CITY OF PARRAMATTA

Monthly Investment Report

May 2023

IMPERIUM MARKETS

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Summary

Quick Market Update

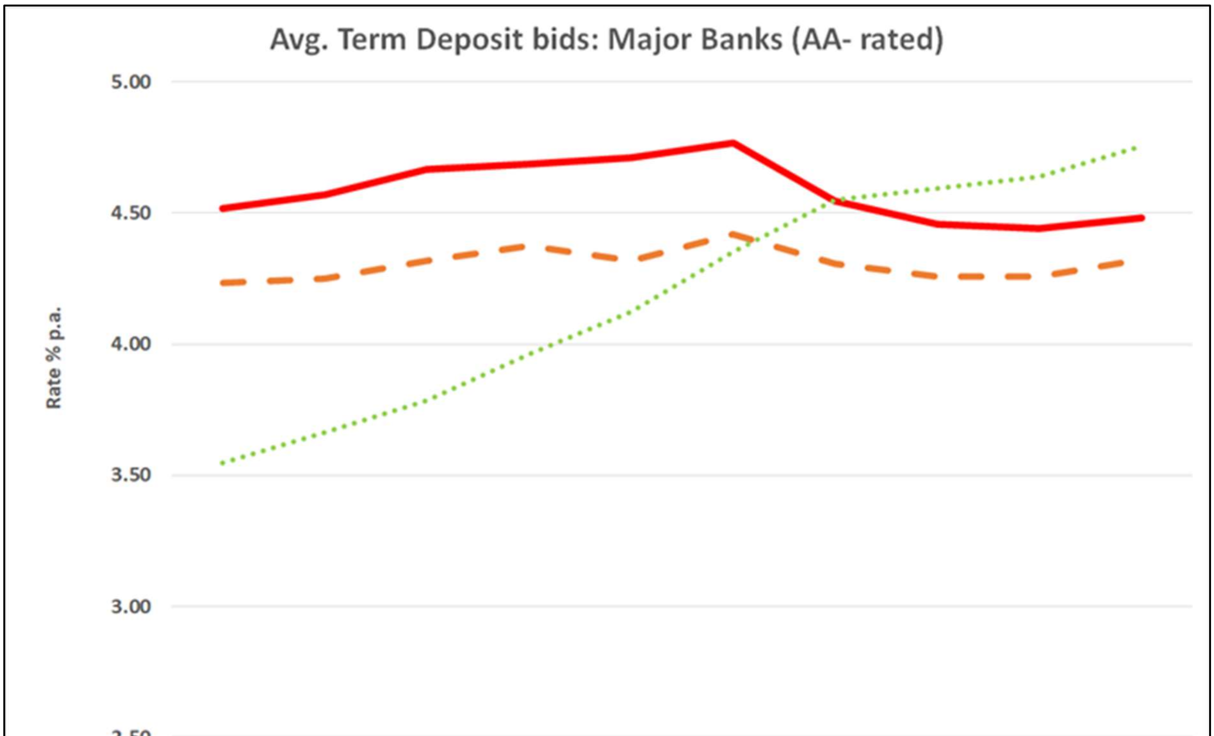
Risk assets remained cautious seemingly trying to assess the economic implications from the US debt ceiling deal, potentially resulting in a bigger fiscal drag hampering an already challenged growth outlook. The prospects of higher interest rates in the near term also resulted in the mild sell off across bond and equity markets during May. Domestically, the RBA lifted rates in May by 25bp to 3.85% and subsequent rhetoric by Governor Lowe suggests the Bank will continue to lift rates in the short-term to ensure inflation is trending towards their target band of 2-3%.

Term Deposits

Term Deposits (fixed and floating) account for around 70% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 2.81% p.a. at month-end, with a weighted average duration of around 295 days or ~10 months. We note the following:

- The highest deposit rate from any rated ADI in the market is now ~5.40% p.a. for 5 years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 4.50%-5.00% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 4.70%-5.05% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 4.90%-5.40% p.a. (depending on terms between 12m – 5 years).

Despite the aggressive rate hikes, over the past few months, the deposit market has already factored the peak of the rate hike cycle. Deposit rates rose up to 20-30bp across the long-end of the curve (+12 months) during May (compared to April), following the RBA's rhetoric suggesting rates are likely to move higher to tackle inflation. Interestingly, longer-term deposit rates offered by the higher rated institutions continue to reflect the possibility of future rate cuts:



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
May-2023	4.52	4.57	4.67	4.69	4.71	4.77	4.55	4.46	4.44	4.48
Apr-2023	4.23	4.25	4.32	4.37	4.32	4.42	4.31	4.26	4.26	4.32
Nov-2022	3.55	3.67	3.79	3.96	4.12	4.35	4.55	4.60	4.64	4.76

Source: Imperium Markets

'New' investments close to or above 4¾ - 5% p.a. is currently available if Council can place the majority of its surplus funds for terms of 12 months to 3 years. *With recessionary fears being priced in coming years, investors may take an 'insurance policy' against future rate cuts by investing across 3-5 year fixed deposits and locking in rates above or close to 5% p.a. (small allocation only), although this is primarily being offered by the lower rated ("BBB") ADIs.*

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 8% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively fell around **-0.05% (actual)** in May 2023 (**or -$18,309 in dollar terms**).

Summary	30 Apr 2023	31 May 2023	Net Flow ($)	Monthly Change %
Face Value	$36,900,000	$38,900,000	$2,000,00	+5.35%
Market Value	$37,017,967	$38,999,658	-$18,309	-0.05%

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 +$106,712** *(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 -**$2,064 in dollar terms or -0.02% (actual)** for the month:

Summary	30 Apr 2023	31 May 2023	Net Flow ($)	Monthly Change %
Face Value	$10,050,000	$12,050,000	$2,000,000	+5.42%
Market Value	$10,066,163	$12,064,099	-$2,064	-0.02%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital gain of ~$14,203**.

Senior Bonds

Since September 2020, Council has an outstanding $29m placed 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 1.09% p.a., with a current weighted average duration of 2.31 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 ~6% of Council's total investment portfolio. **The Fund returned -0.30% (actual) during May**. Domestic shares and fixed bonds detracted from performance (negative returns), whilst US shares provided some relief and returned a slightly positive return.

Summary	30 Apr 2023	31 May 2023	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$29,802,406	$29,711,818	$0	-$90,588	-0.30%

Fears within the banking system have gradually dissipated as some calm returned to asset markets, although spots of vulnerability arose due to fears of credit tightening. Markets will continue to be volatile as we navigate the challenges of bringing inflation down, while trying to avoid overtightening policy.

The economic data continues to point to more supply recovery and greater demand deceleration. This mix should deliver lower inflation over time. However, central banks continue to fear inflation and further rate hikes may still be delivered in the short-term. These actions, against the deteriorating economic backdrop, simply increase the probability of recession later this year.

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 3% of Council's total investment portfolio. **The Fund returned +0.14% (actual) in May**, as the market valuation of the fund's assets in global credit securities remained relatively flat during the month.

Summary	30 Apr 2023	31 May 2023	Difference ($)	Difference (%)
Market Value	$14,502,805	$14,522,449	+$19,644	+0.14%

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 +5-5½% p.a., we recommend Council retains this "grandfathered" Fund given the alternative to invest in cash and deposits (Council's approval list) are yielding slightly lower.

Cash Accounts

Cash accounts make up around 7% 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 4.00% p.a. at current yields, but likely higher if the RBA continues to increase 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 $13.221m. Based on an average total investment portfolio size of around $500m, that equates to a budgeted yield of around 2.64% for the current financial year.

