

### ORDINARY COUNCIL MEETING

Wednesday 17 May, 2023 at 9:15am Council Chambers, 56 Chanter Street, Berrigan



# Late Items Under Separate Cover Appendices



# **Table of Contents**

8.14	Finance - Acco	unts
	Appendix 1	Council 17.05.2023 Appendices - Under Separate
		Cover.DOCX4





# Monthly Investment Report April 2023



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Item 8.14 - Appendix 1 Page **4** of **22** 

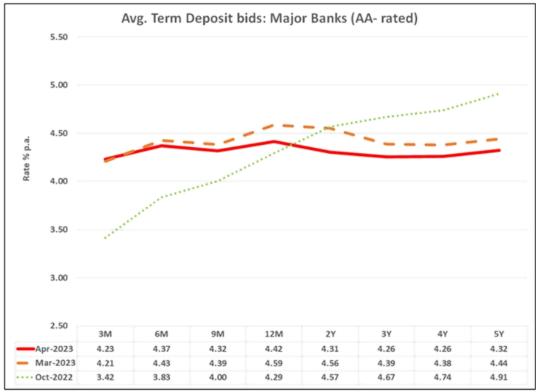




#### Market Update Summary

Financial markets were aided in April following early signs of inflation peaking across several developed economies. Markets continue to adjust their forecasts regarding future interest rate expectations accordingly, with the peak of the interest rate cycle potentially month(s) away, if not already set across several global central banks. Domestically, the RBA paused in April and is likely to do the same again in May following the latest inflation reading which suggests inflation may have already peaked in Australia.

Despite the aggressive rate hikes, over the past few months, the deposit market has already factored in the current rate hike cycle. Deposit rates in the long-end (12m-5yr tenors) from the major banks (rated AA-) fell around 10-20bp on average during April (compared to March), with the market starting to price in the possibility that we may have reached the peak of the interest rate cycle:



Source: Imperium Markets

'New' investments close to or above 4¼ - 4½% p.a. is currently available if Council can place the majority of its surplus funds for terms of 12 months to 3 years. With recessionary fears being priced in coming years, investors may take an 'insurance policy' against future rate cuts by investing across 3-5 year fixed deposits and locking in rates above or close to 4½% p.a. (small allocation only), although this is primarily being offered by the lower rated ("BBB") ADIs.

Monthly Investment Report: April 2023

Page 2

Item 8.14 - Appendix 1 Page **5** of **22** 





# Council's Portfolio & Compliance

#### **Fund Allocation**

As at the end of April 2023, the portfolio was mainly directed to General Funds:

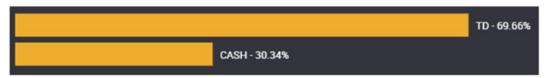


#### **Asset Allocation**

As at the end of April 2023, the portfolio is mainly directed to fixed term deposits (~70%). The remainder of the portfolio is held in low yielding cash accounts with NAB (AA-) and Bendigo-Adelaide (BBB+), which remains at relatively high levels and will cause a drag to performance.

Senior FRNs remain relatively attractive as spreads have widened over the past year – new issuances should be considered again on a case by case scenario.

In the interim, fixed deposits for 12 months to 3 years remains appealing. With recessionary fears being priced in coming years, investors can choose to allocate some longer-term surplus funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 4½% p.a. (mainly available from the regional banks).



Council's Investment Policy does not specify any limits for Maturity, Counterparty and Credit Quality compliance measures. We have provided Berrigan Shire Council an Investment Policy review in September 2022.

Monthly Investment Report: April 2023





#### Term to Maturity

The portfolio is highly liquid with the majority of the investment portfolio maturing within 12 months. We recommend a more diversified maturity profile to improve the returns of the total investment portfolio.

Where ongoing liquidity requirements permit Council to invest a spread of attractive 1-3 year investments, we recommend this be allocated fixed term deposits (refer to respective sections below).

