Item: 10.07

Subject: INVESTMENTS - MAY 2019

Presented by: Corporate Performance, Rebecca Olsen

Alignment with Delivery Program

1.5.1 Manage Council's financial assets and provide accurate, timely and reliable information.

RECOMMENDATION

That Council note the Investment Report for the month of May 2019.

Executive Summary

- Total funds invested as at 31 May equals $291,779,651.
- Interest for the month of May was $733,490.
- The year-to-date investment income of $7,916,170 represents 93% of the total revised annual investment income budget of $8,472,800.
- Council's total investment portfolio performance for the financial year to date was 1.00% above the benchmark (3.01% against 2.01%). Benchmark being the Bank Bill reference rate as at 31 May 2019.

Discussion

Council has engaged Imperium Markets to provide both an investment management platform and investment advisory service. This decision was based on the need to provide more rigour and transparency around investment choices and to provide a sound framework to support the need for increased financial sustainability into the future.

The attached investment report and portfolio provides detailed information on the performance of council's investment portfolio.

Overview

Councils (including Port Macquarie-Hastings Council) provide a broad range of services and associated infrastructure to their communities. These services include (but are not limited to) the following:

- Water and Sewer services;
- Waste services;
- Port Macquarie Airport;
- Cemeteries;
- Roads and Bridges;
- Various Recreation and Cultural facilities.

The Port Macquarie-Hastings area is a high growth centre of the North Coast region and is expected to accommodate a significant proportion of regional growth over the next two decades. As a consequence of this growth, Council must not only provide services to the existing community and maintain existing assets, but Council must also plan for future maintenance and capital expenditure on the infrastructure that will be needed to support the community, business and visitors to the area into the future.

An independent analysis was conducted on Council's financial reserves. The review found:

- The Port Macquarie-Hastings local government area has experienced an unprecedented level of development activity. Whilst this has increased the level of reserves held through developer contributions, councils experiencing a high level of development activity require relatively high levels of reserves in order to adequately cope with the required levels of infrastructure spending.
- Council's reserve levels to be broadly appropriate and reasonable in light of Council's circumstances. In particular, that Council has successfully maintained a prudent buffer to prepare against potential financial risks associated with the predicted high development activity.

The full report is available on Council's website:

http://www.pmhc.nsw.gov.au/About-Us/What-Council-Does/Corporate-Planning-Reporting-Budgets/Financial-Reports?BestBetMatch=financial%20reserves|cdbad291-68a4-4d81-8aee-b3733958e5ca|bd0cff62-3134-4e81-9f7e-de4e65feb428|en-AU

Current Investments

Council is required to undertake investments in accordance with section 625 of the Local Government Act 1993. This report provides details of Council's investments, and certifies that all funds that Council has invested as at 31 May 2019, comply with this Act.

All investments have been made in accordance with the Act and Regulations, and Council's Investment Policy.

As at 31 May 2019, the investments held by Council totalled $291,779,651 and were attributed to the following funds:

General Fund	117,333,351
Waste Fund	17,763,545
Water Fund	95,584,096
Sewer Fund	59,636,843
Sanctuary Springs Fund	37,931
Broadwater	1,423,885
	291,779,651

Whilst the current level of investments remains high, these largely relate to funds which have legal restrictions (for example water and sewer), or for funds held for specific purposes.

These funds may be spent in the shorter or longer term depending on the required timing of future works. The totals will fluctuate dependent on the status of individual projects.

Options

This is an information report.

Community Engagement & Internal Consultation

Council uses the services of an independent financial advisor, on an ongoing basis with investments. The investments placed this month were term deposits. At least three quotes were obtained from financial institutions in line with Council's Investment Policy. Council obtains regular updates regarding market activities positions from various institutions.

Planning & Policy Implications
There are no planning and policy implications in relation to this report.

Financial & Economic Implications
Benchmark and budget levels have been met on a year to date basis. On an annual basis, if benchmark levels are not reached, then this may result in budget cuts in other areas to fund the shortfall.

Council's total investment portfolio performance for the financial year to date is 1.00% above the benchmark (3.01% against 2.01%) and year to-date income is 93% of the total revised annual budget.

It should be noted that investment income is noted as a gross amount. Section 97(5) of the Local Government Act 1993 indicates that any security deposit held with Council must be repaid with interest accrued. These security deposits will only relate to bonds held for security to make good damage done to works.

The overall investment income will be adjusted at financial year end by the total interest refunded on repayment of bonds. As Council constantly receives and refunds bonds, it is difficult to accurately determine the quantum of these refunds.

<u>Certification</u>

I hereby certify that the investments listed within this report were made in accordance with Section 625 of the Local Government Act 1993, clause 212 of the Local Government (General) Regulation 2005 and Council's Investment Policy.

Nicole Spencer
Responsible Accounting Officer

Attachments

1. Port Macquarie-Hastings Council Monthly Report - May 2019
2. Port Macquarie-Hastings Council Portfolio as at 31 May 2019

PORT MACQUARIE-HASTINGS COUNCIL

Monthly Investment Report

May 2019

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Executive Summary

Compliance

Compliance Measure	Within Policy Limits (Y/N)	Reason if Not Compliant
Term to Maturity	Yes – Compliant	n/a
Counterparty	Yes – Compliant	n/a
Credit Quality	Yes – Compliant	n/a

Performance

As at 31/05/2019	1m (actual)	1m (% p.a.)	FYTD (actual)	FYTD (% p.a.)
AusBond Bank Bill Index	0.15%	1.79%	1.84%	2.01%
Council's Portfolio^	**0.25%**	**2.98%**	**2.76%**	**3.01%**
Outperformance	0.10%	1.19%	0.92%	1.00%

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

Council's Portfolio

Asset Allocation

The entire portfolio is directed to fixed term deposits (96.99%) and the cash account with Westpac (3.01%). Should credit securities become more attractive relative to deposits, we would consider introducing liquid senior floating rate notes (FRNs) into the portfolio. 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). FRNs are also dominated by the higher rated ADIs which allows Council to maintain a bias towards to the higher rated banks.

