CITY OF PARRAMATTA

Monthly Investment Report

November 2022

IMPERIUM MARKETS

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Summary

Market Update Summary

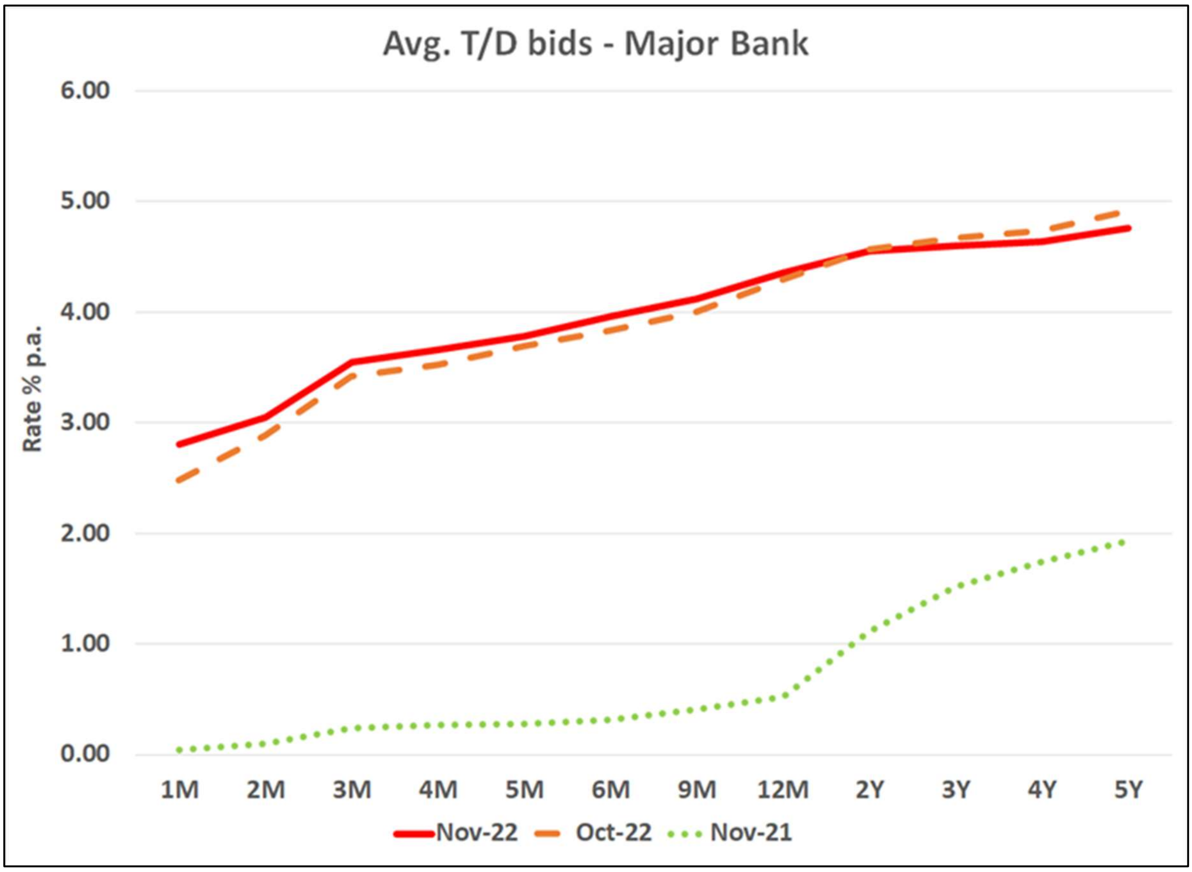
Investors have focused their attention on the US Fed messaging emphasising the likely need to move towards a lower pace of rate hikes in the near future. Domestically, RBA Governor Lowe repeated "*the Board expects to increase interest rates further over the period ahead*", which suggests the RBA will continue hiking by 25bp in the months ahead. The RBA has "*not ruled out returning to 50bp increases if that is necessary. Nor have we ruled out keeping rates unchanged for a time as we assess the state of the economy and the outlook for inflation*". By downshifting the pace of hikes, central banks are acknowledging that decisions are becoming more finely balanced as they tread a fine line of returning inflation to target, while avoiding significantly overtightening policy and slowing the economy more than needed.

Term Deposits

Term Deposits (fixed and floating) account for around 74% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 2.33% p.a. at month-end, with a weighted average duration of around 383 days or ~1.05 years. We note the following:

- The highest deposit rate from any rated ADI in the market is now ~5.00% p.a. for 5 years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 4.30%-4.55% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 4.30%-5.00% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 4.30%-4.80% p.a. (depending on terms between 12m – 5 years).

Despite more rate rises on the horizon, given an upward sloping deposit curve, maintaining a slightly longer duration position will continue to outperform (averaging) shorter durations. The deposit market has largely already factored in the current rate hike cycle, reflected by the flattening of the curve demonstrated by the longer-term tenors (+2yrs) over the past few months (the market is also factoring in a recession over coming years).



Source: Imperium Markets

'New' investments above 4¼-4½% p.a. now appears likely if Council can continue to place the majority of its surplus funds for terms of 12 months to 2 years. *With recessionary fears being priced in coming years, investors may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4½% p.a. (small allocation only).*

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 5½% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively rose around **+0.17% (actual)** in November 2022 (**or +$29,541 in dollar terms**).

Summary	31 Oct 2022	30 Nov 2022	Net Flow ($)	Monthly Change %
Face Value	$19,650,000	$29,350,000	$9,700,000	+49.69%
Market Value	$19,621,985	$29,372,591	+$29,541	+0.17%

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

At month-end, Council's FRNs are now marked at an **unrealised capital gain of +$29,541** *(noting some were purchased at a slight discount to par in the secondary market).*

BBB rated senior FRNs

As per all FRNs, we have no issues with Council's investments in "BBB" rated senior FRNs given all counterparties continue to hold robust balance sheets with high levels of capital. On a mark-to-market basis, collectively they fell around **$16,416 in dollar terms or -0.30% (actual)** for the month:

Summary	31 Oct 202	30 Nov 2022	Net Flow ($)	Monthly Change %
Face Value	$5,500,000	$5,500,000	$0	+0.00%
Market Value	$5,495,856	$5,479,440	-$16,416	-0.30%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital loss of ~$20,560**.

Senior Bonds

Since September 2020, Council has collectively invested $31m in Northern Territory Treasury Corporation (NTTC) fixed bonds rated AA- (same as the domestic major banks), locking in yields between 0.90%-1.40% p.a. The weighted average yield on these investments was 1.07% p.a., with a current weighted average duration of 2.63 years.

We believe these investments were sensible given the unprecedented low rate environment and the RBA's forward guidance at the time of investment (no rate rises "*until at least 2024*"). We reiterate that 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.

During August 2021, Council purchased $600k in the ING (AAA) covered fixed bond at a yield of 1.16% p.a., which we thought was an attractive yield given the super-senior and highly ranked asset. This is likely to be held for at least 3-4 years, with a view to reassess depending on the prevailing market conditions. Given it is now trading at a significant discount to par, we recommend buying additional units if available, to average-in at a more attractive yield.

TCorp Long-Term Growth Fund

The NSW TCorp Fund accounts for ~5½% of Council's total investment portfolio. **The Fund returned +2.83% (actual) during November**. Domestic and international shares continued their rally as several central banks hinted at reducing the pace of their interest rate hike cycle. Bond yields also fell as a consequence (valuations rose), contributing to the positive performance this month.

Summary	31 Oct 2022	30 Nov 2022	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$28,315,161	$29,115,848	$0	+$800,687	+2.83%

Cries of 'Pivot!' were on the markets lips as central banks around the world enacted their rate hiking cycles, though with more cautious outlooks, reflecting the competing forces of persistent inflation and deteriorating economic activity. The term ‘pivot’ can be defined in a number of ways – decelerated pace of tightening, declining implied terminal funds rate, increased implied pace of normalisation after terminal rate is achieved – and whilst there was no reversal in the direction of monetary policy, markets bounced around on the prospect of a ‘soft’ versus ‘hard’ landing. The Reserve Bank of Australia (RBA), Bank of Canada (BoC) and European Central Bank (ECB) all delivered dovish hikes, either slowing the pace of tightening or suggesting that they were nearing the peak in the tightening cycle. Markets remain wary of the growing prospect the unintended consequence of central banks efforts to bring inflation under control could be a global recession, and a general risk-off in risk assets.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

CFS Global Credit Income

The CFS Global Credit Income Fund accounts for around 2½% of Council’s total investment portfolio. **The Fund returned +1.12% (actual) in November**, as the market valuation of the fund’s assets in global credit securities increased during the month.

