to carry high levels of capital, particularly amongst the lower ("BBB") and unrated ADIs. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**

The biggest single risk that depositors face in the current low interest rate environment is not capital or credit risk, but reinvestment risk. <u>Interest rates are now at their effective lower bound of 0.25%.</u>



* Per cent of risk-weighted assets; break in March 2008 due to the introduction of Basel II for most ADIs; break in March 2013 due to the introduction of Basel III for all ADIs

Source: APRA

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Credit Quality

The portfolio remains well diversified from a credit ratings perspective. As at the end of March 2020, all categories were compliant within the Policy limits.

From a ratings perspective, the BBB rated entities now generally dominate the number of ADIs issuing deposits within the investment grade space. We anticipate more investors will naturally allocate a higher proportion of their assets into this sector (on a historical basis), considering the most attractive assets from senior debt securities are generally offered by these ADIs.

Council may consider lifting the aggregate limit with the BBB and unrated ADI category at its next policy review.

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$50,283,513	48.69%	100%	$52,994,020
✓	A Category	$16,228,291	15.71%	60%	$45,738,229
✓	BBB Category	$35,765,729	34.63%	35%	$381,408
✓	Unrated ADIs	$1,000,000	0.97%	10%	$9,327,753
		$103,277,533	**100.00%**		

Performance

Council's performance for the month ending 31 March 2020 is summarised as follows:

Performance	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.02%	0.14%	0.33%	0.58%	0.94%
AusBond Bank Bill Index	0.10%	0.26%	0.49%	0.78%	1.23%
Council's T/D Portfolio	0.17%	0.50%	1.04%	1.67%	2.37%
Council's FRN Portfolio	0.16%	0.47%	0.97%	1.54%	2.26%
Council's Portfolio^	**0.16%**	**0.50%**	**1.03%**	**1.64%**	**2.35%**
Outperformance	**0.06%**	**0.24%**	**0.53%**	**0.86%**	**1.12%**

^Total portfolio performance excludes Council's cash account holdings. Overall returns would be lower if cash was included.

For the month of March, the total investment portfolio (excluding cash) provided a strong return of +0.16% (actual), outperforming the benchmark AusBond Bank Bill Index return of +0.06% (actual). The strong performance continues to be driven by the handful of the longer-dated deposits that were locked-in prior to the RBA's rate cuts, as well as the FRNs locked in at attractive margins.

However, the majority of the high-yielding deposits are fast maturing and will be reinvested at lower prevailing rates. With deposit margins tightening over the past few years, the FRN portfolio's performance has narrowed the gap compared to term deposits as shown in the past 12 months returns, although this is likely to reverse following the multiple interest rate cuts over the past year.

Over the past 12 months, the total portfolio (excluding cash) returned an outstanding +2.35% p.a., outperforming bank bills by 1.12% p.a. This has been very strong given deposit rates reached their all-time lows and credit margins have generally contracted over the past 3 years.

We are pleased that North Sydney Council remains amongst the best performing Councils in the state of NSW where deposits are concerned (as per our January 2020 Council Rankings), earning on average, around $26,000 in additional interest income compared to its peers. We have been pro-active in our advice about protecting interest income and addressing reinvestment risk for many years and encouraged to maintain a long duration position. This is now reflected by the high performance of the investment portfolio. Of the 27 individual deposits North Sydney Council held, 6 are still yielding higher than 2½% p.a. That is, around 22% of outstanding deposits held are earning more than 10 times the prevailing cash rate of 0.25%.

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Council's Term Deposit Portfolio & Recommendation

As at the end of March 2020, Council's deposit portfolio was yielding an **attractive 1.97% p.a.** (down 5bp from the previous month), with an average duration of around 555 days (~1½ years).

Where possible, we recommend Council extends or at least maintains this average duration. In the low interest rate environment, the biggest collective risk that the local government sector has faced over the post-GFC era has been the dramatic fall in interest rates - from 7¼% to the current historical low levels of 0.25%.

As the past decade has highlighted (post-GFC era), we have seen too many portfolios' roll a high proportion of their deposits between 3-6 months, resulting in their deposits being reinvested at lower prevailing rates. That is, depositors have generally not insured themselves against the low interest rate environment by diversify their funding across various tenors (out to 5 years) but rather placed all their 'eggs in one basket' and kept all their deposits short. **Reinvestment risk has collectively been and continues to be the biggest detriment to depositors' interest income going forward**.

