ATTACHMENT DOCUMENT

FOR
COUNCIL MEETING

Tuesday 29th March 2022

Michael Urquhart
GENERAL MANAGER

AGENDA

1. Monthly Investment Report from Imperium Markets – February 2022

Monthly Investment Report

February 2022

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Impact of COVID-19 to Council's Portfolio

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

The RBA cut rates to record lows on 3rd November 2020 to 0.10%, consistent with most global central banks resetting their official rates back to emergency levels. As global markets start to recover, inflationary pressures have emerged. This has resulted in longer-term bond yields to rise in recent months as central banks start to withdraw some of their other stimulatory policy measures (such as quantitative easing), whilst some have already started increasing official interest rates. **Markets are now bracing an environment where central banks will move from their excessively loose policy measures to a tightening cycle**. **Geopolitical risks have escalated after Russia's move to invade Ukraine in February**, with markets now factoring the ramifications on global economic growth after various sanctions were imposed by Western countries around the world.

Domestically, Governor Lowe has commented that interest rate rises starting later in 2022 were deemed "*a plausible scenario*", but he also stated "*it's still quite plausible that the first increase…is a year or longer away*".

The largest impact to Council's investment portfolio is with regards to its largest exposure being assets held in bank term deposits, which accounts for around ~71½% of Council's total investment. **The biggest risk that Council faces over the medium-longer term in this environment is not the potential loss of capital (given all the banks are well capitalised and regulated by APRA), but the rapid loss of interest income as interest rates have plummeted**.

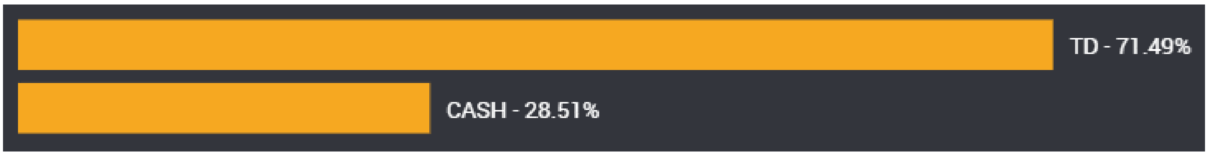
Council's term deposit portfolio was yielding 1.35% p.a. at month-end, with a weighted average duration of around 342 days or ~11½ months. **This short average duration will only provide some income protection against the low interest rate environment over the immediate future**.

With markets bringing forward expectations of official rate hikes, this has seen a significant shift in longer term deposit rates. Future investments above 1¼% p.a. is now possible if Council can continue to place the majority of its surplus funds for a minimum term of 18 months to 2 years.

Council's Portfolio & Compliance

Asset Allocation

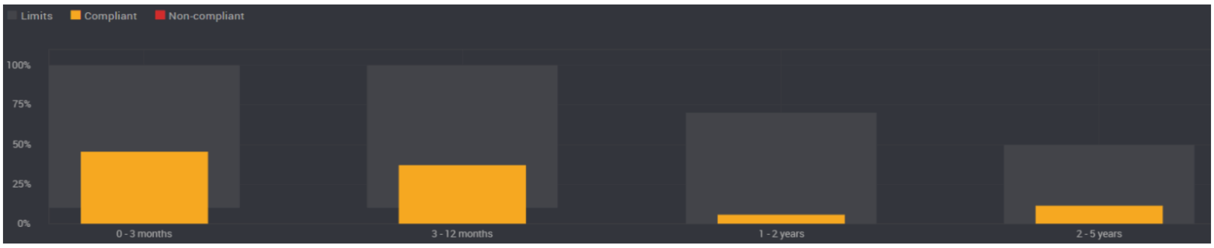
The majority of the portfolio is directed to fixed rate term deposits (71.49%). The remainder of the portfolio is held in various cash accounts with CBA and Macquarie (28.51%).



While FRNs appear relatively expensive on a historical basis, they are starting to become slightly more attractive as spreads have widened – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits and secondary market fixed bonds for 2-3 years now appear quite appealing following the spike in longer-term rates in recent months.

Term to Maturity

The portfolio is sufficiently liquid with around 83% of the total investment portfolio maturing within 12 months, which is well above the minimum 10% limit required across 0-3 month and 3-12 month terms.



