

ETFs Investment Idea

ETF Securities | Independent. Australian. | April 2019



It's All About The Benjamins

Product in Focus:

ZUSD: ETFS Enhanced USD Cash ETF

- Most portfolios hold cash to provide liquidity and downside protection
- Investors can seek to increase the return on their cash allocation using ZUSD
- Current US rates are significantly higher than Australian rate
- The deposit rate of ZUSD is currently 2.36%, enhanced by holding funds in deposits ranging from overnight to 3 months



Product Information

ETFS Enhanced USD Cash ETF (ZUSD) Factsheet

Cash Is King

Defensive assets such as cash hold an important place in portfolios not only for liquidity but also downside protection.

When you look at the typical asset allocation ranges for the five main risk profiles it's clear what a critical part cash plays in a portfolio; now more than ever with many deeply concerned about the end of the equity cycle.

	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	0-20%	20-40%	40-60%	60-80%	80-100%
Property					
Alternatives					
Fixed Interest	80-100%	60-80%	40-60%	20-40%	0-20%
Cash					

However, many Australian investors only consider cash as AUD cash. This is understandable, but cash balances should be diversified in the same way as equities and fixed income. This gives the benefit of both diversification and, often, better yields.

The ETFS Enhanced USD Cash ETF (**ZUSD**) achieves this for the low cost of 0.30% p.a.

The United States Of Play

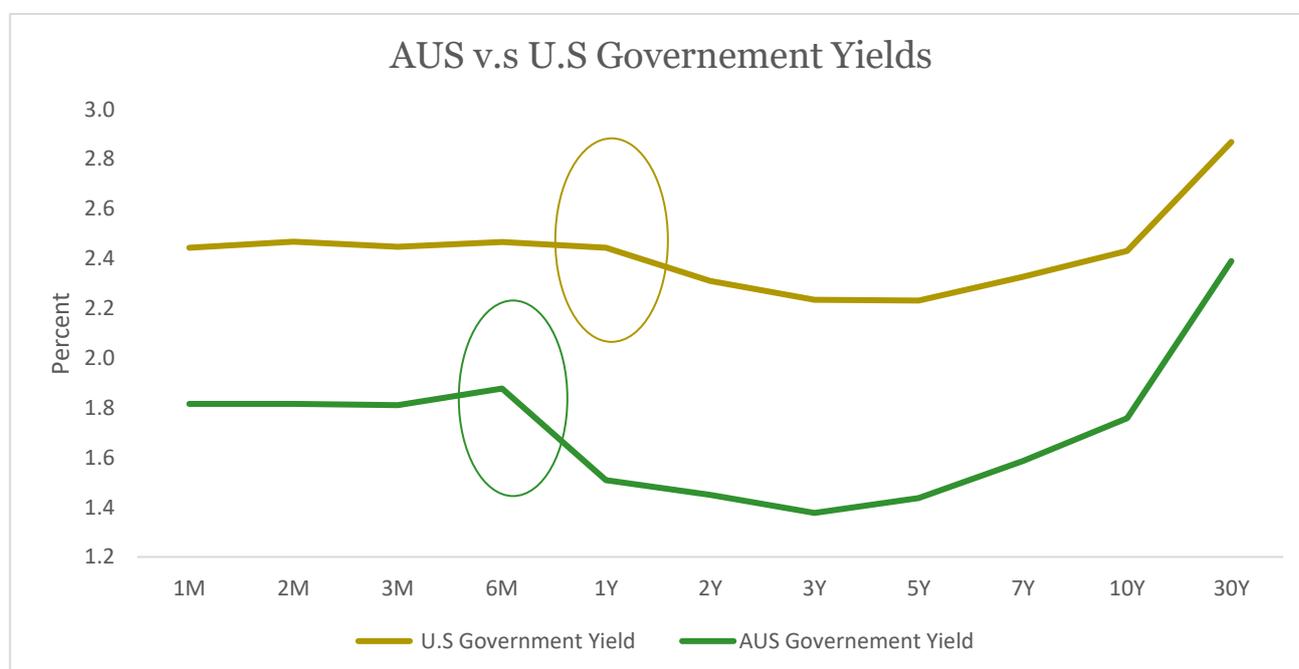
The Federal Reserve has two main objectives. They are