Compliant	Horizon	Invested (\$)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available (\$)
<b>✓</b>	0 - 90 days	\$21,219,297	52.69%	0%	100%	\$19,054,653
✓	91 - 365 days	\$15,054,653	37.38%	0%	100%	\$25,219,297
✓	1 - 2 years	\$4,000,000	9.93%	0%	100%	\$36,273,950
✓	2 - 5 years	\$0	0.00%	0%	100%	\$40,273,950
		\$40,273,950	100.00%			

#### Counterparty

As at the end of April 2023 (noting no formal counterparty restrictions), Council's portfolio has minimal diversification, with only six banks utilised. We welcomed the introduction of Westpac (AA-) recently.

Compliant	Issuer	Rating	Invested (\$)	Invested (%)	Max. Limit (%)	Available (\$)
✓	NAB	A-1+	\$7,350,311	18.25%	100.00%	\$32,923,639
✓	WBC	A-1+	\$2,000,000	4.97%	100.00%	\$38,273,950
✓	AMP Bank	A-2	\$7,000,000	17.38%	100.00%	\$33,273,950
✓	AMP Bank (LT)	BBB	\$2,000,000	4.97%	100.00%	\$38,273,950
✓	Bendigo-Adel.	A-2	\$15,923,639	39.54%	100.00%	\$24,350,311
✓	BoQ	A-2	\$2,000,000	4.97%	100.00%	\$38,273,950
✓	BoQ (LT)	BBB+	\$2,000,000	4.97%	100.00%	\$38,273,950
✓	Defence Bank	A-2	\$2,000,000	4.97%	100.00%	\$38,273,950
			\$40,273,950	100.00%		

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-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.

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). The financial regulator, APRA has noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by \$110 billion, or more than 70%, over the past eight years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking

Monthly Investment Report: April 2023

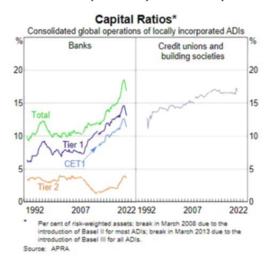




system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

We believe that deposit investments with the lower rated ADIs should be considered 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. The lower rated entities are generally deemed to be the more 'ethical' ADIs compared to the higher rated ADIs.

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



#### **Credit Quality**

The portfolio remains reasonably diversified from a credit ratings perspective, with room for some exposure to the local credit unions.

Compliant	Credit Rating	Invested (\$)	Invested (%)	Max. Limit (%)	Available (\$)
✓	A-1+ Category	\$9,350,311	23%	100%	\$30,923,639
✓	A-1 Category	\$0	0%	100%	\$40,273,950
✓	A-2 Category	\$26,923,639	67%	100%	\$13,350,311
✓	BBB Category (LT)	\$4,000,000	10%	100%	\$36,273,950
✓	A-3 Category	\$0	0%	100%	\$40,273,950
✓	Unrated ADI Category	\$0	0%	100%	\$40,273,950
		\$40,273,950	100.00%		

Pre-pandemic (March 2020), a 'normal' marketplace meant the lower rated ADIs (i.e. BBB category) were offering higher rates on term deposits compared to the higher rated ADIs (i.e. A or AA rated). But due to the cheap funding available provided by the RBA via their Term Funding Facility

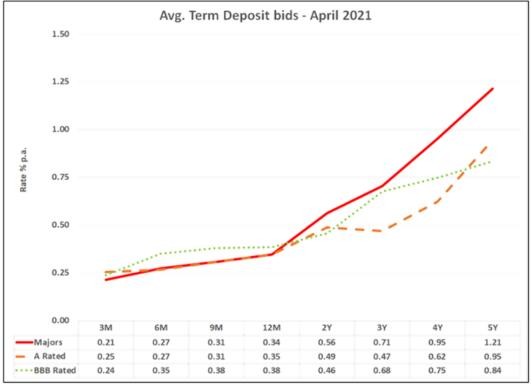
Monthly Investment Report: April 2023





(TFF) since mid-2020<sup>1</sup>, allowing the ADIs to borrow as low as 0.10% p.a. fixed for 3 years, those lower rated ADIs (BBB rated) did not require deposit funding from the wholesale deposit from the likes of Council. Given the higher rated banks had more capacity to lend (as they have a greater pool of mortgage borrowers), they subsequently were offering higher deposit rates. In fact, some of the lower rated banks were not even offering deposit rates at all. As a result, most investors placed a higher proportion of their deposit investments with the higher rated (A or AA) ADIs over the past three years.