Where ongoing liquidity requirements permit Council to invest in attractive 2-5 year investments, we recommend this be allocated to medium-term fixed term deposits or secondary market fixed bonds (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 3 months	$15,970,020	45.67%	10%	100%	$19,000,000
✓	3 - 12 months	$13,000,000	37.18%	10%	100%	$21,970,020
✓	1 - 2 years	$2,000,000	5.72%	0%	70%	$22,479,014
✓	2 - 5 years	$4,000,000	11.44%	0%	50%	$13,485,010
✓	5 - 10 years	$0	0.00%	0%	25%	$8,742,505
		$34,970,020				

Counterparty

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

BoQ formally acquired ME Bank for $1.325bn on 01/07/2021. **Subsequently, all ME Bank's senior assets including term deposits have been upgraded from BBB to BBB+ by S&P**. With regards to counterparty limits, the two banks are still running separate ADI licences and so the individual exposures will continue to be shown separately. Once ME Bank formally withdraws its ADI licence (**flagged for end of Q1 2022**), existing holdings with ME Bank will need to be aggregated with its parent company, BoQ. Council will need to keep this in mind when reinvesting maturing deposits with BoQ or ME Bank, and when placing 'new' surplus funds, so as not to be 'overweight' relative to the overall aggregate limits. There is also, however, a chance that BoQ may be upgraded from BBB+ to either A- or A by S&P over coming months/years, which would help with capacity limits.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$3,437,587	9.83%	50%	$14,047,423
✓	NAB	AA-	$1,000,000	2.86%	50%	$16,485,010
✓	Westpac	AA-	$1,000,000	2.86%	50%	$16,485,010
✓	Macquarie Bank	A+	$6,532,433	18.68%	40%	$7,455,575
✓	BOQ	BBB+	$3,000,000	8.58%	30%	$7,491,006
✓	M E Bank	BBB+	$2,000,000	5.72%	30%	$8,491,006
✓	AMP Bank	BBB	$10,000,000	28.60%	30%	$491,006
✓	Newcastle PBS	BBB	$1,000,000	2.86%	30%	$9,491,006
✓	JUDO	BBB-	$5,000,000	14.30%	25%	$3,742,505
✓	Illawarra CU	Unrated	$1,000,000	2.86%	5%	$748,501
✓	Volt Bank	Unrated	$1,000,000	2.86%	5%	$748,501
			$34,970,020	100%		

Effective 15/09/2021, Judo Bank received a formal credit rating of BBB- (long-term) and A-3 (short-term) from ratings agency S&P. It cited its position as a newly formed and fast-growing business in the SME lending sector, whilst having a well-capitalised balance sheet, allowing continued growth despite its limited profitability to date.

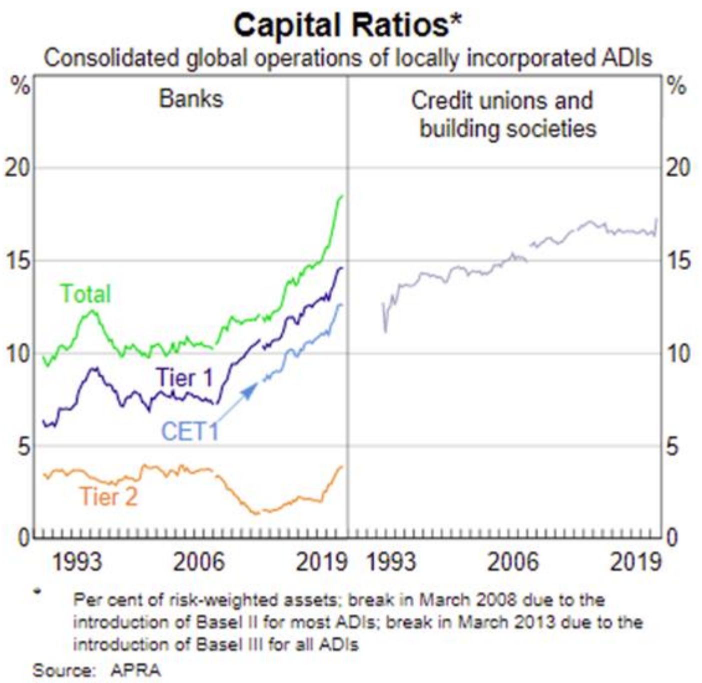
We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to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

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 (all ADIs) now have cash, are well capitalised and are acting as "shock absorbers" in the current crisis.

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). We believe that deposit investments with the lower rated ADIs should be continued going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns.

In the current environment of high regulation and scrutiny, all domestic (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. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**

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



Credit Quality

The portfolio remains well diversified from a credit ratings perspective with the portfolio spread across the entire credit spectrum.

From a ratings perspective, the “BBB” rated banks now generally dominate the number of ADIs issuing deposits within the investment grade space. However, given most banks are fully liquid during the current pandemic, most of the “BBB” rated and Unrated ADIs are currently not seeking wholesale funding. As such, in the interim, we could see a shift towards a larger proportion of assets being directed towards the higher rated ADIs given the lack of appetite amongst the lower rated ADIs.