Term to Maturity

All maturity limits (minimum and maximum) comply with the Investment Policy. Medium-Term (3-5 years) assets account for around 8% of the total investment portfolio, with capacity of around $94m at month-end.

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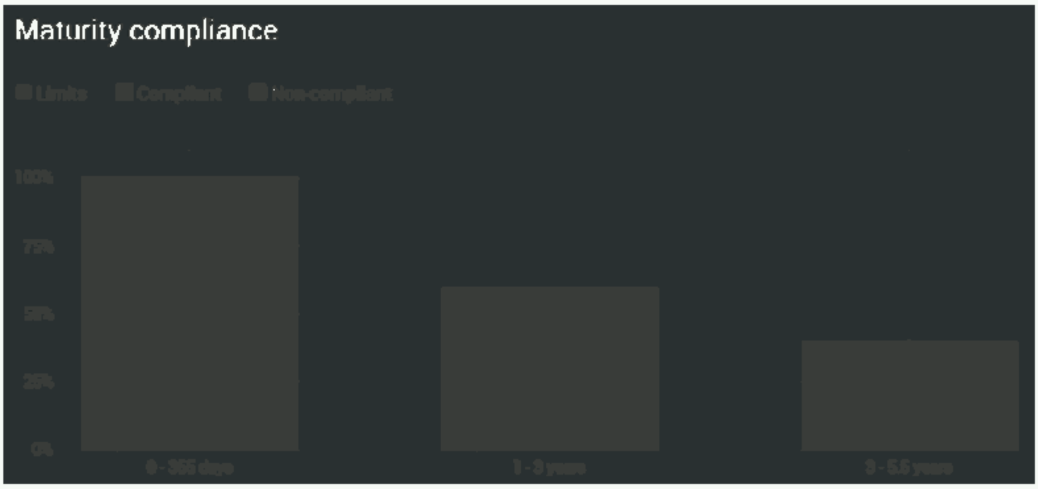

Where there is (counterparty) capacity to invest in attractive 3-5½ year investments, we recommend this be allocated to new senior FRN issues and fixed or floating rate term deposits (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 – 365 days	$116,779,651	40.02%	0%	100%	$175,000,000
✓	1 – 3 years	$152,000,000	52.09%	0%	60%	$23,067,791
✓	3 – 5.5 years	$23,000,000	7.88%	0%	40%	$93,711,861
✓	5.5 – 10 years	$0	0.00%	0%	20%	$58,355,930
		291,779,651	**100.00%**			

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Counterparty

As at the end of May, Council did not have an overweight position to any single ADI. Overall, the portfolio is diversified across the investment grade credit spectrum (rated BBB- or higher), with no exposure to unrated ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$3,000,000	1.03%	30.00%	$84,533,895
✓	NAB	AA-	$51,000,000	17.48%	30.00%	$36,533,895
✓	WBC (St George)	AA-	$86,779,651	29.74%	30.00%	$754,244
✓	Rabobank	A+	$13,000,000	4.46%	20.00%	$45,355,930
✓	AMP	A	$5,000,000	1.71%	20.00%	$53,355,930
✓	ICBC Sydney	A	$42,000,000	14.39%	20.00%	$16,355,930
✓	ING Bank	A	$38,000,000	13.02%	20.00%	$20,355,930
✓	BOQ	BBB+	$21,000,000	7.20%	10.00%	$8,177,965
✓	Bendigo	BBB+	$4,000,000	1.37%	10.00%	$25,177,965
✓	Auswide	BBB	$5,000,000	1.71%	10.00%	$24,177,965
✓	ME Bank	BBB	$2,000,000	0.69%	10.00%	$27,177,965
✓	Newcastle PBS	BBB	$21,000,000	7.20%	10.00%	$8,177,965
			$291,779,651	**100.00%**		

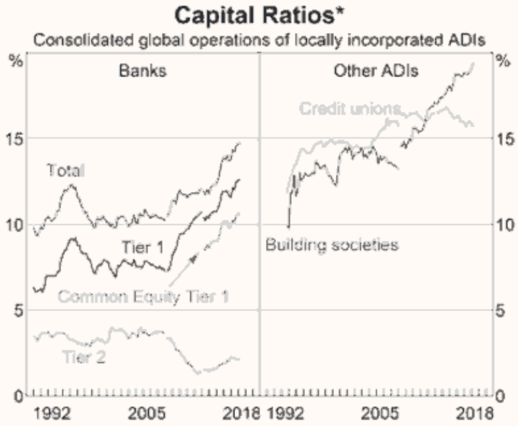
We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 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 which hypothetically increased the unemployment rate to 11% (more than double the current rate) and for house prices to fall 35% showed the banks remained above the minimum capital levels. We note that APRA's latest discussion paper also highlighted that the domestic major banks were required to raise more capital while the lower rated ADIs were already deemed to be at a satisfactory level.

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.

The biggest single risk that depositors face in the current low interest rate environment is not credit risk, but reinvestment risk.



* 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

Credit Quality

The portfolio remains lightly diversified from a credit ratings perspective. The portfolio is entirely directed to the investment grade ADIs (BBB- or higher), with zero allocation to unrated ADIs. There is high capacity to invest in the higher rated ADIs (A or higher), particularly after the downgrades of BoQ and Bendigo-Adelaide Bank in May 2017, which now fall back into the "BBB" rated category.

There is also considerable capacity to invest with the "BBB" rated ADIs following the adoption of a new policy.

Given the large number of "BBB" rated ADIs currently in the market (and conversely, the low number of "A" or higher rated ADIs), we suggest Council direct new funds into this sector. We note that it is within this category where the most value is currently experienced. The difference in pricing can amount up to 10-20bp on any day.

All ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$140,779,651	48.25%	100%	$151,000,000
✓	A Category	$98,000,000	33.59%	60%	$77,067,791
✓	BBB Category	$53,000,000	18.16%	30%	$34,533,895
✓	Unrated ADIs	$0	0.00%	10%	$29,177,965
		$291,779,651	**100.00%**		

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Performance

Council's performance for the month ending 31 May 2019 is summarised as follows:

Performance	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.13%	0.38%	0.75%	1.38%	1.50%
AusBond Bank Bill Index	0.15%	0.48%	0.99%	1.84%	1.99%
Council's Portfolio^	**0.25%**	**0.75%**	**1.49%**	**2.76%**	**3.01%**
Outperformance	**0.10%**	**0.26%**	**0.50%**	**0.92%**	**1.02%**

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

For the month of May, the deposit portfolio provided a solid return of +0.25% (actual), outperforming the benchmark AusBond Bank Bill Index return by +0.10% (actual). The strong performance continues to be driven by the handful of deposits still yielding above 3½% p.a. However, most of these individual deposits have now matured and will be reinvested at lower prevailing rates.

Over the past year, the deposit portfolio returned +3.01% p.a., outperforming bank bills by 1.02% p.a. and more than double the official cash rate of 1½%. This has been relatively strong given deposit rates reached their all-time lows and margins have generally contracted over the past 3 years.

Investors using the Imperium Markets platform have reduced the invisible costs associated with brokerage, and thereby lift client portfolio returns as investors are able to deal in deposits directly with the ADIs and execute at the best price possible. Council has experienced this over the past 12-18 months, receiving on average, 2-4bp higher for every deposit dealt on the platform.

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Council's Term Deposit Portfolio & Recommendation

As at the end of May 2019, Council's deposit portfolio was yielding 2.95% p.a. (down 3bp from the previous month), with an average duration of ~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 1½% (potentially lower over coming months).

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 over the post-GFC period. Another interest rate cut is highly anticipated over coming months**.

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

ADI	LT Credit Rating	Term	T/D Rate
Judo Bank	Unrated ADI	3 years	~2.65% p.a.
BoQ	BBB+	5 years	~2.55% p.a.
BoQ	BBB+	4 years	~2.40% p.a.
BoQ	BBB+	3 years	~2.25% p.a.
BoQ	BBB+	2 years	~2.20% p.a.

For those investors that have capacity issues with the "BBB" and unrated ADI sector, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
AMP	A-	2 years	^2.40% p.a.

^ AMP T/Ds – these are grossed up rates which includes a 0.20% p.a. rebated commission from Imperium Markets. Temporarily lift to around $7m cap (requires approval), applies per individual investor.

The above deposits are suitable for investors looking to provide some income protection and mitigate reinvestment/rollover risk in the low interest rate environment, and particularly with further interest rate cuts imminent on the horizon.

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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):

ADI	LT Credit Rating	Term	T/D Rate
Judo Bank	Unrated ADI	12 months	2.65% p.a.
Judo Bank	Unrated ADI	9 months	2.55% p.a.
Judo Bank	Unrated ADI	6 months	2.45% p.a.
Auswide	BBB	9-12 months	2.30% p.a.
ME Bank	BBB	3-6 months	2.29% p.a.
Auswide	BBB	6 months	2.25% p.a.

Excluding AMP (A-), we note the spread between the higher rated ADIs and the lower rated regional and unrated ADIs is becoming wider. 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
AMP	A-	6 months	^2.65% p.a.
AMP	A-	7 months	^2.55% p.a.
AMP	A-	8-9 months	^2.50% p.a.
AMP	A-	10-12 months	~2.45% p.a.
Suncorp	A+	3 months	2.22% p.a.
Suncorp	A+	4-6 months	2.20% p.a.
NAB	AA-	3-7 months	2.20% p.a.

^ AMP T/Ds – these are grossed up rates which includes a 0.20% p.a. rebated commission from Imperium Markets. Temporarily lift to around $7m cap (requires approval), applies per individual investor.

IMPERIUM MARKETS

Senior FRNs & Recommendations

Over May, amongst the senior major bank FRNs, physical credit securities were marked marginally wider. The 3 and 5 year part of the curve widened by around +1bp and +2bp respectively. During the month, Westpac (AA-) issued a new dual 3 and 5¼ year 'benchmark' FRN issue at +62bp and +88bp respectively.

We continue to see good value for a new 5 year senior major bank FRN (offered at around +87bp), given the slight premium offered in the primary market, and particularly once factoring in the potential capital gains which could be realised from as early as two years after being launched. **The grossed up return would be closer to around +120-125bp over a 2 year holding period in a relatively stable credit environment**, over and above where the highest margins are paying compared to the medium to longer-dated deposits.

We continue to see better value in longer tenors (i.e. favour 5 year terms over 3 year terms) amongst the "AA" rated ADIs due to their high liquidity and ability to 'roll down the curve' over a 2-2½ year holding period.

Collectively over the month, the "A" rated cohort remained relatively flat at the 5 year part of the curve. Meanwhile, the "BBB" rated ADIs tightened -5p to +105bp over the 3 year part of the curve, after RACQ (BBB+) launched a small $60m issue at +105bp, which we thought was fair value. There remains very little turnover (traditionally) in the secondary market amongst the lower regional ADIs.

Overall, credit remains tight on a historical basis but much more attractive after the earlier correction experienced in credit markets over December 2018 / early January 2019. While rate cuts are now expected in the immediate future, FRNs continue to play a role once factoring in their liquidity and the ability to roll down the curve and gross up returns in a relatively stable credit environment.