At the time of writing (early April), we see value in:

ADI	LT Credit Rating	Term	T/D Rate
Police CU SA	Unrated ADI	5 years	2.20% p.a.
Police CU SA	Unrated ADI	4 years	2.15% p.a.
Police CU SA	Unrated ADI	3 years	2.10% p.a.
AMP Bank	BBB+	18 months	^2.05% p.a.
Police CU SA	Unrated ADI	2 years	2.05% p.a.
Auswide Bank	BBB	2-4 years	1.90% p.a.
BoQ	BBB+	4 years	1.70% p.a.
Australian Unity Bank	BBB+	2 years	1.70% p.a.
ING Bank Australia	A	2 years	1.65% p.a.

^ AMP T/Ds – these are grossed up rates which includes a 0.20% p.a. rebated commission from Imperium Markets

The above deposits are suitable for investors looking to provide some income protection and mitigate reinvestment/rollover risk in the low interest rate environment.

For terms under 12 months, we believe the strongest value is currently being offered by a number of lower and unrated ADIs offering above-market specials (dependent on daily funding requirements):

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ADI	LT Credit Rating	Term	T/D Rate
AMP	BBB+	6-12 months	^2.05% p.a.
Warwick CU	Unrated ADI	12 months	2.05% p.a.
Bank of Us	Unrated ADI	10-12 months	2.00% p.a.
Summerland CU	Unrated ADI	6-12 months	2.00% p.a.
Warwick CU	Unrated ADI	6 months	2.00% p.a.
Australian Unity Bank	BBB+	3-12 months	1.80% p.a.
Auswide Bank	BBB	12 months	1.80% p.a.
BankVIC	BBB+	6-9 months	1.75% p.a.
MyState Bank	BBB	6-8 months	1.75% p.a.

^ AMP T/Ds – these are grossed up rates which includes a 0.20% p.a. rebated commission from Imperium Markets

Amongst the higher rated ADIs ("A" rated or higher), the following deposits remain attractive for terms under 12 months:

ADI	LT Credit Rating	Term	T/D Rate
Macquarie Bank	A+	3-12 months	1.75% p.a.
Suncorp	A+	6 months	1.70% p.a.
ING Bank Australia	A	12 months	1.65% p.a.
ING Bank Australia	A	6-9 months	1.60% p.a.
NAB	AA-	5-7 months	1.30% p.a.

Senior FRNs & Recommendations

Over March, amongst the senior major bank FRNs, physical credit securities widened significantly, by around 40-50bp at the long end of the curve. The bid/offer spread in the secondary market for senior major bank FRNs was also volatile during the month, with spreads as wide as 50-60bp, compared to 2-5bp experienced over recent years (in the tight credit environment). There has been minimal turnover and liquidity in the secondary market given the large bid/offer spreads. Those investors that require liquidity with a domestic major bank (highly rated) and can roll down the curve should invest in 5 year terms over 3 year terms (or shorter), given the ability to lock in capital gains in subsequent years.

