

Ordinary Meeting

Meeting Date: Monday, 12 August, 2024

Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Time: 5.30pm

Membership (Quorum - 7)

All Councillors

Addendum Agenda

Reports

City Performance

CL24.264 Investment Report - July 20241

CL24.264 Investment Report - July 2024

HPERM Ref: D24/328889

Department: Finance

Approver: Kerrie Hamilton, Director City Performance

Attachments: 1. Shoalhaven Monthly Investment Report - July 2024 [↓](#)

Reason for Report

The reason for this report is to inform the Councillors and the Community on Council's investment returns. The report also ensures compliance with Section 625 of the Local Government Act 1993 and Clause 212 of the Local Government (General) Regulation 2021, that requires a written report is provided to Council setting out the details of all funds it has invested.

Recommendation

That Council:

1. Receive the Record of Investments for the period to 31 July 2024.
2. Note that Council's total Investment Portfolio returned 5.13% per annum for the month of July 2024, outperforming the benchmark AusBond Bank Bill Index (4.49% pa) by sixty-four basis points (0.64%).

Options

1. The report on the Record of Investments for the period to 31 July 2024 be received for information.

Implications: Nil

2. Further information regarding the Record of Investments for the period to 31 July 2024 be requested.

Implications: Nil

3. The report of the record of Investments for the period to 31 July 2024 be received for information, with any changes requested for the Record of Investments to be reflected in the report for the period to 31 August 2024.

Implications: Nil

Background

Please refer to the attached monthly reports provided by Council's Independent Investment Advisor, Arlo Advisory Pty Ltd (formally Imperium Markets Pty Ltd).

Portfolio Return

The investment returns were a stable 5.13% p.a. in July 2024, outperforming the benchmark AusBond Bank Bill Index (4.49 p.a.) by sixty-four basis points (0.64%).

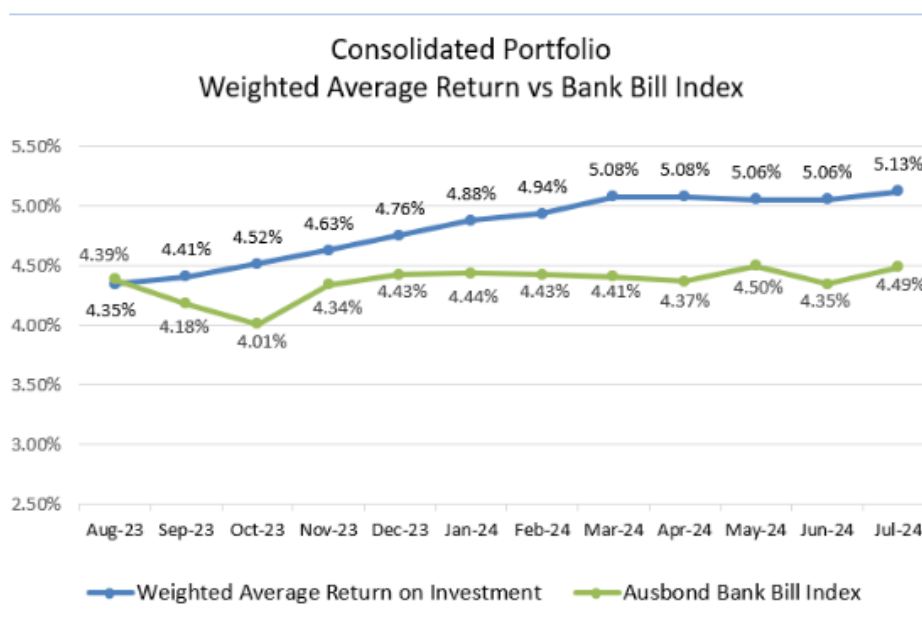
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The Reserve Bank has made the logical decision at its August meeting to keep the cash rate on hold at 4.35% due to the inflation tenaciously remains above RBA's target.

Investments

Graph 1 below, shows the performance of Council's Investment Portfolio against the benchmark on a rolling 12-month basis.

Graph 1 - Performance of Council's Investment Portfolio against the benchmark on a rolling 12 month basis



Investment Interest Earned – July 2024

Table 1 below, shows the interest earned for the month of July 2024.

Table 1- Interest Earned for the Month of July 2024

Fund	Monthly Revised Budget \$	Actual Earned \$	Difference \$
General	296,224	453,518	157,294
Water	140,754	246,693	105,939
Sewer	54,485	95,494	41,009
Total	491,463	795,705	304,242

The interest earned for the month of July, was \$795,705 compared to the July monthly budget of \$491,463.

Investment Interest Earned - Year to Date

Table 2 below, demonstrates how the actual amount of interest earned year to date has performed against the total budget.

Table 2 - Amount of interest earned year to date, against the total budget.

Fund	Total Annual Budget \$	Actual YTD \$	% Achieved
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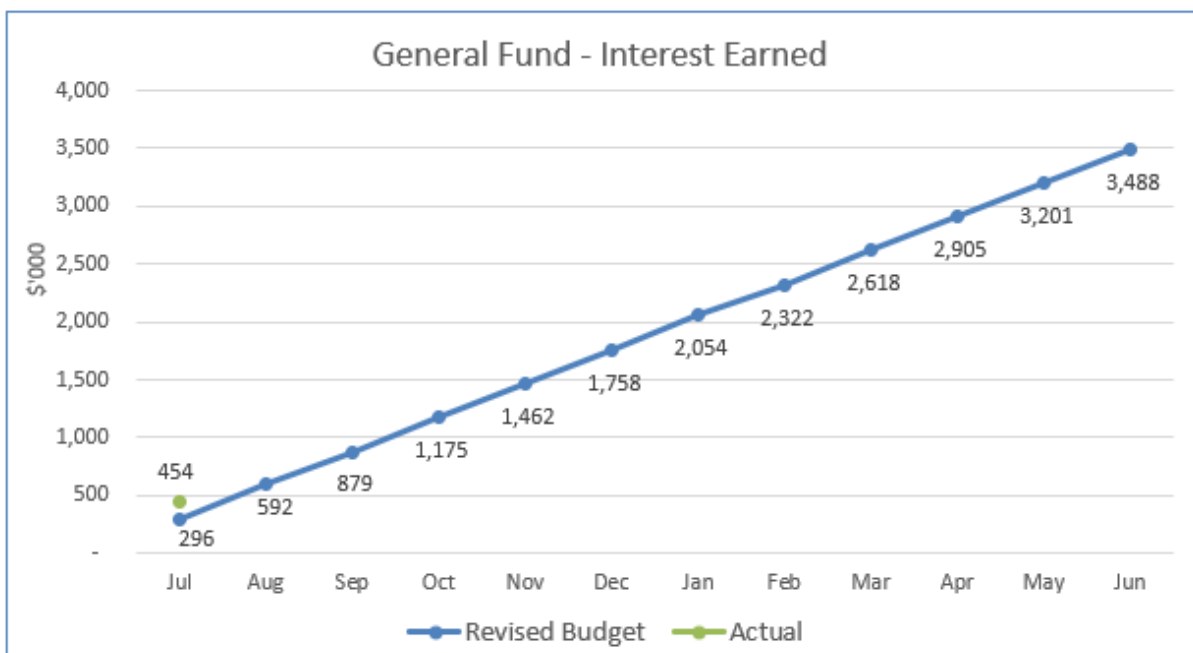
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Fund	Total Annual Budget \$	Actual YTD \$	% Achieved
General	3,487,804	453,518	13.00%
Water	1,657,263	246,693	14.89%
Sewer	641,521	95,494	14.89%
Total	5,786,588	795,705	13.75%