Senior FRNs (ADIs)	31/05/2019	30/04/2019
"AA" rated – 5yrs	+87bp	+86bp
"AA" rated – 3yrs	+63bp	+61bp
"A" rated – 5yrs	+120bp	+120bp
"A" rated – 3yrs	+95bp	+92bp
"BBB" rated – 3yrs	+105bp	+110bp

Source: IBS Capital

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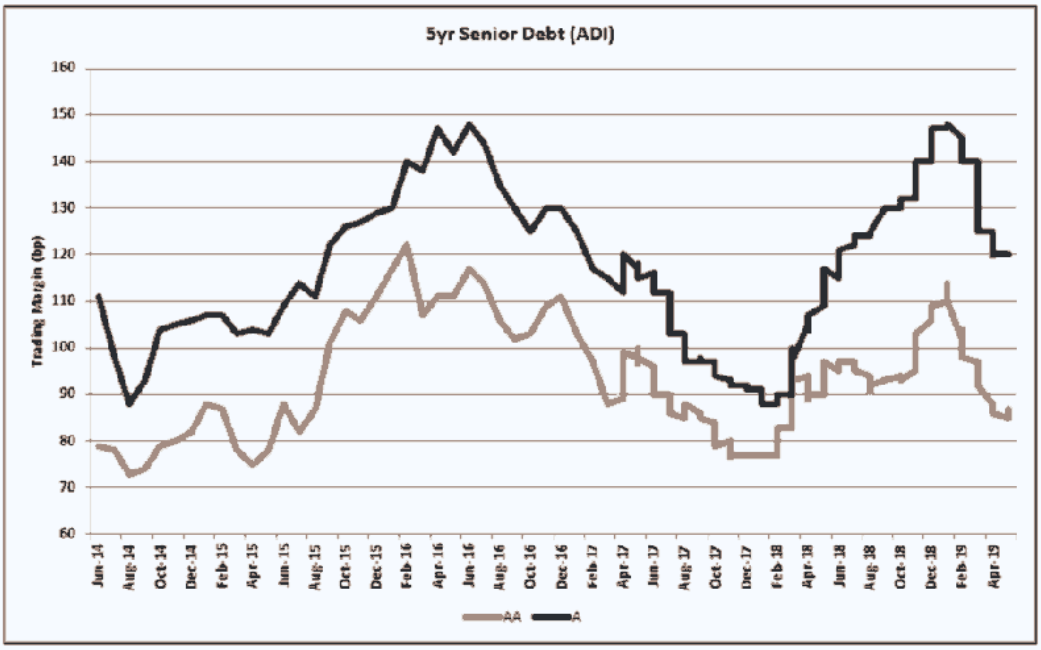

Source: IBS Capital

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-2022 for the "AA" rated ADIs (domestic major banks)**;
- On or before 2020 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.

We recommend Council starts introducing liquid senior FRNs into the portfolio, potentially starting with the domestic major banks when a new attractive issue is launched. We will inform Council when there is an opportunity to do so.

IMPERIUM MARKETS

Economic Commentary Review

International Market

International equity markets suffered a rout in May amid signs of a slowdown in global growth and heightened US-China trade tensions. In the US, **the S&P 500 Index fell -6.58% for the month**, **while the NASDAQ plunged -7.93%**. Across Europe, the main economies also suffered significant losses, led by France's CAC (-6.78%), Germany's DAX (-5.00%) and UK's FTSE (-3.46%). Italy's share index came close to within an official correction territory (-9.50%).

US CPI for April came in on the softer side. Both headline and core inflation were a tenth below consensus. **Core CPI was +2.1% in year-terms**. After the **US Fed kept their target range unchanged at 2.25%-2.50%**, Fed Chair Powell described the factors that have recently held down core inflation as "*transitory*".

President Trump used a Florida rally to ramp up the rhetoric against China insisting their leaders had "*broke the deal*". After the US lifted tariffs on $200bn worth of China imports, China retaliated by increasing tariffs on $60bn of US imports by up to 25%.

President Trump announced that the US would be lifting steel and aluminium tariffs on Mexico and Canada. Canada responded in kind, opening the door for Congress to ratify the US-Mexico-Canada Agreement.

The US unemployment rate came in at a 49 year low of 3.6% in April, partially due to falling participation (-490k for the month). Wage growth came in at +0.2% m/m or +3.2% y/y.

Eurozone GDP and unemployment both beat market expectations. Q1 GDP came in at +0.4% q/q against +0.3% expected, taking the annual rate to +1.2% y/y. Italy appeared to be stabilising after having been in technical recession (Italy Q1 GDP +0.2% q/q and +0.1% y/y). The unemployment rate beat expectations by a tenth, coming in at 7.7%, with notable falls for Italy (10.2% from 10.5%) and Spain (14.0% from 14.2%).

Theresa May announced she will stand down as prime minister on June 7, after insurmountable pressure for her to quit reached a critical point following her Brexit failures.

China's industrial production growth – the output of industrial sectors in **China's economy**, including manufacturing – fell to 5.4% in April from 8.5% in March. **Retail sales grew by +7.2% in April, well below +8.7% rate in March and the lowest in 13 years**.

The MSCI World ex-AUS fell -6.22% for the month of May.

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-6.58%	-1.16%	+1.73%	+9.49%	+7.43%	+11.59%
MSCI World ex-AUS	-6.22%	-1.97%	-2.22%	+6.97%	+3.79%	+7.88%
S&P ASX 200 Accum. Index	+1.71%	+4.88%	+11.08%	+10.60%	+7.74%	+10.05%

Source: S&P, MSCI

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Domestic Market

The RBA kept interest rates unchanged in its meeting in May, after markets and economists were roughly split on whether rates would be cut. While the RBA cut its near-term growth and inflation forecasts, and delayed the return of inflation to the lower part of the band until 2020 (from 2019) – the Bank continues to forecast a central scenario of trend or above-trend GDP growth of 2.75% over 2019 and 2020 and some further improvement in the unemployment rate, though not until 2021 (effectively an unchanged unemployment rate at 5% over 2019 and the first half of 2020).

A few weeks later in mid-May, RBA Governor Lowe said in a speech that, "*at our meeting in two weeks' time, we will consider the case for lower interest rates*". Lowe conceded that increasing evidence of a weaker economy underpinned their shift to an easing bias, suggesting that lower unemployment was needed for the Board to stay on hold.

The unemployment rate has steadily jumped from its 8-year low of 4.9% in February, to 5.1% in March and 5.2% in April. Employment rose +28k in April, driven by higher part-time employment. The rise in the unemployment rate was also driven by rising participation from 65.7% to 65.8%. The underemployment rate rose from 8.2% to 8.5%, the highest level since July 2008.