Summary	31 Oct 2022	30 Nov 2022	Difference ($)	Difference (%)
Market Value	$13,991,163	$14,147,485	+$156,322	+1.12%

The Fund holds a diverse range of securities across the global credit market. It remains very well diversified by issuer in order to mitigate default risk. It invests in nearly 600 corporate bonds from issuers in various countries and industry sectors. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

With a running yield of around +4 – 4½% p.a., we recommend Council retains this “grandfathered” Fund given the alternative to invest in cash and deposits (Council’s approval list) are yielding comparably lower.

Cash Accounts

Cash accounts make up around 4% of Council’s investment portfolio at month-end. Council’s cash accounts are likely to yield up to 0.15% p.a. (at most) above the official cash rate over coming years i.e. yield up to 2.95% p.a. at current yields, but likely higher as the RBA increases official rates. Short-dated term deposits will continue to outperform overnight cash accounts in most cases so we recommend keeping cash levels at a bare minimum to meet ongoing liquidity requirements.

Council's Budgeted Income for FY2022-2023

Council's budgeted income for FY2022-2023 has been revised to $10.080m. Based on an average total investment portfolio size of around $500m, that equates to a budgeted yield of around 2.02% for the financial year.

For the month ending November 2022, the cumulative interest revenue earned was roughly $2.378m above the budgeted income, largely driven by the strong rebound in in shares over the past few months. We exercise caution given the volatility from the TCorp Long-Term Growth Fund during any month, as was the case this month, with the TCorp Fund gaining another +$800k.

Month-End	Cumulative Budget	Cumulative Investment Revenue	Difference ($)
Jul 2022	$840,064	$1,966,804	$1,126,740
Aug 2022	$1,680,129	$2,695,126	$1,014,997
Sep 2022	$2,520,193	$2,607,147	$86,954
Oct 2022	$3,360,257	$4,706,137	$1,345,880
Nov 2022	$4,200,322	$6,578,791	$2,378,469
Dec 2022	$5,040,386		
Jan 2023	$5,880,450		
Feb 2023	$6,720,515		
Mar 2023	$7,560,579		
Apr 2023	$8,400,643		
May 2023	$9,240,708		
Jun 2023	$10,080,772		

For the current financial year, we remain cautious given that risks remain to the downside, particularly if there is a continued selloff in equities and/or bonds as the market factors in a global recession.

Council’s Portfolio & Compliance

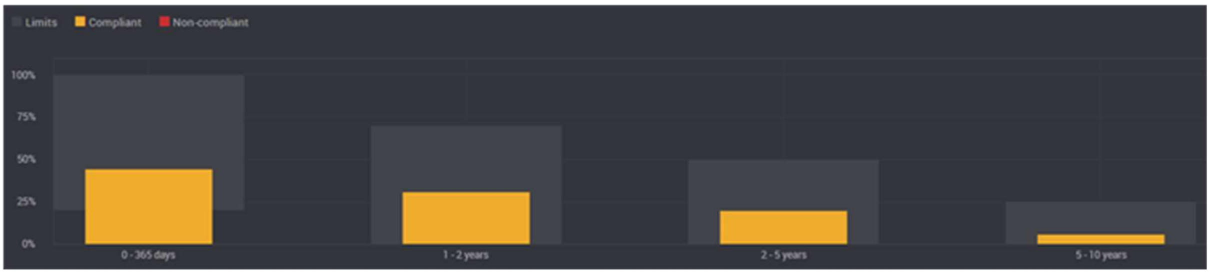
Asset Allocation

As at the end of November 2022, the portfolio was mainly directed to fixed and floating rate term deposits (74%). The remaining portfolio is directed to FRNs (5%), overnight cash accounts (6%), bonds (6%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (8%, combined).

Senior FRNs are now becoming more attractive as spreads have widened in 2022 – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 3 years appear quite appealing following the spike in medium-to longer-term yields this calendar year. With recessionary fears being priced in coming years, those investors that can allocate longer-term surplus funds may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4½% p.a.

Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 19% of assets directed to medium-term assets (2-5 years). All minimum and maximum criteria meet within the Policy guidelines:



Where liquidity permits, we recommend new surplus funds be directed to 1-2 year horizons given this is where the most attractive value can be found. We suggest this be allocated to any remaining attractive fixed term deposits (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 365 days	$243,893,692	45.38%	20%	100%	$293,613,446
✓	1 – 2 years	$161,453,726	30.04%	0%	70%	$214,801,271
✓	2 – 5 years	$103,043,872	19.17%	0%	50%	$165,709,697
✓	5 – 10 years	$29,115,848	5.42%	0%	25%	$105,260,937
		$537,507,139	**100.00%**			

Counterparty

As at the end of November 2022, Council did not have an overweight position to any single ADI. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the unrated ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$902,326	0.17%	100.00%	$536,604,812
✓	Bendigo Covered	AAA	$4,006,276	0.75%	100.00%	$533,500,863
✓	Suncorp Covered	AAA	$527,522	0.10%	100.00%	$536,979,617
✓	ING Covered	AAA	$1,504,763	0.28%	100.00%	$536,002,376
✓	ANZ	AA-	$4,035,629	0.75%	100.00%	$533,471,509
✓	CBA	AA-	$62,383,178	11.61%	100.00%	$475,123,960
✓	NAB	AA-	$148,277,651	27.59%	100.00%	$389,229,488
✓	Northern Territory	AA-	$34,000,000	6.33%	100.00%	$503,507,139
✓	Westpac	AA-	$40,900,000	7.61%	100.00%	$496,607,139
✓	Citibank NA	A+	$998,893	0.19%	30.00%	$160,253,248
✓	Macquarie	A+	$28,567	0.01%	30.00%	$161,223,575
✓	Suncorp	A+	$5,500,163	1.02%	30.00%	$155,751,978
✓	UBS AG	A+	$3,237,642	0.60%	30.00%	$158,014,500
✓	CFS Global CI	A	$14,147,485	2.63%	30.00%	$147,104,657
✓	ICBC	A	$101,050,000	18.80%	30.00%	$60,202,142
✓	ING Bank Aus.	A	$16,000,000	2.98%	30.00%	$145,252,142
✓	Aus. Military Bank	BBB+	$8,000,000	1.49%	10.00%	$45,750,714
✓	Aus. Unity Bank	BBB+	$9,000,000	1.67%	10.00%	$44,750,714
✓	BankVIC	BBB+	$3,000,000	0.56%	10.00%	$50,750,714
✓	BoQ	BBB+	$19,001,865	3.54%	10.00%	$34,748,849
✓	Bendigo-Adelaide	BBB+	$1,751,399	0.33%	10.00%	$51,999,315
✓	QT Mutual Bank	BBB+	$974,770	0.18%	10.00%	$52,775,943
✓	AMP Bank	BBB	$10,161,755	1.89%	5.00%	$16,713,602
✓	Auswide Bank	BBB	$3,000,000	0.56%	5.00%	$23,875,357
✓	CUA	BBB	$1,751,406	0.33%	5.00%	$25,123,951
✓	Gateway	BBB	$2,000,000	0.37%	5.00%	$24,875,357
✓	MyState Bank	BBB	$7,000,000	1.30%	5.00%	$19,875,357
✓	P&N Bank	BBB	$5,000,000	0.93%	5.00%	$21,875,357
✓	Bank of Sydney	Unrated	$250,000	0.05%	0.05%	$0
✓	TCorpIM LTG	Unrated	$29,115,848	5.42%	100.00%	$508,391,291
			$537,507,139	**100.00%**		

In late June 2022, Standard & Poor's downgraded Suncorp-Metway from AA- to A+ (negative watch). Suncorp recently announced that it is undertaking a strategic review of its banking operations. The downgrade reflects S&P's view that the Suncorp Group's likelihood of support for the bank had "*slightly*" diminished and that it was no longer a core part of the Group. In July 2022, ANZ (AA-) announced it was putting a bid to buy Suncorp's banking division for ~$4bn. Should that takeover be formalised, Suncorp-Metway's (A+) current credit rating is likely to be upgraded to ANZ's (AA-).