For the month ending May 2023, the cumulative interest revenue earned was roughly $1.496m above the revised budgeted income. We exercise caution given the volatility from the TCorp Long-Term Growth Fund during any month.

Month-End	Cumulative Budget	Cumulative Investment Revenue	Difference ($)
Jul 2022	$1,101,748	$1,966,804	$865,056
Aug 2022	$2,203,497	$2,695,126	$491,629
Sep 2022	$3,305,245	$2,607,147	-$698,098
Oct 2022	$4,406,993	$4,706,137	$299,144
Nov 2022	$5,508,742	$6,578,791	$1,070,049
Dec 2022	$6,610,490	$6,767,315	$156,825
Jan 2023	$7,712,238	$8,210,705	$498,467
Feb 2023	$8,813,987	$8,921,298	$107,311
Mar 2023	$9,915,735	$10,362,481	$446,746
Apr 2023	$11,017,483	$12,569,604	$1,552,121
May 2023	$12,119,232	$13,615,571	$1,496,340
Jun 2023	$13,220,980		

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

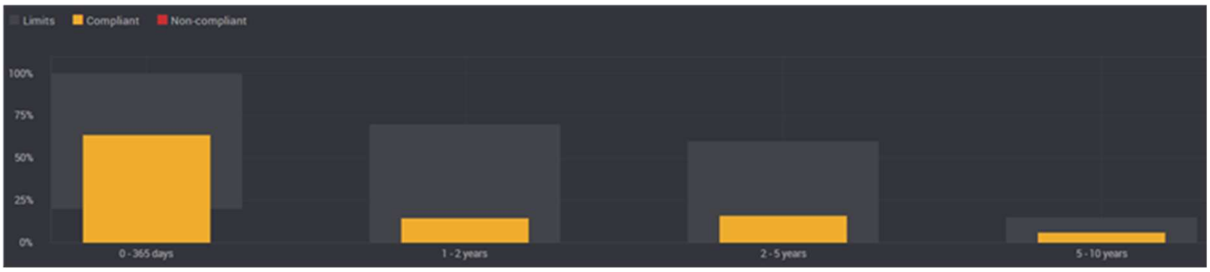
As at the end of May 2023, the portfolio was mainly directed to fixed and floating rate term deposits (70%). The remaining portfolio is directed to FRNs (8%), overnight cash accounts (7%), bonds (6%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (9%, combined).

Senior FRNs remain relatively attractive as spreads have widened over the past year – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 3 years remains appealing following the spike in medium-to longer-term yields during the rate hike cycle.

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

Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 16% 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 1-3 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	$318,997,673	63.70%	20%	100%	$181,821,354
✓	1 – 2 years	$72,372,345	14.45%	0%	70%	$278,200,974
✓	2 – 5 years	$79,737,191	15.92%	0%	50%	$220,754,225
✓	5 – 10 years	$29,711,818	5.93%	0%	25%	$45,411,036
		$500,819,027	**100.00%**			

Counterparty

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$903,837	0.18%	50.00%	$249,505,676
✓	Bendigo Covered	AAA	$4,010,146	0.80%	50.00%	$246,399,367
✓	Suncorp Covered	AAA	$537,429	0.11%	50.00%	$249,872,084
✓	ING Covered	AAA	$704,748	0.14%	50.00%	$249,704,766
✓	ANZ	AA-	$5,557,431	1.11%	40.00%	$194,770,180
✓	CBA	AA-	$22,386,677	4.47%	40.00%	$177,940,933
✓	NAB	AA-	$131,245,112	26.21%	40.00%	$69,082,499
✓	Northern Territory	AA-	$32,000,000	6.39%	40.00%	$168,327,611
✓	Westpac	AA-	$35,900,000	7.17%	40.00%	$164,427,611
✓	Citibank NA	A+	$999,524	0.20%	25.00%	$124,205,232
✓	Macquarie	A+	$29,058	0.01%	25.00%	$125,175,699
✓	Suncorp	A+	$13,300,909	2.66%	25.00%	$111,903,848
✓	UBS AG	A+	$3,233,113	0.65%	25.00%	$121,971,644
✓	CFS Global CI	A	$14,522,449	2.90%	25.00%	$110,682,308
✓	ICBC	A	$98,547,812	19.68%	25.00%	$26,656,945
✓	ING Bank Aus.	A	$5,000,000	1.00%	25.00%	$120,204,757
✓	Aus. Military Bank	BBB+	$8,000,000	1.60%	15.00%	$67,122,854
✓	Aus. Unity Bank	BBB+	$9,000,000	1.80%	15.00%	$66,122,854
✓	BankVIC	BBB+	$5,000,000	1.00%	15.00%	$70,122,854
✓	BoQ	BBB+	$10,501,155	2.10%	15.00%	$64,621,699
✓	Bendigo-Adelaide	BBB+	$4,857,012	0.97%	15.00%	$70,265,842
✓	Hume Bank	BBB+	$4,500,000	0.90%	15.00%	$70,622,854
✓	QT Mutual Bank	BBB+	$995,196	0.20%	15.00%	$74,127,658
✓	AMP Bank	BBB	$10,164,865	2.03%	15.00%	$64,957,989
✓	Bank Australia	BBB	$2,708,583	0.54%	15.00%	$72,414,271
✓	CUA	BBB	$2,502,152	0.50%	15.00%	$72,620,702
✓	MyState	BBB	$5,000,000	1.00%	15.00%	$70,122,854
✓	P&N Bank	BBB	$11,000,000	2.20%	15.00%	$64,122,854
✓	Judo Bank	BBB-	$5,000,000	1.00%	15.00%	$70,122,854
✓	The Mutual	BBB-	$6,000,000	1.20%	15.00%	$69,122,854
✓	Bank of Sydney	Unrated	$5,000,000	1.00%	1.00%	$0
✓	Summerland CU	Unrated	$5,000,000	1.00%	1.00%	$8,190
✓	Transport CU		$2,000,000	0.40%	1.00%	$3,008,190
✓	Warwick CU	Unrated	$5,000,000	1.00%	1.00%	$8,190
✓	TCorpIM LTG	Unrated	$29,711,818	5.93%	10.00%	$20,370,084
			$500,819,027	**100.00%**		

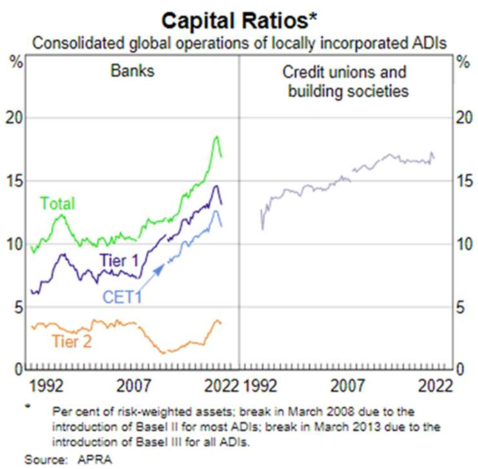
As at the end of May 2023, Council did not have an overweight position to any single ADI. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the unrated ADIs.