All aggregate ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$5,437,587	16%	100%	$29,532,433
✓	A Category	$6,532,433	19%	80%	$21,443,583
✓	BBB Category	$21,000,000	60%	70%	$3,479,014
✓	Unrated ADIs	$2,000,000	6%	10%	$1,497,002
		$34,970,020	**100%**		

Performance

Council’s performance for the month ending 28 February 2022 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.01%	0.02%	0.05%	0.07%	0.10%
AusBond Bank Bill Index	0.01%	0.01%	0.02%	0.02%	0.03%
Council's T/D Portfolio^	**0.12%**	**0.36%**	**0.74%**	**1.54%**	**1.00%**
Outperformance	**0.11%**	**0.35%**	**0.72%**	**1.52%**	**0.96%**

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

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.10%	0.10%	0.10%	0.10%	0.10%
AusBond Bank Bill Index	0.07%	0.06%	0.04%	0.03%	0.03%
Council's T/D Portfolio^	**1.57%**	**1.47%**	**1.50%**	**2.33%**	**1.00%**
Outperformance	**1.50%**	**1.41%**	**1.47%**	**2.29%**	**0.96%**

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

For the month of February, the total portfolio (excluding cash) provided a solid return of +0.12% (actual) or +1.57% p.a. (annualised), easily outperforming the benchmark AusBond Bank Bill Index return of +0.01% (actual) or +0.07% p.a. (annualised). Over the past 12 months, the return of +100% p.a. was significantly above benchmark – this is considered very strong given current economic circumstances.

The outperformance continues to be driven by a combination of those deposits invested beyond 12 months. However, the higher yielding deposits are fast maturing, and those deposits will inevitably be reinvested at lower prevailing rates unless a longer duration is undertaken.

Investors using the Imperium Markets platform have reduced the invisible costs associated with brokerage, and thereby lift client portfolio returns as investors are able to deal in deposits directly with the ADIs and execute at the best price possible.

We are pleased that Council remains amongst the best performing in the state of NSW where deposits are concerned, earning on average, over $150,000 in additional interest income compared to its peers (as per the October 2021 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.

Council's Term Deposit Portfolio & Recommendation

As at the end of February 2022, Council's deposit portfolio was yielding 1.35% p.a. (down 10bp from the previous month), with an average duration of around 342 days (~11½ months).

We recommend Council extends this average duration. In the low interest rate environment, the biggest collective risk that the local government sector has faced over the post-GFC era has been the dramatic fall in interest rates - from 7¼% to the historical low levels of 0.10%.

As the past decade has highlighted (post-GFC era), we have seen too many portfolios' roll a high proportion of their deposits between 3-6 months, resulting in their deposits being reinvested at lower prevailing rates. That is, depositors have overpaid for liquidity and generally not insured themselves against the low interest rate environment by diversify their funding across various tenors (out to 5 years) but rather placed all their 'eggs in one basket' and kept all their deposits short. **Reinvestment risk has collectively been the biggest detriment to depositors' interest income over the post-GFC period**.

At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
ICBC, Sydney	A	3 years	2.30% p.a.
MyState	BBB	3 years	2.20% p.a.
P&N Bank	BBB	3 years	2.10% p.a.
BoQ	BBB+	3 years	2.00% p.a.
Westpac	AA-	3 years	1.90% p.a.
NAB	AA-	3 years	1.90% p.a.
ICBC, Sydney	A	2 years	1.82% p.a.
MyState	BBB	2 years	1.70% p.a.
P&N Bank	BBB	2 years	1.70% p.a.
Westpac	AA-	2 years	1.53% p.a.
NAB	AA-	2 years	1.50% p.a.

The above deposits are suitable for investors looking to provide some income protection and mitigate reinvestment/rollover risk for the next few years.

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
Judo Bank	BBB-	12 months	1.10% p.a.
AMP Bank	BBB	11-12 months	1.00% p.a.^
NAB	AA-	12 months	0.90% p.a.
BoQ	BBB+	12 months	0.90% p.a.
ME Bank	BBB+	12 months	0.90% p.a.
ICBC	A	12 months	0.88% p.a.
CBA	AA-	12 months	0.85% p.a.
Westpac	AA-	12 months	0.78% p.a.