In April 2020, NSW Treasury Corporation imposed changes to the counterparty limits on the Investment Policy, with the major changes summarised as follows:

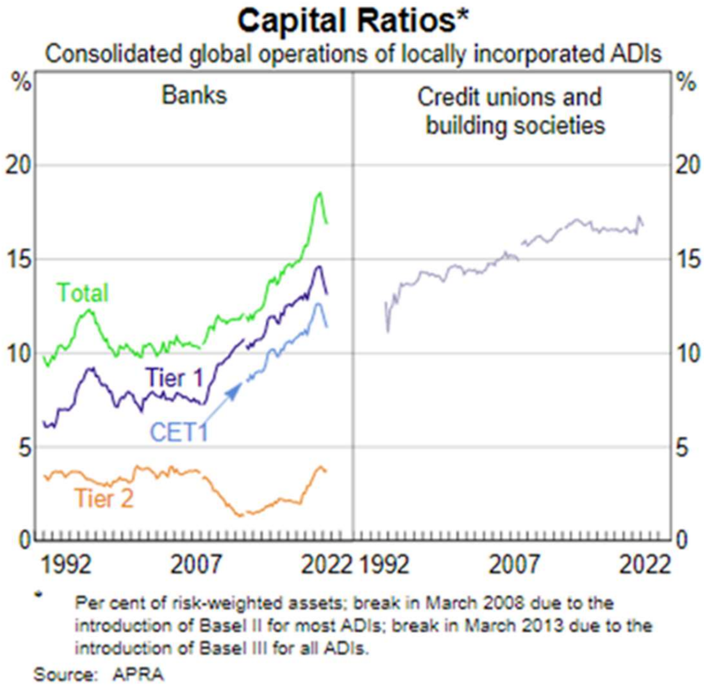
- A+ and A rated term deposits have maximum duration of 3 years;
- BBB+ rated assets have a maximum duration of 3 years;
- Limit of 5% to be placed with any BBB rated ADI with a maximum duration of 12 months;
- Limit of $1m to be placed with any BBB- rated ADI with a maximum duration of 12 months;
- Limit of $250k to be placed with any Unrated ADI with a maximum duration of 12 months;

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). APRA's outgoing Chair Wayne Byres recently 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 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*".**



We do not understand the covenants imposed by NSW Treasury Corporation and their concerns surrounding the "BBB" and unrated ADIs. The adopted Policy will not only increase concentration risk, but also lead to lower returns on Council's surplus investments over the long-term.

Given Council can only invest in senior-ranked assets with ADIs regulated by APRA, fundamentally, their concerns surrounding Council's investment in "BBB" rated senior ranked assets and deposits with the local credit unions are unwarranted.

While any potential future loans offered by TCorp are likely to be competitive against the traditional method through the major banks, any proposed recommendations led by TCorp needs to be weighed against the opportunity cost i.e. the loss of income throughout the term of which the covenants are imposed on Council. In the long-term, we believe the opportunity cost to Council in the form of lost interest would amount in the millions of dollars, per annum. This loss of income may also have a detrimental effect on the local community in terms of economic activity and employment.

(Other NSW Councils are in fact now getting a cheaper borrowing rate from the major banks compared to TCorp).

Domestic versus International

Noting Council's (internationally) demographic ratepayer base, we summarise where its investments are currently placed:

ADI Category by APRA / Country of Region	Amount Invested	Percentage
Australian Owned ADI	**$332,278,642**	**61.82%**
Australia	$332,278,642	61.82%
Branches of Foreign Bank	**$145,187,642**	**27.01%**
China	$101,050,000	18.80%
Switzerland	$3,237,642	0.60%
United States	$40,900,000	7.61%
Foreign Subsidiary Banks	**$16,777,522**	**3.12%**
Lebanon	$250,000	0.05%
Netherlands	$16,527,522	3.07%
Global^	**$43,263,333**	**8.05%**
International	$43,263,333	8.05%
Total	**$537,507,139**	**100.00%**

Source: https://www.apra.gov.au/register-of-authorised-deposit-taking-institutions

^Global: The NSW TCorpIM LTGF and CFS Global Credit Income Fund invests in hundreds of underlying securities globally, from which the portfolio composition is likely to change regularly.

Overall, approximately 62% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 38% is placed with international banks and corporate entities.

In response to global financial crisis (GFC), the Financial Stability Board (FSB) came up with a range of financial metrics to ascertain which banks were effectively deemed "*too big to fail*". A list of Globally Systemic Important Banks (G-SIBs) was developed, in which these banks required to hold much higher levels of capital compared to their smaller peers to ensure their financial stability under various stress test scenarios (e.g. another GFC).

We note that Council's exposure to the international banks are generally with such Globally Systemic Important Banks (G-SIBs), including ICBC (China), ING Bank (Netherlands), UBS (Switzerland), Credit Suisse (Switzerland), HSBC (Hong Kong) and Citibank (US).

Overall, we have no concerns with Council's exposure to international banks given they are largely considered to be globally systematic important banks that are '*too big to fail*'.

Fossil Fuel Investments

What is Council's current exposure to institutions that fund fossil fuels?

Using the following link http://www.marketforces.org.au/banks/compare, based on the Council's investment portfolio balance as at 30/11/2022 ($537.51m), we can roughly estimate that ~71% of the investments have some form of exposure. This is likely to drift higher given the new Policy limits imposed by NSW Treasury Corporation.

Council's exposure is summarised as follows:

Counterparty	Credit Rating	Funding Fossil Fuel
BoQ Covered	AAA	Yes
Bendigo Covered	AAA	No
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
ANZ	AA-	Yes
CBA	AA-	Yes
NAB	AA-	Yes
Northern Territory	AA-	Yes
Westpac	AA-	Yes
Citibank NA	A+	Yes
Macquarie	A+	Yes
Suncorp	A+	No
UBS AG	A+	No
CFS Global Credit^^	A	Yes
ICBC	A	No
ING Bank	A	Yes
Aus Military Bank	BBB+	No
Aus Unity Bank	BBB+	No
BankVIC	BBB+	No
BOQ	BBB+	Yes
Bendigo-Adelaide	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
Auswide Bank	BBB	No
CUA	BBB	No
Gateway	BBB	No
MyState Bank	BBB	No
P&N Bank	BBB	No
Bank of Sydney	Unrated	No
T-CorpIM LTG Fund^^	Unrated	Yes

^^The underlying exposure in these managed funds includes the domestic major banks.
Source: https://www.marketforces.org.au/info/compare-bank-table/

Summary	Amount	Invested %
Yes	$380,480,720	71%
No	$157,026,419	29%
	$537,507,139	**100%**

Transition to investments without major exposure to fossil fuels

Council has not made a decision to divest from the current portfolio of investments which have exposure to fossil fuels. To do so would have unfavourable implications to the credit quality, rating and interest income forecasts.

However, where possible, and within the ministerial and policy guidelines, Council will continue to favour newly issued fossil fuel free investment products, providing it does not compromise the risk and return profile.

In time it is Councils intention to move to a more balanced portfolio which has less exposure to fossil fuels, providing it is prudent to do so.

What would be implications on our portfolio credit rating?

By adopting a free fossil fuel policy or an active divestment strategy, this would eliminate the major banks rated "AA-" as well as some other "A" rated banks (Citi, Macquarie and ING). Council would be left with a smaller sub-sector of banks to choose to invest with.

What would be risks and implications on Council's portfolio performance?

Some implications include:

- High concentration risk – limiting Council to a selected number of banks;
- Increased credit/counterparty risk;
- May lead to a reduction in performance (e.g. most of the senior FRN issues are with the higher rated ADIs);
- Underperformance compared to other Councils which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum.

It may actually be contrary to Council's primary objective to preserve capital as the investment portfolio's risk would increase (all things being equal). Council may not be maximising its returns – this is one of the primary objectives written in the Investment Policy.

Credit Quality

Following the adoption of the Policy in mid-April 2020, in order to adhere to the prohibitive restrictions imposed by NSW TCorp, Council decided to forego extra yield and has subsequently redeemed deposit investments amongst the BBB and Unrated ADI ratings category over the past year (with the exception of government guarantee parcels of $250k deposits).