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). The financial regulator, APRA has noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past eight years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking 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*"**



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	**$313,366,406**	**62.57%**
Australia	$313,366,406	62.57%
Branches of Foreign Bank	**$137,680,925**	**27.49%**
China	$98,547,812	19.68%
Switzerland	$3,233,113	0.65%
United States	$35,900,000	7.17%
Foreign Subsidiary Banks	**$5,537,429**	**1.11%**
Netherlands	$5,537,429	1.11%
Global^	**$44,234,267**	**8.83%**
International	$44,234,267	8.83%
Total	**$500,819,027**	**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 62½% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 37½% 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), 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 31/05/2023 ($500.94m), we can roughly estimate that ~65% 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
BOQ	BBB+	Yes
BankVIC	BBB+	No
Bendigo-Adelaide	BBB+	No
Hume Bank	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
Bank Australia	BBB	No
CUA	BBB	No
MyState	BBB	No
P&N Bank	BBB	No
Judo Bank	BBB-	No
The Mutual Bank	BBB-	No
Bank of Sydney	Unrated	No
Summerland CU	Unrated	No
Transport Mutual CU	Unrated	No
Warwick CU	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	$299,459,356	60%
No	$201,359,671	40%
	$500,819,027	**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 most recent adopted Policy, all aggregate ratings categories are currently within the Policy limits:

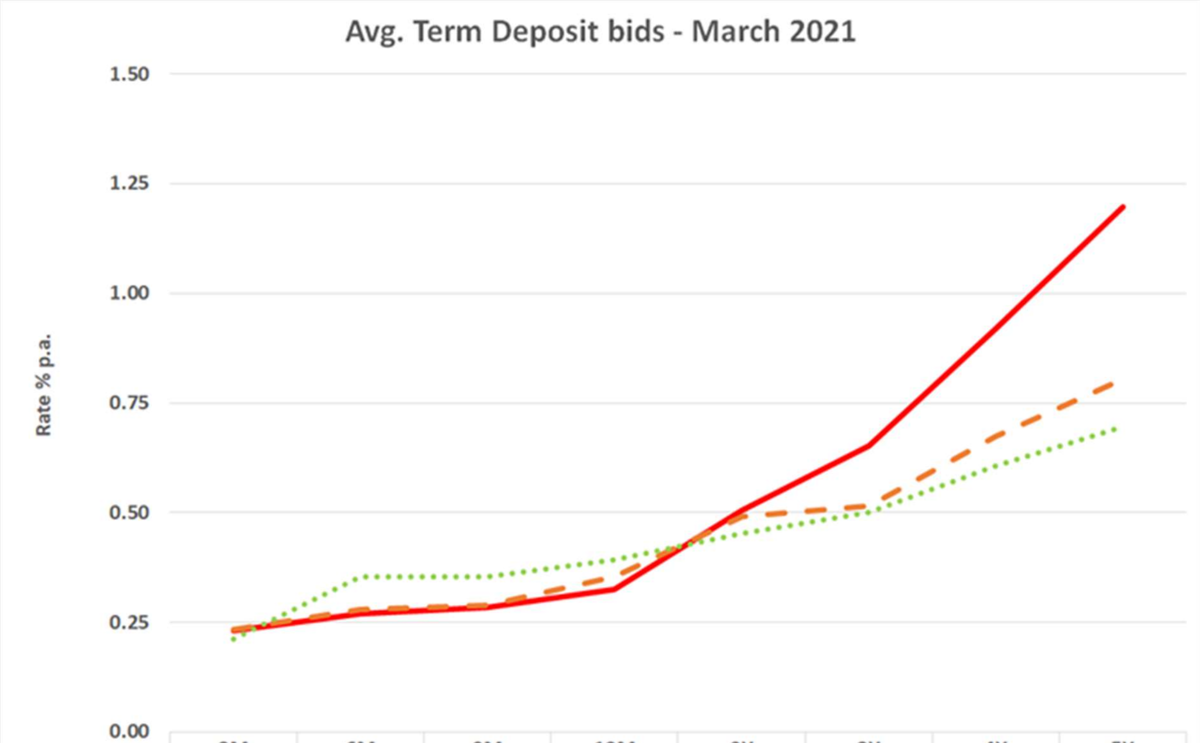
Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$6,156,160	1%	100%	$494,662,866
✓	AA Range or Major Banks	$227,089,220	45%	100%	$273,729,807
✓	A Category	$135,632,864	27%	80%	$265,022,358
✓	BBB Category	$85,228,964	17%	30%	$65,016,744
✓	Unrated ADI Category	$17,000,000	3%	10%	$33,081,903
✓	TCorpIM Funds	$29,711,818	6%	25%	$95,492,938
		$500,819,027	**100.00%**		

The portfolio remains well diversified across the entire credit spectrum, including some exposure to the unrated ADI sector. There is high capacity to invest in the higher rated ADIs (A or higher), particularly after the downgrades of BoQ and AMP Bank over the past few years, as all have now fallen back into the "BBB" rated category (previously in the "A" rated category).

Pre-pandemic (March 2020), a 'normal' marketplace meant the lower rated ADIs (i.e. BBB category) were offering higher rates on term deposits compared to the higher rated ADIs (i.e. A or AA rated). But due to the cheap funding available provided by the RBA via their Term Funding Facility (TFF) since mid-2020[1], allowing the ADIs to borrow as low as 0.10% p.a. fixed for 3 years, those lower rated ADIs (BBB rated) did not require deposit funding from the wholesale deposit from the likes of Council. Given the higher rated banks had more capacity to lend (as they have a greater pool of mortgage borrowers), they subsequently were offering higher deposit rates. In fact, some of the lower rated banks were not even offering deposit rates at all. As a result, most investors placed a higher proportion of their deposit investments with the higher rated (A or AA) ADIs over the past three years.

[1] The RBA's Term Funding Facility (TFF) allowed the ADI to borrow as low as 0.10% fixed for 3 years: https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html

Term Deposit Rates – During Pandemic (March 2021)



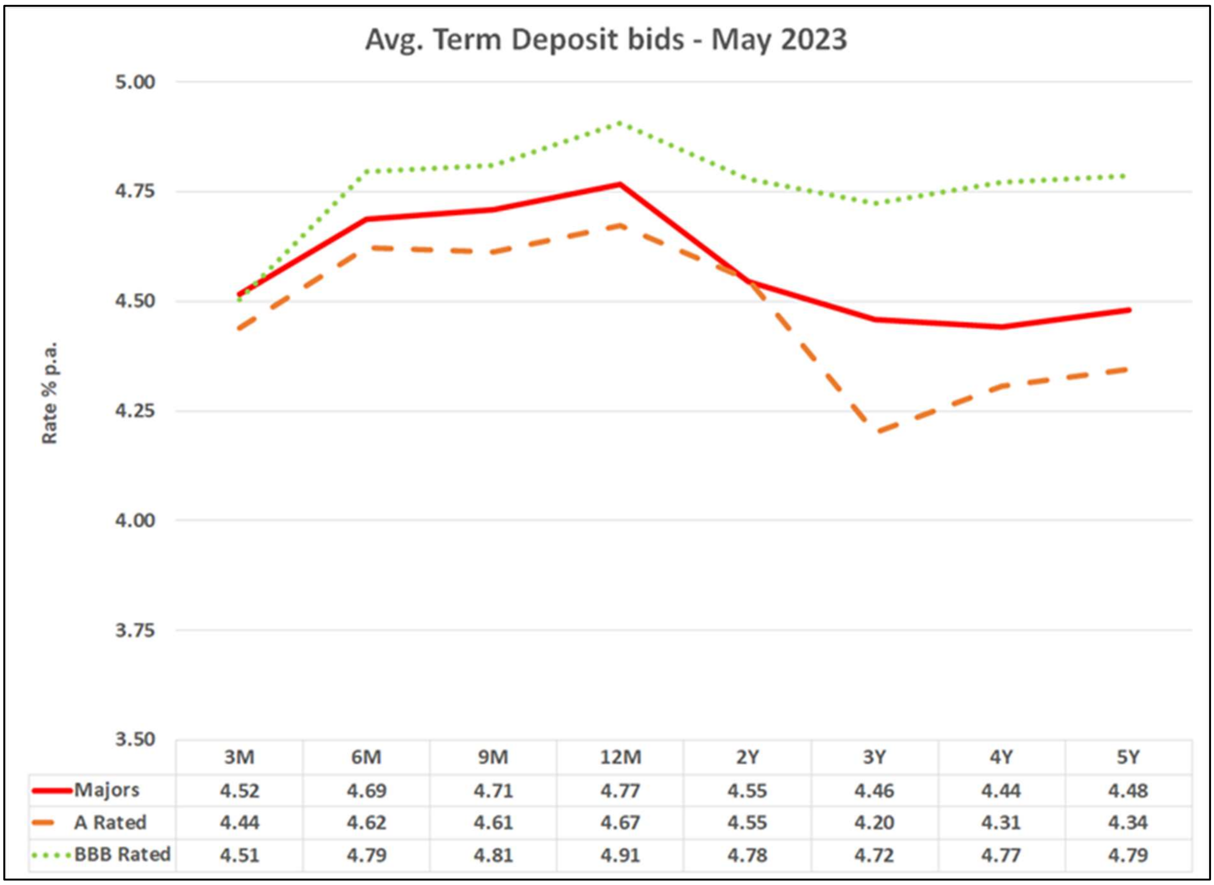
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