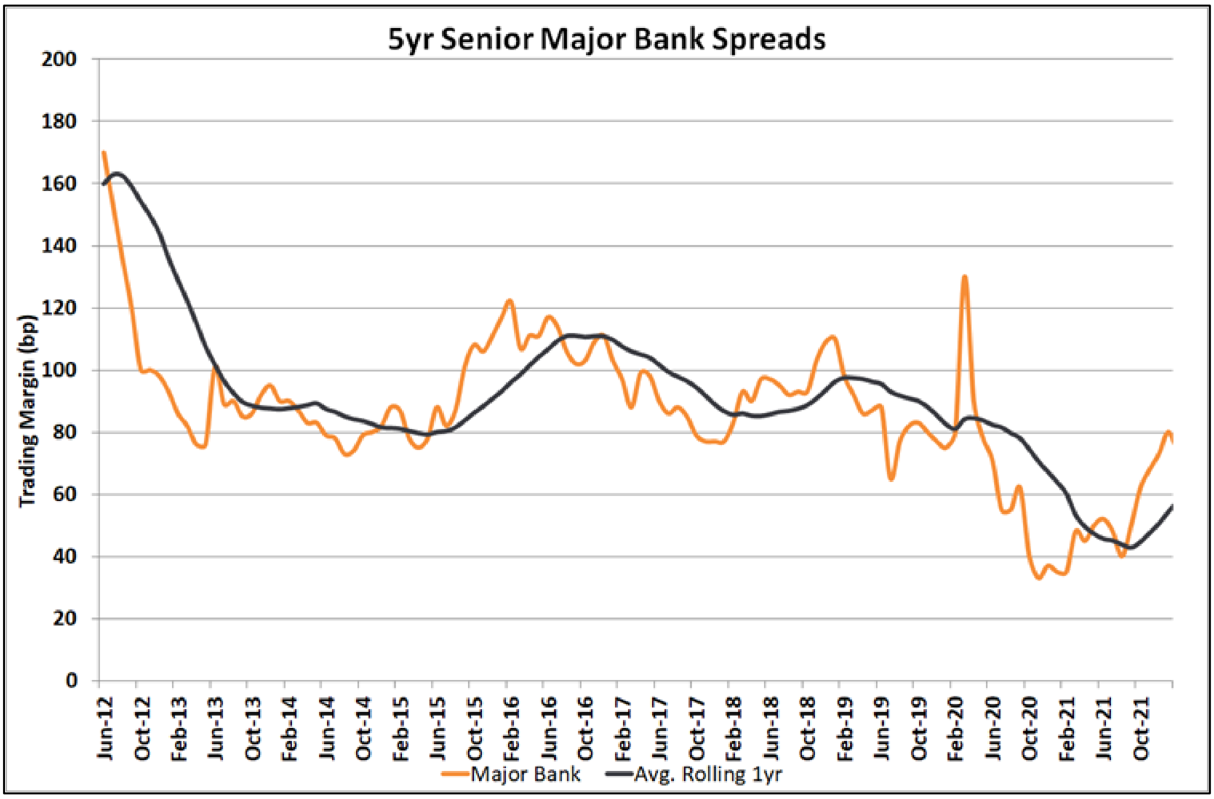
^ AMP T/Ds – contact us to receive an additional 0.20% p.a. rebated commission on top of the rate shown above

Amongst the investment grade sector, the majority of short-dated term deposits (maturing less than 12 months) are yielding under 0.90% p.a. Despite the uplift in outright rates recently, we generally believe there much better value in slightly longer-dated terms.

There is an upward pick-up in yield for investors that can take advantage of 2-3 year fixed T/Ds whilst official rates are stuck at very low levels at least for the next 12-18 months. For those investors that do not require high levels of liquidity and can stagger their investments longer-term, they will be rewarded over coming years if they roll for an average term of 18 months - 2 years (this is where we current value), yielding, on average, more than double the return compared to those investors that purely invest in short-dated deposits.

Senior FRNs Review

Over February, amongst the senior major bank FRNs, physical credit securities marginally tightened up to 5bp at the long-end of the curve. During the month, NAB (AA-) issued a dual 3 and 5 year deal at +47bp and +72bp respectively, printing $4bn across the four tranches. This followed new 5 year issuances from WBC (AA-) and CBA (AA-) at +70bp in January. We anticipate ANZ (AA-) may follow suit over coming months looking to refinance their upcoming maturities at these historically cheap levels:



Source: IBS Capital

Amongst the "A" and "BBB" rated sector, the securities remained relatively flat at the long-end of the curve. For a second consecutive month, there was much more activity in the primary market, highlighted by new issuances from:

- Newcastle Permanent Building Society (BBB): 5 year senior FRN at +100bp
- United Overseas Bank, Sydney Branch (AA-): 5 year senior FRN at +72bp
- Mizuho, Sydney Branch (A): 3 year senior FRN at +60bp
- Société Générale, Sydney Branch (A): 5 year senior FRN at +100bp

While turnover in the secondary market is still predominately dominated by commonwealth, semi-government and major bank senior paper, given the lack of supply, we have started to observe that even a handful of regional bank senior paper has sometimes been trading inside "mid" levels over recent months.

The lack of supply from new (primary) issuances has played a major role with the strong rally in credit markets over 2020. This has now started to reverse as monetary policy easing measures are progressively being withdrawn.

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)	28/02/2022	31/01/2022
"AA" rated – 5yrs	+75bp	+80bp
"AA" rated – 3yrs	+49bp	+47bp
"A" rated – 5yrs	+88bp	+90bp
"A" rated – 3yrs	+60bp	+60bp
"BBB" rated – 3yrs	+70bp	+70bp

Source: IBS Capital

We now generally **recommend switches** ('benchmark' issues only) into new attractive primary issues (or longer-dated alternatives), out of the following senior FRNs that are maturing:

- **On or before early 2022 for the "AA" rated ADIs (domestic major banks)**;
- On or before early-mid 2023 for the "A" rated ADIs; and
- Within 12 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last 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.