The RBA admitted that NAIRU is likely to be much lower than earlier expected (now 4.5% from 5.0%), like many other advanced economies. Governor Lowe also called for additional fiscal support, including infrastructure investment, and structural policies that support investment and hiring.

Retail sales volumes recorded a weak quarter, falling -0.1% in Q1 2019, which was the first fall since 2012 and followed an unchanged outcome in Q4 2018 (revised down from a +0.1% gain).

Wages rose by +0.5% in Q1, keeping annual growth unchanged at +2.3% for the third quarter in a row. Private sector wages recorded an increase of +0.5% in Q1, following an increase of +0.6% in Q4 2018, signalling signs that wage growth remains low.

The Coalition pulled off a remarkable victory in the Federal election, defying predictions from the polls and betting markets, while forming a majority government.

The Australian Prudential Regulation Authority (APRA) removed its guidance in which Australian mortgage lenders needed to assess whether borrowers can afford their repayment obligations using a minimum interest rate of at least 7% or 2% above the prevailing borrowing rate – whichever is the highest – to be replaced by a rule that **serviceability should be assessed against a rate 2.5% above the prevailing rate**.

Residential building approvals fell by -4.7% in April, as both house and apartment approvals continued to fall.

In equity markets, Australia beat the global trend with the S&P ASX 200 Accumulation Index gaining +1.71% on the back of the surprise Federal election outcome as well as growing expectations of stimulus from the RBA (interest rate cuts).

The Australian dollar fell another -1¾% this month, finishing at US69.16 cents (from US70.39 cents the previous month).

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Credit Market

The main global credit indices significantly widened over May, marked around 20% wider across the board. Credit spreads are now back to where they were earlier in the year:

Index	May 2019	April 2019
CDX North American 5yr CDS	70bp	58bp
iTraxx Europe 5yr CDS	71bp	58bp
iTraxx Australia 5yr CDS	78bp	66bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	May 2019	April 2019
Bloomberg AusBond Bank Bill Index (0+YR)	+0.15%	+0.16%
Bloomberg AusBond Composite Bond Index (0+YR)	+1.70%	+0.28%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.17%	+0.35%
Bloomberg AusBond Credit Index (0+YR)	+1.19%	+0.57%
Bloomberg AusBond Treasury Index (0+YR)	+2.09%	+0.19%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+3.09%	+0.82%

Source: Bloomberg

Other Key Rates

Index	May 2019	April 2019
RBA Official Cash Rate	1.50%	1.50%
90 Day (3 month) BBSW Rate	1.42%	1.56%
3yr Australian Government Bonds	1.10%	1.28%
10yr Australian Government Bonds	1.46%	1.79%
US Fed Funds Rate	2.25%-2.50%	2.25%-2.50%
10yr US Treasury Bonds	2.12%	2.51%

Source: RBA, AFMA, US Department of Treasury

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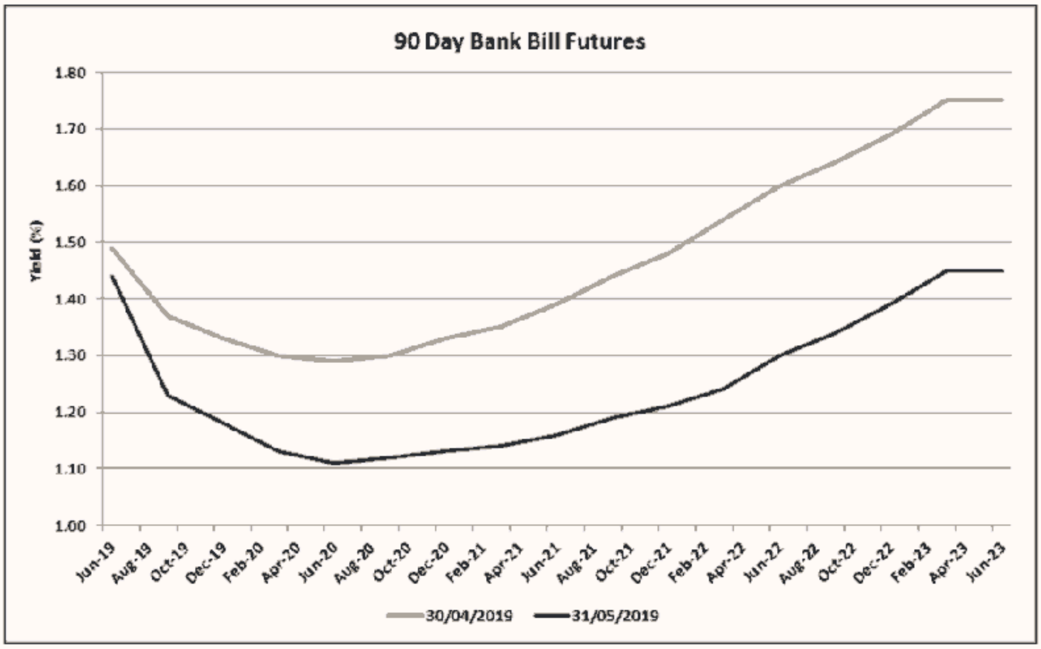
90 Day Bill Futures

Over May, bill futures fell across the curve on pricing expectations of multiple RBA rate cuts for the remainder of 2019. **At month-end, the futures market was factoring a 100% chance of a 25bp rate cut on 4th June 2019, while fully pricing in another 25bp rate cut by October 2019.**



