CITY OF PARRAMATTA

Monthly Investment Report

July 2022

IMPERIUM MARKETS

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Summary

Market Update

The COVID-19 pandemic has adversely impacted financial markets, which in turn, has also affected Council's investment portfolio. We provide a quick summary in this section.

After global central banks set official interest rates back to emergency levels during the height of the pandemic (2020), financial markets have transitioned to the recovery phase. Ongoing supply chain issues, China's zero-COVID strategy and the war in Ukraine has resulted in surging inflation. Longer-term bond yields have risen significantly in 2022 as central banks reverse their policy measures (i.e. remove quantitative easing), whilst undertaking aggressive interest rate hikes to try and control inflation. Importantly though when interpreting the stance of monetary policy, it is not just about the cash rate, but how broader financial conditions are influencing the economic outlook, **with markets now factoring the possibility of a global recession as early as the second half of 2023**. **The RBA increased the official cash rate by another 50bp to 1.85% in early August 2022 and is looking to move towards their neutral setting of 2½% by calendar year-end**, although the "*timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market*".

Term Deposits

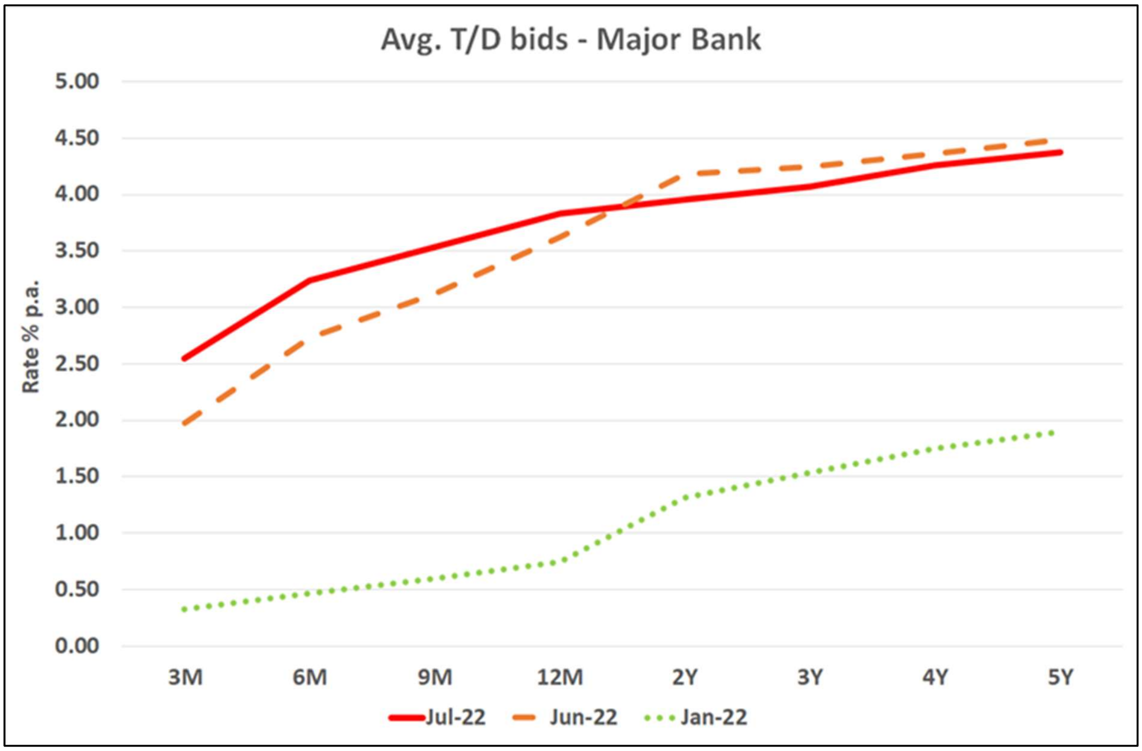
Term Deposits (fixed and floating) account for around 76% of the total investment portfolio at month-end.

Council's term deposit portfolio was yielding 1.95% p.a. at month-end, with a weighted average duration of around 471 days or ~1.29 years. The current average yield remains very attractive given the dramatic falls in the official cash rate. With an upward sloping deposit curve, investors are rewarded if they can continue to maintain a longer average duration.

As the past decade or so has highlighted (post-GFC era), we have seen too many portfolios overpay for liquidity and generally not insured themselves by diversify their funding across various tenors. 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.

- The highest deposit rate from any rated ADI in the market is now ~4.50% p.a. for 5 years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 3.70%-4.00% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 3.70%-4.30% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 3.80%-4.50% p.a. (depending on terms between 12m – 5 years).

With markets factoring in additional rate hikes over coming months, this has seen a significant shift in longer-term deposit rates, particularly over the past 6 months. The long-end of the deposit curve (+12 months) actually fell over July (compared to June) as the market starts to factor in a global recession:



Source: Imperium Markets

'New' investments above 3½% 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 4% p.a. (small allocation only).*

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 3½% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively fell around **-0.03% (actual)** in July 2022 (**or -$5,094 in dollar terms**).

Summary	30 June 2022	31 July 2022	Net Flow ($)	Monthly Change %
Face Value	$18,850,000	$18,850,000	$0	+0.00%
Market Value	$18,825,854	$18,820,760	-$5,094	-0.03%

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 loss of -$22,290** *(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 **-$19,258 in dollar terms or -0.35% (actual)** for the month:

Summary	30 June 2022	31 July 2022	Net Flow ($)	Monthly Change %
Face Value	$5,500,000	$5,500,000	$0	+0.00%
Market Value	$5,507,799	$5,488,541	-$19,258	-0.35%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital loss of ~$11,456**.

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 2.97 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 +3.67% (actual) during July**. Risk assets rebounded this month after the US Fed signalled its aggressive rate hikes may soon come to a halt. Both shares (domestic and international) and bonds pared back some of their recent losses over the month.