All aggregate ratings categories are currently within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category, TCorp	$36,056,735	7%	100%	$501,450,404
✓	AA Range	$289,596,459	54%	100%	$247,910,680
✓	A+ or A	$140,962,750	26%	100%	$396,544,388
✓	A-	$0	0%	40%	$215,002,855
✓	BBB+	$41,728,034	8%	25%	$90,610,947
✓	BBB	$28,913,161	5%	10%	$24,837,553
✓	BBB- & Unrated ADIs	$250,000	0%	5%	$26,625,357
		$537,507,139	**100.00%**		

The main changes to the Credit Quality limits imposed by NSW Treasury Corporation were as follows:

- BBB+ rated assets: 30% less any BBB rated assets;
- BBB assets: maximum 10% of portfolio;
- Other (BBB- and Unrated ADIs): maximum 5% of portfolio;

With regards to the duration of each ratings category, based on weighted averages, the portfolio is within the Policy limits across all categories:

Compliant	Credit Rating	Invested ($)	Invested (%)	Wgt. Avg. Duration (Yrs)	Max Term (Yrs)	Wgt. Avg. Yield (%)^
✓	AAA, TCorp	$36,056,735	7%	4.60	n/a	0.73%
✓	AA Range	$289,596,459	54%	1.15	5.00	2.06%
✓	A+ or A	$140,962,750	26%	1.61	5.00	2.81%
✓	A-	$0	0%	0.00	3.00	0.00%
✓	BBB+	$41,728,034	8%	0.96	3.00	2.92%
✓	BBB	$28,913,161	5%	0.49	1.00	3.26%
✓	BBB- & Unrated ADIs	$250,000	0%	0.04	1.00	0.80%
		$537,507,139	**100.00%**	**1.45**		**2.30%**

^Assuming TCorp LTGF is yielding 0.00% and CFS Fund (A rated) is yielding 4.00%.

We note the significant pick-up in yield in the "BBB" rated categories compared to the "AA" rated ADIs. All these assets are for the same type of investment (term deposits and senior FRNs) and rank the same in the bank capital structure (senior ranking, extremely low risk assets). The weighted average duration of the "BBB" and lower rated ADIs is also much shorter than the higher rated ADIs.

As mentioned in the Counterparty section, we believe TCorp's Policy increases concentration risk and significantly reduces the Council's overall return over the long-term. If possible, Council should consider reviewing the Policy and potentially find alternative sources for a loan in the future given the substantial opportunity cost in the form of lost revenue (millions of dollars) through interest income. **We have been made aware that a handful of major banks were offering a lower borrowing rate than TCorp over the past few years to other NSW councils**.

Performance

Council's performance (actual returns) for the month ending 30 November 2022 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.23%	0.64%	0.98%	0.91%	1.06%	0.58%	0.51%
AusBond Bank Bill Index	0.25%	0.64%	0.97%	0.92%	1.01%	0.51%	0.49%
PCC Internal Benchmark*	0.48%	0.98%	1.55%	1.59%	1.35%	1.15%	1.27%
PCC Cash Portfolio	0.24%	0.70%	1.09%	1.00%	1.28%	0.89%	0.88%
PCC T/D Portfolio	0.19%	0.57%	1.05%	0.91%	1.72%	1.51%	1.70%
PCC FRN Portfolio	0.33%	0.92%	1.57%	1.43%	2.26%	2.05%	1.89%
PCC Bond Portfolio	0.09%	0.27%	0.55%	0.46%	1.09%	1.06%	-
PCC Credit Fund	1.12%	1.25%	0.79%	2.98%	-1.07%	0.32%	0.51%
PCC TCorp Growth Fund	2.83%	3.44%	2.26%	6.70%	-4.45%	3.78%	3.36%
PCC's Total Portfolio	**0.36%**	**0.74%**	**1.11%**	**1.23%**	**1.11%**	**1.38%**	**1.54%**
Outperf. (BBI)	**0.11%**	**0.11%**	**0.15%**	**0.31%**	**0.10%**	**0.87%**	**1.05%**
Outperf. (Int. Bench.)	**-0.11%**	**-0.23%**	**-0.43%**	**-0.36%**	**-0.24%**	**0.23%**	**0.28%**

**The Internal Benchmark returns are based on Council's individual benchmarks across the various asset classes it invests within its own portfolio. The following individual benchmark's are used for each asset class that Council invests in:*
Cash: RBA Cash Rate
Term Deposits: Deposit benchmark based on Council's weighted average duration using multiple ADIs average monthly rate
FRNs: AusBond Credit FRN Index
CFS Global Credit Income Fund: AusBond Credit Index
NSW TCorpIM Long-Term Growth Fund: Fund's return itself

For the month of November, the total investment portfolio (including cash) provided a return of +0.36% (actual) or +4.51% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.25% (actual) or +3.07% p.a. (annualised), while underperforming Council's internal benchmark return of +0.48% (actual) or +5.95% p.a. (annualised). The TCorp Fund (+2.83% actual) and CFS Credit Fund (+1.12% actual) were the biggest contributors to performance this month.

The longer-term outperformance continues to be anchored by the handful of longer-dated deposits that were locked-in prior to the RBA's rate cuts, as well as the FRNs locked in at attractive margins, boosted by the strategic sales implemented over the past few years. This is now reflected in the longer-term returns with the FRN portfolio now slightly ahead of fixed term deposits over 1-3 year time periods.

The annualised returns as of 30 November 2022 are shown in the following table:

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	2.85%	2.60%	1.97%	2.19%	1.06%	0.58%	0.51%
AusBond Bank Bill Index	3.07%	2.59%	1.94%	2.20%	1.01%	0.51%	0.49%
PCC Internal Benchmark*	5.95%	3.98%	3.11%	3.82%	1.35%	1.15%	1.27%
PCC Cash Portfolio	3.00%	2.83%	2.19%	2.41%	1.28%	0.89%	0.88%
PCC T/D Portfolio	2.38%	2.29%	2.11%	2.18%	1.72%	1.51%	1.70%
PCC FRN Portfolio	4.11%	3.76%	3.15%	3.44%	2.26%	2.05%	1.89%
PCC Bond Portfolio	1.10%	1.10%	1.10%	1.10%	1.09%	1.06%	-
PCC Credit Fund	14.47%	5.10%	1.58%	7.25%	-1.07%	0.32%	0.51%
PCC TCorp Growth Fund	33.96%	14.53%	4.55%	16.74%	-4.45%	3.78%	3.36%
PCC's Total Portfolio	**4.51%**	**3.02%**	**2.24%**	**2.95%**	**1.11%**	**1.38%**	**1.54%**
Outperf. (BBI)	**1.44%**	**0.43%**	**0.29%**	**0.75%**	**0.10%**	**0.87%**	**1.05%**
Outperf. (Int. Bench.)	**-1.44%**	**-0.96%**	**-0.88%**	**-0.87%**	**-0.24%**	**0.23%**	**0.28%**

Council's Term Deposit Portfolio & Recommendation

As at the end of November 2022, Council's deposit portfolio was yielding **2.33% p.a.** (up 7bp from the previous month), with a weighted average duration of around 383 days (~1.05 years). With an upward sloping deposit curve, investors are rewarded if they can continue to maintain a longer average duration.

Those investors that can maintain a weighted average duration of +12-18 months are likely to yield, on average, up to 1% p.a. higher than those investors who maintain a weighted average duration of less than 6-9 months.

We are pleased to see that City of Parramatta Council remains amongst the top performing Councils in the state of NSW where deposits are concerned, earning on average, more than $1,620,000 in additional interest income compared to its peers (as per our September 2022 rankings). We have been pro-active in our advice about protecting interest income and addressing reinvestment risk for many years and encouraged to maintain a long duration position. This is now reflected by the high performance of the investment portfolio.

At the time of writing, we see value in:

	LT Credit Rating	Term	T/D Rate
ICBC, Sydney	A	5 years	5.05% p.a.
ICBC, Sydney	A	4 years	4.95% p.a.
ICBC, Sydney	A	3 years	4.85% p.a.
ICBC, Sydney	A	2 years	4.75% p.a.
Australian Unity	BBB+	2 years	4.70% p.a.
Suncorp	A+	2 years	4.65% p.a.
BoQ	BBB+	2 years	4.60% p.a.
AMP Bank	BBB	2 years	4.60% p.a.^
Westpac	AA-	2 years	4.58% p.a.
Australian Military	BBB+	2 years	4.56% p.a.
ING	A	2 years	4.50% p.a.
Bendigo-Adelaide	BBB+	2 years	4.50% p.a.
CBA	AA-	2 years	4.48% p.a.
NAB	AA-	2 years	4.45% p.a.

^Contact us for an additional 0.20% p.a. rebated commission. Rate changes daily. Current limit of $10m in aggregate.

The above deposits are suitable for investors looking to maintain diversification and lock-in a 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):

ADI	LT Credit Rating	Term	T/D Rate
AMP	BBB	12 months	4.55% p.a.^
Australian Unity	BBB+	12 months	4.50% p.a.
Suncorp	A+	12 months	4.48% p.a.
Westpac	AA-	12 months	4.44% p.a.
BoQ	BBB+	12 months	4.40% p.a.
NAB	AA-	12 months	4.35% p.a.
Bendigo-Adelaide	BBB+	12 months s	4.35% p.a.
CBA	AA-	12 months	4.34% p.a.
Suncorp	A+	6 months	4.20% p.a.
NAB	AA-	6 months	4.10% p.a.