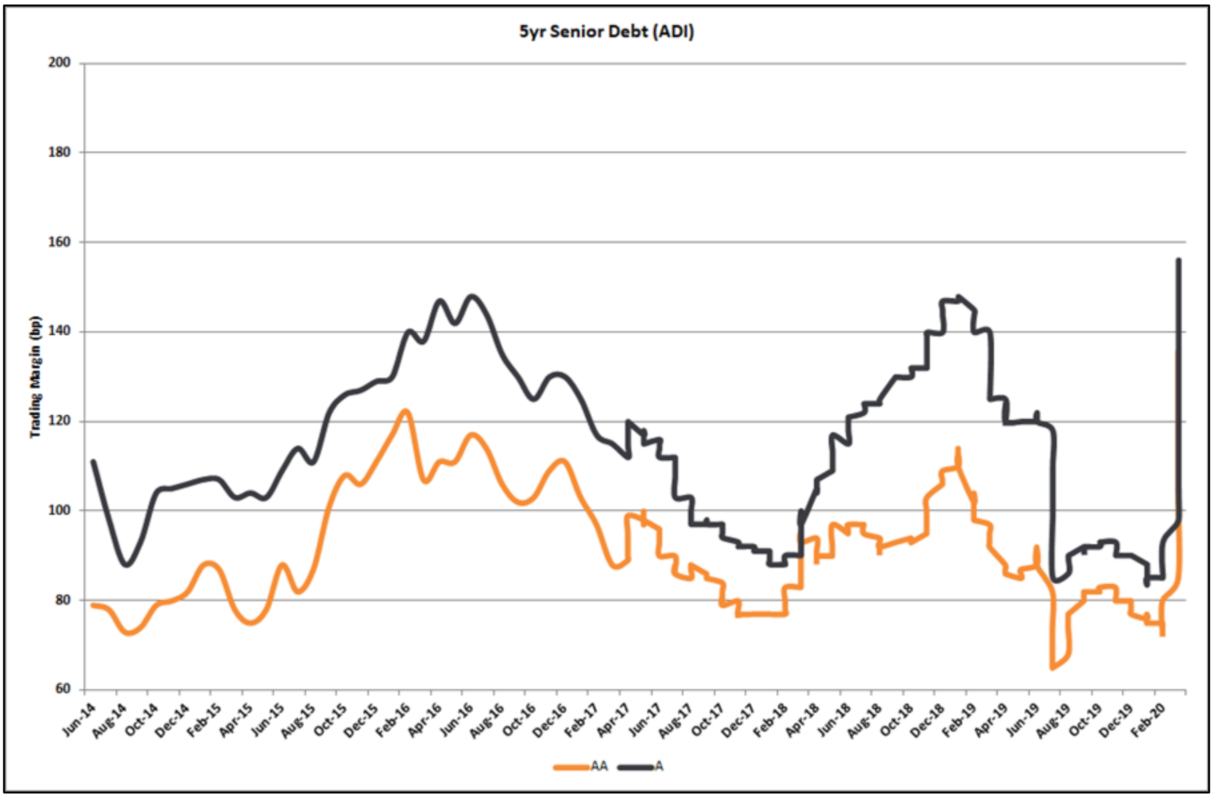
Any 5 year senior major bank FRNs (primary or secondary market) offered above +130bp appears to be relatively attractive in our view. These levels were last experienced around August 2012 (around the time of the European debt crisis). *Any secondary market major bank FRNs offered around the same levels (or higher) for 4-5 year terms appear attractive and should be considered*. We expect little primary issuance going forward given the RBA's $90bn lending facility to the ADIs, offering a rate of 0.25% for 3 years. **The anticipated lack of supply from new (primary) issuances going forward will favour those investors with the ability to take advantage of the discounted securities currently being offered in the secondary market**.

Amongst the "A" rated sector, credit securities (senior level) were marked around 40-55bp wider across the 3 and 5 year part of the curve. Meanwhile, amongst the 3 year "BBB" rated senior sector, they were marked around 35bp wider over the month. There remains very little turnover in the secondary market amongst these sectors (turnover dominated by the major banks).

With the significant widening over recent weeks, credit now appears relatively attractive, although we expect further bouts of volatility. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment). *Investors should be ready to take advantage of any deeply discounted securities amongst the senior ranked assets, particularly amongst the domestic major banks.*

Senior FRNs (ADIs)	31/03/2020	28/02/2020
"AA" rated – 5yrs	+130bp	+80bp
"AA" rated – 3yrs	+104bp	+63bp
"A" rated – 5yrs	+150bp	+93bp
"A" rated – 3yrs	+116bp	+78bp
"BBB" rated – 3yrs	+135bp	+100bp

Source: IBS Capital



Source: IBS Capital

We now generally **recommend switches** ('benchmark' issues only) into new primary issues, out of the following senior FRNs that are maturing:

- **On or before mid-2021 for the "AA" rated ADIs (domestic major banks)**;
- On or before early-mid 2021 for the "A" rated ADIs; and
- Within 12 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last 1-2 years are now generally holding sub-optimal investments and are not maximising returns by foregoing realised capital gains. In the current low interest rate environment, any boost in overall returns should be locked in when it is advantageous to do so.

With spreads widening significantly over the month, we recommend that Council retains its FRNs at this stage. We stress that Council's FRNs are senior ranking assets and high in the bank capital structure. We expect that, if held to maturity, the FRNs will pay back its original face value ($100.00), along with its quarterly coupons throughout the life of the security. That is, we do not expect Council to lose any capital or interest payments from its current holding in its senior FRNs given all banks continue to maintain high capital buffers as required by APRA.