Source: ASX

Fixed Interest Outlook

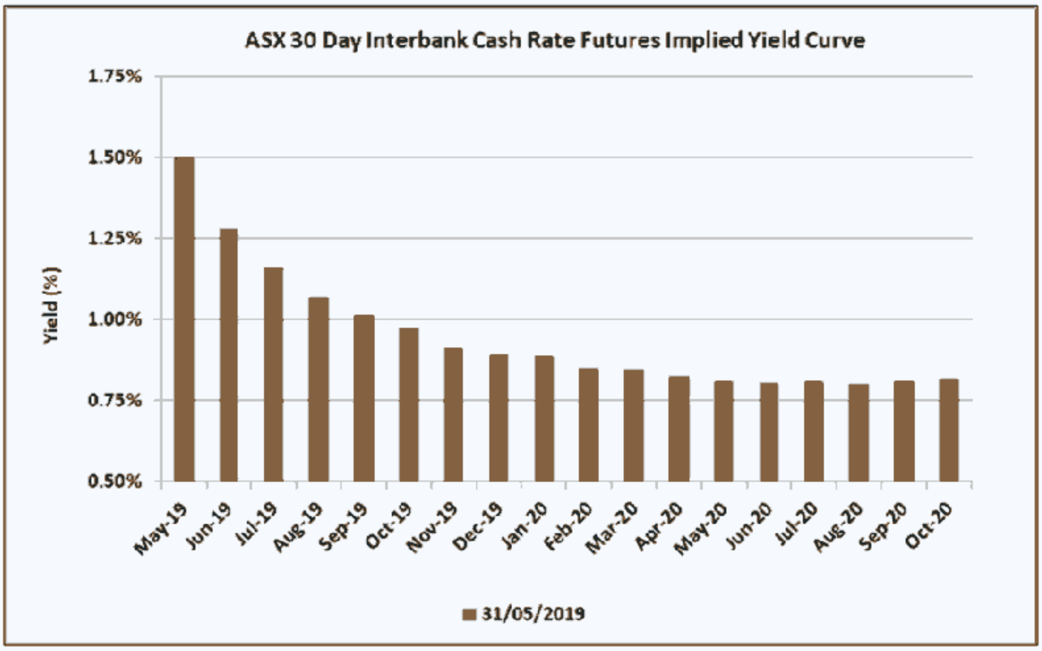
With the global economy and US inflation showing signs of softening, along with the ongoing trade wars, this could see the Fed cutting interest rates before the end of 2019. The market is currently factoring around an 80% chance that the Fed will cut rates by September.

Domestically, the RBA has openly shifted towards an easing bias, signalling a rate cut in early June. For inflation, wage growth and employment to pick-up, the RBA has conceded that a rate cut is likely to be required (they also encouraged fiscal stimulus from the government).

Housing concerns are closely being monitored with the fall in house prices (mainly in Sydney and Melbourne) being acknowledged as having an impact on the 'wealth effect' towards consumers.

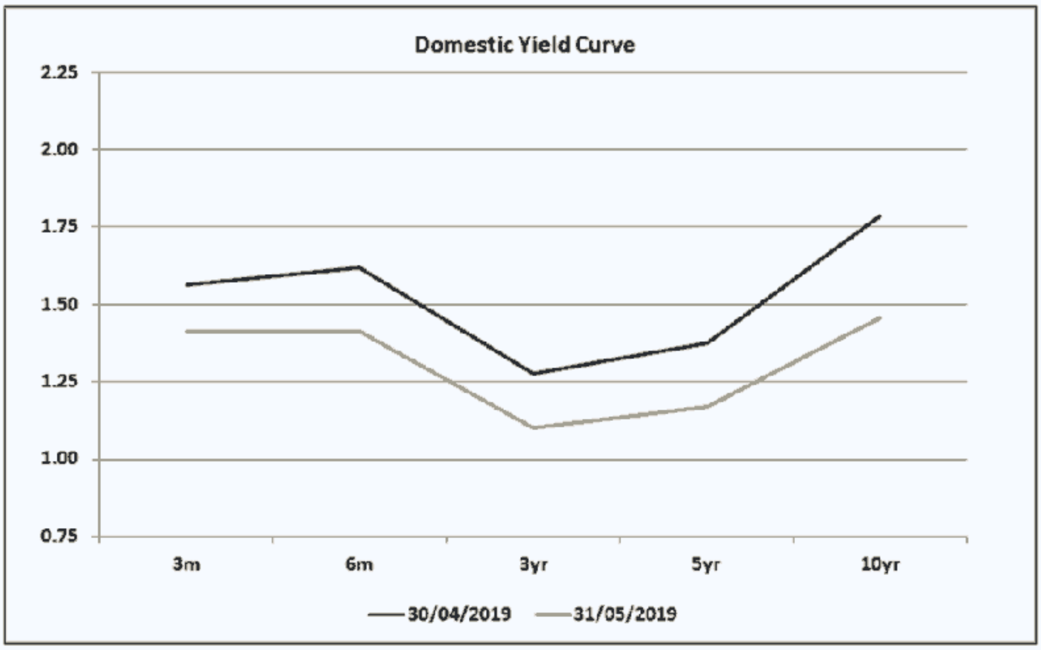
The global key risks for the RBA stem from the impact of international trade wars and a slowdown in the Chinese economy, US inflation and a broader slowdown in the global economy. Domestically, they are focused on employment, inflation, wage growth, housing and consumption. As a result of these uncertainties, the Bank remains cautious and is now seemingly ready to adjust interest rates as early as June.

The futures market is now clearly focused on a rate cut **with the prospect of a 25bp move on 4th June seen as a 100% scenario**. Economists are now predicting the RBA will be forced to cut multiple times this year on expectations of a slowdown in the domestic and global economy, household finances impacting consumer confidence and a further downturn in residential property.