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

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

Term Deposit Rates – Currently (May 2023)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.52	4.69	4.71	4.77	4.55	4.46	4.44	4.48
A Rated	4.44	4.62	4.61	4.67	4.55	4.20	4.31	4.34
BBB Rated	4.51	4.79	4.81	4.91	4.78	4.72	4.77	4.79

Source: Imperium Markets

Performance

Council's performance (actual returns) for the month ending May 2023 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.32%	0.92%	1.70%	2.63%	2.70%	1.40%	0.99%
AusBond Bank Bill Index	0.29%	0.89%	1.65%	2.58%	2.64%	1.33%	0.91%
PCC Internal Benchmark*	0.30%	1.15%	2.10%	3.72%	3.68%	1.94%	1.80%
PCC Cash Portfolio	0.34%	0.98%	1.81%	2.83%	2.92%	1.65%	1.32%
PCC T/D Portfolio	0.23%	0.64%	1.23%	2.15%	2.30%	1.79%	1.72%
PCC FRN Portfolio	0.42%	1.19%	2.26%	3.72%	3.86%	2.67%	2.34%
PCC Bond Portfolio	0.09%	0.28%	0.55%	1.02%	1.11%	1.09%	-
PCC Credit Fund	0.14%	0.82%	2.65%	5.71%	3.46%	0.73%	2.43%
PCC TCorp Growth Fund	-0.30%	2.34%	2.05%	8.89%	4.35%	1.39%	5.94%
PCC's Total Portfolio	**0.22%**	**0.95%**	**1.52%**	**2.76%**	**2.65%**	**1.68%**	**1.80%**
Rel. Perf. (BBI)	**-0.07%**	**0.07%**	**-0.14%**	**0.18%**	**0.01%**	**0.34%**	**0.89%**
Rel. Perf. (Int. Bench.)	**-0.08%**	**-0.20%**	**-0.58%**	**-0.96%**	**-1.03%**	**-0.26%**	**0.00%**

**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 May, the total investment portfolio (including cash) provided a return of +0.22% (actual) or +2.67% p.a. (annualised), underperforming the AusBond Bank Bill Index return of +0.29% (actual) or +3.53% p.a. (annualised), and Council's internal benchmark return of +0.30% (actual) or +3.59% p.a. (annualised). Apart from FRNs, all asset classes underperformed this month and were detractors to overall performance.

The longer-term outperformance continues to be anchored by the handful of longer-dated deposits, 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 ahead of fixed term deposits over 1-3 year time periods.

The annualised returns as of May 2023 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	3.85%	3.68%	3.43%	2.87%	2.70%	1.40%	0.99%
AusBond Bank Bill Index	3.53%	3.56%	3.34%	2.82%	2.64%	1.33%	0.91%
PCC Internal Benchmark*	3.59%	4.65%	4.25%	4.05%	3.68%	1.94%	1.80%
PCC Cash Portfolio	4.10%	3.93%	3.67%	3.09%	2.92%	1.65%	1.32%
PCC T/D Portfolio	2.77%	2.58%	2.49%	2.35%	2.30%	1.79%	1.72%
PCC FRN Portfolio	5.00%	4.81%	4.58%	4.06%	3.86%	2.67%	2.34%
PCC Bond Portfolio	1.11%	1.11%	1.11%	1.11%	1.11%	1.09%	-
PCC Credit Fund	1.61%	3.28%	5.39%	6.23%	3.46%	0.73%	2.43%
PCC TCorp Growth Fund	-3.52%	9.62%	4.15%	9.72%	4.35%	1.39%	5.94%
PCC's Total Portfolio	**2.67%**	**3.84%**	**3.06%**	**3.01%**	**2.65%**	**1.68%**	**1.80%**
Rel. Perf. (BBI)	**-0.86%**	**0.28%**	**-0.28%**	**0.19%**	**0.01%**	**0.34%**	**0.89%**
Rel. Perf. (Int. Bench.)	**-0.92%**	**-0.81%**	**-1.19%**	**-1.04%**	**-1.03%**	**-0.26%**	**0.00%**

Council's Term Deposit Portfolio & Recommendation

As at the end of May 2023, Council's deposit portfolio was yielding **2.81% p.a.** (up 16bp from the previous month), with a weighted average duration of around 295 days (~10 months).

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

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
P&N Bank	BBB	5 years	5.40% p.a.
P&N Bank	BBB	4 years	5.40% p.a.
P&N Bank	BBB	3 years	5.30% p.a.
P&N Bank	BBB	2 years	5.30% p.a.
AMP Bank	BBB	2-3 years	5.10% p.a.^
Australian Military	BBB+	2 years	4.88% p.a.
CBA	AA-	2 years	4.85% p.a.
ING	A	2 years	4.78% p.a.
BoQ	BBB+	2 years	4.75% p.a.
Westpac	AA-	2 years	4.73% p.a.
NAB	AA-	2 years	4.60% p.a.

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

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

ADI	LT Credit Rating	Term	T/D Rate
P&N Bank	BBB	12 months	5.30% p.a.
AMP Bank	BBB	11-12 months	5.25% p.a.^
AMP Bank	BBB	6-7 months	5.20% p.a.^
BankVIC	BBB+	12 months	5.12% p.a.
CBA	AA-	12 months	5.07% p.a.
Australian Military	BBB+	10 months	5.04% p.a.
NAB	AA-	12 months	5.00% p.a.
Summerland CU	Unrated ADI	6 months	5.00% p.a.
Suncorp	A+	6-11 months	4.96% p.a.
NAB	AA-	6-11 months	4.95% p.a.
Westpac	AA-	12 months	4.95% p.a.
BoQ	BBB+	6 & 12 months	4.95% p.a.
ING	A	12 months	4.94% p.a.
Bendigo-Adelaide	BBB+	12 months	4.90% p.a.
Summerland CU	Unrated ADI	3 months	4.85% p.a.
Suncorp	A+	12 months	4.83% p.a.
NAB	AA-	3 months	4.70% p.a.