Economic Commentary

International Market

Global financial markets continue to be impacted by the widespread effects of COVID-19. Equity markets entered a "bear market" correction as investors reacted to the myriad of lockdowns across all continents, causing a surge in unemployment globally. The selloff was temporarily halted following the stimulus packages announced by global central banks and federal governments.

In US equity markets, **the S&P 500 Index plunged -12.51%** while the NASDAQ fell -10.12%. Across the main European markets, France's CAC plummeted -17.21%, Germany's DAX by -16.44% and UK's FTSE by -13.81%. Italy's index nosedived by -22.44% for the month.

During the first weekend in March, US Fed Chairman Powell declared "*we will use our tools and act as appropriate to support the economy*". A few days later, **the Fed delivered via a 50bp "emergency" rate cut** – their first emergency cut since the GFC. **The Fed then subsequently cut rates by another 100bp in mid-March, down to their emergency level of 0-0.25%, last experienced during the GFC.**

The US Senate voted (96-0) to approve the $US2 trillion fiscal package, which includes providing $1,200 to individuals and $2,400 for couples, plus $500 for each child. There is no phase-in of the benefit, and no minimum income limit. The package also provides money for the states and a huge bailout fund ($500m) for businesses.

Leaders of the Group of 20 major economies (the G20) pledged to inject $US5 trillion in fiscal spending into the global economy to ease the economic impact of COVID-19.

The Bank of England (BoE) provided additional stimulus by cutting rates to 0.1%, evidently their previous 50bp cut to 0.25% was not deemed enough. This came alongside their QE debt buying program limits, increasing from £200bn to £645bn. UK Chancellor Sunak outlined a plan to guarantee up to £330b of business loans, representing an eye-popping 15% or so of GDP.

In France, President Macron declared that no French company would be allowed to collapse, raising the spectre of widespread nationalisation.

Germany gave strong commitments to increase fiscal support with Finance Minister Scholz saying it would deploy a "*bazooka*" to combat the crisis, saying "*we will use it to do whatever it takes*".

The Bank of Canada and Norges Bank both cut rates by 50bp. The RBNZ lowered their cash rate by 75bp to 0.25% and announced it would embark on a QE program worth $30bn, saying it will buy around $750m each week.

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-12.51%	-20.00%	-8.81%	+3.04%	+4.56%	+8.25%
MSCI World ex-AUS	-13.19%	-21.15%	-11.68%	+0.29%	+1.48%	+4.69%
S&P ASX 200 Accum. Index	-20.65%	-23.10%	-14.42%	-0.56%	+1.39%	+4.92%

Source: S&P, MSCI

Domestic Market

The RBA cut the cash rate by 25bp to a new record low of 0.50% in its scheduled meeting on 3rd March while retaining an easing bias. The Board said the cut was to "*support the economy as it responds to the global coronavirus outbreak*", where the outbreak will delay progress in achieving full employment and the inflation target. The Board said it was "*prepared to ease monetary policy further*".

The RBA's emergency meeting on 19th March came with little to no surprise, announcing a further 25bp rate cut, **bringing the official cash rate down to 0.25%, their "effective lower bound"**. Their forward guidance is not to raise rates until there is a sustainable recovery and its economic objectives of full employment and target inflation are back on track.

Q4 2019 GDP rose +0.5%, marginally higher than market expectations, and ahead of an expected contraction in Q1 2020 due to CoVID-19.

The trade surplus edged lower to $5.2b in January, from an upwardly-revised $5.4b in December. Both exports and imports fell by 3%. Meanwhile, **retail sales fell -0.3% m/m in January**, against market expectations of a flat outcome.

Preliminary retail sales rose by +0.4% in February according to the ABS, the first rise since November. March sales will capture the surge in virus-driven buying of household essentials ("stockpiling") at supermarkets, as supermarkets account for 35% of total retail trade. This could well overwhelm weakness in spending elsewhere.

Australia joined its global counterparts to impose travel restrictions, with overseas arrivals being forced to self-isolate for 14 days. The government subsequently announced blocking the arrival of all non-citizens (late in the month) and further reduced the size of congregations urging citizens to quarantine in a holistic effort ("*social distancing*") to prevent the spread of the virus.