While FRNs appear relatively expensive on a historical basis, they are starting to become slightly more attractive as spreads have widened – new issuances should now be considered again on a case by case scenario.

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures have emerged, 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
AU3CB0265403	Suncorp	AA-	Senior	30/07/2024	2.49	1.85%	2.05%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	2.52	1.75%	2.05%
AU3CB0265718	ING	AAA	Covered	20/08/2024	2.55	1.45%	2.00%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	2.58	1.55%	1.85%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	2.60	1.70%	2.13%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	2.75	2.00%	2.32%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.96	1.65%	2.12%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.98	1.65%	2.15%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	3.04	1.70%	2.36%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	4.26	1.40%	2.77%
AU3CB0282358	ING	AAA	Covered	19/08/2026	4.55	1.10%	2.60%

Senior Bonds - Northern Territory Treasury Corporation (NTTC)

Investors should be aware of the following senior retail bond offering from Northern Territory Treasury Corporation (NTTC) effective 21st February 2022:

Maturity Date	Rate % p.a.^	Interest Paid
15/06/2023	0.70%	Annually
15/06/2024	1.20%	Annually
15/06/2025	1.80%	Annually
15/06/2026	1.90%	Annually
15/06/2027	2.20%	Annually

^^The rates offered in the above table can be reviewed and changed at any time from Treasury. The rate for broker sponsored applications will be dropped by 0.20% p.a. effective 1 October 2020.

Any investor interested in this product should avoid placing through the broker channel and contact Imperium Markets to receive the full commission of 0.25% (plus GST) on the face value of the investment, in the form of an additional rebate. If placed through the brokers, they are likely to keep the 0.25% commission (on the face value of the investment).

Overview	Description
Issuer	Northern Territory Government
Credit Rating	Aa3 (Moody's), which is AA- equivalent (S&P)
Type	Fixed senior (retail) bonds
Program	Territory Bonds Issue 112
Date for applications	**01/01/2022 – 31/05/2022**
Liquidity	Weekly redemptions available, subject to the prevailing market rate and administration costs^^

^^ Note given this is a retail bond offering (min. parcel size of $5,000), for wholesale investors, we would not consider this to be a liquid investment (the largest redemptions to date have only been $200-$300k).

The product should be viewed as a hold-to-maturity product, noting there are significant penalty costs including admin fees, the prevailing market interest rate, and factors in any associate commissions that were previously paid. Given the longer-term outlook for official interest rates, any investor interested should invest through Imperium Markets to receive an effectively higher rate, once factoring in the rebated commission. *These offers will need to be compared to other complying assets at the time of investment – term deposits are currently a better alternative.*

Economic Commentary

International Market

Russia's invasion of Ukraine and US Fed policy expectations dominated the selloff in financial markets this month. Global leaders condemned the invasion and announced various sanctions, including (immediately) on Russian debt and to Russian banks, designed to cut the country off from accessing debt finance.

Unsurprisingly, the Rouble and Russian assets have collapsed with the Russian currency down as much as 24% on a single day in late February, while Russia's central bank doubled interest rates to 20% in attempt to stabilise the domestic economy.

Across US equity markets, the S&P 500 Index fell -3.14%, while the NASDAQ dropped -3.43%. Europe's main indices also fell led by Germany's DAX (-6.53%), France's CAC (-4.86%) and UK's FTSE (-0.08%).

US Fed rate hike pricing continues to see 6½ rate hikes still priced in 2022, while a 50bp move in March is around a 40% chance.

US CPI for both core and headline came in higher than expected by 0.1%. More importantly, price pressures were broad based. Core inflation was +0.6% m/m and +6.0% y/y, while headline was +0.6% m/m and +7.5% y/y, its highest since 1982.

The US unemployment rate rose by 0.1% to 4.0%, above the consensus of 3.9%. The increase in the unemployment rate was attributed to a rise in labour force participation, by a statistically significant 0.28%, to 62.2%. Meanwhile, average hourly earnings rose +0.7%m/m vs +0.5% expected. On annual basis, wage growth jumped to +5.7%, but the last three-month annualised rate was an astonishing +7.7%.

EU inflation surpassed expectations and printed a new record high (post-2000). CPI for January climbed 0.1% to +5.1% y/y. ECB President Lagarde shocked markets with a dramatic shift in language, opening up the possibility of a 2022 rate hike.

The Bank of England raised interest rates for a second time in three months, to 0.50%, as it warned that surging energy bills would push inflation higher than expected, to more than 7% by April.

The RBNZ increased rates by 25bp to 1.00%, which was much more hawkish than the headline. The terminal rate forecast in their Monetary Policy Statement was revised significantly higher to around 3.35% from 2.60%, while the Bank also said it was happy to move by 50bp increments in the future.