The cumulative interest earned for the year (July to July) was \$795,705 which is 13.75% of the current full year revised budget.

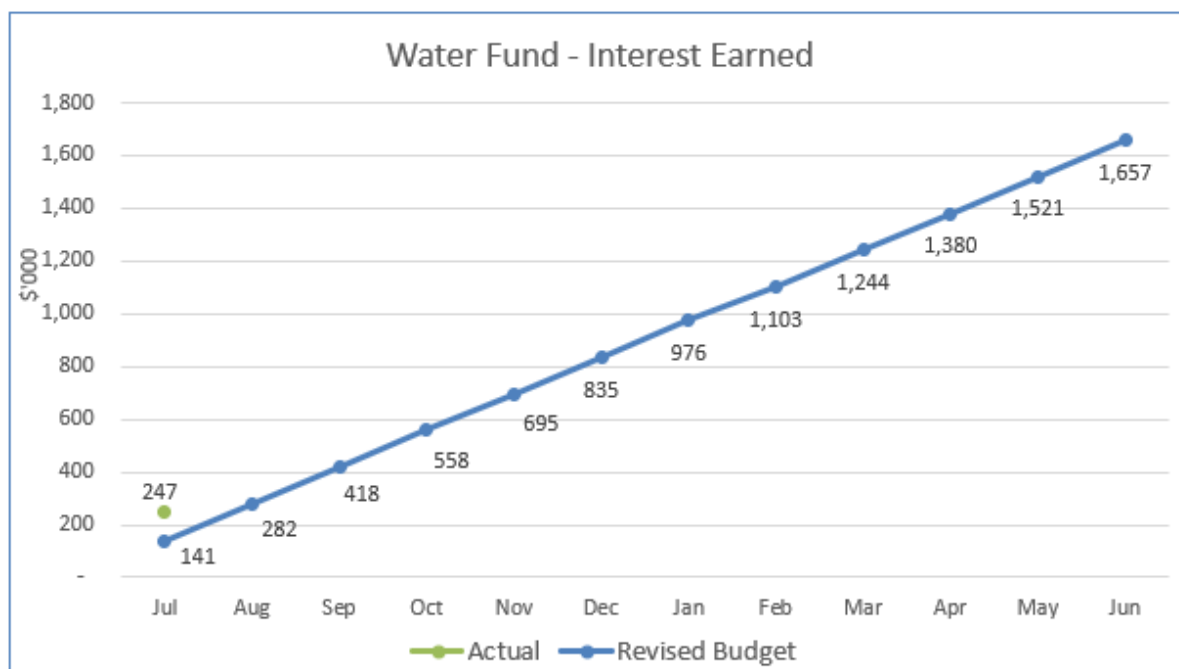
Graph 2 (3 separate graphs) below, illustrates the cumulative interest earned for the year for each fund (General, Water and Sewer) against budget:

Graph 2.1 - Cumulative interest earned for the year for each fund against budget.

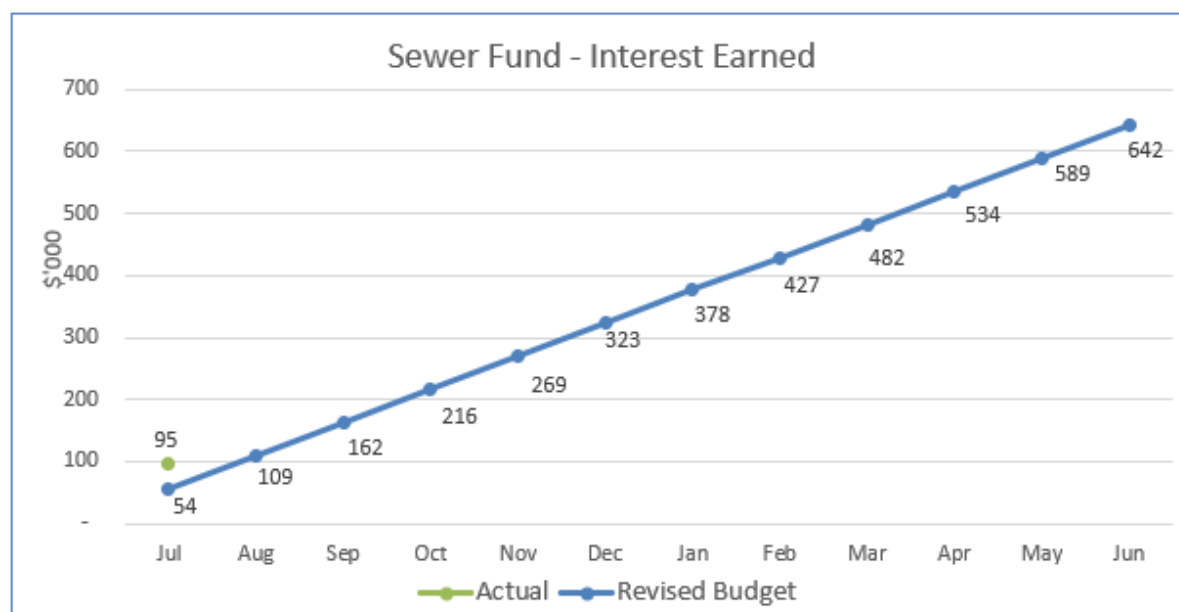


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Graph 2.2 - Cumulative interest earned for the year for each fund against budget.



