

Fixed Income: Australian Debt Securities Update

5 December 2011 – 9 December 2011



The Week Ahead

- The much-awaited EU summit this weekend takes centre stage, and markets will want to see some solid plans unveiled to help combat the Eurozone's sovereign debt problems. However, the potential for market disappointment is substantial. Nevertheless, unfolding financial and economic events in Europe generally will be dominant drivers of global markets for the foreseeable future. Markets will also have one eye on the outcome of the FOMC meeting in the US next week.
- Domestically, a very sedate week in Australia ahead with respect to economic releases, however data releases of note include October housing finance, international trade, QIII dwelling starts and the December Westpac/MI consumer sentiment survey.

A\$ MTN Primary Issuance Update

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
Australian Rail Track Corp	Aa2	Aa2	Dec-14	A\$100m (Total Outstanding: \$300m)	BBSW+130	BBSW+130
AOFM (CGS Tender)	AAA/Aaa	AAA/Aaa	Mar-19	A\$700m (Total Outstanding: \$15.3bn)	5.25%	3.6105% (Weighted Average Issue Yield)
AOFM (CGS Tender)	AAA/Aaa	AAA/Aaa	Jul-17	A\$700m (Total Outstanding: \$4.1bn)	4.25%	3.5229% (Weighted Average Issue Yield)

Yellow border denotes Commonwealth Bank of Australia acted as a lead manager to the transaction

2011 Primary Issuance Table

Sector	Week ending 9 December 2011		2011 Year to Date		2010 Year to Date		Comparison Volume
	No. of Transactions	Volume	No. of Transactions	Volume	No. of Transactions	Volume	
SSA	-	-	60	A\$22.2bn	74	A\$30.4bn	-A\$8.2bn
Domestic Banks	-	-	32	A\$21.6bn	72	A\$27.2bn	-A\$5.6bn
Foreign Bank/Branches	-	-	33	A\$15.6bn	51	A\$23.6bn	-A\$8.0bn
Non Bank Financial	-	-	18	A\$4.8bn	7	A\$1.4bn	+A\$3.4bn
Corporate	1	100	24	A\$5.7bn	34	A\$6.1bn	-A\$0.4bn
Semi Government	-	-	18	A\$15.4bn	15	A\$17.5bn	-A\$2.1bn
Total	1	100	185	A\$85.3bn	253	A\$106.2bn	-A\$20.9bn

Sources: CBA & Bloomberg

Upcoming Economic Events

Monday 12 December	Tuesday 13 December	Wednesday 14 December	Thursday 15 December	Friday 16 December
AU Housing Finance, Oct, m%ch No. of own-occupiers, %, 1.0, (2.2) Value of all loans, %, -2.0, (0.7) AU Trade balance Oct, \$bn, 2.0, (2.6) CH Trade balance Nov, US\$bn, (17.03) JP Domestic CGPI, Nov, m/y%ch, (-0.7/1.7) JP Consumer confidence, Nov, Index JP Machine tool orders, Nov, y%ch, (26.0)	AU Dwelling commence, QIII, q%ch, -2.0, (-4.7) AU NAB Bus conf/cond Nov, Index, (2/-1) AU HIA Housing Affordability Index, QIII, (56.2) NZ Food prices, Nov, m%ch, (-1.3) EU/GE ZEW survey (econ. sentiment), Dec, , (-59.1/-55.2) UK CPI, Nov, m/y%ch, (0.1/5.0); core y%ch, (3.4) UK RICS house price balance, Nov, %, (-24.0) US Business inventories, Oct, m%ch, (0) US Retail sales, Nov, m%ch, (0.5)	AU MI/WBC Consumer Sent, Dec, Index, (103.4) AU DEWR skilled vacancies, Nov, m%ch, (-1.9) AU RBA Dep. Gov Battellino speaks in Sydney JP Industrial production, Oct, m/y%ch EU CPI, Nov, m/y%ch, (0.3), core, y%ch, (1.6) AU Industrial production Oct, m/y%ch, (-2.0/2.2) UK ILO unemployment rate (3mths), Oct, %, (8.3) US Import price index, Nov, m/y%ch, (-0.6/11.0) CA Leading indicators, Nov, m%ch, (0.2) US FOMC rate decision, %, 0-¼, (0.25)	AU MI Consumer Inflation Expect., Dec, %, (2.5) AU MI Unemp. Expt., Dec, Index, (130.2) AU Motor veh. sales, Nov, m/y%ch, (1.1/4.4) AU Financial Accounts, QIII AU RBA Dep Gov Battellino speaks in Sydney NZ Business PMI, Nov, Index, (46.5) US Producer price index Nov, m/y%ch, (-0.3/5.9) US Current account balance, QIII, US\$bn, (-118.0) US Industrial production, Nov, m%ch, (0.7) US Capacity utilisation, Nov, %, (77.8)	EU New car registrations Nov, y%ch, (-1.8) EU Trade balance Oct, €bn, 1.5, (2.1) US CPI, Nov, m/y%ch, (-0.1/3.5); core, m/y%ch, (0.1/2.1)