The MSCI World ex-Aus Index fell -2.79% for the month:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-3.14%	-4.23%	+14.77%	+16.25%	+13.10%	+12.34%
MSCI World ex-AUS	-2.79%	-4.08%	+9.45%	+12.79%	+10.31%	+8.89%
S&P ASX 200 Accum. Index	+2.14%	-1.72%	+10.19%	+8.43%	+8.48%	+9.56%

Source: S&P, MSCI

Domestic Market

In its meeting in February, there was an important shift in the RBA's inflation language, which opens up optionality for the Board. The Board is still "*prepared to be patient*" as they await more information on wages growth and the outlook and trajectory for inflation until they can conclude inflation is sustainably at target. The RBA's central scenario is consistent with discussing an interest rate increase later this year, with Governor Lowe indicating, "*but it is certainly plausible, if the economy tracks in line with our central forecast, that an interest rate increase will be on the agenda sometime later this year*".

The RBA's QE program has now ended. Just over $360bn of bonds have been purchased across all the bond buying operations of the past two years.

January labour market data was stronger than expected even with the disruptions caused from the Omicron variant. Employment rose +13k, with the unemployment rate coming in unchanged at 4.2%, while the participation rate rose by 0.1% to 66.2% (from 66.1%).

The wage price index (WPI) came in line with expectations at +0.7% q/q and +2.3% y/y. The result was on the soft side of +0.70% being +0.65% unrounded, with the detail of the release still only showing a gradual acceleration in base wages growth late last year.

Credit growth was +0.8% m/m in December, beating expectations for a +0.6% m/m rise but edging back from the upwardly revised +1.0% m/m increase in November.

Retail sales for January were much stronger than expected at +1.8% m/m (consensus +0.3%). The rise in January comes after a sharp fall in December (-4.4%), which followed an even sharper rise in November (+7.3%), driven by shifting seasonals and the bounce out of lockdowns.

The trade balance in December declined $1.4bn to $8.4bn surplus. That takes the trade surplus to its lowest level since March 2021, and around $5bn below its recent peak of $13.3bn in July 2021.

The Australian dollar rose +2.44%, finishing the month at US71.82 cents (from US70.11 cents the previous month).

Credit Market

The global credit indices widened significantly over February as financial markets continue to be sold off. The indices are back to their levels experienced in mid-2020:

Index	February 2022	January 2022
CDX North American 5yr CDS	66bp	60bp
iTraxx Europe 5yr CDS	68bp	59bp
iTraxx Australia 5yr CDS	88bp	75bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	February 2022	January 2022
Bloomberg AusBond Bank Bill Index (0+YR)	+0.01%	+0.00%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.21%	-1.02%
Bloomberg AusBond Credit FRN Index (0+YR)	-0.01%	+0.01%
Bloomberg AusBond Credit Index (0+YR)	-1.07%	-0.57%
Bloomberg AusBond Treasury Index (0+YR)	-1.31%	-1.03%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-1.18%	-1.20%