The Australian Government announced new social distancing measures, resulting in many businesses across multiple industries to shut down. **The unemployment rate unexpectedly fell to 5.1% in February**, reversing the previous month's rise to 5.3%, although it is expected to rise sharply following the shutdown of many businesses.

The Government announced multiple stimulus packages throughout March. The Government was quoting a total rescue package of $189bn (or 9.7% of GDP) for its first two rounds of packages, which includes a term lending facility of at least $90bn from the RBA to support cheap funding for banks for new lending to business. Late in the month it announced an additional $130bn worth of stimulus, or 6.5% of GDP, with a wage subsidy ("jobseeker") of $1,500 per fortnight per employee throughout the "hibernation" period.

Australian banks will defer loan repayments for individuals and small businesses affected by COVID-19 for six months. APRA confirmed this regulatory approach and reporting requirements with regards to the support packages being offered by Australian banks.

The AUD fell by -5.35% in March, down to US61.75 cents, from US65.24 cents the previous month.

IMPERIUM MARKETS

Fixed Interest Review

Benchmark Index Returns

Index	March 2020	February 2020
Bloomberg AusBond Bank Bill Index (0+YR)	+0.10%	+0.08%
Bloomberg AusBond Composite Bond Index (0+YR)	-0.21%	+0.86%
Bloomberg AusBond Credit FRN Index (0+YR)	-0.93%	+0.08%
Bloomberg AusBond Credit Index (0+YR)	-1.46%	+0.58%
Bloomberg AusBond Treasury Index (0+YR)	+0.23%	+1.03%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-5.52%	-0.03%