*Note: Values in brackets represent the prior observed value. Numbers outside brackets are CBA forecasts

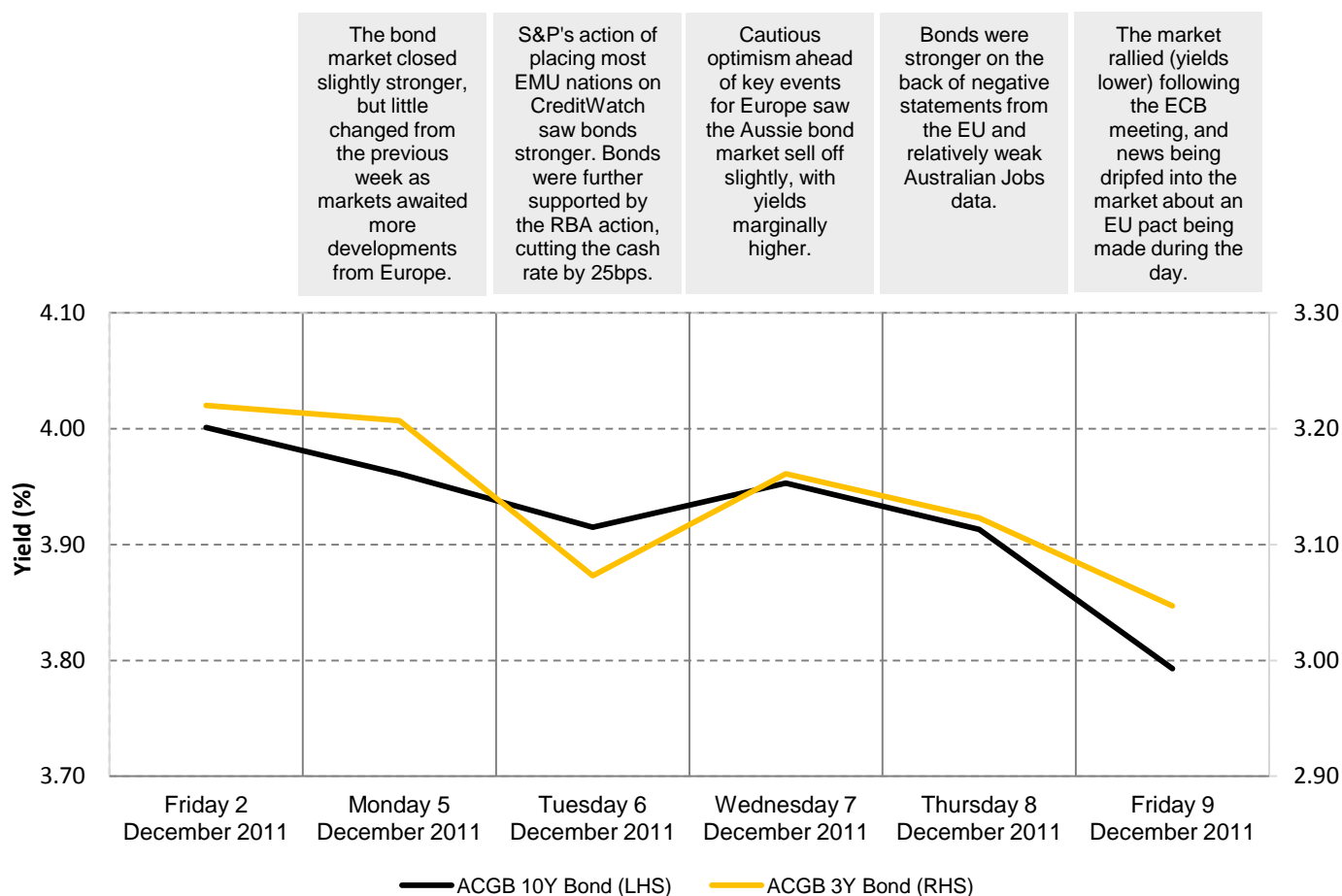


Australian Credit Market Update

- Credit markets fluctuated over the week as the market has been largely focussed on developments out of Europe in the past week, largely anticipating the outcomes of the EU Leaders summit overnight Friday. Credit spreads were mostly unchanged to a fraction tighter across the board.
- The Aussie dollar swap curve finished lower over the week, in response to the RBA rate cut. The 3-years finished 12bps lower over the week, moving 10 points lower on Tuesday following the RBA announcement. 10-year swaps were also 12 points lower over the week, leaving the spread unchanged at +85bps.

Australian Rates Market Update

Figure 1: 3Y and 10Y Australian Bond Curve



Sources: CBA & Bloomberg

- Despite a modest fall in the unemployment rate in the US from 9.0% to 8.6% on the previous Friday night, it failed to sustain the optimism that had built up throughout the week as this fall was driven by a fall in the number of workers. Following the mixed lead, Asian markets opened more positively and Aussie bonds opened lower on Monday, but by the end of the session rallied back and closed slightly above Friday's closes.
- The RBA cut rates by 25bps on Tuesday, in line with market expectations and leaving the cash rate at 4.25% (from 4.50% previously). In response, the market reversed much of the flattening move over the previous week. Prior to the announcement, the market was slightly risk-averse due to an S&P report before the open that 15 EMU nations had been placed on CreditWatch with negative implications, including both France and Germany. The statement from S&P stated "The CreditWatch placement is prompted by our concerns about the potential impact on Germany of what we view as deepening political, financial and monetary problems within the Eurozone".