Term Deposit Rates – During Pandemic (April 2021)



Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits increases. We are now starting to see some of the lower rated ADIs ("BBB" rated) offering slightly higher rates compared to the higher rated banks ("A" or "AA" rated) on different parts of the curve (i.e. pre-pandemic environment). Some of this has been attributed to lags in adjusting their deposit rates as some banks (mainly the lower rated ADIs) simply set their rates for the week.

Going forward, Council should have a larger opportunity to invest a higher proportion of its surplus funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry. We are slowly seeing this trend emerge, as has been the case over the past month again:

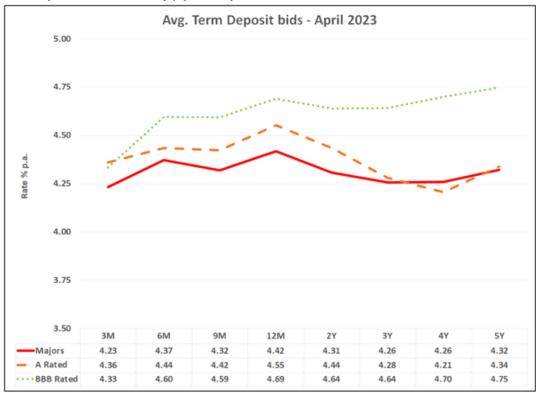
Monthly Investment Report: April 2023

<sup>&</sup>lt;sup>1</sup> The RBA's Term Funding Facility (TFF) allowed the ADI to borrow as low as 0.10% fixed for 3 years: <a href="https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html">https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html</a>





#### Term Deposit Rates - Currently (April 2023)



Source: Imperium Markets

Monthly Investment Report: April 2023

Page 7

Item 8.14 - Appendix 1 Page **10** of **22** 





#### Performance

Council's performance for the month ending April 2023 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.29%	0.85%	1.61%	2.30%	2.40%
AusBond Bank Bill Index	0.30%	0.83%	1.60%	2.28%	2.37%
Council's T/D Portfolio^	0.31%	0.87%	1.69%	2.21%	2.34%
Outperformance	0.01%	0.04%	0.09%	-0.07%	-0.03%

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

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	3.60%	3.52%	3.27%	2.77%	2.40%
AusBond Bank Bill Index	3.77%	3.45%	3.26%	2.75%	2.37%
Council's T/D Portfolio^	3.85%	3.63%	3.44%	2.66%	2.34%
Outperformance	0.08%	0.18%	0.18%	-0.09%	-0.03%

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

For the month of April 2023, the deposit portfolio provided a return of +0.31% (actual) or +3.85% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.30% (actual) or +3.77% p.a. (annualised).

Going forward, Council's interest income can be increased significantly by undertaking a slightly longer duration position (12-24 months), with rates on offer along this part of the curve likely to be offered up to  $\frac{1}{2}$ % p.a. higher compared to shorter tenors in a normal market environment. There is a growing belief that a recession is not too far away and so locking in rates above 4-4½% p.a. across 2-3 year tenors may provide some income protection against a lower rate environment.

If Council is willing to undertake a slightly different strategy and stagger its deposit investments with the likes of the major banks (and the regional banks) across periods ranging from 12-24 months, over the upcoming year, it is likely to see an increase in overall returns by at least ½% p.a. On a \$30m deposit portfolio, that could amount to extra interest income of \$150,000 over the next 12 months should such a strategy be implemented.