Graph 2.3 - Cumulative interest earned for the year for each fund against budget.



Statement by Responsible Accounting Officer

I hereby certify that the investments listed in the attached report have been made in accordance with Section 625 of the Local Government Act 1993, Clause 212 of the Local Government (General) Regulations 2021 and Council's Investments Policy.

K Buckman

Katie Buckman

Date: 8 August 2024

CL24.264



Monthly Investment Review



July 2024

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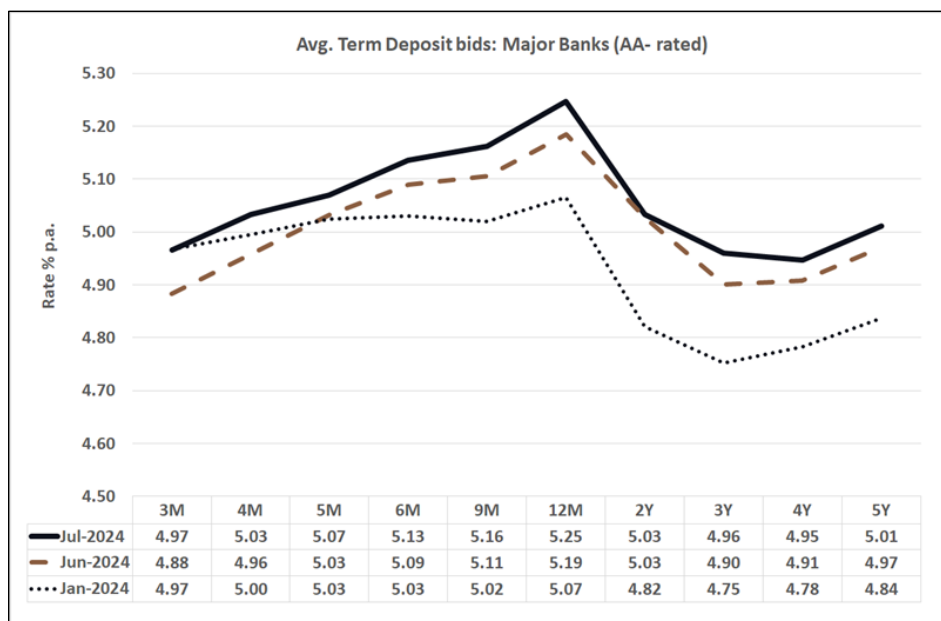
CL24.264 - Attachment 1



Market Update Summary

In July, risk markets provided modest returns again, boosted by softening inflation and expectations of interest rate cuts in the short to medium term.

In the deposit market, over July, the average deposit rates offered by the major banks increased across most tenors as the market priced the potential of another rate hike prior to the lower than expected inflation print on the last day of July. Notably, the average deposit rates offered by the major banks rose in the 6–12 months tenors by around 5bp, compared to where they were in June. The deposit curve remains inverse with rates peaking at the 12 month tenor and then dipping/flattening across the 2–5 year terms (with the lowest rates offered in the 4 year tenor), with the market still factoring in multiple rate cuts starting next year.



Source: Imperium Markets

With a global economic downturn and interest rate cuts still being priced over the next 18–24 months, investors should consider diversifying and taking an 'insurance policy' against a potentially lower rate environment by investing across 2–5 year fixed deposits, targeting rates above 5% p.a. (small allocation only).



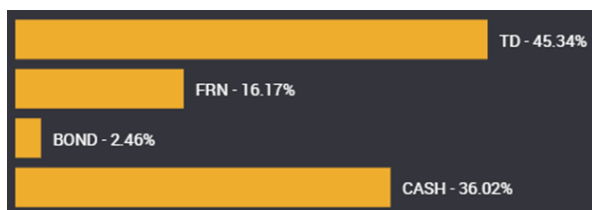
Shoalhaven City Council 's Portfolio & Compliance

Asset Allocation

The majority of the portfolio is directed to fixed term deposits and cash or cash notice accounts. The remainder of the portfolio is directed to liquid senior FRNs and fixed bonds.

Senior FRNs remain relatively attractive as spreads have generally widened over the past 2-3 years. New issuances may be considered again on a case by case scenario. In the interim, staggering a mix of fixed deposits between 9-12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With interest rate cuts and a global economic downturn being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 2-5 year fixed deposits, locking in and targeting yields above 5% p.a.





Term to Maturity

All maturity limits (minimum and maximum) comply with the Investment Policy. Short-Medium Term (1-2 years) assets account for around 8½% of the total investment portfolio, with capacity of ~\$125m remaining.

Once the immediate capital projects are completed, we recommend a proportion of longer-dated funds be allocated to 1-3 year fixed term deposits in combination with any attractive new FRNs (3-5 years) as they come to market (refer to respective sections below).

Compliant	Horizon	Invested (\$)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available (\$)
✓	0 - 90 days	\$100,088,944	49.33%	0%	100%	\$102,804,866
✓	91 - 365 days	\$58,101,596	28.64%	0%	100%	\$144,792,213
✓	1 - 2 years	\$17,093,230	8.43%	0%	70%	\$124,932,436
✓	2 - 5 years	\$27,610,040	13.61%	0%	50%	\$73,836,865
✓	5 - 10 years	\$0	0.00%	0%	25%	\$50,723,452
		\$202,893,809	100.00%			

CL24.264 - Attachment 1



Counterparty

As at the end of July 2024, all counterparty exposures comply within the Policy limits. Capacity limits are also dependent on the movement in the cash balances. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the regional bank (lower rated) ADIs.