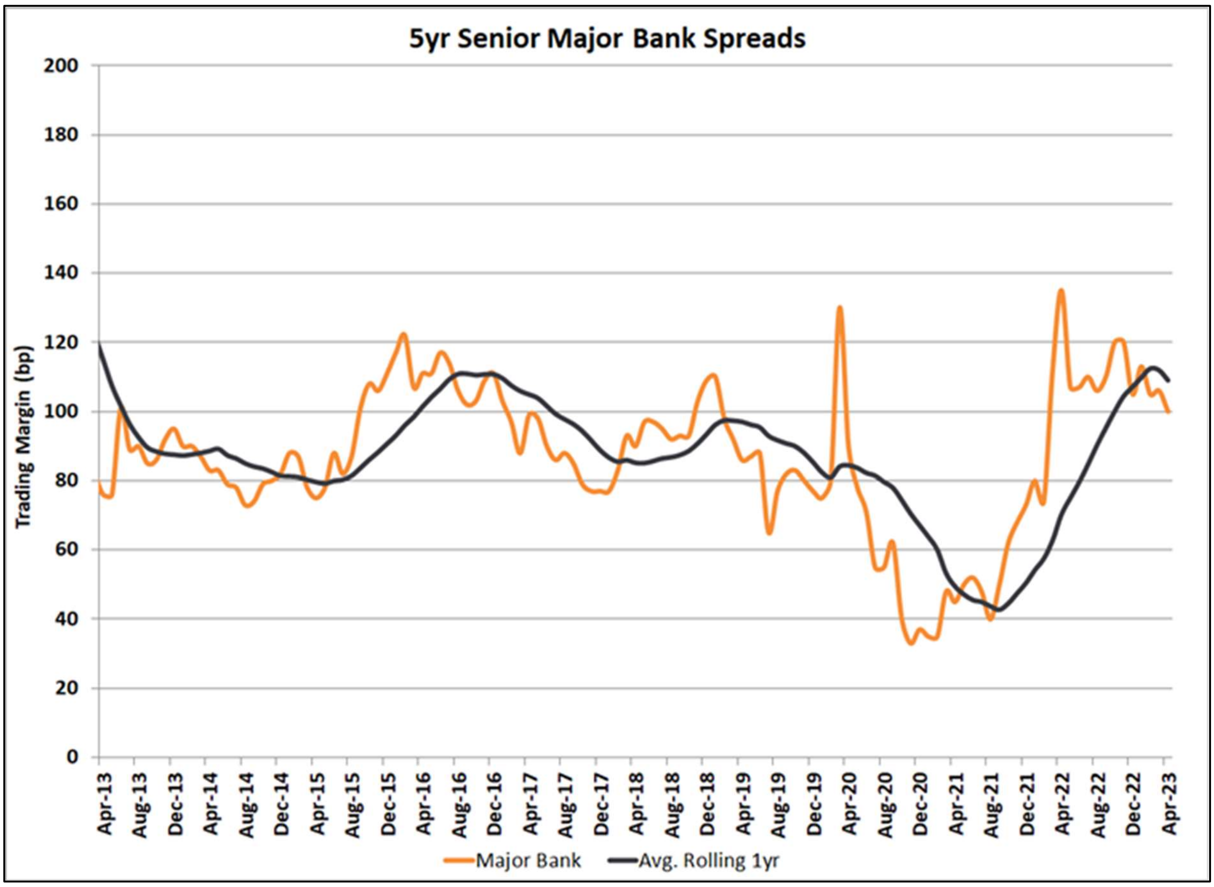
^Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to $10m (from $5m).

If Council does not require high levels of liquidity and can stagger its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle if it can roll for an average min. term of 12 months to 3 years (this is where we current value), yielding, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated (under 6 months) deposits.

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

Senior FRNs Review

Over May, amongst the senior major bank FRNs, physical credit securities remained relatively flat at the long-end of the curve. Major bank senior securities remain fairly attractive again in the rising rate environment (5 year margins around the +100bp level):



Source: IBS Capital

In contrast to the previous month, there was a significant number of new (primary) issuances during the month of May:

- 5yr BoQ (AAA) covered FRN at +120bp
- 3yr & 5yr NAB (AA-) senior security (fixed and floating) at +78bp and +100bp respectively
- 3yr Bendigo-Adelaide (BBB+) senior security (fixed and floating) at +125bp
- 3yr & 5y UBS (A+) senior security (fixed and floating) at +130bp and +155bp respectively
- 3yr Suncorp (A+) senior security (fixed and floating) at +105bp
- 3yr OCBC (AA-) senior 'Green' FRN at +78bp
- 3yr Rabobank (A+) senior FRN at +88bp
- 1yr Bank of Us (BBB+) senior FRN at +95bp

Amongst the "A" rated sector, the securities were marked around 10bp wider at the 3-5 year part of the curve, mainly due to new issuances. In contrast, the "BBB" rated sector was marked flat during the month.

Credit securities are looking much more attractive given the widening of spreads over the past year. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over future years (in a relatively stable credit environment).

Senior FRNs (ADIs)	31/05/2023	30/04/2023
"AA" rated – 5yrs	+100bp	+100bp
"AA" rated – 3yrs	+76bp	+75bp
"A" rated – 5yrs	+125bp	+115bp
"A" rated – 3yrs	+100bp	+90bp
"BBB" rated – 3yrs	+135bp	+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-2025 for the "AA" rated ADIs (domestic major banks)**;
- On or before mid-2024 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) are now generally holding sub-optimal investments and are not maximising returns by foregoing, potentially significant 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 over the past year, we now recommend Council retains the majority of its FRN portfolio at this stage. We now recommend switching out of the following FRN at the next best opportunity, most likely into a new attractive primary issuance:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	~Unrealised Gain ($)
NAB	AA-	21/01/2025	AU3FN0052510	$2,000,000	+53.0bp	$100.310	$6,204

We will inform Council when there is an opportunity to sell out of any future sub-optimal FRNs 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. The previous financial year's sales amounted to $333k – given the turn in the market over the past few years, these sales would not have been undertaken unless Council was actively managing its portfolio prudently.

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
30/09/2020	15/12/2023	$2,000,000	1.00%	0.54	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	1.55	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	2.05	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	3.04	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	1.05	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	2.05	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	3.04	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	2.05	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	1.55	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	3.55	Semi-Annually
	Totals / Wgt. Avg.	**$29,000,000**	**1.09%**	**2.31 yrs**	

At the time of investment, these investments were relatively attractive especially after the rate cut delivered in early November 2020 to 0.10% 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 over the past 12 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%	4.62%	-$60,825

Senior Fixed Bonds – ADIs (Secondary Market)

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

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

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0255776	ING	AAA	Covered	07/09/2023	0.29	3.00%	4.37%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	0.47	3.25%	4.43%
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	1.16	1.85%	4.63%
AU3CB0263275	Westpac	AA-	Senior	16/08/2024	1.21	2.25%	4.51%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.22	1.45%	4.65%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.25	1.55%	4.50%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.27	1.70%	4.88%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.41	2.00%	4.99%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	1.63	1.65%	4.52%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	1.64	1.65%	4.52%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	1.71	1.70%	4.82%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	1.80	2.70%	4.52%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.22	3.90%	4.51%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.22	4.20%	4.53%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	2.93	1.40%	5.09%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.23	1.10%	4.67%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.42	2.10%	5.13%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	3.67	2.40%	4.62%

CFS Global Credit Income Fund

For the month of May, the CFS Global Credit Income Fund returned +0.14% (actual), underperforming the AusBond Bank Bill Index return of +0.29% (actual), while outperforming the AusBond Credit Index return of -0.51% (actual).