Monthly Investment Report: April 2023





#### Council's Term Deposit Portfolio & Recommendation

As at the end of April 2023, Council's deposit portfolio was yielding 3.73% p.a. (unchanged from the previous month), with a weighted average duration of around 189 days (~6 months). We strongly recommend Council extends this average duration closer to 9-12 months.

Over a longer-term cycle, investors are rewarded if they can continue to maintain a slightly longer average duration. In a 'normal' marketplace, yields at the long-end are generally offered at a slight premium over shorter tenors.

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
P&N Bank	BBB	5 years	4.95% p.a.
P&N Bank	BBB	4 years	4.85% p.a.
AMP Bank	BBB	2-3 years	4.85% p.a.^
P&N Bank	BBB	3 years	4.80% p.a.
P&N Bank	BBB	2 years	4.70% p.a.
Hume Bank	BBB+	2 years	4.70% p.a.
BoQ	BBB+	2 years	4.65% p.a.
ING	Α	2 years	4.40% p.a.
Suncorp	A+	2 years	4.40% p.a.
Westpac	AA-	2 years	4.39% p.a.
NAB	AA-	2 years	4.35% p.a.

<sup>^</sup>Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to \$10m (from \$5m).

The above deposits are suitable for investors looking to maintain diversification and lock-in a slight premium compared to purely investing short-term. For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (dependent on daily funding requirements):

Monthly Investment Report: April 2023





ADI	LT Credit Rating	Term	T/D Rate
AMP Bank	BBB	11-12 months	4.90% p.a.^
Hume Bank	BBB+	12 months	4.80% p.a.
P&N Bank	BBB	12 months	4.80% p.a.
BoQ	BBB+	12 months	4.65% p.a.
BoQ	BBB+	6 & 9 months	4.60% p.a.
NAB	AA-	6-12 months	4.55% p.a.
Westpac	AA-	12 months	4.51% p.a.
ING	Α	12 months	4.50% p.a.
Suncorp	A+	12 months	4.48% p.a.
Suncorp	A+	3 months	4.46% p.a.

<sup>^</sup>Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to \$10m (from \$5m).

If Council does not require high levels of liquidity and can stagger its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle if it can roll for an average min. term of 12 months to 3 years (this is where we current value), yielding, on average, up to  $\frac{1}{2}$ % p.a. higher compared to those investors that entirely invest in short-dated (under 6 months) deposits.

With recessionary fears being priced in coming years, Council should consider allocating some longer-term surplus funds and undertake an insurance policy by investing across 3-5 year fixed deposits and locking in rates close to or above 4½ p.a. This will provide some income protection if central banks decide to cut rates in future years, and assuming inflation has peaked and is under control.

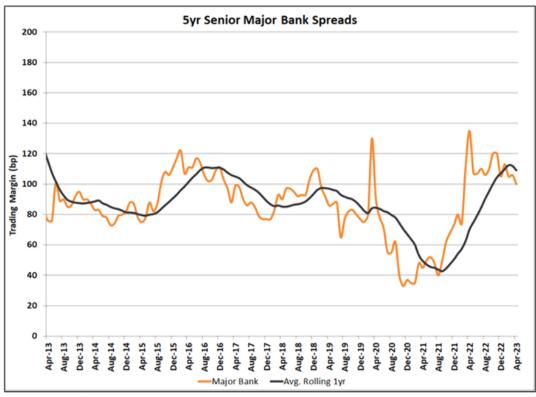
Monthly Investment Report: April 2023





#### Senior FRNs Review

Over April, amongst the senior major bank FRNs, physical credit securities tightened by around 6-8bp at the long-end of the curve. Major bank senior securities remain fairly attractive again in a rising rate environment (5 year margins above the +100bp level):



Source: IBS Capital

There was a lack of primary issuances again over the month apart from BoQ's (AAA rated) covered FRN at +120bp at month-end. Amongst the "A" rated sector, the securities were marked around 5bp tighter at the 3-5 year part of the curve, whilst the "BBB" rated sector was marked around 15bp tighter (3yrs).

Credit securities are looking much more attractive given the widening of spreads over the past year. 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).