Compliant	Issuer	Rating	Invested (\$)	Invested (%)	Max. Limit (%)	Available (\$)
✓	DBS Cov	AAA	\$1,004,123	0.49%	100.00%	\$201,889,686
✓	ANZ (Sunc.) Cov	AAA	\$2,018,494	0.99%	100.00%	\$200,875,315
✓	ANZ	AA-	\$34,577,005	17.04%	100.00%	\$168,316,805
✓	CBA	AA-	\$69,805,785	34.41%	100.00%	\$133,088,024
✓	HSBC Bank	AA-	\$2,017,136	0.99%	100.00%	\$200,876,673
✓	NAB	AA-	\$44,009,432	21.69%	100.00%	\$158,884,377
✓	Northern Terr.	AA-	\$5,000,000	2.46%	100.00%	\$197,893,809
✓	NSW (SIRA)	AA+	\$6,675,000	3.29%	100.00%	\$196,218,809
✓	Macquarie	A+	\$3,996,296	1.97%	100.00%	\$198,897,513
✓	Rabobank	A+	\$5,317,632	2.62%	100.00%	\$197,576,178
✓	ING Bank	A	\$19,000,000	9.36%	100.00%	\$183,893,809
✓	BoQ	A-	\$5,000,000	2.46%	20.00%	\$35,578,762
✓	AMP Bank	BBB+	\$2,371,311	1.17%	5.00%	\$7,773,380
✓	Newcastle PBS	BBB+	\$2,101,596	1.04%	5.00%	\$8,043,094
			\$202,893,809	100.00%		

On 31st July 2024, ANZ's takeover of Suncorp Bank was formalised, and ratings agency S&P upgraded Suncorp's long-term credit rating to that of its parent company immediately (now rated AA-). Investor's exposure to Suncorp is now reflected under the parent company being ANZ.



Credit Quality

The portfolio is well diversified from a credit ratings perspective. The portfolio is entirely invested amongst the investment grade ADIs (BBB+ or higher). There is no exposure to Unrated assets now following the disposal of the TCorp Long-Term Growth Fund.

All ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested (\$)	Invested (%)	Max. Limit (%)	Available (\$)
✓	AAA Category	\$3,022,617	1%	100%	\$199,871,192
✓	AA Category	\$162,084,358	80%	100%	\$40,809,452
✓	A+ to A Category	\$28,313,928	14%	100%	\$174,579,882
✓	A- Category	\$5,000,000	2%	40%	\$76,157,524
✓	BBB+ to BBB Category	\$4,472,907	2%	30%	\$56,395,236
✓	BBB- & NR Category	\$0	0%	5%	\$10,144,690
✓	NSW TCorp LTGF	\$0	0%	100%	\$202,893,809
		\$202,893,809	100.00%		

CL24.264 - Attachment 1



Performance

Council's performance for the month ending July 2024 (excluding cash) is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.36%	1.08%	2.15%	0.36%	4.30%
AusBond Bank Bill Index	0.37%	1.10%	2.18%	0.37%	4.37%
T/D Portfolio	0.44%	1.27%	2.50%	0.44%	4.76%
FRN Portfolio	0.45%	1.30%	2.57%	0.45%	5.18%
Bond Portfolio	0.09%	0.27%	0.54%	0.09%	1.08%
Council's Fixed Interest[^]	0.43%	1.23%	2.43%	0.43%	4.71%
Council's Total Portfolio^{^^}	0.43%	1.25%	3.00%	0.43%	5.93%
Relative (to Bank Bills)	0.05%	0.15%	0.82%	0.05%	1.55%

[^]Council's Fixed Interest portfolio returns excludes Council's cash account holdings.

^{^^} Total portfolio returns includes historical holdings in the TCorp LTGF.

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	4.35%	4.35%	4.35%	4.35%	4.30%
AusBond Bank Bill Index	4.49%	4.45%	4.42%	4.49%	4.37%
T/D Portfolio	5.28%	5.13%	5.08%	5.28%	4.76%
FRN Portfolio	5.37%	5.26%	5.21%	5.37%	5.18%
Bond Portfolio	1.11%	1.09%	1.09%	1.11%	1.08%
Council's Fixed Interest[^]	5.13%	4.98%	4.93%	5.13%	4.71%
Council's Total Portfolio^{^^}	5.13%	5.07%	6.11%	5.13%	5.93%
Relative (to Bank Bills)	0.64%	0.63%	1.69%	0.64%	1.55%

[^]Council's Fixed Interest portfolio returns excludes Council's cash account holdings.

^{^^} Total portfolio returns includes historical holdings in the TCorp LTGF.

For the month of July, the total portfolio (excluding cash) provided a return of +0.43% (actual) or +5.13% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.37% (actual) or +4.49% p.a. (annualised). The longer-term positive performance continues to be anchored by the handful of deposits that were originally placed for terms greater than 12 months.



Recommendations for Council

AMP Business Saver & Notice Account

We note the AMP Business Saver and AMP 31 Day Notice Account are now sub optimal investments given the rise in deposit yields in recent months. We recommend switching into short-dated fixed deposits with the major banks yielding a considerably higher rate of return, or simply just redeem to replenish capital reserves.

Term Deposits

As at the end of July 2024, Council's **deposit** portfolio was yielding 5.12% p.a. (up 6bp from the previous month), with a weighted average duration of ~208 days (~7 months).

Going forward, once immediate capital projects are completed, a more optimal strategy would be staggering deposits across 9-24 months terms – this is likely to earn up to ¼-½% p.a. higher compared to shorter tenors in a normal market environment. There is growing belief that interest rate cuts and a global economic downturn is forthcoming and so locking in rates above 5% p.a. across 1-5 year tenors may provide some income protection against a lower rate environment.

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) Senior FRNs (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario. Please refer to the section below for further details on the FRN market.

Council's FRN Portfolio

We recommend that Council retains all its FRNs at this stage (most are marked at a slight discount to par at month-end). We will continue to monitor them individually and will advise when it is appropriate to sell to boost the overall returns of the portfolio in future.