- Markets were cautiously optimistic Wednesday ahead of the ECB meeting and EU Leaders conference later in the week. Australian GDP figures were released and surprised on the upside, however the market remained transfixed with the events evolving in Europe. S&P followed up on its CreditWatch action of Monday night by



placing the EFSF on CreditWatch. On the day, Aussie bonds sold off – however, much of the sell-off was in the overnight session.

- Mixed signals from Europe overnight as German officials appeared to damp down on expectations from the upcoming EU meeting left the meeting. The news left the Aussie market better bid at the open on Thursday, and a weaker-than-expected Labour Force report drove a further solid rally across the curve. The market remained focussed, however, on the situation in Europe, with the ECB meeting being the focus for markets on Thursday night.
- Aussie bonds rallied through most of the Thursday night and into Friday following the ECB meeting, where further bond purchases were ruled out. This rally continued following newswire reports that EU leaders had reached an agreement on a fiscal pact, but not a treaty change.

Ratings News

New Rating / Withdrawal

- Nothing to Report

Upgrades or Downgrades

- S&P has continued to roll out its revised bank ratings across Switzerland. **Banque Cantonale Vaudoise** has been upgraded to **AA** from **AA-**, and **Banque Cantonale de Geneve** to **A+** from **A**. However **Safra-Luxembourg** has been **downgraded** to **A-** from **A**, and **J. Safra** has also been **downgraded** to **BBB+** from **A-**.
- S&P has also released update ratings on other Australian financial institutions. **Upgrades** have been made to the credit ratings of **Bendigo Bank (BBB+ to A-)** and **Rural (BBB+ to A-)**, whilst **Bank of Queensland** has been **downgraded** to **BBB** from **BBB+**.
- S&P **raised** the **German cooperative bank sector** to **AA-** from **A+**.