The outlook continues to be uncertain and likely to be volatile. The manager expect opportunities to add to credit positions over time, but at higher spread levels, given the likelihood of economic weakness or recession later this year.

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 ~5-5½% 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 -0.30% (actual) for the month of May. Domestic shares (S&P ASX 200 Accumulation Index -2.53%), international shares (MSCI World ex-Australia -1.25%) and fixed bonds (AusBond Composite Bond Index (-1.21%) all contributed to the negative performance this month.

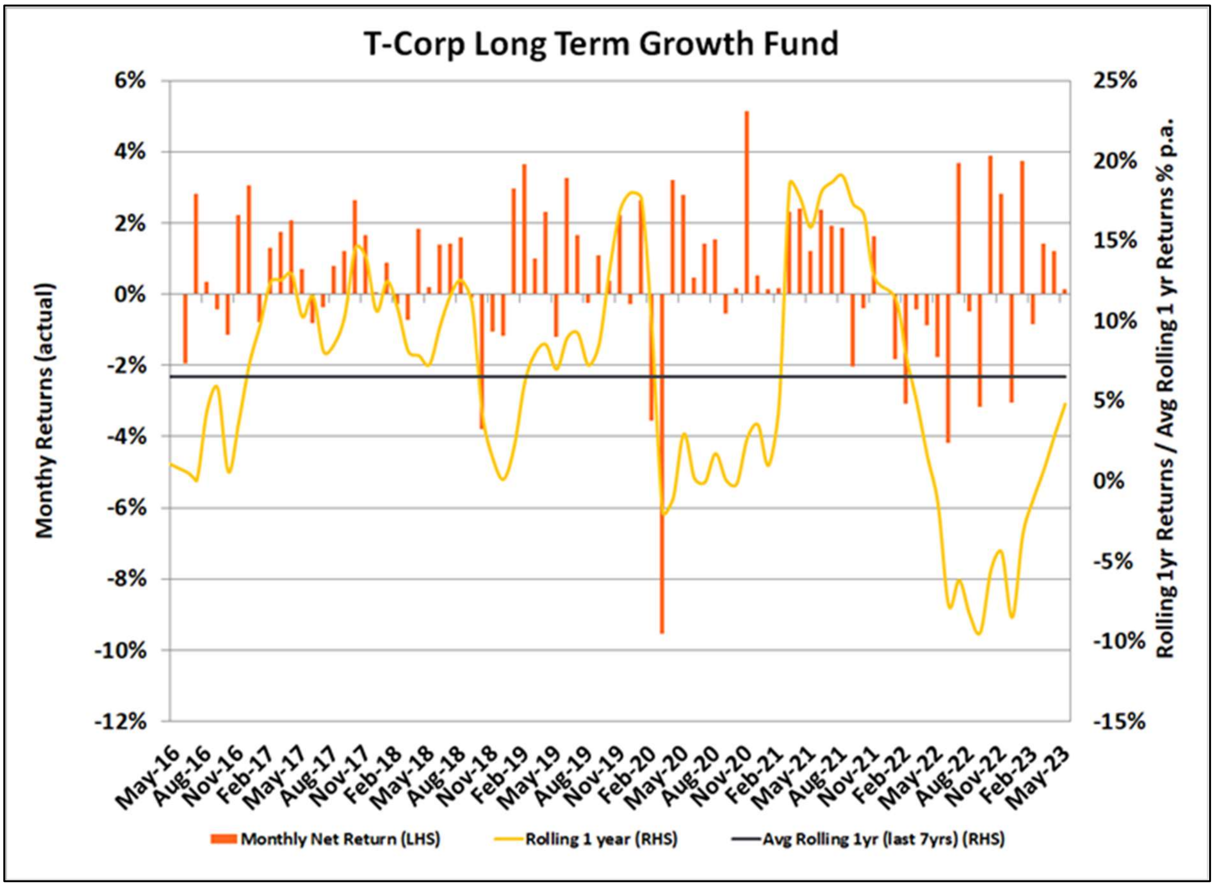
Fears within the banking system have gradually dissipated as some calm returned to asset markets, although spots of vulnerability arose due to fears of credit tightening. Markets will continue to be volatile as we navigate the challenges of bringing inflation down, while trying to avoid overtightening policy.

The economic data continues to point to more supply recovery and greater demand deceleration. This mix should deliver lower inflation over time. However, central banks continue to fear inflation and further rate hikes may still be delivered in the short-term. These actions, against the deteriorating economic backdrop, simply increase the probability of recession later this year.

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 seeking relief from elevated levels of inflation and the peak of the interest rate cycle.

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	140 (~1 in 3 months)
Positive Months	267
Total Months	407 (33.92 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)


T-Corp Long Term Growth Fund
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
Monthly Returns (actual)
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
Rolling 1yr Returns / Avg Rolling 1 yr Returns % p.a.
May-16
Aug-16
Nov-16
Feb-17
May-17
Aug-17
Nov-17
Feb-18
May-18
Aug-18
Nov-18
Feb-19
May-19
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Aug-21
Nov-21
Feb-22
May-22
Aug-22
Nov-22
Feb-23
May-23
Monthly Net Return (LHS)
Rolling 1 year (RHS)
Avg Rolling 1yr (last 7yrs) (RHS)

Economic Commentary

International Market

Risk assets remained cautious seemingly trying to assess the economic implications from the US debt ceiling deal, potentially resulting in a bigger fiscal drag hampering an already challenged growth outlook. The prospects of higher interest rates in the near term also resulted in the mild sell off across bond and equity markets during May.

Across equity markets, the S&P 500 Index marginally gained +0.25%, whilst the NASDAQ added +5.80%. Europe's main indices were sold off, led by UK's FTSE (-5.39%), France's CAC (-5.24%) and Germany's DAX (-1.62%).

The US Fed unanimously delivered the widely expected 25bp hike to 5.00-5.25% on the fed funds rate target. The accompanying statement dropped the explicit expectation that additional tightening may be appropriate.

US payrolls printed much better than expected, with the unemployment rate falling (not rising, at 3.4% vs. 3.6% expected). The data overall is consistent with a still tight labour market.

The US core PCE deflator showed little progress on the current phase to fight inflation. In 3m annualised terms, the core PCE deflator was +4.3%, the same rate it was a year ago in April 2022.

Canada's headline employment came in at 41.4k vs. 20.0 expected, with unemployment staying at 5.0% vs. 5.1% expected. The CPI unexpectedly ticked up to +4.4% y/y in April but the average of the two key core measures were in line, down from +4.5% to +4.2%.

The Bank of England raised rates by 25bp to 4.25% as expected, and guided that more tightening would be required if there was evidence of more persistent inflation pressures. UK CPI for May far exceeded expectations, with the headline only dropping to +8.7% from +10.1%, against +8.2% expected. More disconcerting was the core reading lifting to +6.8% from +6.2% (no change expected).

The RBNZ lifted rates by 25bp to 5.50% as was widely anticipated. What surprised the market was the RBNZ's outlook, which was consistent with the end of the tightening cycle being reached – the MPC now "*confident*" that policy was restrictive enough to meet its inflation objective.