Source: Bloomberg

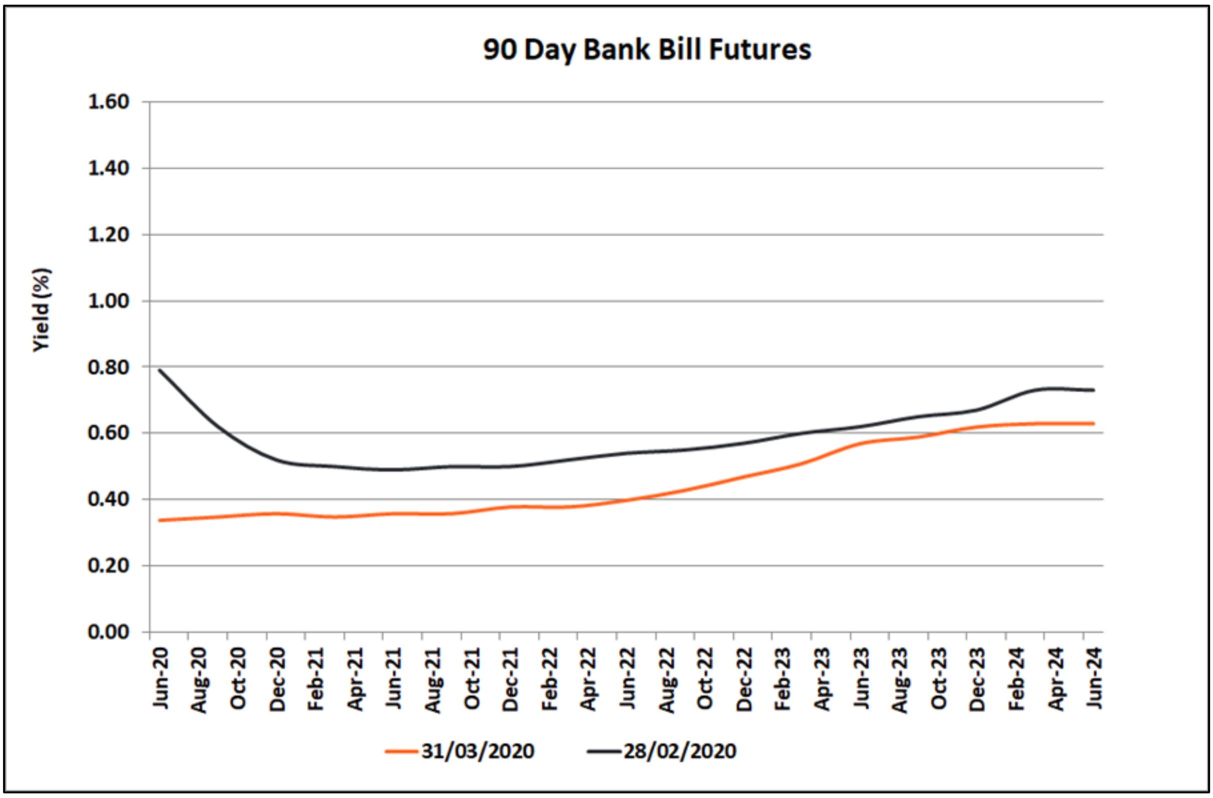
Other Key Rates

Index	March 2020	February 2020
RBA Official Cash Rate	0.25%	0.75%
90 Day (3 month) BBSW Rate	0.37%	0.81%
3yr Australian Government Bonds	0.25%	0.51%
10yr Australian Government Bonds	0.77%	0.81%
US Fed Funds Rate	0.00%-0.25%	1.50%-1.75%
10yr US Treasury Bonds	0.70%	1.13%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over March, bill futures fell across the board, following the 50bp of rate cuts delivered by the RBA, down to their effective lower bound of 0.25%. With the RBA suggesting they will keep rates unchanged for the foreseeable future, bill futures are likely to trade in a relatively narrow range, particularly for terms out to 3 years given the RBA's target in keeping the 3 year bond rate at 0.25%.



Source: ASX

Fixed Interest Outlook

Policymakers around the world are reacting quickly and providing support through any stimulus measures that are feasible, but it is unclear whether that is enough in economies that are likely to be in lockdown for an unknown number of months.

After the US Fed cut rates down to emergency levels of 0.00-0.25%, the US Senate followed up with its own fiscal stimulus, approving a record $2 trillion bailout package, providing direct payments and jobless benefits for individuals, money for the states and a huge bailout fund ($500m) for businesses.

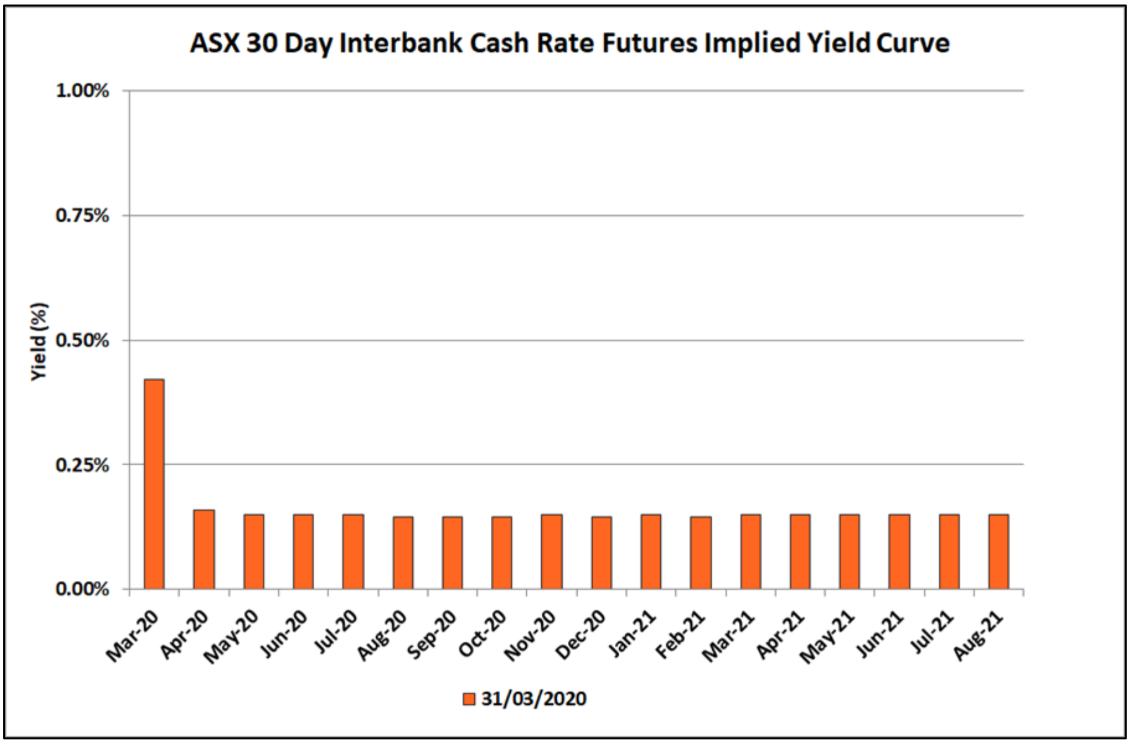
After the RBA cut rates to their effective lower bound of 0.25%, their forward guidance is to commit keeping the official cash rate unchanged until there is a sustainable recovery and its economic objectives of full employment (unemployment rate of 4.5%) and target inflation (2-3%) are on track.