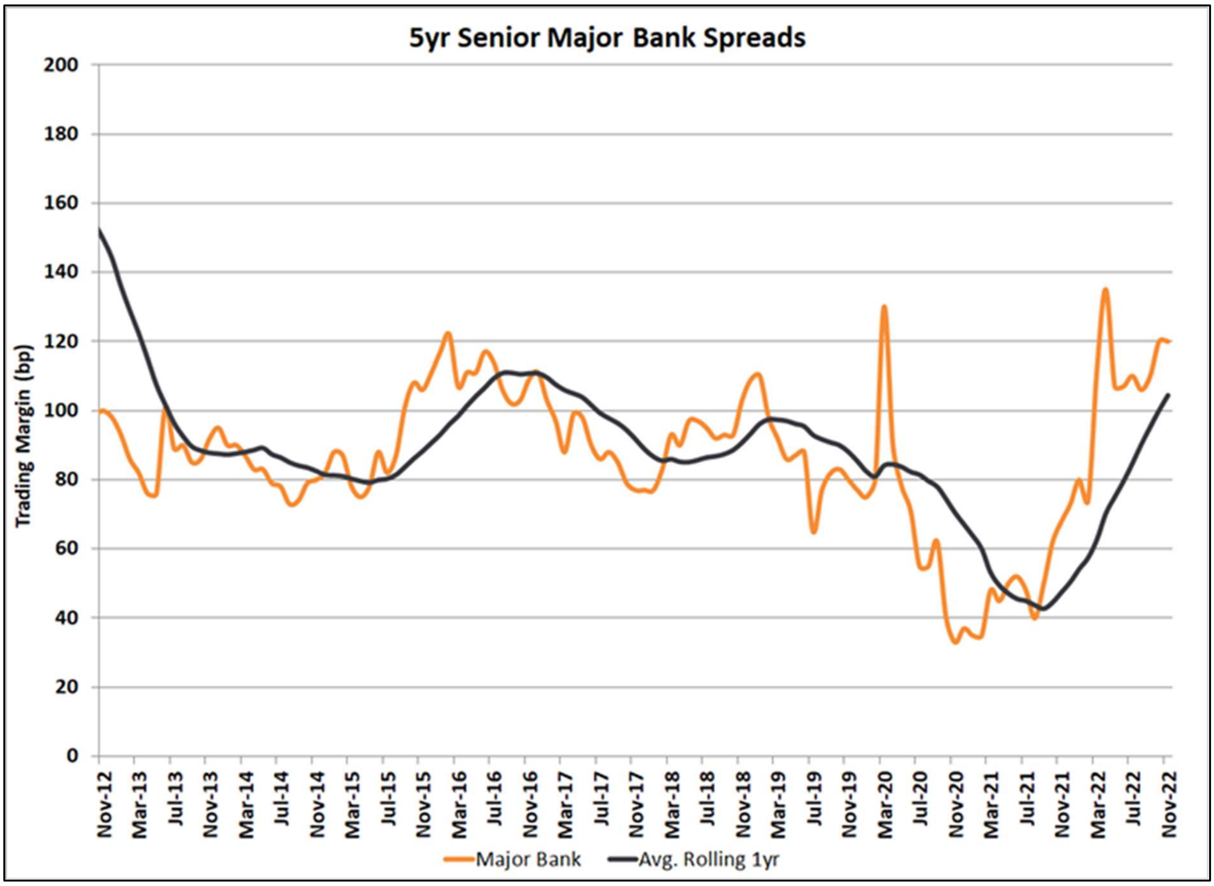
^Contact us for an additional 0.20% p.a. rebated commission. Rate changes daily. Current limit of $10m in aggregate

If Council does not require high levels of liquidity and can stagger its investments slightly longer-term, it will be rewarded over coming years if it can roll for an average min. term of 12 months-2 years (this is where we current value), yielding, on average, up to ½% p.a. higher compared to those investors that entirely invest in short-dated deposits.

With recessionary fears being priced in coming years, those investors that can allocate longer-term surplus funds may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4½% p.a.

Senior FRNs Review

Over November, amongst the senior major bank FRNs, physical credit securities remained flat at the long-end of the curve. During the month, there were new dual 3 & 5 year issuances from WBC (AA-) and NAB (AA-). They issued 3 & 5 year levels at +95bp / +123bp (WBC) and +92bp / +120bp (NAB) respectively. Major bank senior securities are now looking fairly attractive again in a rising rate environment (5 year margins around the +120bp level):



Source: IBS Capital

Apart from the major banks (WBC and NAB), over November, there were noticeable new primary issuances from:

- Bendigo (AAA rated) covered security for 3 years at +95bp
- Police Bank (BBB rated) senior FRN for 3 years at +150bp
- Bank Australia (BBB rated) senior FRN for 3 years at +160bp
- Great Southern Bank (BBB rated) senior FRN for 3 years at +158bp
- ING (AAA rated) covered security for 3 years at +100bp

Amongst the "A" and "BBB" rated sectors, the securities were marked between 10-20bp wider at the 3-5 year part of the curve.

Credit securities are looking much more attractive given the widening of spreads in 2022. 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).

Senior FRNs (ADIs)	30/11/2022	31/10/2022
"AA" rated – 5yrs	+120bp	+120bp
"AA" rated – 3yrs	+92bp	+92bp
"A" rated – 5yrs	+145bp	+135bp
"A" rated – 3yrs	+115bp	+110bp
"BBB" rated – 3yrs	+158bp	+135bp

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-late 2024 for the "AA" rated ADIs (domestic major banks)**;
- On or before mid-late 2023 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.

Council FRNs – Recommendations for Sale/Switches

Following the selloff in credit assets in 2022, we now recommend Council holds its FRN portfolio at this stage. We will inform Council when there is an opportunity to sell out of any sub-optimal FRN and switch into a higher yielding complying asset.

This strategy has worked very well as Council has ultimately boosted the overall returns of the investment portfolio. A summary of the previous financial year's sales are as follows – given the turn in the market over the past few months, these sales would not have been undertaken unless Council was actively managing its portfolio prudently:

Issuer	Maturity Date	Month Sold	Face Value	Trading Margin	Capital Price	Realised Capital Gains
ME (BBB+)	18/07/2022	Jul 2021	$2,000,000	+15.0bp	$100.813	$16,260
TMB (BBB)	28/10/2022	Jul 2021	$1,000,000	+23.0bp	$100.839	$8,390
NAB (AA-)	19/06/2024	Aug 2021	$1,300,000	+18.25bp	$102.081	$27,053
ANZ (AA-)	29/08/2024	Aug 2021	$1,500,000	+19.0bp	$101.744	$26,160
UBS (A+)	08/03/2023	Sep 2021	$3,000,000	+23.0bp	$100.963	$28,890
B. Comm (A-)	28/10/2022	Sep 2021	$1,500,000	+25.0bp	$100.691	$10,365
WBC (AA-)	16/08/2024	Sep 2021	$1,600,000	+29.0bp	$101.682	$28,416
B. China (A)	17/10/2022	Oct 2021	$1,000,00	+29.0bp	$100.687	$6,870
Soc. Gen. (A)	17/07/2023	Nov 2021	$2,750,00	+33.0bp	$100.992	$27,280
C. Suisse (A+)	26/05/2023	Nov 2021	$6,500,00	+32.0bp	$101.252	$81,380
B. Aust. (BBB)	2/12/2022	Jan 2022	$1,000,000	+42.0bp	$100.431	$4,310
NPB (BBB)	6/02/2023	Jan 2022	$400,000	+35.0bp	$101.121	$5,088
NPB (BBB)	6/02/2023	Jan 2022	$1,000,000	+35.0bp	$101.121	$12,420
NPB (BBB)	6/02/2023	Jan 2022	$2,500,000	+35.0bp	$101.121	$28,025
HSBC (AA-)	27/09/2024	Jan 2022	$2,000,000	+40.0bp	$101.140	$22,800
			Total Realised Capital Gains FY2021-2022			**$333,707**

Council's Senior Fixed Bonds

Since September 2020, Council placed parcels in NTTC (AA-) fixed bonds as follows:

Investment Date	Maturity Date	Principal	Rate % p.a.^	Remaining Term (Yrs)	Interest Paid
10/09/2020	15/12/2022	$2,000,000	0.90%	0.04	Annually
30/09/2020	15/12/2023	$2,000,000	1.00%	1.04	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	2.05	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	2.55	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	3.54	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	1.55	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	2.55	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	3.54	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	2.55	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	2.05	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	4.04	Semi-Annually
	Totals / Wgt. Avg.	**$31,000,000**	**1.07%**	**2.63 yrs**	

^Council has received the full rebated commission of 0.25% (plus GST) on the face value of investment on all these parcels (currently totalling $48,125).