Should there be a compelling new issue available (or in the case of an emergency), the following two FRNs are up for consideration to be sold:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	~Capital Price (\$)	~Unrealised Gain (\$)
CBA	AA-	14/01/2027	AU3FN0065579	\$2,750,000	+60.0bp	\$100.209	\$5,748
NAB	AA-	25/02/2027	AU3FN0066528	\$4,000,000	+61.0bp	\$100.236	\$9,432



Council's Senior Fixed Bonds

In September 2020, Council invested into the following NTTC (AA-) fixed bonds:

Investment Date	Maturity Date	Principal	Rate % p.a.	Interest Paid
15/09/2021	15/12/2024	\$3,000,000	1.00%	Annually
15/09/2021	15/12/2025	\$2,000,000	1.10%	Annually
Totals / Wgt. Avg.		\$5,000,000	1.04%	

We believe this was prudent at the time of investment given the low rate environment and particularly after the RBA's easing decision in early November 2020 to 0.10% and their forward guidance towards official interest rates (no rate rises "until at least 2024").

The NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value (\$100.00) throughout the term of investment.



Term Deposit Market Review

Current Term Deposits Rates

As at the end of July, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING	A	5 years	5.15%
BoQ	A-	5 years	5.00%
ING	A	4 years	5.07%
BoQ	A-	4 years	5.00%
ING	A	3 years	5.03%
BoQ	A-	3 years	4.90%
ING	A	2 years	5.11%
Bank of Us	BBB+	2 years	5.10%
NAB	AA-	2 years	4.95%
Westpac	AA-	2 years	4.90%
BoQ	A-	2 years	4.90%

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 (*we stress that rates are indicative, dependent on daily funding requirements and different for industry segments*):



ADI	LT Credit Rating	Term	Rate % p.a.
NAB	AA-	12 months	5.30%
ING	A	12 months	5.29%
BankVIC	BBB+	12 months	5.25%
ICBC	A	12 months	5.21%
Bank of Us	BBB+	12 months	5.13%
NAB	AA-	9 months	5.30%
Bendigo-Adelaide	A-	9 months	5.17%
Bank of Sydney	Unrated	9 months	5.15%
ING	A	9 months	5.12%
NAB	AA-	6 months	5.30%
Bendigo-Adelaide	A-	6 months	5.21%
Bank of Sydney	Unrated	6 months	5.15%
NAB	AA-	3 months	5.10%
Bank of Sydney	Unrated	3 months	5.05%

If Council does not require high levels of liquidity and can stagger a proportion of its investments across the longer term horizons (1–5 years), it will be rewarded over a longer-term cycle. Investing a spread of 12 months to 3 year horizons is likely to yield, on average, up to ¼–½% p.a. higher compared to those investors that entirely invest in short-dated deposits (under 6–9 months).

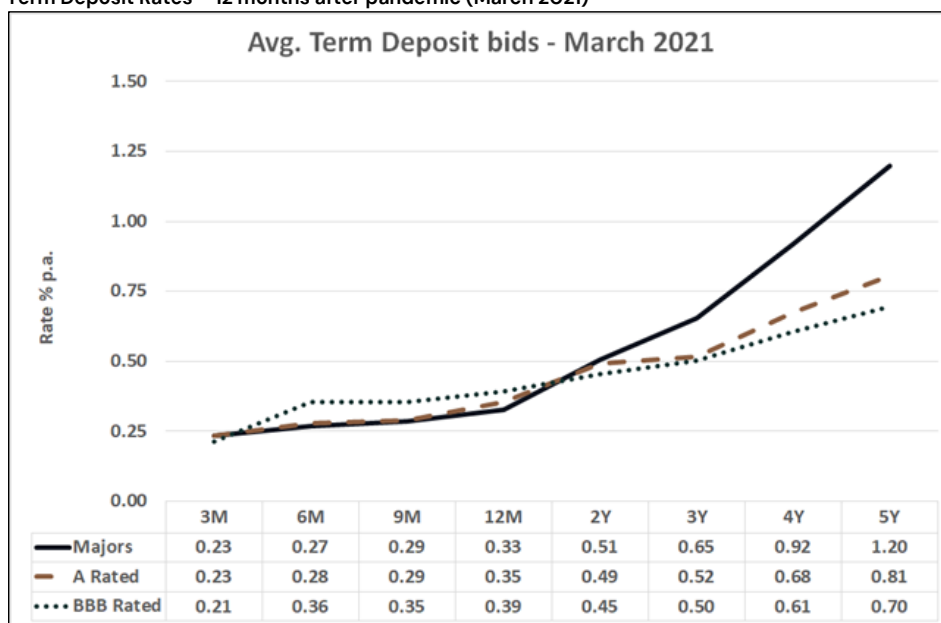
With a global economic slowdown and interest rate cuts being priced over the next few years, investors should strongly consider diversifying by allocating some longer term surplus funds and undertake an insurance policy by investing across 2–5 year fixed deposits and locking in rates above 5% p.a. This will provide some income protection with central banks now potentially looking to cut rates in 2025.



Term Deposits Analysis

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 (TFF) during mid-2020, 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. 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 – 12 months after pandemic (March 2021)



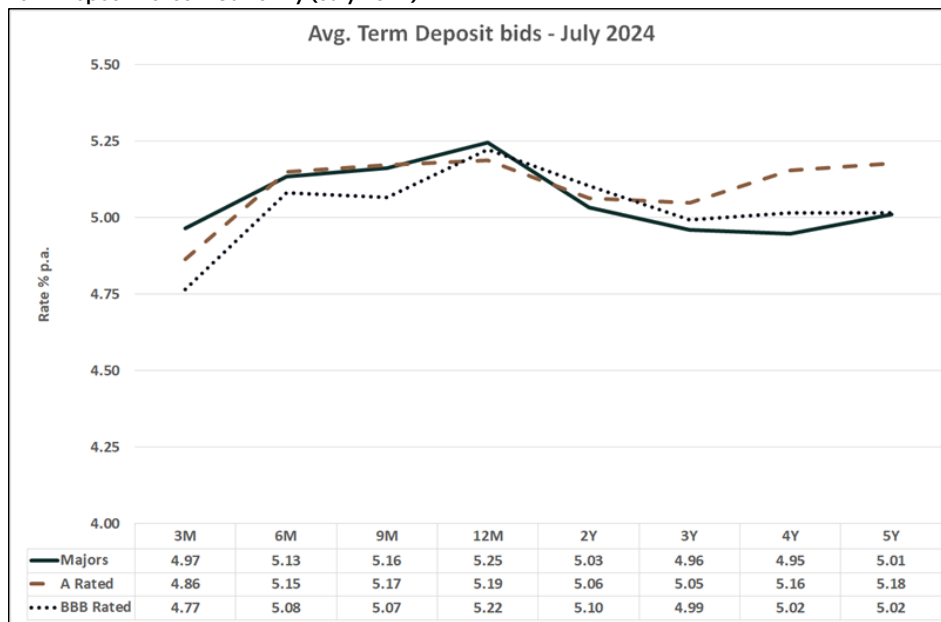
Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits slowly increases, partially driven by the RBA's term funding facility coming to an end. In recent months, we have started to periodically see some of the lower rated ADIs ("A" and "BBB" rated) offering slightly higher rates compared to the domestic major banks ("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 funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry or considered 'ethical'. We are slowly seeing this trend emerge (as was the case this month at the longer-end of the curve), although the major banks always seem to react more quickly than the rest of the market during periods of volatility:

Term Deposit Rates – Currently (July 2024)



Source: Imperium Markets

Regional & Unrated ADI Sector

Ratings agency S&P has commented that "*mergers remain compelling for mutual lenders*" in providing smaller lenders greater economies of scale and assisting them in being able to price competitively and will see "*the banking landscape will settle with a small number of larger mutual players*". S&P expects that consolidation to continue over the next two years.

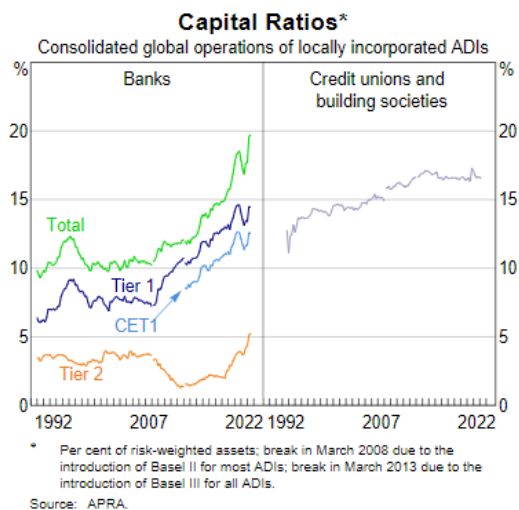
We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have 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 than 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 decade. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking 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.

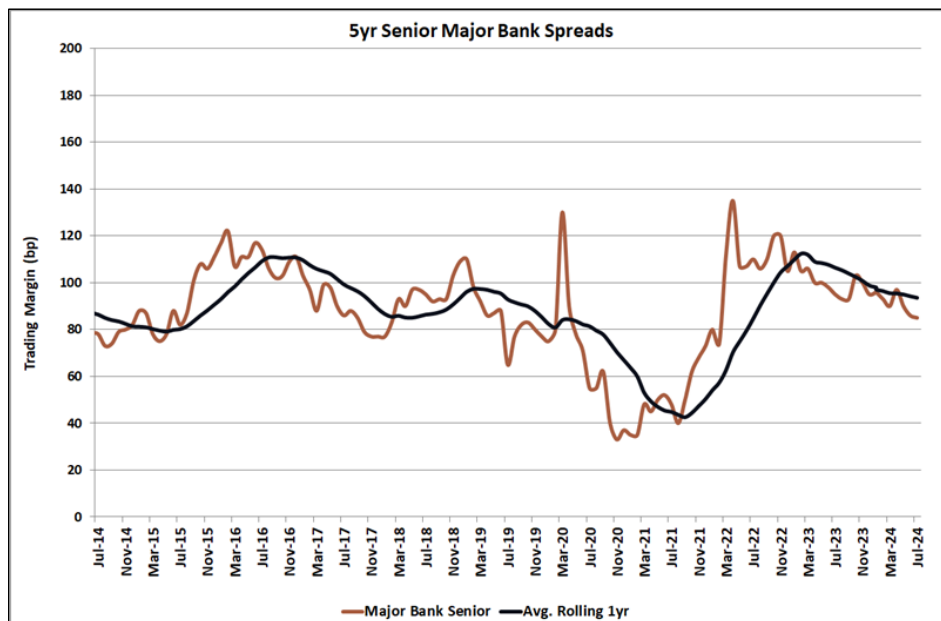
In the current environment of high regulation and scrutiny, all domestic (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC and the pandemic period. APRA's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





Senior FRNs Market Review

Over July, amongst the senior major bank FRNs, physical credit securities remained flat at the 5 year part of the curve but tightened around 6bp in the 3 year part of the curve. During the month, ANZ (AA-) issued a dual 3 & 5 year senior deal at +70bp and +86bp respectively. Major bank senior securities remain at fair value on a historical basis although looking fairly expensive if the 5yr margin tightens to +80bp in the near future.



Source: IBS Capital

There was minimal issuance again during the month apart from:

- Rabobank (A+) 5 year senior FRN at +91bp
- Agricultural Bank of China (A) 3 year senior FRN at +80bp

Amongst the "A" and "BBB" rated sector, the securities remained flat at the longer-end of the curve. Overall, credit securities are looking more attractive given the widening of spreads over the past 2-3 years. FRNs will continue to play a role in investors' 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), whilst also providing some diversification to those investors skewed towards fixed assets.



Senior FRNs (ADIs)	31/07/2024	28/06/2024
"AA" rated – 5yrs	+85bp	+86bp
"AA" rated – 3yrs	+65bp	+71bp
"A" rated – 5yrs	+100bp	+105bp
"A" rated – 3yrs	+80bp	+82bp
"BBB" rated – 3yrs	+130bp	+130bp

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-2026 for the "AA" rated ADIs (domestic major banks);
- On or before mid-2025 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.



Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation still high by historical standards, this has seen a significant lift in longer-term bond yields over the past 2–3 years (valuations have fallen) 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
AU3CB0278174	UBS	A+	Senior	26/02/2026	1.58	1.1000%	4.98%
AU3CB0280030	BoQ	A-	Senior	06/05/2026	1.77	1.4000%	5.20%
AU3CB0299337	Bendigo	A-	Senior	15/05/2026	1.79	4.7000%	5.08%
AU3CB0296168	BoQ	A-	Senior	27/01/2027	2.50	4.7000%	5.14%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	4.76	5.3580%	5.19%



Economic Commentary

International Market

In July, risk markets provided modest returns again, boosted by softening inflation and expectations of interest rate cuts in the short to medium term.