Summary	30 June 2022	31 July 2022	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$27,287,112	$28,288,641	$0	+$1,001,529	+3.67%

Whilst inflation and central bank action remain dominant themes, for asset markets, there has been a rapidly emerging concern that this combination will push economies into recession in 2023. Recent data is suggesting growth is already slowing, and with inflation being underpinned by a second supply shock stemming from the war in Ukraine, asset markets fear central bankers are heading for a policy mistake by overtightening. To avoid a 'hard landing', the US Fed signalled that the pace of their aggressive rate hikes is "*getting closer to where we need to be*", after front-loading hikes and that "*at some point it will be appropriate to slow down*".

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 +1.43% (actual) in July**, as the market valuation of the fund's assets in global credit securities rose during the month.

Summary	30 June 2022	31 July 2022	Difference ($)	Difference (%)
Market Value	$13,738,336	$13,934,191	+$195,855	+1.43%

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 +3½ - 4% 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 just under 10% 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 1.50% 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 currently been set to $8.18m. Based on an average total investment portfolio size of around $500m, that equates to a budgeted yield of around 1.64% for the financial year.

For the month of July 2022, the actual interest earned was roughly $1.285m above the budgeted income, largely driven by the strong rebound in in shares and bonds. The TCorp Long-Term Growth Fund alone has rose by over $1m in July 2022, but we exercise extreme caution given the huge volatility during any month. The Fund is still down over $2.567m for the 2022 calendar year.

Month-End	Cumulative Budget	Cumulative Interest	Difference ($)
Jul 2022	$681,731	$1,966,804	$1,285,073
Aug 2022	$1,363,462		
Sep 2022	$2,045,193		
Oct 2022	$2,726,924		
Nov 2022	$3,408,655		
Dec 2022	$4,090,386		
Jan 2023	$4,772,117		
Feb 2023	$5,453,848		
Mar 2023	$6,135,579		
Apr 2023	$6,817,310		
May 2023	$7,499,041		
Jun 2023	$8,180,772		

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.

The decision to adopt TCorp's Policy, whereby it has restricted the universe of complying investments and particularly the duration of investments - this has compounded and resulted in the significant drop in income generated over the past 2 years.

Council's Portfolio & Compliance

Asset Allocation

As at the end of July 2022, the portfolio was mainly directed to fixed and floating rate term deposits (75%). The remaining portfolio is directed to FRNs (4%), overnight cash accounts (6%), bonds (7%), 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 recent months – 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 in recent months. 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 4% p.a.

Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 20% 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	$213,313,130	41.22%	20%	100%	$304,227,809
✓	1 – 2 years	$167,894,724	32.44%	0%	70%	$194,383,933
✓	2 – 5 years	$108,044,444	20.88%	0%	50%	$150,726,025
✓	5 – 10 years	$28,288,641	5.47%	0%	25%	$101,096,594
		$517,540,939	**100.00%**			

Counterparty

As at the end of July 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	$900,868	0.17%	100.00%	$516,640,070
✓	Suncorp Covered	AAA	$534,217	0.10%	100.00%	$517,006,722
✓	ING Covered	AAA	$703,919	0.14%	100.00%	$516,837,020
✓	CBA (BankWest)	AA-	$77,385,268	14.95%	100.00%	$440,155,671
✓	NAB	AA-	$123,993,145	23.96%	100.00%	$393,547,793
✓	Northern Territory	AA-	$34,000,000	6.57%	100.00%	$483,540,939
✓	Westpac	AA-	$49,900,000	9.64%	100.00%	$467,640,939
✓	Citibank NA	A+	$999,764	0.19%	30.00%	$154,262,517
✓	Macquarie	A+	$1,028,341	0.20%	30.00%	$154,233,941
✓	Suncorp	A+	$2,494,724	0.48%	30.00%	$152,767,558
✓	UBS AG	A+	$3,240,704	0.63%	30.00%	$152,021,577
✓	CFS Global CI	A	$13,934,191	2.69%	30.00%	$141,328,090
✓	ICBC	A	$93,250,000	18.02%	30.00%	$62,012,282
✓	ING Bank Aus.	A	$16,000,000	3.09%	30.00%	$139,262,282
✓	Aus. Military Bank	BBB+	$8,000,000	1.55%	10.00%	$43,754,094
✓	Aus. Unity Bank	BBB+	$6,000,000	1.16%	10.00%	$45,754,094
✓	BoQ	BBB+	$23,000,538	4.44%	10.00%	$28,753,556
✓	Bendigo-Adelaide	BBB+	$1,748,361	0.34%	10.00%	$50,005,733
✓	QT Mutual Bank	BBB+	$986,024	0.19%	10.00%	$50,768,070
✓	AMP Bank	BBB	$17,148,616	3.31%	5.00%	$8,728,431
✓	CUA	BBB	$1,753,618	0.34%	5.00%	$24,123,429
✓	MyState Bank	BBB	$6,000,000	1.16%	5.00%	$19,877,047
✓	P&N Bank	BBB	$5,000,000	0.97%	5.00%	$20,877,047
✓	Judo Bank	BBB-	$1,000,000	0.19%	0.19%	$0
✓	Bank of Sydney	Unrated	$250,000	0.05%	0.05%	$0
✓	TCorpIM LTG	Unrated	$28,288,641	5.47%	100.00%	$489,252,298
			$517,540,939	**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:

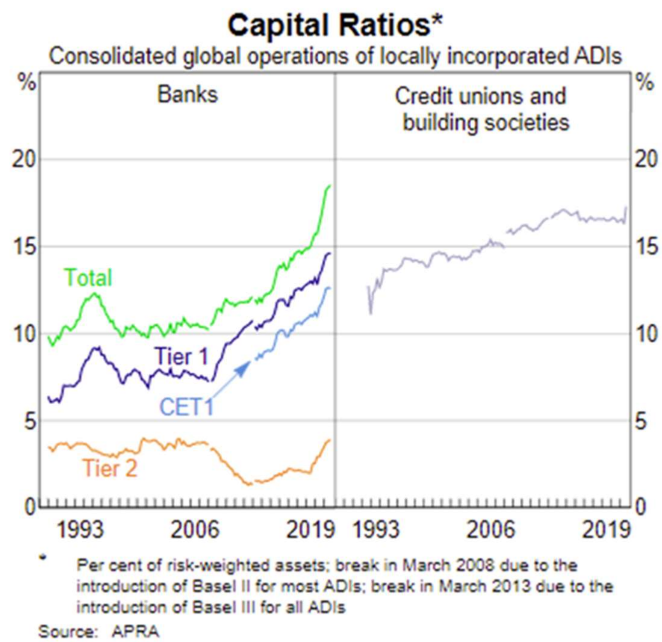
- A+ and A rated term deposits have maximum duration of 3 years;
- BBB+ rated assets have a maximum duration of 3 years;
- Limit of 5% to be placed with any BBB rated ADI with a maximum duration of 12 months;
- Limit of $1m to be placed with any BBB- rated ADI with a maximum duration of 12 months;
- 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 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. ***RBA Governor Lowe has commented that they have not seen any signs of stress in the financial system and that unlike during the GFC, the banks now have cash, are well capitalised and are acting as "shock absorbers" during the pandemic***.

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



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-ranking assets with ADIs regulated by APRA, fundamentally, their concerns surrounding Council's investment in "BBB" rated senior ranking 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	**$312,143,186**	**60.31%**
Australia	$312,143,186	60.31%
Branches of Foreign Bank	**$146,390,704**	**28.29%**
China	$93,250,000	18.02%
Switzerland	$3,240,704	0.63%
United States	$49,900,000	9.64%
Foreign Subsidiary Banks	**$16,784,217**	**3.24%**
Lebanon	$250,000	0.05%
Netherlands	$16,534,217	3.19%
Global^	**$42,222,832**	**8.16%**
International	$42,222,832	8.16%
Total	**$517,540,939**	**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 60% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 40% 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 31/07/2022 ($517.54m), we can roughly estimate that ~75% 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
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
CBA (BankWest)	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
BOQ	BBB+	Yes
Bendigo-Adelaide	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
CUA	BBB	No
MyState Bank	BBB	No
P&N Bank	BBB	No
Judo 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	$387,113,590	75%
No	$130,427,349	25%
	$517,540,939	**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	$30,427,644	6%	100%	$487,113,294
✓	AA Range	$285,278,414	55%	100%	$232,262,525
✓	A+ or A	$130,947,724	25%	100%	$386,593,215
✓	A-	$0	0%	40%	$207,016,376
✓	BBB+	$39,734,923	8%	24%	$85,625,125
✓	BBB	$29,902,234	6%	10%	$21,851,860
✓	BBB- & Unrated ADIs	$1,250,000	0%	5%	$24,627,047
		$517,540,939	**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	$30,427,644	6%	4.87	n/a	0.16%
✓	AA Range	$285,278,414	55%	1.36	5.00	1.62%
✓	A+ or A	$130,947,724	25%	1.86	5.00	2.54%
✓	A-	$0	0%	0.00	3.00	0.00%
✓	BBB+	$39,734,923	8%	1.17	3.00	2.27%
✓	BBB	$29,902,234	6%	0.46	1.00	1.87%
✓	BBB- & Unrated ADIs	$1,250,000	0%	0.20	1.00	1.84%
		$517,540,939	**100.00%**	**1.62**		**1.83%**

^Assuming TCorp LTGF is yielding 0.00% and CFS Fund (A rated) is yielding 3.50%.

We note the significant pick-up in yield in the “BBB” rated categories and lower rated ADIs 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 months to other NSW councils**.

Performance

Council's performance (actual returns) for the month ending 31 July 2022 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.11%	0.21%	0.24%	0.11%	0.29%	0.21%	0.34%
AusBond Bank Bill Index	0.12%	0.21%	0.20%	0.12%	0.22%	0.13%	0.33%
PCC Internal Benchmark*	0.44%	0.45%	0.19%	0.44%	0.31%	0.90%	1.08%
PCC Cash Portfolio	0.13%	0.25%	0.34%	0.13%	0.52%	0.57%	0.74%
PCC T/D Portfolio	0.17%	0.46%	0.76%	0.17%	1.39%	1.43%	1.75%
PCC FRN Portfolio	0.24%	0.50%	0.76%	0.24%	1.67%	1.68%	1.73%
PCC Bond Portfolio	0.09%	0.27%	0.54%	0.09%	1.08%	-	-
PCC Credit Fund	1.43%	-0.80%	-2.31%	1.43%	-2.90%	0.48%	0.21%
PCC TCorp Growth Fund	3.67%	-2.39%	-6.62%	3.67%	-6.21%	5.49%	3.55%
TCorp Benchmark	3.62%	-1.29%	-5.36%	3.62%	-5.04%	5.99%	4.06%
PCC's Total Portfolio	**0.32%**	**0.19%**	**0.08%**	**0.32%**	**0.55%**	**1.29%**	**1.54%**
Outperf. (BBI)	**0.20%**	**-0.01%**	**-0.12%**	**0.20%**	**0.33%**	**1.15%**	**1.20%**
Outperf. (Int. Bench.)	**-0.12%**	**-0.26%**	**-0.12%**	**-0.12%**	**0.24%**	**0.39%**	**0.45%**

**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: NSW TCorpIM Internal Benchmark

For the month of July, the total investment portfolio (including cash) provided a return of +0.32% (actual) or +3.82% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.12% (actual) or +1.45% p.a. (annualised), while underperforming Council's internal benchmark return of +0.44% (actual) or +5.33% p.a. (annualised). The CFS (+1.43% actual) and TCorp Fund (+3.67% actual) were the biggest contributors to performance this month.