We believe these investments were prudent especially after the rate cut delivered in early November 2020 and its subsequent forward guidance on 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.

During August 2021, Council also purchased into the following AAA rated covered fixed bond with ING Bank Australia. With yields rising significantly in recent months, Council may consider purchasing additional units in this security in the secondary market at the current yield to 'average-in' a better overall purchase price.

Issuer	Rating	Maturity Date	ISIN	Face Value	Purchase Yield	Current Yield	Unrealised Gain / Loss ($)
ING	AAA	19/08/2026	AU3CB0282358	$600,000	1.16%	4.68%	-$70,732

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures have escalated, this has seen a significant lift in longer-term bond yields (valuations fell) as markets have reacted accordingly.

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	0.77	3.00%	4.12%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	0.96	3.25%	4.05%
AU3CB0265403	Suncorp	AA-	Senior	30/07/2024	1.66	1.85%	4.49%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	1.70	1.75%	4.57%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.72	1.45%	4.40%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.74	1.55%	4.27%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.77	1.70%	4.53%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.91	2.00%	4.71%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.13	1.65%	4.37%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.13	1.65%	4.37%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	2.20	1.70%	4.74%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.29	2.70%	4.35%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.69	3.90%	4.37%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.71	4.20%	4.39%
AU3CB0293157	Suncorp	AAA	Covered	17/10/2025	2.88	4.85%	4.82%
AU3CB0293744	ANZ	AA-	Senior	04/11/2025	2.93	4.95%	4.45%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.41	1.40%	5.08%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.71	1.10%	4.68%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.90	2.10%	5.08%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	4.15	2.40%	4.67%

CFS Global Credit Income Fund

For the month of November, the CFS Global Credit Income Fund returned +1.12% (actual), outperforming the AusBond Bank Bill Index return of +0.25% (actual), whilst underperforming the AusBond Credit Index return of +1.35% (actual).

Over the past two years, the economic environment was being largely defined by first the pandemic shock and then later by the energy price shock resulting from the war in Ukraine. However currently, the outlook is increasingly defined by the aggressive stance by central banks to tame inflation.

Although it has been a relatively volatile environment for credit over the past few years, it has been one of Council's best performing assets over the longer-term. The portfolio continues to accumulate high running-income in excess of the benchmark across all corporate and financial sectors. The Fund holds a diverse range of securities across the global credit market. It remains very well diversified by issuer in order to mitigate default risk. It invests in nearly 600 corporate bonds from issuers in various countries and industry sectors. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

With a running yield of ~4-4½% p.a., we recommend Council to retain this investment given the alternative investments in complying fixed interest products are largely earning below this rate of return.

__NSW T-CorpIM Growth Fund__

The Growth Fund returned +2.83% (actual) for the month of November. The gains this month were attributed to international shares (the MSCI World ex-Australia Index rising +6.69%) and domestic shares (the S&P ASX 200 Accumulation Index gained +6.58%). Also contributing to the gains was the exposure to fixed bonds (AusBond Composite Bond Index rose +1.55%).

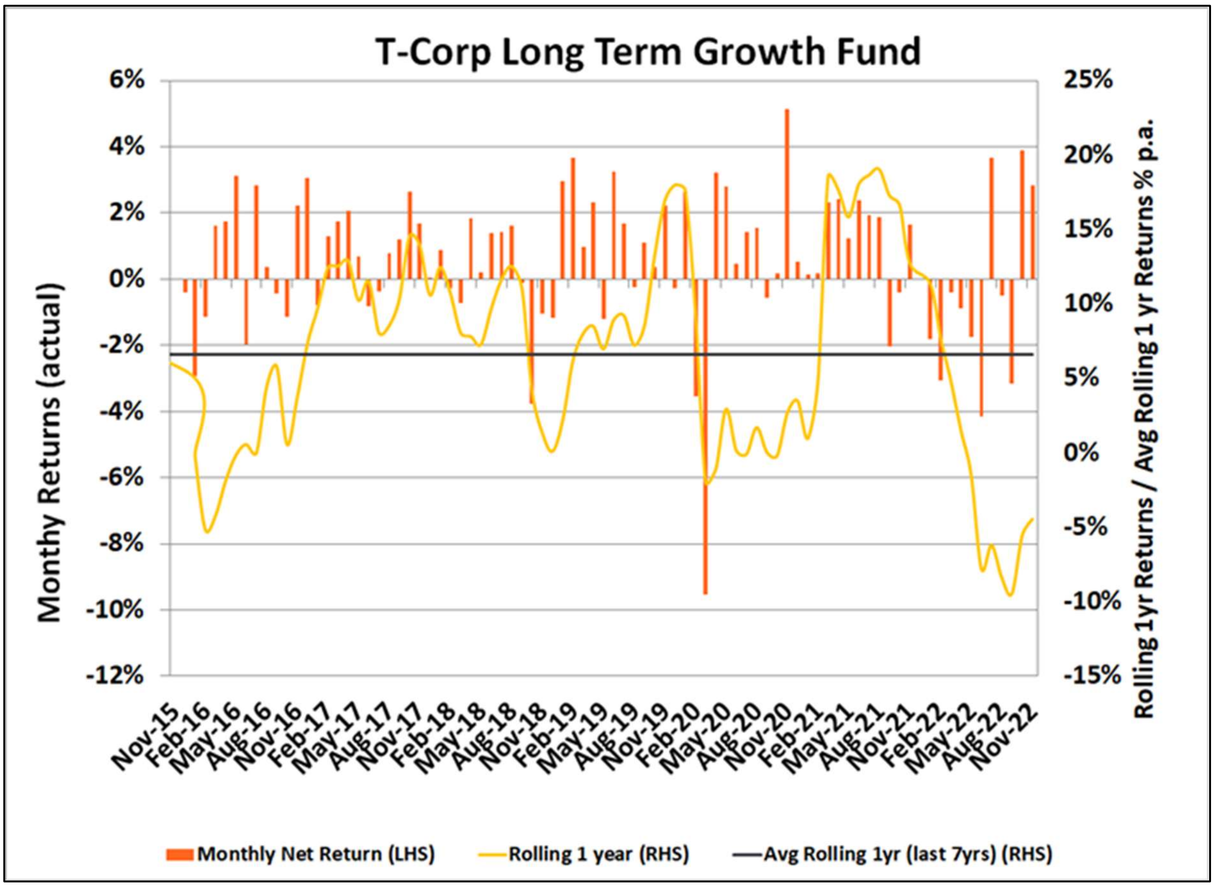
Cries of 'Pivot!' were on the markets lips as central banks around the world enacted their rate hiking cycles, though with more cautious outlooks, reflecting the competing forces of persistent inflation and deteriorating economic activity. The term 'pivot' can be defined in a number of ways – decelerated pace of tightening, declining implied terminal funds rate, increased implied pace of normalisation after terminal rate is achieved – and whilst there was no reversal in the direction of monetary policy, markets bounced around on the prospect of a 'soft' versus 'hard' landing. The Reserve Bank of Australia (RBA), Bank of Canada (BoC) and European Central Bank (ECB) all delivered dovish hikes, either slowing the pace of tightening or suggesting that they were nearing the peak in the tightening cycle. Markets remain wary of the growing prospect the unintended consequence of central banks efforts to bring inflation under control could be a global recession, and a general risk-off in risk assets.

Measures of the supply side point to continued gradual recovery, despite various setbacks, although there is still a lot of repair to get back to pre-pandemic levels and the energy outlook is more uncertain due to geopolitics. The demand side is slowing, but the picture is varied across countries, with Europe/UK the hardest hit and the US proving relatively resilient. The hiking cycle underway will impact demand, and central bank's overtightening could mean that demand destruction will become the dominant driver of the economic outlook in coming quarters. Unfortunately, inflation is not providing central banks with any reason to hold back, despite the hopes of asset markets for a reprieve and despite the knowledge that demand will be hit. Recession is increasingly becoming the consensus expectation for 2023. Current stagflation and the prospect of recession in 2023 implies that high volatility will persist across asset markets.