Source: Bloomberg

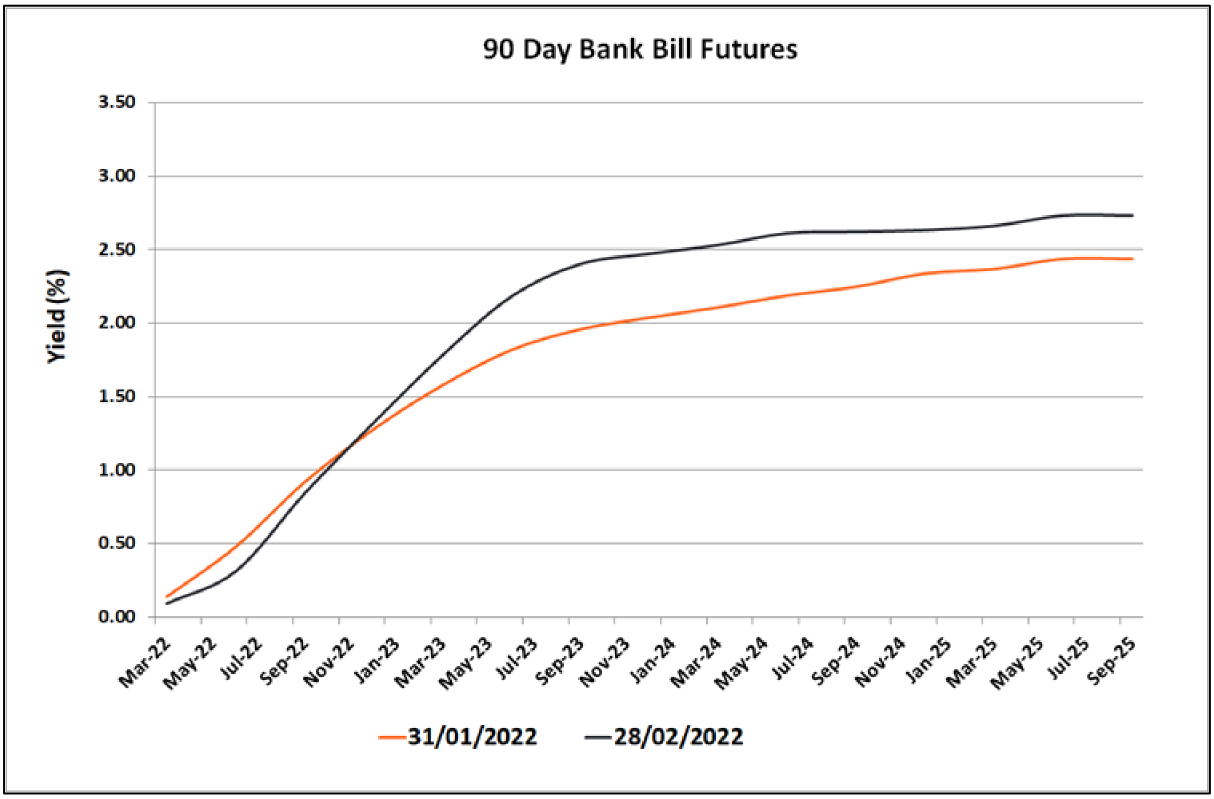
Other Key Rates

Index	February 2022	January 2022
RBA Official Cash Rate	0.10%	0.10%
90 Day (3 month) BBSW Rate	0.08%	0.08%
3yr Australian Government Bonds	1.50%	1.31%
10yr Australian Government Bonds	2.13%	1.94%
US Fed Funds Rate	0.00%-0.25%	0.00%-0.25%
10yr US Treasury Bonds	1.83%	1.79%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over February, bill futures rose across the board as markets reacted to the US Fed accelerating their tightening cycle to control inflation:



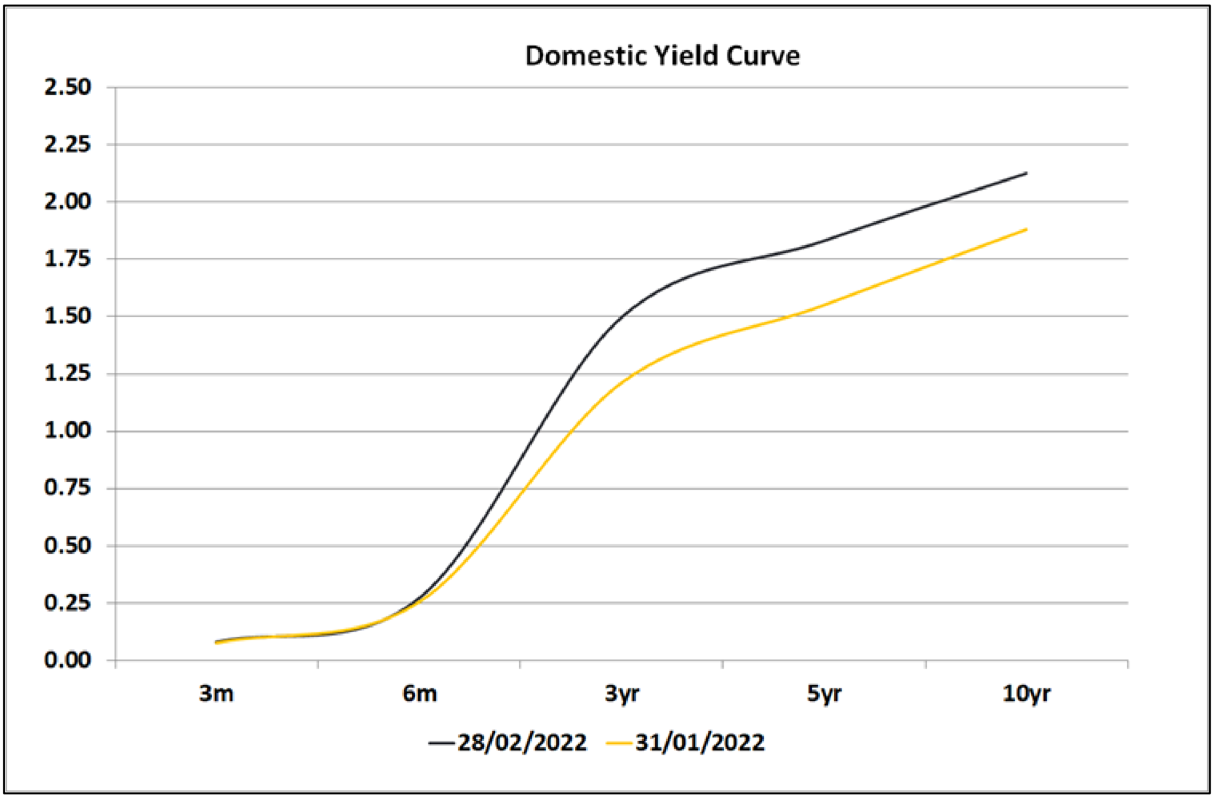
Source: ASX

Fixed Interest Outlook

Despite the selloff in financial markets, central bank rate hike expectations continue to be well priced by markets. In the US, there is roughly 6½ hikes priced for 2022, with the first move in March now almost a certainty following the Fed's ongoing rhetoric (the market is still pricing in a chance of a 50bp hike in March). The Fed's long-term forecast remains unchanged at 2.5%. The Fed acknowledges that it has achieved its target for inflation given that it has "*exceeded 2% for some time*" and commentary suggest that rate hikes will begin once labour market conditions have reached levels consistent with the Committee's assessments of maximum employment.

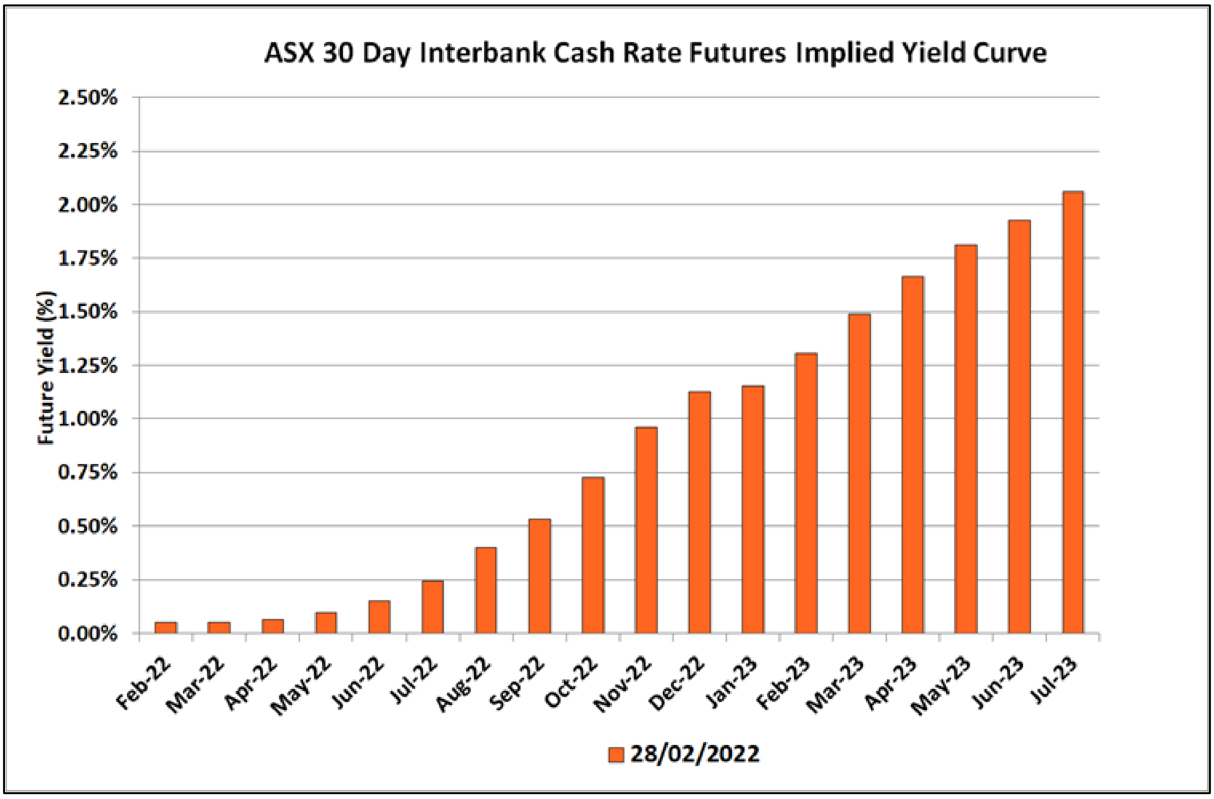
Domestically, there was an important shift in the RBA's inflation language in its February meeting, which opens up optionality for the Board. The Board is still "*prepared to be patient*" as they await more information on wages growth and the outlook and trajectory for inflation until they can conclude inflation is sustainably at target. Interest rate rises starting later in 2022 were deemed "*a plausible scenario*", but Governor Lowe commented "*it's still quite plausible that the first increase…is a year or longer away*".

The domestic bond market continues to suggest a prolonged low period of interest rates. Over the month, yields rose up to 25-30bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Markets have brought forward RBA rate hike pricing following moves offshore with a full rate hike now priced by July 2022 and four hikes priced by December 2022, against the RBA's 'plausible' scenario of not seeing conditions for a hike at least until late 2022 or early 2023:



Source: ASX

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