China's export growth slowed in April while imports slumped. Exports expanded +8.5% from a year earlier to $295 billion vs +8% expected. Exports received a boost from still-resilient demand from places such as Southeast Asia.

The MSCI World ex-Aus Index fell -1.25% for the month of May:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+0.25%	+5.28%	+1.15%	+11.14%	+9.09%	+9.87%
MSCI World ex-AUS	-1.25%	+3.17%	+0.34%	+9.25%	+6.00%	+6.64%
S&P ASX 200 Accum. Index	-2.53%	-0.89%	+2.90%	+11.43%	+7.47%	+8.12%

Source: S&P, MSCI

Domestic Market

The RBA surprised markets in May by raising the cash rate a further 25bp to 3.85% after the briefest of pauses the previous month (April). Underpinning the Bank's concerns are signs that the labour market remains tight, wages growth has picked up but remains consistent with target only if productivity growth picks up (both are key risks over this year to the RBA's outlook).

The RBA Minutes for May confirmed upcoming meetings are very live with extensive discussion around the need for productivity growth to pick up "*to ensure consistency of the wages growth forecast with the Bank's inflation forecast*".

April employment data was softer than expected, with employment falling -4k against expectations for a +25k increase and the unemployment rate rising by 0.1% to 3.7%.

The wage price index (WPI) rose +0.8% q/q and +3.7% y/y in Q1. At +0.84% q/q unrounded, it was a little below the +0.9% consensus. This broadly matched the RBA's most recent May SoMP forecast of +0.9% q/q and +3.6% y/y. This gives the Bank more confidence in its read that wages growth was stabilising.

The April Monthly CPI Indicator rose +6.8% y/y from +6.3%y/y in March.

Australian dwelling prices rose +0.5% m/m in April. That follows the +0.6% rise in March that broke a streak of 10 consecutive monthly declines.

Retail sales rose +0.4% m/m, a little above consensus for a +0.2% gain.

The March trade balance beat expectations with the trade surplus widening to $15.3bn, its second highest on record, from an upwardly revised February (consensus $13.0bn). Exports rose 3.8% m/m, outpacing a 2.5% increase in imports.

The Federal budget is expected to be in surplus by $4.2bn (0.2% of GDP) for 2022-23. While foreshadowed in the monthly financial statements, it is a dramatic improvement on the most recent October Budget estimate of -$36.9bn.

The Australian dollar lost -1.74%, finishing the month at US64.95 cents (from US66.10 cents the previous month).

Credit Market

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

Index	May 2023	April 2023
CDX North American 5yr CDS	76bp	79bp
iTraxx Europe 5yr CDS	82bp	86bp
iTraxx Australia 5yr CDS	83bp	91bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	May 2023	April 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.29%	+0.30%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.21%	+0.19%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.34%	+0.46%
Bloomberg AusBond Credit Index (0+YR)	-0.51%	+0.45%
Bloomberg AusBond Treasury Index (0+YR)	-1.39%	+0.01%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-0.65%	+0.32%

Source: Bloomberg

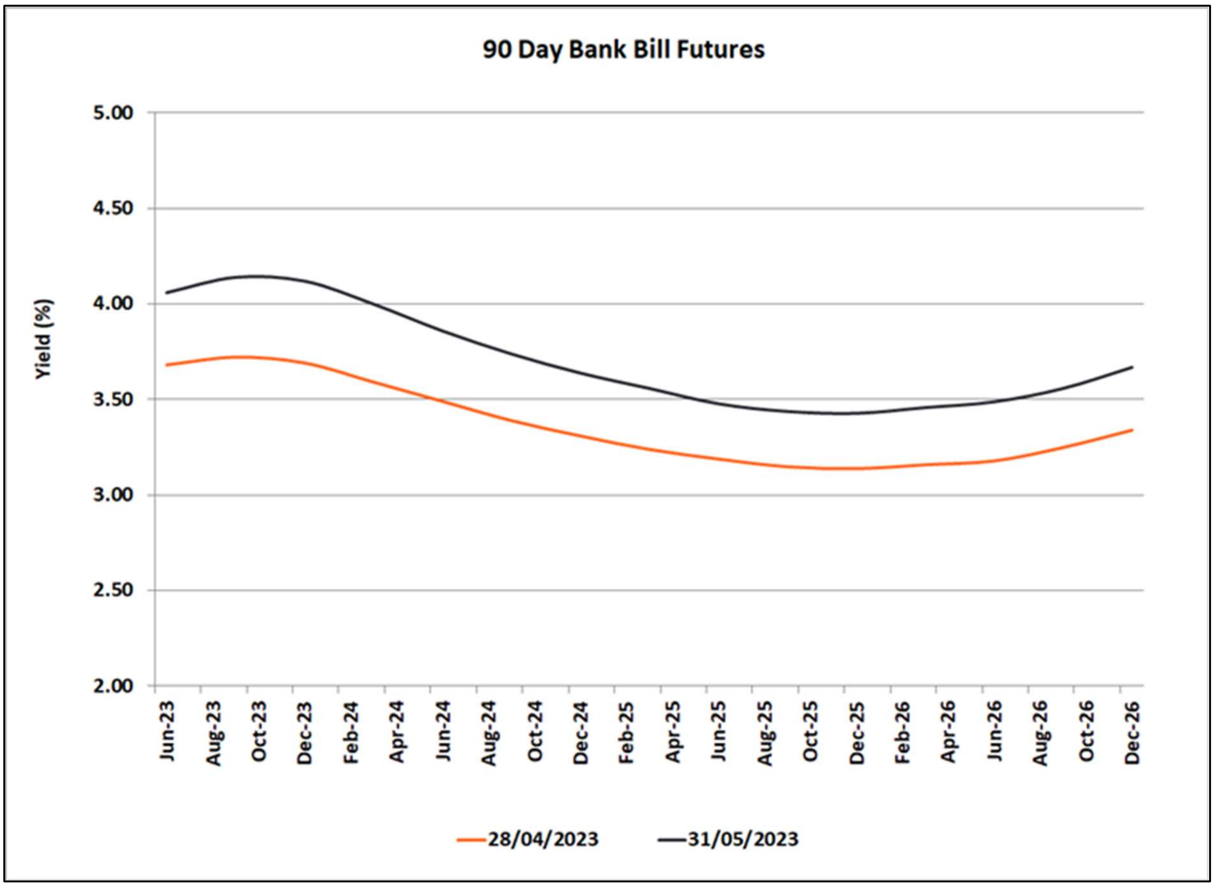
Other Key Rates

Index	May 2023	April 2023
RBA Official Cash Rate	3.85%	3.60%
90 Day (3 month) BBSW Rate	3.98%	3.68%
3yr Australian Government Bonds	3.37%	3.00%
10yr Australian Government Bonds	3.61%	3.34%
US Fed Funds Rate	5.00%-5.25%	4.75%-5.00%
2yr US Treasury Bonds	4.40%	4.04%
10yr US Treasury Bonds	3.64%	3.44%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Bill futures rose across the board in May driven by RBA Governor Lowe's comments suggesting further rate hikes would be required to combat inflation. 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