Overall, we remain cautious on the future performance of the T-Corp Growth Fund given the high volatility associated with a diversified growth fund, which generally allocates a range of 60%-80% in domestic and international shares. Investors are bracing for central banks to raise official rates more aggressively than previously anticipated to combat inflation driven by supply-chain bottlenecks, a global energy crunch and ongoing geopolitical risks.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

Since Inception	T-Corp Long Term Fund
Negative Months	137 (~1 in 3 months)
Positive Months	264
Total Months	401 (33.4 yrs)
Average Monthly Return	+0.64% (actual)
Median Monthly Return	+1.02% (actual)
Lowest 1 year Rolling Return	-21.12% p.a. (Nov 2008)
Highest 1 year Rolling Return	+29.89% p.a. (Jan 1994)



Economic Commentary

International Market

Investors have focused their attention on the US Fed messaging emphasising the likely need to move towards a lower pace of rate hikes. This helped market sentiment and risk assets over November.

The US Fed hiked the Funds rate by 75bp (as expected) and while the Fed will continue to tighten policy to "*attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time*", it now does not mean super-sized rate hikes at each meeting as the Fed "*will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments*".

Across equity markets, the S&P 500 Index gained +5.38%, while the NASDAQ added +4.37%. Europe's main indices also surged, led by Germany's DAX (+8.63%%), France's CAC (+7.53%%), and UK's FTSE (+6.74%).

US CPI for October printed softer than expected, with both the headline and core measures undershooting consensus by 0.2% to print at +0.4% and +0.3% m/m respectively. In annualised terms, they came in +7.7% for the headline and +5.4% for core reading respectively. The US unemployment rate ticked up 0.2% to 3.7% against 3.6% expected.

The Bank of England board voted to lift interest rates by 75bp to 3%, in its most forceful act to tame the now double-digit inflation since 1989. UK inflation data came in on the high side of expectations at +2.0% m/m (+1.8% consensus) and +11.1% y/y (+10.7% consensus).

Eurozone inflation came in high (+10.7% y/y vs. 10.3% expected). Across Europe, Q3 GDP was slightly stronger than expected at +0.2% q/q against the +0.1% consensus. ECB President Lagarde repeated the mantra that the policy rate might need to head into restrictive territory to drive inflation back down to target, even given the rising risk of recession, "*withdrawing accommodation may not be enough*".

The global energy crisis is as bad as the 1970s, the OECD says, with spending on electricity, natural gas and coal forecast to double year-on-year to the highest level in more than four decades.

New Zealand's central bank is forecasting a recession in 2023, which is seen as being "*necessary to return inflation to target over the forecast period*". The RBNZ lifted rates by 75bp to 4.25% and forecast a peak of around 5.50% by mid-2023.

The MSCI World ex-Aus Index rose +6.69% for the month of November:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+5.38%	+3.16%	-10.66%	+9.11%	+9.03%	+11.16%
MSCI World ex-AUS	+6.69%	+3.59%	-12.47%	+5.98%	+5.65%	+7.76%
S&P ASX 200 Accum. Index	+6.58%	+6.04%	+5.00%	+5.93%	+8.20%	+9.37%

Source: S&P, MSCI

Domestic Market

The RBA raised interest rates by 25bp (to 2.85%) in November for the second consecutive Board meeting as widely expected. Their accompanying statement emphasised the lags in monetary policy and the material increase in interest rates since May. Along with the Board's intention to increase interest rates further over the period ahead, this likely supports the continuation of rate rises of 25bp increments.

The RBA also lowered its outlook for economic growth in response to higher rates and now expects inflation to peak at around 8% later this year, slightly up from a previous expectation of 7.75%.

The wage price index (WPI) rose +1.0% q/q and +3.1% y/y, both above the consensus forecasts for +0.9% q/q and the RBA's implied forecast track of +0.8-0.9% q/q.

Employment growth beat expectations at +32.2k in October (consensus +15.0k). The unemployment rate fell by 0.1% to 3.4% from 3.5%. The participation rate remain unchanged at 66.5%.

Retail sales fell -0.2% m/m in October (consensus +0.5%), the first decline in nominal spend this year.

Housing credit growth remained at +0.5% m/m, though is slowing with the 3-month annualised now running at 5.8% from 8.6% in early 2022. Meanwhile dwelling prices were down -1.2% m/m in October with falls led by Brisbane (-2.0% m/m), Sydney (-1.3% m/m) and Melbourne (-0.8% m/m).

The trade surplus rose more than expected in September to $12.4bn (consensus $9bn). Exports bounced +7.0% m/m to $60.6bn on higher iron ore and LNG, just below their record high of $61.5bn in June.

Food prices are set to rise between 6-8% in both 2023 and 2024, unless there is a plan to stabilise food prices, according to Independent Food Distributors Australia. Supply chain disruptions, labour shortages and natural disasters are cited as pushing up the cost of food.

The Australian dollar gained +4.33%, finishing the month at US66.98 cents (from US64.20 cents the previous month).

Credit Market

The global credit indices tightened significantly over November in the 'risk-on' environment. They are now back to their levels earlier this year:

Index	November 2022	October 2022
CDX North American 5yr CDS	77bp	90bp
iTraxx Europe 5yr CDS	92bp	114bp
iTraxx Australia 5yr CDS	91bp	130bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	November 2022	October 2022
Bloomberg AusBond Bank Bill Index (0+YR)	+0.25%	+0.24%
Bloomberg AusBond Composite Bond Index (0+YR)	+1.55%	+0.93%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.42%	+0.16%
Bloomberg AusBond Credit Index (0+YR)	+1.35%	+0.39%
Bloomberg AusBond Treasury Index (0+YR)	+1.43%	+1.22%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+2.48%	+4.06%