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 up to -33bp at the longer end of the curve:



Source: AFMA, ASX, RBA

Disclaimer

PORT MACQUARIE-HASTINGS
COUNCIL

Monthly Investment Report

01/05/2019 to 31/05/2019

IMPERIUM MARKETS

Portfolio valuation

PORT MACQUARIE-HASTINGS COUNCIL

As at 31/05/2019

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate	Value	Accrued	AccrMTD	Ref
Westpac	AA-	TD	Qtly	29/05/2018	11/06/2019	2.7100	3,000,000.00	668.22	668.22	6775257
Bendigo and Adelaide	BBB+	TD	Annual	07/07/2016	08/07/2019	3.1500	2,000,000.00	56,441.10	5,350.68	1986640
NAB	AA-	TD	Maturity	17/07/2018	16/07/2019	2.7800	2,000,000.00	48,592.88	4,722.19	GMI-DEAL-10549241
Westpac	AA-	TD	Annual	24/07/2017	24/07/2019	2.9400	4,000,000.00	100,523.84	9,987.95	032-697 114230
Westpac	AA-	TD	Annual	15/08/2016	15/08/2019	3.1000	3,000,000.00	73,890.41	7,898.63	032-586 511-284
Newcastle Permanent	BBB	TD	Annual	15/08/2016	15/08/2019	3.0000	2,000,000.00	47,671.23	5,095.89	31125
Westpac	AA-	TD	Annual	22/08/2017	22/08/2019	2.9000	3,000,000.00	67,454.79	7,389.04	032-697 115436
ING Direct	A	TD	Annual	22/08/2017	22/08/2019	2.7500	5,000,000.00	106,609.59	11,678.08	26932
Commonwealth Bank	AA-	TD	Annual	04/09/2017	29/08/2019	2.7300	3,000,000.00	60,583.56	6,955.89	B37942904.6
Westpac	AA-	TD	Annual	04/09/2017	04/09/2019	2.9600	3,000,000.00	65,687.67	7,541.92	032-697 115 794
St George Bank	AA-	TD	Annual	08/09/2016	08/09/2019	3.2000	5,000,000.00	115,726.03	13,589.04	355290684
St George Bank	AA-	TD	Annual	27/09/2016	27/09/2019	3.2000	4,000,000.00	86,619.18	10,871.23	355333138
NAB	AA-	TD	Annual	11/07/2018	15/10/2019	2.8500	3,000,000.00	76,130.14	7,261.64	GMI-DEAL-10547992
ICBC Sydney Branch	A	TD	Annual	31/10/2018	29/10/2019	2.8300	4,000,000.00	66,059.18	9,614.25	00001
ICBC Sydney Branch	A	TD	Maturity	20/11/2018	12/11/2019	2.8600	5,000,000.00	75,613.70	12,145.21	0125001100000186702
ICBC Sydney Branch	A	TD	Annual	13/11/2018	19/11/2019	2.8600	4,000,000.00	62,684.93	9,716.16	00003
AMP Bank	A-	TD	Maturity	29/05/2019	25/11/2019	2.4500	5,000,000.00	1,006.85	1,006.85	
ICBC Sydney Branch	A	TD	Annual	28/11/2018	26/11/2019	2.8200	5,000,000.00	71,465.75	11,975.34	00006
Westpac	AA-	TD	Qtly	14/12/2018	10/12/2019	2.7300	3,000,000.00	17,726.30	6,955.89	7389786
Westpac	AA-	TD	Qtly	14/12/2018	17/12/2019	2.7300	4,000,000.00	23,635.07	9,274.52	7389774
Westpac	AA-	TD	Qtly	14/01/2019	14/01/2020	2.7200	5,000,000.00	17,512.33	11,550.68	7448784
Members Equity Bank	BBB	TD	Annual	24/01/2017	24/01/2020	3.2600	2,000,000.00	22,864.66	5,537.53	22835
ICBC Sydney Branch	A	TD	Maturity	20/02/2019	04/02/2020	2.7200	1,000,000.00	7,526.58	2,310.14	00010
ING Direct	A	TD	Annual	15/02/2018	17/02/2020	2.8700	4,000,000.00	33,339.18	9,750.14	30810
ING Direct	A	TD	Annual	28/02/2018	03/03/2020	2.8900	4,000,000.00	29,454.25	9,818.08	378133
Newcastle Permanent	BBB	TD	Annual	10/03/2016	10/03/2020	3.7000	2,000,000.00	16,624.66	6,284.93	29843
ING Direct	A	TD	Annual	02/03/2018	17/03/2020	2.8800	4,000,000.00	28,089.86	9,784.11	378677
Rural (Bendigo Group)	BBB+	TD	Maturity	18/04/2019	14/04/2020	2.5500	2,000,000.00	6,147.95	4,331.51	2952006
Auswide Bank	BBB	TD	Maturity	30/04/2019	29/04/2020	2.4500	5,000,000.00	10,739.73	10,404.11	