- 1) Low and stable inflation over the long term (a target of 2% in the U.S)
- 2) Full employment

With both objectives looking stable in the current US economic environment Powell looks to be fulfilling his mandate and this has been reflected in the current Fed Target rate - set at a range of 2.25% to 2.5% - giving the market a strong indication that rates are likely to be unchanged for the remainder of the year and if on what looks like to be a small chance there is a change, it is likely to be in the form of a cut.

He is unphased by short term misses of inflation targets and concentrates on long term trends. This resonates with his recent statement (March 2019) about the use of Monetary policy, he stated that:

“We don’t see data coming in that suggest that we should move in either direction. They suggest that we should remain patient and let the situation clarify itself over time.”



Source: Bloomberg data, March 2019.

The Fed And The Reserve – Are They Kicking Goals?

The current US yields are higher than the equivalent Australian duration. As you can see in the chart above the 10-year yields on government bonds are over 50 basis points better in yield terms in the US than Australia right now.

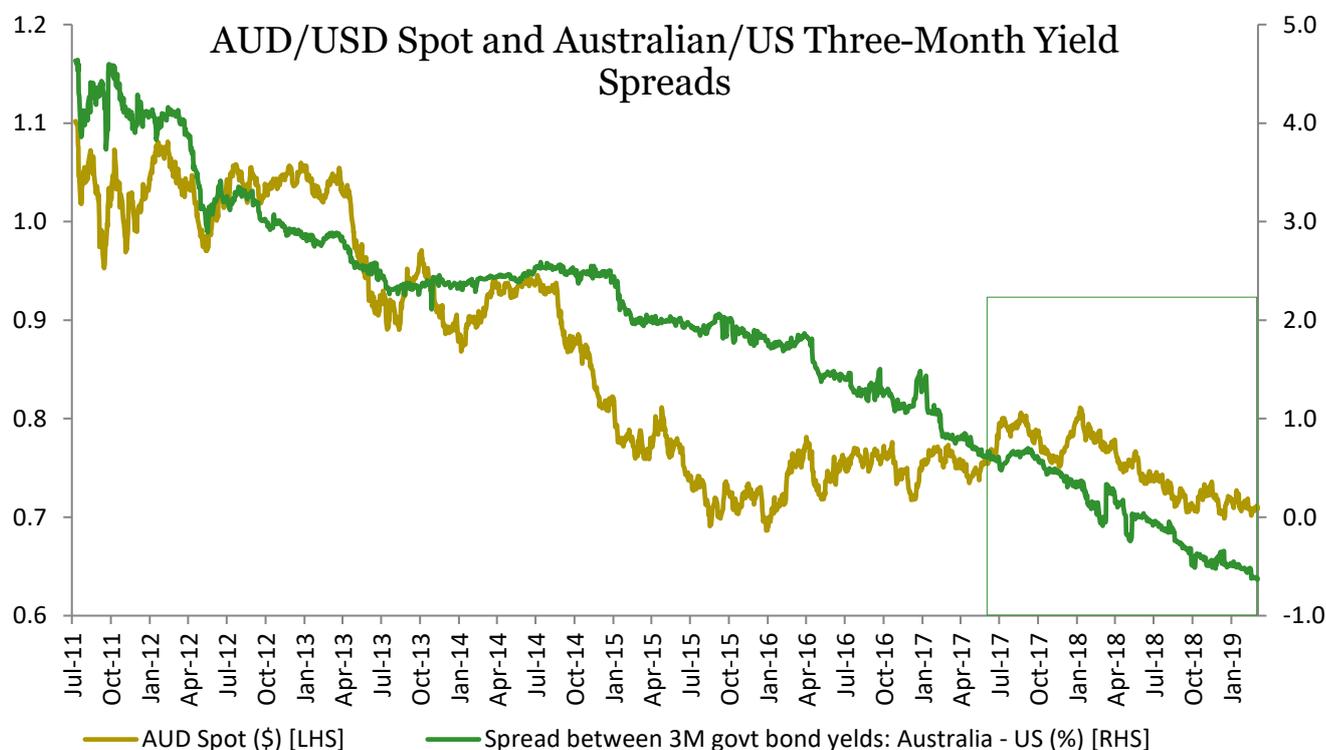
Even with the yield curve displaying inverted characteristics, shorter duration US yields are better than the Australian equivalent.