Source: Bloomberg

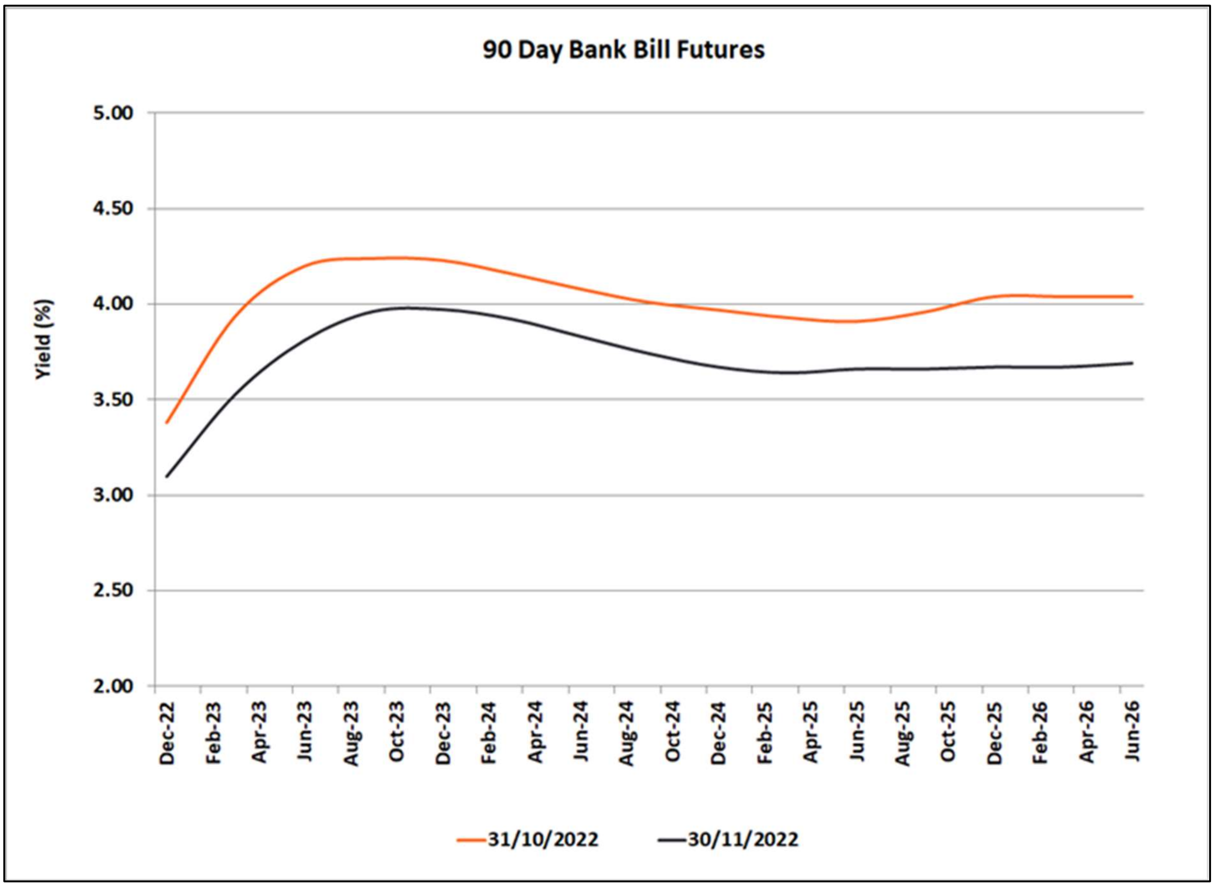
Other Key Rates

Index	November 2022	October 2022
RBA Official Cash Rate	2.85%	2.60%
90 Day (3 month) BBSW Rate	3.09%	3.08%
3yr Australian Government Bonds	3.17%	3.29%
10yr Australian Government Bonds	3.53%	3.76%
US Fed Funds Rate	3.75%-4.00%	3.00%-3.25%
3yr US Treasury Bonds	4.13%	4.45%
10yr US Treasury Bonds	3.68%	4.10%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over November, bill futures fell across the board following the movement in the bond market, with the market reacting to the possibility of a lower pace of future rate hikes by several global central banks. 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

Fixed Interest Outlook

The world's leading economies continue to face steep challenges, with countries that account for about one-third of global GDP is poised to contract this year or next, shaped by the Russian invasion of Ukraine and a cost-of-living crisis caused by persistent and broadening inflation pressures, and the slowdown in China.

By downshifting the pace of hikes, central banks are acknowledging that decisions are becoming more finely balanced as they tread a fine line of returning inflation to target, while avoiding significantly overtightening policy and slowing the economy more than needed. The logic of front-loading the hiking cycle has enabled central banks to move away from accommodative setting quickly, but with the level of rates higher, central banks can buy time to assess how the economy is responding to higher rates/tighter financial conditions, and the cut to real incomes from too high inflation.

US Fed pricing expectations are little changed with 50bp of hikes expected in December and a peak in the funds rate seen just above 5% half-way through next year (around 5.00% in June 2023). US Fed Chair Powell noted that as policy moves into restrictive territory it becomes appropriate to slow the pace of increases and this could be as soon as "*next meeting or the one after that*".

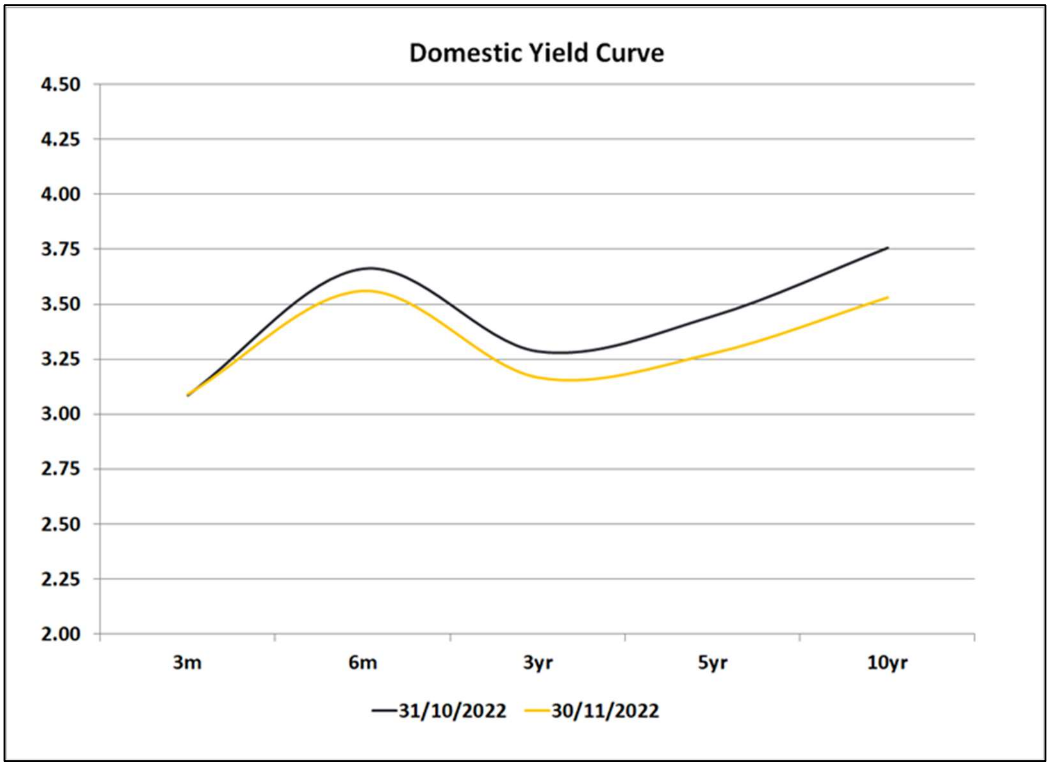
Domestically, after lifting rates by 25bp to 2.85% in November, the RBA's statement emphasises the lags in monetary policy and the material increase in interest rates since May. Along with the Board's intention to increase interest rates further over the period ahead, this likely supports the continuation of rate rises of 25bp increments.

The recent smaller sized rate rises in Australia relative to other countries likely reflects a combination of factors:

- Monthly meetings for the RBA;
- That much of the inflation is not domestically sourced;
- Importantly that wages in Australia continue to be better behaved than in other countries;
- That Australia's mortgage market is predominantly variable (or relatively short term, fixed rate loans).

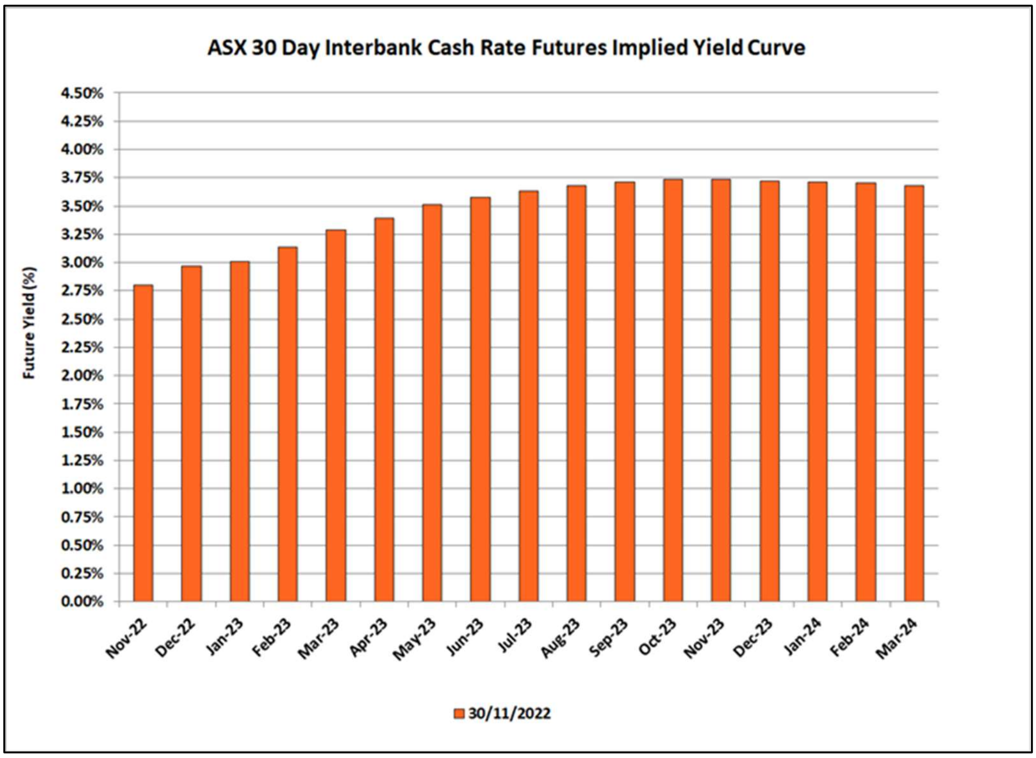
In combination with Australia's high level of housing debt, this in theory makes monetary policy extremely effective and suggests the peak (or terminal) cash rate in Australia will be lower than in the US.

Over the month, yields fell up to 23bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets are currently pricing in around 4 additional rate rises into 2023 (up to 3¾%). Fears of a looming global recession have actually seen rate cuts start to be priced in towards the second half of 2023, although this seems unlikely for now.



Source: ASX

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