Over the past year, the total portfolio (including cash) returned +0.55% p.a., outperforming bank bills by 0.33% p.a. and Council's internal benchmark by +0.24% p.a.

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 year. This is now reflected in the longer-term returns with the FRN portfolio now slightly ahead of fixed term deposits over 1-2 year time periods.

The annualised returns as of 31 July 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	1.35%	0.85%	0.48%	1.35%	0.29%	0.21%	0.34%
AusBond Bank Bill Index	1.45%	0.83%	0.40%	1.45%	0.22%	0.13%	0.33%
PCC Internal Benchmark*	5.33%	1.80%	0.39%	5.33%	0.31%	0.90%	1.08%
PCC Cash Portfolio	1.55%	1.00%	0.69%	1.55%	0.52%	0.57%	0.74%
PCC T/D Portfolio	1.98%	1.83%	1.55%	1.98%	1.39%	1.43%	1.75%
PCC FRN Portfolio	2.81%	1.98%	1.54%	2.81%	1.67%	1.68%	1.73%
PCC Bond Portfolio	1.10%	1.08%	1.10%	1.10%	1.08%	-	-
PCC Credit Fund	18.14%	-3.12%	-4.59%	18.14%	-2.90%	0.48%	0.21%
PCC TCorp Growth Fund	52.87%	-9.16%	-12.90%	52.87%	-6.21%	5.49%	3.55%
TCorp Benchmark	52.00%	-5.04%	-10.52%	52.00%	-5.04%	5.99%	4.06%
PCC's Total Portfolio	**3.82%**	**0.77%**	**0.16%**	**3.82%**	**0.55%**	**1.29%**	**1.54%**
Outperf. (BBI)	**2.37%**	**-0.05%**	**-0.24%**	**2.37%**	**0.33%**	**1.15%**	**1.20%**
Outperf. (Int. Bench.)	**-1.51%**	**-1.02%**	**-0.23%**	**-1.51%**	**0.24%**	**0.39%**	**0.45%**

Council's Term Deposit Portfolio & Recommendation

As at the end of July 2022, Council's deposit portfolio was still yielding an attractive **1.95% p.a.** (up 12bp from the previous month), with a weighted average duration of around 471 days (~1.29 years). The current average yield remains relatively attractive given the dramatic falls in the official cash rate. With an upward sloping deposit curve, investors are rewarded if they can continue to maintain a longer average duration.

As the past decade or so has highlighted (post-GFC era), we have seen too many portfolios overpay for liquidity and generally not insured themselves by diversify their funding across various tenors. 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 $2,130,000 in additional interest income compared to its peers (as per our May 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:

ADI	LT Credit Rating	Term	T/D Rate
BoQ/ME Bank	BBB+	5 years	4.50% p.a.
BoQ/ME Bank	BBB+	4 years	4.40% p.a.
BoQ/ME Bank	BBB+	3 years	4.10% p.a.
ICBC, Sydney	A	3 years	4.10% p.a.
ICBC, Sydney	A	2 years	4.00% p.a.
BoQ/ME Bank	BBB+	2 years	4.00% p.a.
Westpac	AA-	2 years	3.79% p.a.
CBA	AA-	2 years	3.76% p.a.
Bendigo-Adelaide	BBB+	2 years	3.70% p.a.
NAB	AA-	2 years	3.65% p.a.

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):

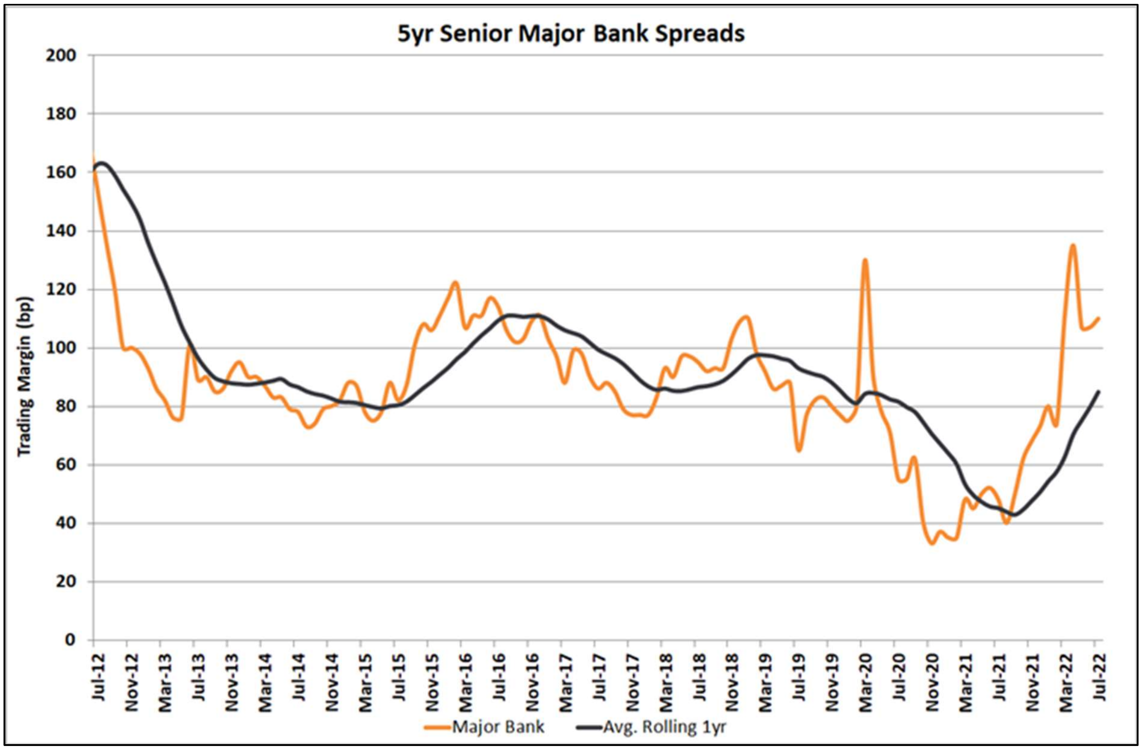
ADI	LT Credit Rating	Term	T/D Rate
BoQ/ME Bank	BBB+	12 months	3.80% p.a.
CBA	AA-	12 months	3.78% p.a.
Westpac	AA-	12 months	3.75% p.a.
Suncorp	A+	12 months	3.71% p.a.
NAB	AA-	12 months	3.70% p.a.
Bendigo	BBB+	12 months	3.70% p.a.
Suncorp	A+	6 months	3.34% p.a.