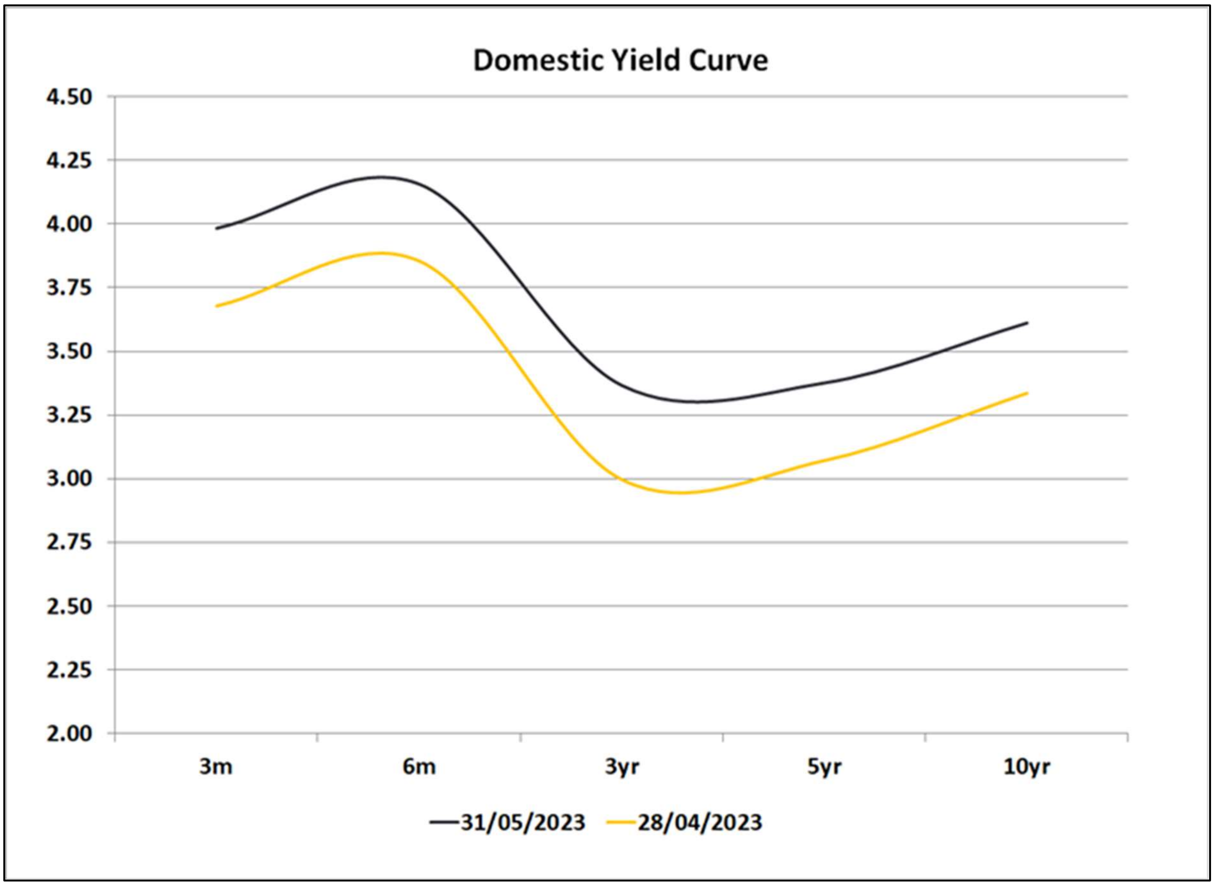
Fixed Interest Outlook

Most US FOMC members are open to a pause in June, but if they did pause, they have not ruled out future rate hikes. A June hike is now ~70% priced, and another 25bp hike is 90% priced in the July meeting. Near term cut expectations have also been pared.

Domestically, after delivering another 25bp hike in May, the RBA's commentary concluded that "*some further tightening of monetary policy may be required*", reinforcing a continuing commitment to do what is necessary to return inflation to target and a bias that still higher interest rates might be required to return inflation to target. Governor Lowe has commented that as per the views of other central banks, there are costs to inflation remaining too high for too long, as this would require even higher interest rates and greater job losses in the future.

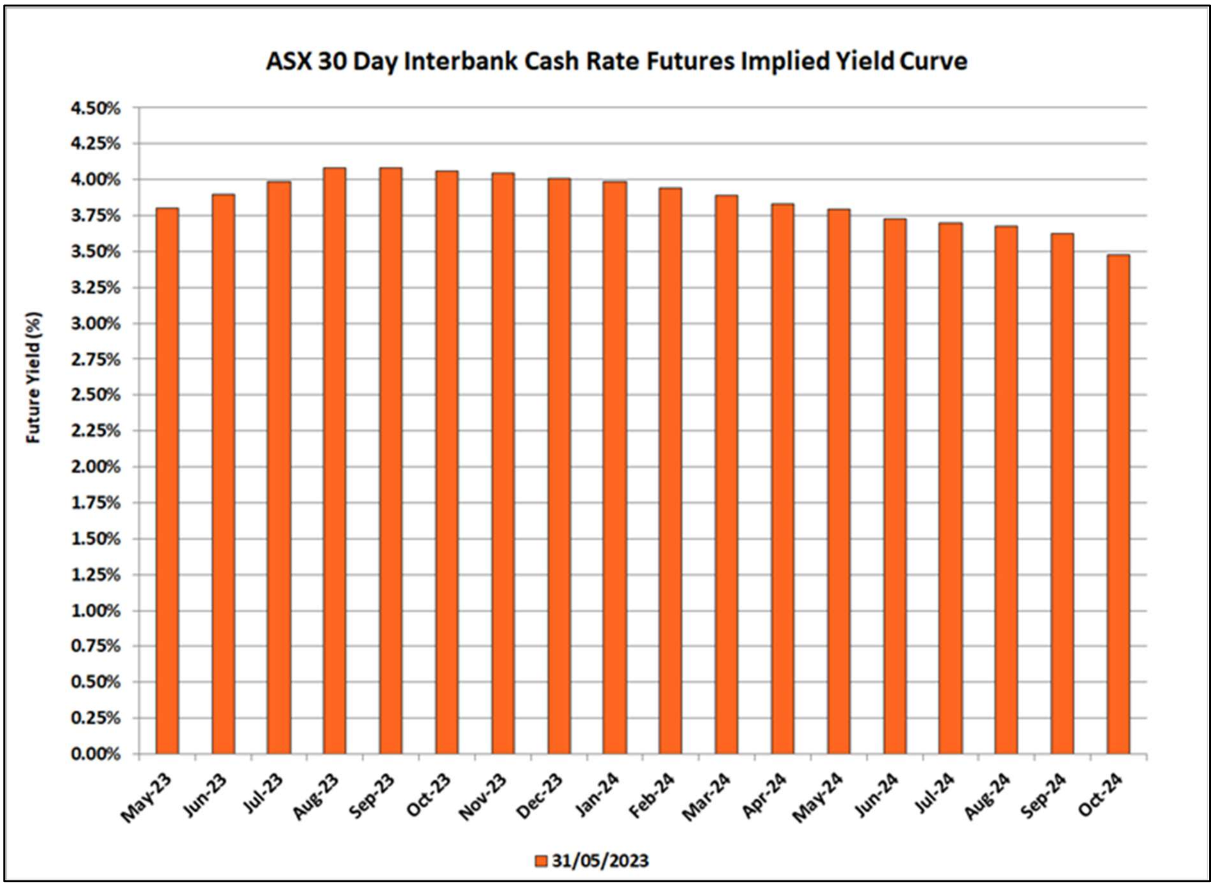
Overall, the risk continues to be to the upside in the near term with the RBA to remain reactive to the data flow, especially around inflation and wages.

Over the month, yields rose up to 37bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Despite the RBA's rhetoric that rates may still need to move higher should inflation remain sticky, markets are still currently placing bets that their next move is a cut by early to mid-2024.



Source: ASX

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