Across equity markets, the S&P 500 Index rose +1.13% over the month, whilst the NASDAQ lost -0.75% as tech companies were sold off. Europe's main indices rose across the board, led by UK's FTSE (+2.50%), Germany's DAX (+1.50%) and France's CAC (+0.70%).

The US Fed's preferred PCE measure of inflation was benign. Headline PPI was +0.2% m/m vs. +0.1% expected and core PPI was +0.4% m/m and +0.2% expected. The rise in the core measure was the lowest increase since Jan 2021.

The US unemployment rate rose by 0.1% to 4.1% versus 4.0% expected. Unemployment at 4.1% is a touch above the end 2024 FOMC dot of 4.0%, but broadly near where the FOMC's long-run natural rate of unemployment is which is pegged at 4.2%.

The average of the two core (mean and median) measures of Canada's CPI fell by -0.1% to +2.75%, as expected. The headline rate fell to +2.7% from +2.9%, 0.1% more than expected. The Bank of Canada delivered a widely expected 25bp cut and signalled more, noting that "*downside risks are taking on increased weight*".

UK CPI was 0.1% higher than expectations. Headline inflation held steady at a +2.0% annual rate compared with expectations of a dip to +1.9%, whilst core inflation was also 0.1% above consensus at +3.5%.

Eurozone inflation was as expected in June, rising +0.2% m/m and +2.5% y/y. Eurozone unemployment rate was unchanged over the month at 6.4% in May, and was slightly down from 6.5% recorded previously.

China's CPI came in at +0.2% y/y, a little below the +0.4% expected, doing nothing to suggest any sign of domestic inflation pressures.

The RBNZ kept the Official Cash Rate steady at 5.50%, with the accompanying statement suggesting a moderation in the Bank's hawkish stance. New Zealand's Q2 headline annual CPI declined to +3.3% from +4.0% in Q1, 0.1% below consensus and better than the RBNZ's May forecast of +3.6%.

The MSCI World ex-Aus Index rose +1.70% for the month of July:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+1.13%	+9.66%	+20.34%	+7.91%	+13.13%	+11.08%
MSCI World ex-AUS	+1.70%	+8.08%	+16.75%	+5.29%	+10.48%	+7.82%
S&P ASX 200 Accum. Index	+4.19%	+6.21%	+13.53%	+7.44%	+7.52%	+8.03%

Source: S&P, MSCI



Domestic Market

The minutes from the RBA's June meeting provided no surprises, but highlighted the central bank's hawkish stance with the implication that it may increase the cash rate if it believes inflation would not return to the mid-point of its target band by mid-2026.

The consumer price index (CPI) rose +1.0% in the June quarter, in line with expectations, and +3.8% annually (up from +3.6% in the March quarter). The trimmed mean rose +0.8% for the quarter, taking the annual rate to +3.9% (from +4.0% the previous quarter).

The seasonally adjusted unemployment rate rose by 0.1% to 4.1% in June, in line with consensus. Employment rose by around 50,000 people and the number of unemployed grew by 10,000 people. The participation rate rose to 66.9% from 66.8%.

Pressure in the labour market continues to ease, with forward indicators continuing to soften. That said, job vacancies remain elevated pointing to ongoing resilience in the near-term.

Retail sales for the month of June rose +0.5% m/m vs. +0.2% consensus, and continued the strong growth seen in May of +0.6% m/m.

APRA finalised the targeted reforms to banks' liquidity and capital requirements with the reforms prompted by the US and European banking problems seen last year. APRA confirmed that, as previously proposed, it would require those smaller banks subject to the Minimum Liquidity Holdings (MLH) regulatory regime to adjust the value of their liquid assets regularly to reflect movements in market prices.

Australia and New Zealand Banking Group Ltd (ANZ) completed its acquisition of Australia-based bank Suncorp-Metway Ltd on 31st July 2024. Suncorp-Metway was upgraded by S&P to AA- effective that day.

The Australian dollar fell -2.01%, finishing the month at US64.91 cents (from US66.24 cents the previous month).

Credit Market

The global credit indices tightened across the board in July. They remain at their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	July 2024	June 2024
CDX North American 5yr CDS	52bp	54bp
iTraxx Europe 5yr CDS	55bp	62bp
iTraxx Australia 5yr CDS	65bp	71bp

Source: Markit



Fixed Interest Review

Benchmark Index Returns

Index	July 2024	June 2024
Bloomberg AusBond Bank Bill Index (0+YR)	+0.37%	+0.35%
Bloomberg AusBond Composite Bond Index (0+YR)	+1.48%	+0.77%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.52%	+0.41%
Bloomberg AusBond Credit Index (0+YR)	+1.56%	+0.44%
Bloomberg AusBond Treasury Index (0+YR)	+1.48%	+0.69%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+1.74%	+0.55%

Source: Bloomberg

Other Key Rates

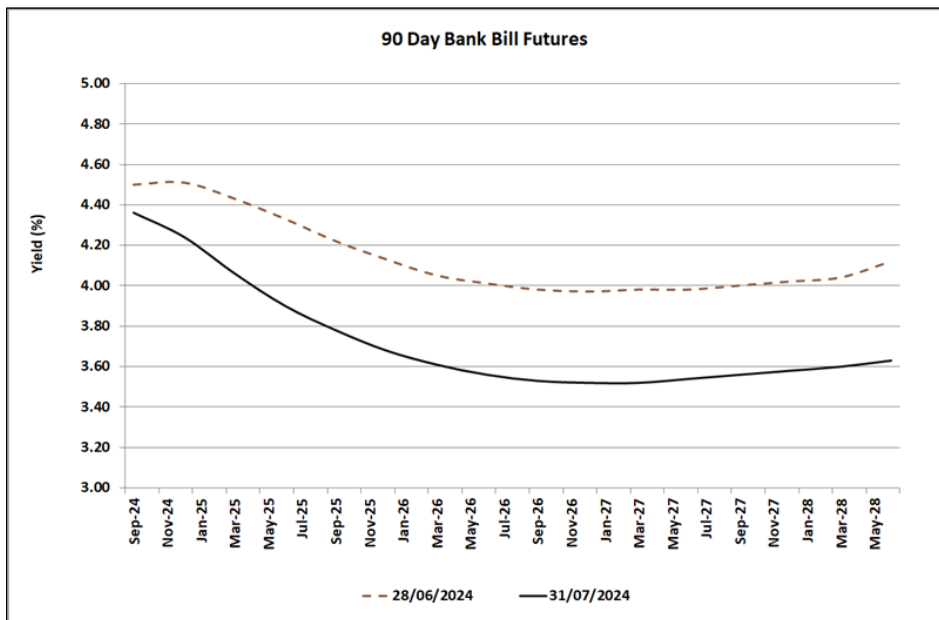
Index	July 2024	June 2024
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.49%	4.45%
3yr Australian Government Bonds	3.76%	4.07%
10yr Australian Government Bonds	4.11%	4.31%
US Fed Funds Rate	5.25%-5.50%	5.25%-5.50%
2yr US Treasury Bonds	4.29%	4.71%
10yr US Treasury Bonds	4.09%	4.36%