If Council does not require high levels of liquidity and can stagger its investments longer-term, it will be rewarded over coming years if rolls for an average min. term of 18 months to 2 years (this is where we current value), yielding, on average, up to ½%-1% p.a. higher compared to those investors that entirely invest in short-dated deposits.

With recessionary fears being priced in coming years, Council may take an insurance policy by investing across 3-5 year fixed deposits and locking in rates above 4% p.a. (small allocation only).

Senior FRNs Review

Over July, amongst the senior major bank FRNs, physical credit securities remained relatively flat at the long-end of the curve. Major bank senior securities are now looking fairly attractive again in a rising rate environment (5 year margins around the +105-110bp level):



Source: IBS Capital

There was slightly less activity in the primary market during July, with only a few noticeable 3-year AAA rated covered securities issued by RBC and CIBC. Amongst the lower rated sector, the "BBB" rated ADIs were marked around 20bp wider at the 3 year part of the curve. There was minimal movement in the "A" rated category.

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)	31/07/2022	30/06/2022
"AA" rated – 5yrs	+110bp	+107bp
"AA" rated – 3yrs	+88bp	+90bp
"A" rated – 5yrs	+125bp	+125bp
"A" rated – 3yrs	+100bp	+100bp
"BBB" rated – 3yrs	+130bp	+110bp

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-2024 for the "AA" rated ADIs (domestic major banks)**;
- On or before mid-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 low interest rate 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%	0.38	Annually
30/09/2020	15/12/2023	$2,000,000	1.00%	1.38	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	2.38	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	2.88	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	3.88	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	1.88	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	2.88	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	3.88	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	2.88	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	2.38	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	4.38	Semi-Annually
	Totals / Wgt. Avg.	**$31,000,000**	**1.07%**	**2.97 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 given the low rate environment and especially after the rate cut delivered in early November 2020 and its subsequent forward guidance on official interest rates (no rate rises "until 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%	4.06%	-$64,037

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 strongly factored in a tightening of global central bank policy measures (i.e. withdrawal of Quantitative Easing and lifting official interest rates).

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	1.11	3.00%	3.55%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	1.30	3.25%	3.56%
AU3CB0265403	Suncorp	AA-	Senior	30/07/2024	2.00	1.85%	3.91%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	2.03	1.75%	3.88%
AU3CB0265718	ING	AAA	Covered	20/08/2024	2.06	1.45%	3.80%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	2.09	1.55%	3.65%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	2.11	1.70%	3.90%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	2.26	2.00%	4.03%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.47	1.65%	3.71%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.50	1.65%	3.72%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	2.54	1.70%	4.03%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.63	2.70%	3.72%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.77	1.40%	4.35%
AU3CB0282358	ING	AAA	Covered	19/08/2026	4.06	1.10%	4.06%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	4.25	2.10%	4.40%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	4.49	2.40%	3.92%

CFS Global Credit Income Fund

For the month of July, the CFS Global Credit Income Fund returned +1.43% (actual), outperforming the AusBond Bank Bill Index return of +0.12% (actual), while underperforming the AusBond Credit Index return of +2.40% (actual).

Thinning liquidity amid concerns around further monetary policy tightening in the face of a growing recession risk has exacerbated the volatility in risk markets. Despite soaring inflation numbers, credit markets were helped by the slightly less hawkish rhetoric from global central banks and the expectations that their aggressive rate hike cycle will have to come to an end sooner rather than later.

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 ~+3½ - 4% 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

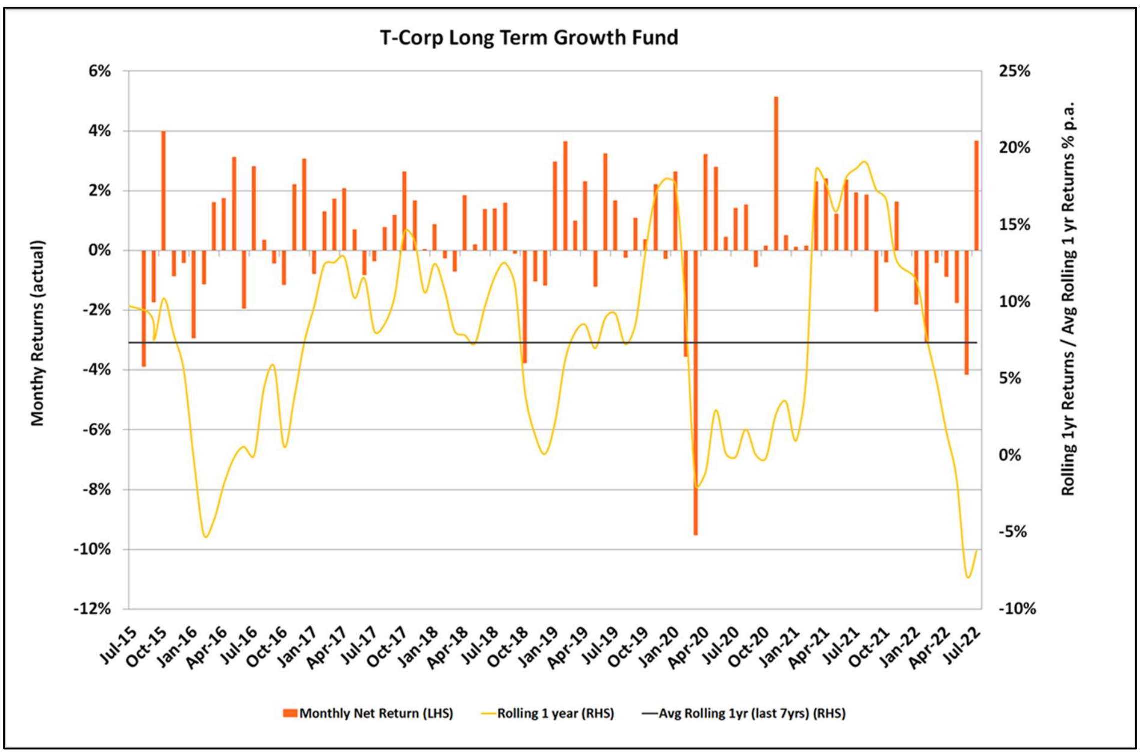
The Growth Fund returned +3.67% (actual) for the month of July. The gains this month were led by the rebound in domestic and global shares (S&P ASX 200 Accumulation Index rose +5.75% while the MSCI World ex-Australia Index gained +7.89%), as well as fixed bonds (AusBond Composite Bond Index rose +3.36%).