Monthly Investment Report: April 2023





Senior FRNs (ADIs)	30/04/2023	31/03/2023
"AA" rated – 5yrs	+100bp	+106bp
"AA" rated – 3yrs	+75bp	+83bp
"A" rated – 5yrs	+115bp	+120bp
"A" rated – 3yrs	+90bp	+95bp
"BBB" rated – 3yrs	+135bp	+150bp

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-2025 for the "AA" rated ADIs (domestic major banks);
- > On or before mid-2024 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub-optimal investments and are not maximising returns by foregoing realised capital gains. In the current challenging economic environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

Primary (new) FRNs are now looking more appealing and should be considered on a case by case scenario.

Monthly Investment Report: April 2023





#### Senior Fixed Bonds - ADIs (Secondary Market)

As global inflationary pressures remain, this has seen a significant lift in longer-term bond yields over the past year (valuations fell) as markets have reacted sharply.

This has resulted in some opportunities in the secondary market. We currently see value in the following fixed bond lines, with the majority now being marked at a significant discount to par (please note supply in the secondary market may be limited on any day):

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0255776	ING	AAA	Covered	07/09/2023	0.36	3.00%	3.97%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	0.56	3.25%	4.10%
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	1.27	1.85%	4.32%
AU3CB0263275	Westpac	AA-	Senior	16/08/2024	1.31	2.25%	4.10%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.32	1.45%	4.20%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.36	1.55%	4.10%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.39	1.70%	4.41%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.52	2.00%	4.49%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	1.73	1.65%	4.08%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	1.74	1.65%	4.03%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	1.81	1.70%	4.37%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	1.90	2.70%	4.08%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.32	3.90%	4.11%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.32	4.20%	4.03%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.03	1.40%	4.62%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.33	1.10%	4.31%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.52	2.10%	4.66%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	3.77	2.40%	4.21%

Monthly Investment Report: April 2023





## **Economic Commentary**

#### International Market

Financial markets were aided in April following early signs of inflation peaking across several developed economies. Across equity markets, the S&P 500 Index gained +1.46%, whilst the NASDAQ added +0.04%. Europe's main indices also gained, led by UK's FTSE (+3.13%), France's CAC (+2.31%) and Germany's DAX (+1.88%).

US CPI showed welcome, but not overwhelming, progress. Headline CPI rose less than expected, up +0.1% m/m and +5.0% y/y, down from +6.0% previously, the first monthly decline since November 2020. Core inflation, however, was in line with expectations at +0.4% m/m and +5.6% y/y.

The US unemployment rate fell 0.1% to 3.5% (3.6% expected) and average hourly earnings rose by an as expected +0.3% to be +4.2% up on a year ago down from +4.6% and +4.3% expected.

Strong Canada jobs report showed employment up +34.7k against +5k expected and the unemployment rate remained steady at 5.0%, rather than the consensus for a rise to 5.1%. The Bank of Canada held rates for the second consecutive meeting as expected.

UK employment growth was strong at 169k vs. 50k expected, while the unemployment rate ticked up 0.1% higher to 3.8%. BoE pricing now has a 90% chance of a 25bp rate hike in May (up from a 79% previously).

UK April CPI was a shocker, headline CPI only falling from +10.3% to +10.1% against +9.8% expected and the core measure unchanged at +6.2% against expectations for a fall to +6.0%.

The RBNZ raised rates by 50bp to 5.25%, against a strong market consensus for a smaller 25bp hike.

The International Monetary Fund (IMF) downgraded global growth forecasts made three months ago by 0.1% to +2.8% for 2023 and +3.0% for next year, following the +3.4% lift last year. The IMF noted "the risks are weighted heavily to the downside, in part because of the financial turmoil of the last month and a half".

Chinese activity data showed GDP rebounded more quickly than expected. Q1 GDP growth beat expectations by +0.2% at +2.2% q/q vs. +2.0% expected. Strength was seen by the consumer with retail sales +10.6% y/y vs. +7.5% expected.