The RBA has also provided a set of objectives through some of the unconventional policies implemented, including:

- Setting a 0.25% target for the 3-year bond yield;
- Buying Commonwealth/semi-government bonds to meet this target and across the curve to address market dislocations; and
- Establishing a term funding facility for bank loans ($90bn at 0.25% for 3 years), especially to support new loans to small- and medium-sized businesses.

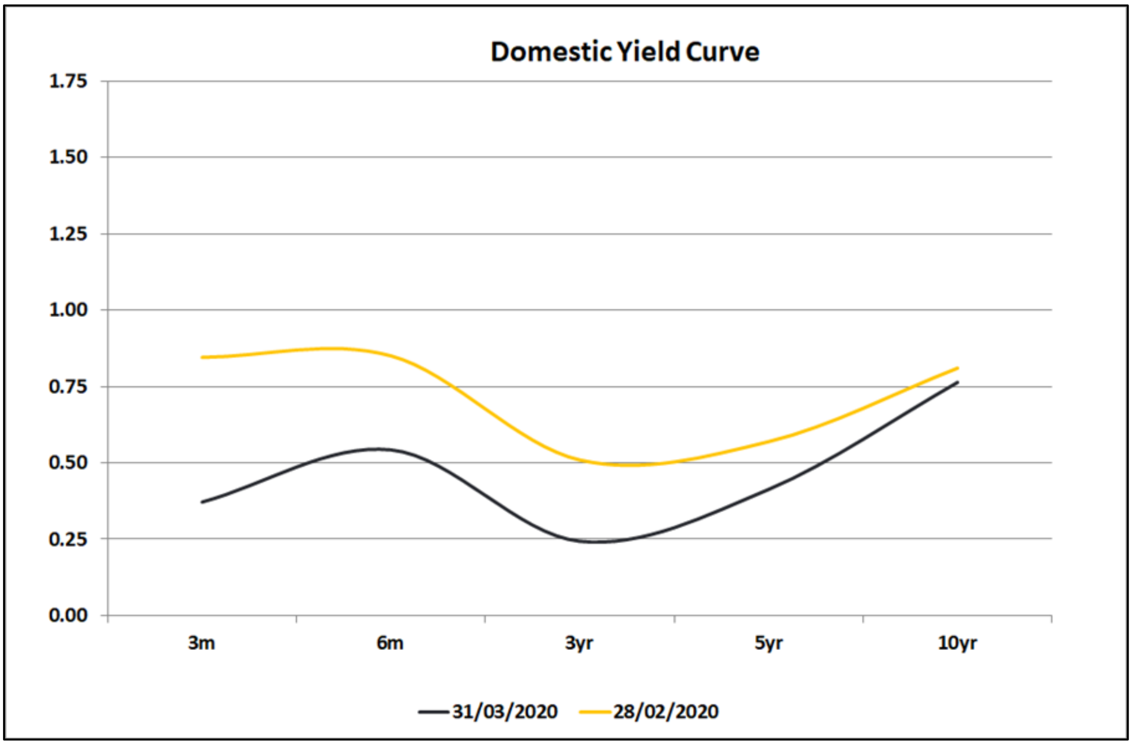
The global key risks for the RBA stem from the impact of ongoing trade and technology disputes, geo-political uncertainty and the ongoing repercussions from the COVID-19 pandemic. In Australia, they are closely monitoring employment, inflation, wage growth, housing and consumption, and the recent impact of the bushfires and floods.

With official rates at 0.25% and the RBA announcing unconventional policies, interest rates are not expected to move from their current policy setting, although there is the possibility for the RBA to cut in smaller increments (less than 25bp) or adopting negative rates if the global economy continues to deteriorate rapidly:



Source: ASX

Over the longer-term, the domestic bond market continues to suggest a 'lower-for-longer' period of interest rates. Over the month, yields fell around -4bp at the longer end of the curve, with 10-year government bond yields trading below 0.8%:



Source: AFMA, ASX, RBA

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