The global economy has entered a stagflationary environment, where inflation remains well-above target but growth slows significantly. Recession over the next few years is a risk, but not a certainty as we have experienced twin supply-shocks to the global economy and central bankers have the potential to deliver policy overtightening with aggressive rate hikes. Central banks are attempting to solve inflation problems, which are largely a result of supply chain issues, by restricting demand, yet these demand management tools will not directly impact the source of the inflation problem. Rate hikes will weaken demand and the prospect is that a sharp downshift in demand will be needed to match reduced supply levels so as to lower inflation.

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	135 (~1 in 3 months)
Positive Months	262
Total Months	397 (33.1 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

Risk assets rebounded in July after steep losses during the first half of the calendar year. In the US, the S&P 500 Index gained +9.11%, while the NASDAQ surged +12.35%. Europe's main indices also gained strongly, led by France's CAC (+8.87%), Germany's DAX (+5.47%), and UK's FTSE (+3.54%).

The US Fed hiked by 75bp, taking the target range to 2.25%-2.50%. Guidance remained unchanged that ongoing increases in the target will be appropriate, although the commentary was evidently less hawkish than feared. US Q2 GDP contracted by -0.9%, prompting some hope that the Fed may move towards a less aggressive rate path.

US CPI printed at +9.1% y/y from +8.8% y/y. Core CPI also exceeded expectations with a +0.7% monthly rise, reducing the annual rate by just +0.1% to +5.9%.

The US unemployment rate printed at 3.6% for the fourth consecutive month, its post-pandemic low.

The Bank of Canada was the first advanced economy central bank to opt for a full 100bp rate hike, to 2.50%, against 75bp generally expected.

The RBNZ offered up a "*no surprises*" Monetary Policy Review, delivering another 50bp hike to 2.50% and indicating comfort with its projections in the May Statement which showed the official rate heading to about 4%, well above its neutral setting.

Eurozone inflation printed a record +8.6%y/y in June vs estimate for an +8.5% outcome. The core reading eased to +3.7%y/y from +3.8%, and against expectations for a rise to +3.9%.

The European Central Bank (ECB) hiked rates by a more-than-expected at 50bp (only 50% chance of a 50bp hike was priced into the meeting), taking the deposit rate back to 0%, and ending its negative interest rate policy that has been in place since 2014.

UK headline inflation continued to rise, hitting +9.4% in June, slightly higher than expected. The Bank of England expects headline inflation to reach 11% later this year after energy companies increase prices.

China's June CPI came in +2.5% y/y from +2.1% (and +2.4% expected). The annual rise in PPI slipped to +6.1% from +6.4%. China's zero covid policy is taking much needed momentum out of the economy. Q2 GDP fell -2.6% (-2% expected) with the annual growth rate slipping to just +0.4% y/y. The government's +5.5% annual growth target is now widely considered to be out of reach.

The MSCI World ex-Aus Index rose +7.89% for the month of July:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+9.11%	-0.04%	-6.03%	+11.49%	+10.83%	+11.59%
MSCI World ex-AUS	+7.89%	-1.62%	-10.54%	+8.04%	+7.12%	+8.41%
S&P ASX 200 Accum. Index	+5.75%	-6.04%	-2.17%	+4.27%	+8.03%	+9.44%

Source: S&P, MSCI

Domestic Market

As expected, the RBA hiked the cash rate target by 50bp to 1.35% in its meeting in July, its highest level since May 2019. There was little change to the concluding paragraph "*the Board expects to take further steps in the process of normalising monetary conditions in Australia over the months ahead".*

The Board's Statement overall was slightly less hawkish than what markets had thought. Medium-term inflation expectations was depicted as being "*well anchored*". This suggests the RBA does not see itself as needing to race into restrictive territory as the market is currently pricing and the RBA is likely to slow the pace of hikes as it approaches neutral, which it pegs around 2.50%.

The minutes to the RBA's July policy meeting and RBA Deputy Governor Bullock's speech during the month was also seen as hawkish. Governor Lowe still thinks the nominal neutral interest rate is at least 2.50%, although the Board has hinted it may need to go above neutral to control inflation.

Headline CPI came in at +1.8% q/q and +6.1% y/y. The more closely watched core trimmed mean measure rose +1.5% q/q, which was exactly in line with consensus. There was an upward revision to the past quarter helping push the core annual rate to +4.9% y/y.

The labour market has tightened more quickly than the RBA had been expecting with the unemployment rate plummeting by 0.4% to 3.5% in June (from 3.9%), a 48 year low. The decline was driven by a sharp rise in employment of +88k, smashing expectations for a +30k gain.