IMPERIUM MARKETS

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate	Value	Accrued	AccrMTD	Ref
BOQ	BBB+	TD	Annual	19/05/2017	19/05/2020	3.0000	3,000,000.00	2,958.90	2,958.90	453470
ING Direct	A	TD	Annual	22/05/2018	26/05/2020	2.9400	4,000,000.00	3,221.92	3,221.92	403498
ING Direct	A	TD	Annual	29/05/2018	09/06/2020	2.8800	3,000,000.00	710.14	710.14	6775257
Westpac	AA-	TD	Qtly	06/06/2018	16/06/2020	2.9100	5,000,000.00	34,680.82	12,357.53	6795148
NAB	AA-	TD	Annual	03/07/2018	07/07/2020	2.9000	5,000,000.00	132,287.67	12,315.07	10545823
NAB	AA-	TD	Annual	11/07/2018	14/07/2020	2.9200	3,000,000.00	78,000.00	7,440.00	GMI-DEAL-10547993
ING Direct	A	TD	Annual	21/08/2018	25/08/2020	2.8500	4,000,000.00	88,701.37	9,682.19	424329
ING Direct	A	TD	Annual	13/09/2018	08/09/2020	2.8700	4,000,000.00	82,089.86	9,750.14	429068
Westpac	AA-	TD	Annual	13/09/2017	14/09/2020	3.1700	3,000,000.00	68,003.01	8,076.99	032-697 116017
ING Direct	A	TD	Annual	13/09/2018	22/09/2020	2.8700	4,000,000.00	82,089.86	9,750.14	429067
NAB	AA-	TD	Annual	17/10/2018	13/10/2020	2.7800	4,000,000.00	69,157.26	9,444.38	GMI-DEAL-10573417
ICBC Sydney Branch	A	TD	Annual	31/10/2018	27/10/2020	2.9300	6,000,000.00	102,590.14	14,930.96	00002
ICBC Sydney Branch	A	TD	Annual	13/11/2018	10/11/2020	2.9300	5,000,000.00	80,273.97	12,442.47	00004
ICBC Sydney Branch	A	TD	Annual	05/12/2018	08/12/2020	2.8600	2,000,000.00	27,894.79	4,858.08	0125001100000186702
ICBC Sydney Branch	A	TD	Annual	14/12/2018	15/12/2020	2.8900	6,000,000.00	80,286.58	14,727.12	00009
BOQ	BBB+	TD	Annual	24/01/2017	25/01/2021	3.6500	2,000,000.00	25,600.00	6,200.00	438425
Westpac	AA-	TD	Annual	21/02/2017	22/02/2021	3.3900	2,000,000.00	18,575.34	5,758.36	032-586 519825
BOQ	BBB+	TD	Annual	10/03/2016	10/03/2021	3.8000	3,000,000.00	25,610.96	9,682.19	391843
ING Direct	A	TD	Annual	20/02/2019	16/03/2021	2.8200	2,000,000.00	15,606.58	4,790.14	475707
Westpac	AA-	TD	Qtly	22/03/2018	23/03/2021	3.0200	4,000,000.00	23,498.08	10,259.73	6791206
Westpac	AA-	TD	Qtly	22/05/2018	25/05/2021	3.1000	4,000,000.00	3,397.26	3,397.26	6927394
BOQ	BBB+	TD	Annual	29/05/2019	31/05/2021	2.3000	3,000,000.00	567.12	567.12	167170
Rabobank Australia	A+	TD	Annual	08/06/2017	07/06/2021	3.0200	5,000,000.00	148,104.11	12,824.66	25359
Westpac	AA-	TD	Qtly	06/06/2018	15/06/2021	3.1000	3,000,000.00	22,167.12	7,898.63	6795153
NAB	AA-	TD	Annual	03/07/2018	22/06/2021	3.0000	4,000,000.00	109,479.45	10,191.78	10545826
NAB	AA-	TD	Annual	03/07/2018	06/07/2021	3.0000	3,000,000.00	82,109.59	7,643.84	083-375 99-999-9947
Westpac	AA-	TD	Qtly	17/07/2018	13/07/2021	3.0400	5,000,000.00	18,739.73	12,909.59	7052868
NAB	AA-	TD	Annual	26/07/2018	20/07/2021	3.0400	4,000,000.00	103,276.71	10,327.67	GMI-DEAL-10552065
NAB	AA-	TD	Annual	02/08/2018	03/08/2021	3.0700	5,000,000.00	127,426.03	13,036.99	GMI-DEAL-10554251
Westpac	AA-	TD	Qtly	13/09/2018	14/09/2021	2.8800	5,000,000.00	31,561.64	12,230.14	7180013
NAB	AA-	TD	Annual	27/09/2018	28/09/2021	3.0500	5,000,000.00	103,198.63	12,952.05	GMI-DEAL-10568550
Westpac	AA-	TD	Qtly	13/09/2018	12/10/2021	2.8900	5,000,000.00	31,671.23	12,272.60	7179943
ICBC Sydney Branch	A	TD	Annual	05/12/2018	07/12/2021	3.0100	4,000,000.00	58,715.62	10,225.75	0125001100000186702
Newcastle Permanent	BBB	TD	Qtly	07/02/2019	08/02/2022	3.0500	4,000,000.00	8,356.16	8,356.16	1381/37459

IMPERIUM MARKETS

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate	Value	Accrued	AccrMTD	Ref
Westpac	AA-	TD	Annual	21/02/2017	21/02/2022	3.6100	2,000,000.00	19,780.82	6,132.05	23294
NAB	AA-	TD	Annual	21/02/2017	21/02/2022	3.4600	5,000,000.00	47,397.26	14,693.15	10420935
BOQ	BBB+	TD	Annual	15/03/2017	15/03/2022	3.8000	2,000,000.00	16,241.10	6,454.79	445483
Newcastle Permanent	BBB	TD	Qtly	12/03/2019	22/03/2022	2.9000	4,000,000.00	25,742.47	9,852.05	1684
Newcastle Permanent	BBB	TD	Annual	27/03/2019	29/03/2022	2.8000	5,000,000.00	25,315.07	11,890.41	
Newcastle Permanent	BBB	TD	Qtly	18/04/2019	19/04/2022	2.7000	4,000,000.00	13,019.18	9,172.60	1978
BOQ	BBB+	TD	Annual	28/05/2019	30/05/2022	2.4000	4,000,000.00	1,052.05	1,052.05	167130
Rabobank Australia	A+	TD	Annual	08/06/2017	07/06/2022	3.2200	5,000,000.00	157,912.33	13,673.97	25360
NAB	AA-	TD	Annual	02/08/2018	02/08/2022	3.2200	4,000,000.00	106,921.64	10,939.18	GMI-DEAL-10554252
NAB	AA-	TD	Annual	16/08/2018	16/08/2022	3.0500	4,000,000.00	96,597.26	10,361.64	GMI-DEAL-10557367
Westpac	AA-	TD	Annual	13/09/2017	13/09/2022	3.4100	3,000,000.00	73,151.51	8,688.49	032-697 116 009
Rabobank Australia	A+	TD	Annual	13/09/2017	13/09/2022	3.3800	3,000,000.00	72,507.95	8,612.05	27388
BOQ	BBB+	TD	Annual	28/05/2019	29/05/2023	2.5500	4,000,000.00	1,117.81	1,117.81	167127
Westpac	AA-	CASH	Month	31/05/2017	31/12/2150	2.2000	8,779,651.40	16,404.72	16,404.72	WESTPAC COMMERCIAL BANK 31 DAY NOTICE SAVER ACCOUNT
TOTALS							$291,779,651.40	$3,960,858.42	$662,705.54	

IMPERIUM MARKETS