The MSCI World ex-Aus Index rose +1.62% for the month of April:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+1.46%	+2.28%	+0.91%	+12.70%	+9.50%	+10.07%
MSCI World ex-AUS	+1.62%	+2.07%	+1.66%	+11.39%	+6.45%	+6.99%
S&P ASX 200 Accum. Index	+1.85%	-0.80%	+2.83%	+13.99%	+8.26%	+7.90%

Source: S&P, MSCI

Monthly Investment Report: April 2023





#### **Domestic Market**

The RBA decided to leave interest rates unchanged at 3.60% in April, while it assesses the outlook for the economy and the impact of previous substantial interest rate increases.

In addition, the bias to tighten further was softened with prior phrasing of further tightening will be required replaced with further tightening may well be needed. This suggests that the RBA has downgraded its forecasts for growth and/or inflation from the February Statement on Monetary Policy when a cash rate of 3.75% was seen as being required to achieve the return of inflation to 3% by mid-2025.

RBA Governor Lowe commented that "the decision to hold rates steady this month does not imply that interest rate increases are over" and that "at our next meeting, we will again review the setting of monetary policy with the benefit of an updated set of forecasts and scenarios".

Core trimmed mean Q1 CPI came in 0.2% less than market expectations at +1.2% q/q and +6.6% y/y (consensus +1.4%/+6.7%). Headline inflation was a fraction above consensus at +1.4% q/q and +7.0% y/y, (consensus +1.3%/+6.9%). Overall, the inflation figures confirmed the widely held expectation that Australian inflation peaked late last year (Q4 2022), something now becoming clearly evident in goods price pressures, a trend in place in other parts of the world as supply chain disruptions heal and freight rates fall.

Employment grew +53.0k m/m in March, more than double the consensus of +20k. The unemployment rate held steady at 3.5%, where it has been since July 2022 and it remains around its lowest levels since the 1970s. The participation rate lifted by around 0.1% to 66.74% from 66.65%.

Australian dwelling prices rose +0.6% m/m in March. That is the first nationwide increase since April 2022 and comes after declines moderated to just +0.1% in February. Meanwhile dwelling approvals rose +4.0% m/m in February (consensus +10.0%), following the sharp -27.1% fall seen in February.

The February trade surplus was \$13.8bn (consensus \$11.2bn) from \$11.3bn, largely driven by a big fall in imports (-9.1% m/m or -\$4.3bn).

The Australian dollar lost -1.52%, finishing the month at US66.10 cents (from US67.12 cents the previous month).

#### Credit Market

The global credit indices remained relatively flat over April. They are now back to their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	April 2023	March 2023
CDX North American 5yr CDS	79bp	78bp
iTraxx Europe 5yr CDS	86bp	88bp
iTraxx Australia 5yr CDS	91bp	92bp

Source: Markit

Monthly Investment Report: April 2023





# **Fixed Interest Review**

#### **Benchmark Index Returns**

Index	April 2023	March 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.30%	+0.28%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.19%	+3.16%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.46%	+0.26%
Bloomberg AusBond Credit Index (0+YR)	+0.45%	+1.85%
Bloomberg AusBond Treasury Index (0+YR)	+0.01%	+3.53%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.32%	+4.16%

Source: Bloomberg

#### Other Key Rates

Index	April 2023	March 2023
RBA Official Cash Rate	3.60%	3.60%
90 Day (3 month) BBSW Rate	3.68%	3.72%
3yr Australian Government Bonds	3.00%	2.94%
10yr Australian Government Bonds	3.34%	3.30%
US Fed Funds Rate	4.75%-5.00%	4.75%-5.00%
2yr US Treasury Bonds	4.04%	4.06%
10yr US Treasury Bonds	3.44%	3.48%