Source: RBA, ASX, US Department of Treasury



90 Day Bill Futures

Bill futures fell across the board this month, following the movement in the global bond market.



Source: ASX

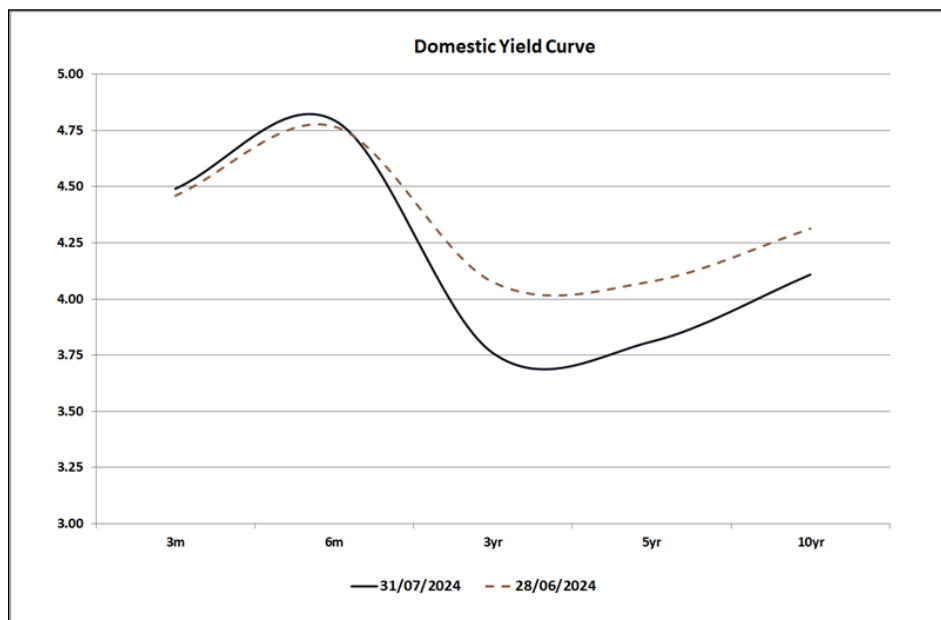


Fixed Interest Outlook

US Fed Chair Powell commented that policy “*seems restrictive*” but not severely so and believes the neutral rate has “*probably risen*” from the intercrisis era. He also commented that the Fed is becoming more convinced that inflation is headed back to its 2% target and that the Fed would cut rates before the pace of price increases actually reached that point. The futures market expects the policy rate would be cut 2-3 times this year, down from at least 3-5 reductions earlier this year. The longer-run median US Fed dot plot is currently around 2.80%.

Domestically, as is the case with most central banks at the moment, the RBA is waiting for current economic data to show a clear trend before taking any decisive action. After a softer than expected inflation print on 31st July, the RBA will continue to be able to forecast inflation around the midpoint of the target by 2026 and is likely to temper some of the discussion of upside risk to the inflation outlook evident in June. Despite Q2 inflation coming in better than feared, inflation still remains too high, and has shown less progress than the RBA had been expecting. The conditions for a cut remain a long way off, partially due to a tight labour market, whilst gradually cooling, remains resilient.

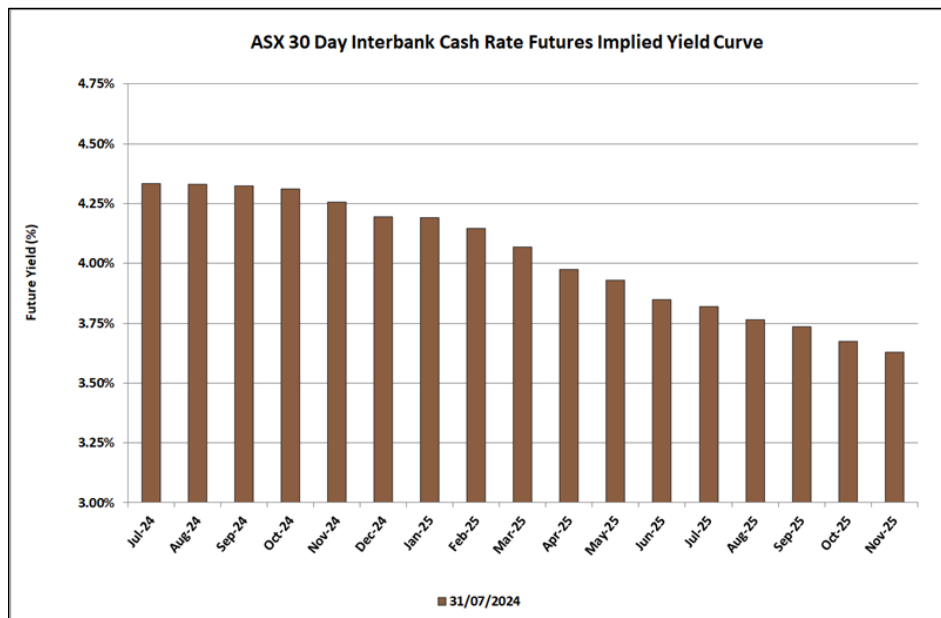
Over the month, longer-term yields fell up to 30bp at the very long end of the curve (remains an inverse yield curve):



Source: ASX, RBA



The market is now factoring no further rate hikes for the remainder of the calendar year. Financial markets have moved up their expectations of rate cuts, with the first cut pencilled in by the end of Q1 2025.



Source: ASX

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