Current Market Deposit Rates For US And Australian Cash

Duration	US Yield	Aus yield	Difference
At Call	2.2%	1.50%	0.70%
1M	2.44%	1.82%	0.62%
3M	2.45%	1.81%	0.64%

The cash rates on offer on US cash deposits are significantly higher even in the scenario that the RBA raises rates and the Federal Reserve holds.

Even in the unlikely event that the RBA has consecutive increases (given inflation looks stable and economic growth looks late in the cycle) to the cash rate and the Fed held rates constant, the cash deposit rates on offer to investors could remain in favour of those with US deposits. In the graph below the spread between US and Australian deposits has been more beneficial to US deposits since March 2018.



Source: Bloomberg data as at March 2019

Product Solution

Investors holding US Dollar Cash should be aware of the benefits of the **ZUSD - ETFS Enhanced USD Cash ETF** that achieves the following:

- Exposure to US dollar cash
- Enhanced yield
- Quarterly distributions

ZUSD makes use of higher yielding deposits out to a term of 3 months in duration to help enhance the yield for investors in the fund.

Using a combination of “at call”, 1M and 3M duration deposits **ZUSD** is designed to give investors an enhanced US dollar cash position rather than just holding exposure to the physical US dollar.

Investors should consider diversifying their cash positions by holding non-domestic cash in addition to Aussie dollars via **ZUSD**.

GET MORE INFORMATION

To sign up for future ETFS Trade ideas, email infoAU@etfsecurities.com.au

CONTACT ETF Securities

Sales

Phone: +61 2 8311 3488

Email: infoAU@etfsecurities.com.au

Ganesh Balendran

Co-Head of Sales

Phone: +61 3 8518 4824

Mobile: +61 4 2378 3284

Email: ganesh.balendran@etfsecurities.com.au

Kanish Chugh

Co-Head of Sales

Phone: +61 2 8311 3476

Mobile: +61 4 1209 1154

Email: kanish.chugh@etfsecurities.com.au

Larry Achike

Business Development Manager

Phone: +61 2 8311 3484

Mobile: +61 4 8800 8245

Email: larry.achike@etfsecurities.com.au

Trading

Phone: +61 2 8311 3483

Email: primarymarkets@etfsecurities.com.au

Chad Hitzeman

Business Development Manager

Phone: +61 2 8311 3472

Mobile: +61 4 6639 5271

Email: chad.hitzeman@etfsecurities.com.au

Gemma Weeks

Business Development Manager

Phone: +61 2 8311 3475

Mobile: +61 4 6636 2055

Email: gemma.weeks@etfsecurities.com.au

This document is communicated by ETFS Management (AUS) Limited (Australian Financial Services Licence Number 466778) ("ETFS"). This document may not be reproduced, distributed or published by any recipient for any purpose. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy, any securities, investments or other financial instruments and any investments should only be made on the basis of the relevant product disclosure statement which should be considered by any potential investor including any risks identified therein.

This document does not take into account your personal needs and financial circumstances. You should seek independent financial, legal, tax and other relevant advice having regard to your particular circumstances. Although we use reasonable efforts to obtain reliable, comprehensive information, we make no representation and give no warranty that it is accurate or complete.

Investments in any product issued by ETFS are subject to investment risk, including possible delays in repayment and loss of income and principal invested. Neither ETFS, ETFS Capital Limited nor any other member of the ETFS Capital Group guarantees the performance of any products issued by ETFS or the repayment of capital or any particular rate of return therefrom.

The value or return of an investment will fluctuate and investor may lose some or all of their investment. Past performance is not an indication of future performance.