Source: RBA, AFMA, US Department of Treasury

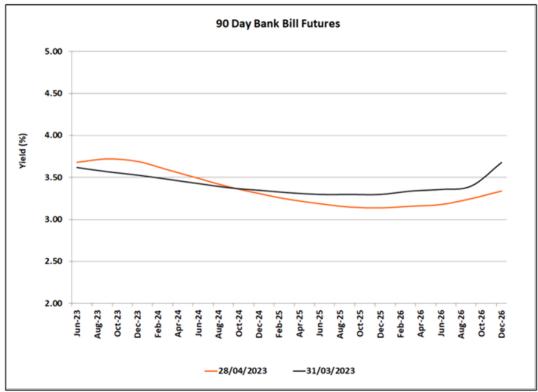
Monthly Investment Report: April 2023





#### 90 Day Bill Futures

Bill futures fell at the long-end of the curve in April, following the lower than expected inflation figures released at month-end. The markets continue to factor in the possibility of a global recession over the next few years, highlighted by the drop in the futures pricing in early 2024:



Source: ASX

Monthly Investment Report: April 2023





#### **Fixed Interest Outlook**

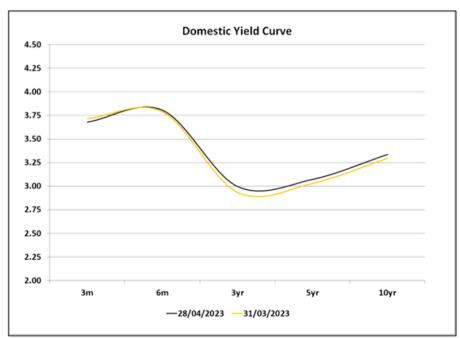
US money market rates ascribe more than an 80% probability to the Fed lifting the Funds rate by 0.25% to 5.00-5.25% on May 3 following the stronger than expected employment numbers.

Domestically, after announcing official interest rates would remain unchanged in April, the RBA's bias to tighten further was softened with prior phrasing of further tightening will be required replaced with further tightening may well be needed. With this pause, 3.60% may potentially mark the peak of interest rates for Australia this cycle as we envisage considerably slower growth in the second half of 2023, moderating inflation and an increase in the unemployment rate. But the RBA continues to suggest they will be agile and act depending on the economic data that is presented to them.

With the RBA having paused in April, the latest CPI data suggests the RBA remains on balance and is likely to pause again in May, waiting on further information on wages (WPI on 17<sup>th</sup> May and the Minimum Wage Decision) to assess whether the aim of returning inflation to 3% by mid-2025 remains plausible.

What would cause the Board to raise interest rates further? This would likely require in the near term, a significant inflation or wages shock, something that cannot be ruled out as the RBA has been quite reactive to surprises in this sense in recent months, though it also seems to have been comfortable with the prospect of a minimum wage increase as large as 7% being announced in the next few months. Medium term, further rate rises would likely require an accumulation of evidence that inflation was not tracking back towards the 2-3% target. The risk continues to be to the upside in the near term with the RBA to remain reactive to the data flow, especially around inflation and wages.

Over the month, yields remained relatively flat at the long-end of the curve:



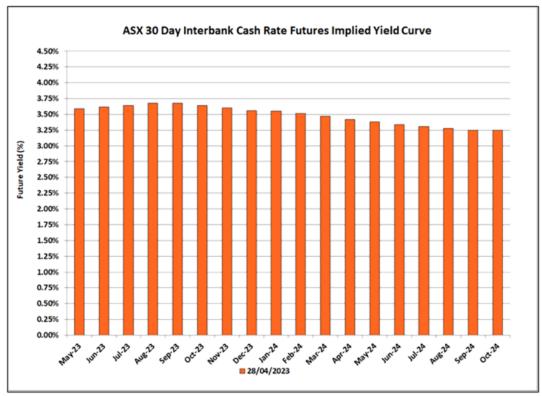
Source: AFMA, ASX, RBA

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With the RBA keeping rates on hold in April and a slightly softer inflation reading than anticipated, the market has changed its view to the next move bring a rate cut, against the RBA's rhetoric that rates may still need to move higher should inflation remain persistently high over the medium term.



Source: ASX

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