The participation rate rose 0.1% to 66.8% to a new record high and building on the sharp increase last month. Participation is now 0.9% above pre-pandemic levels. The underemployment rate rose 0.3% to 6.1%.

Treasurer Chalmers and RBA Governor Lowe backed Australia's 2-3% flexible inflation target as the review into the RBA gets underway.

The trade surplus came in at $16bn in May, driven by a surge in coal (+20% m/m) and LNG (+12% m/m) export volumes.

The Australian dollar rose +1.71%, finishing the month at US70.07 cents (from US68.89 cents the previous month).

Credit Market

The global credit indices tightened over the month as risk markets parred back some of their recent losses. They are back to their levels experienced during the start of the pandemic (Q1 2020):

Index	July 2022	June 2022
CDX North American 5yr CDS	83bp	101bp
iTraxx Europe 5yr CDS	110bp	119bp
iTraxx Australia 5yr CDS	123bp	130bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	July 2022	June 2022
Bloomberg AusBond Bank Bill Index (0+YR)	+0.14%	+0.05%
Bloomberg AusBond Composite Bond Index (0+YR)	+3.36%	-1.48%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.24%	+0.05%
Bloomberg AusBond Credit Index (0+YR)	+2.40%	-1.34%
Bloomberg AusBond Treasury Index (0+YR)	+3.55%	-1.32%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+4.75%	-2.23%

Source: Bloomberg

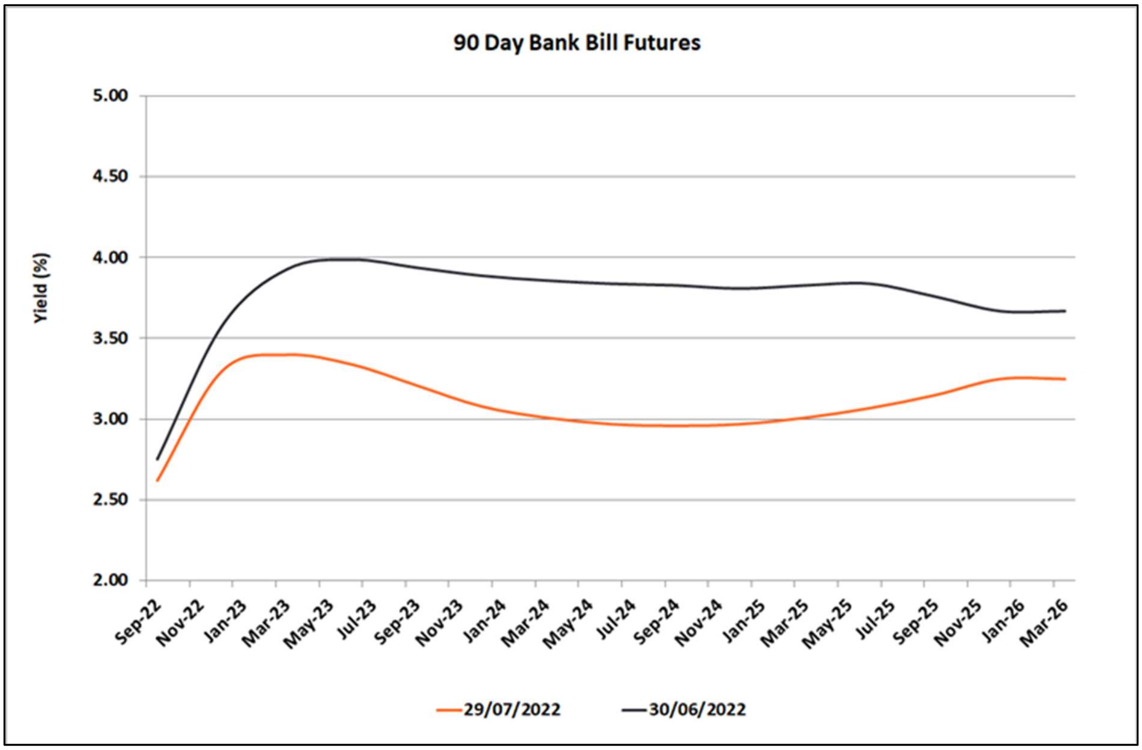
Other Key Rates

Index	July 2022	June 2022
RBA Official Cash Rate	1.35%	0.85%
90 Day (3 month) BBSW Rate	2.12%	1.81%
3yr Australian Government Bonds	2.70%	3.16%
10yr Australian Government Bonds	3.05%	3.66%
US Fed Funds Rate	2.25%-2.50%	1.50%-1.75%
3yr US Treasury Bonds	2.83%	2.99%
10yr US Treasury Bonds	2.67%	2.98%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over July, bill futures fell sharply at the long-end of the curve as the market factors in a higher probability of a global recession over the next few years, highlighted by the drop in the futures pricing in 2023-2024:



Source: ASX

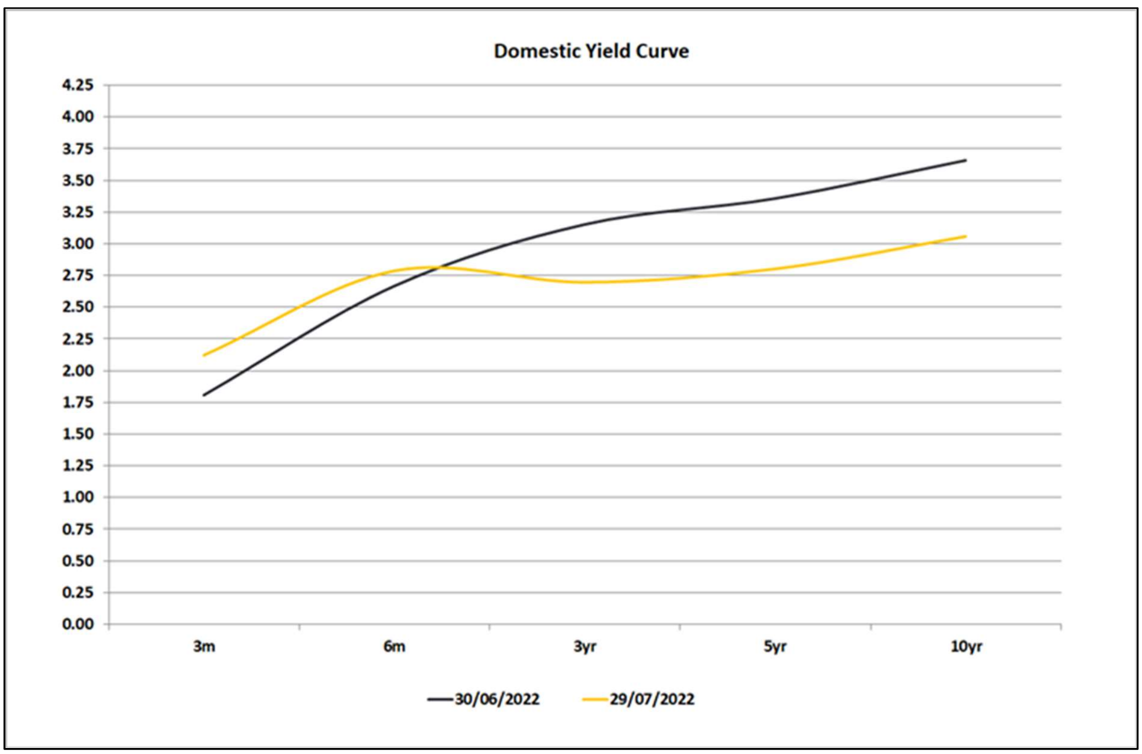
Fixed Interest Outlook

After the US Fed hiked rates by 75bp in July, the accompanying statement gave the impression of less urgency in future rate rises, noting that "*indicators of spending and production have softened*" and a prior reference to supply disruptions from China lockdowns was removed. US Fed Chair Powell said further moves will depend be data dependent. With the target rate now back at neutral, slowing of rate hikes would become appropriate, although the June '*dot plots*' were still a valid guide.

Domestically, the latest headline CPI came in at +1.8% q/q and +6.1% y/y. The more closely watched core trimmed mean measure rose +1.5% q/q which was exactly in line with consensus. There was an upward revision to the past quarter helping push the core annual rate to +4.9%. This should keep the pressure on the RBA to continue to move quickly towards a more neutral setting of policy. The market reaction suggested markets are braced for an upside surprise.

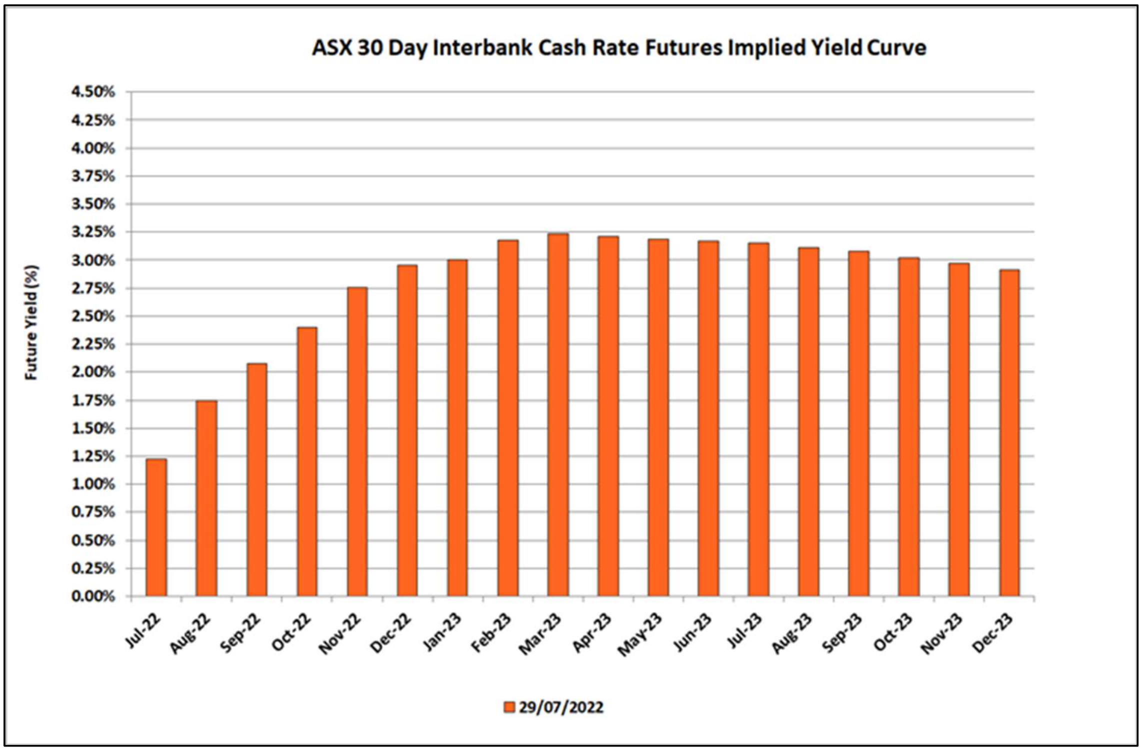
The RBA states "*we do need to chart a credible path back to 2-3%. We are seeking to do this in a way in which the economy continues to grow and unemployment remains low*". That suggests the RBA is still prioritising a soft landing as long as inflation expectations remain anchored as they currently are.

The domestic bond market continues to suggest a prolonged low period of interest rates on a historical basis (10-year government bond yields still just over 3%). Over the month, yields fell around 60bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets are currently pricing in around 8 additional rate rises over the next year (up to 3¼%), against the RBA's neutral setting of 2½%. Fears of a looming global recession have actually seen rate cuts start to be priced in towards the second half of 2023**:**



Source: ASX

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