Credit Watch/ Outlook

- S&P has placed **15 of 17 EMU nations** on **CreditWatch with negative implications**, including **France** and **Germany**.
- Directly following from the CreditWatch action on EMU nations, a **number of European banks** have been placed on **CreditWatch with negative implications** by S&P. These banks include **Commerzbank, Natixis, Credit Agricole, Deutsche Bank, Societe Generale, UniCredit** and **Rabobank Nederland**.
- S&P has also placed **European Investment Bank, Council of Europe Development Bank, KfW Bankengruppe** and **Rentenbank** on **CreditWatch Negative**.



Swap Rates

Figure 2a: Australian Swap Rates

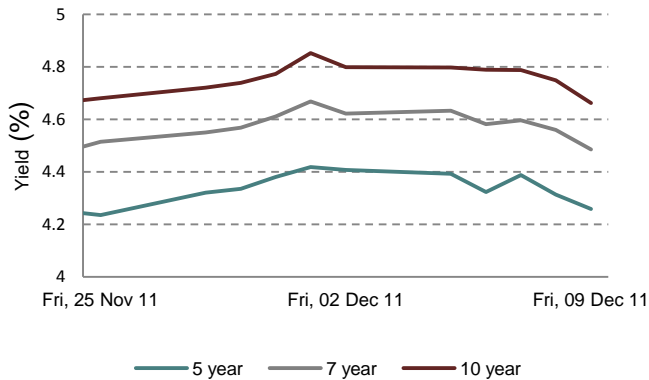
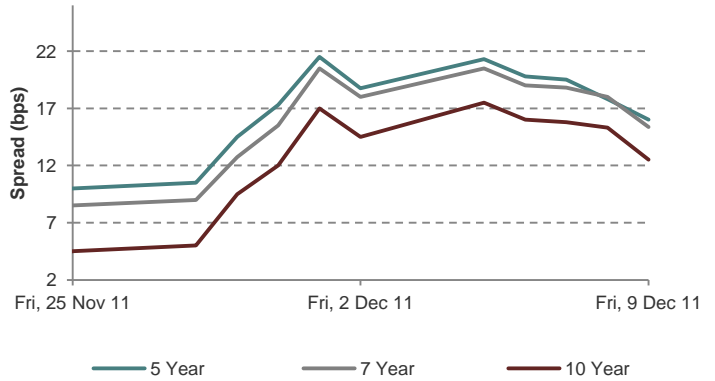


Figure 2b: Australian Basis Swap Rates



Rates

Figure 3a: Australian Rates

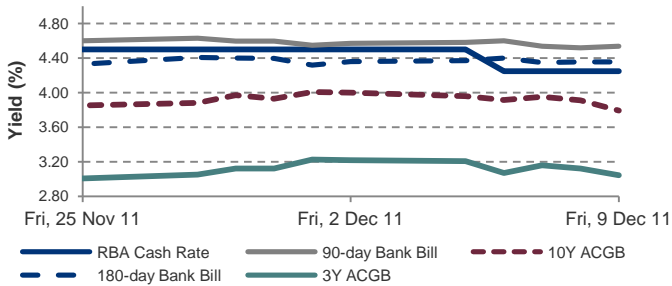


Figure 3b: CBA Rates Forecasts

	End period			
	Dec-11	Mar-12	Jun-12	Sep-12
RBA Cash Rate (%)	4.25	4.00	4.00	4.00
90-Day Bank Bill (%)	4.60	4.20	4.25	4.40
180-Day Bank Bill (%)	4.50	4.10	4.30	4.50
3 Year Bond (%)	3.70	3.70	3.85	4.10
10 Year Bond (%)	4.40	4.40	4.50	4.60

Credit Markets

Figure 4a: Global CDS Indices

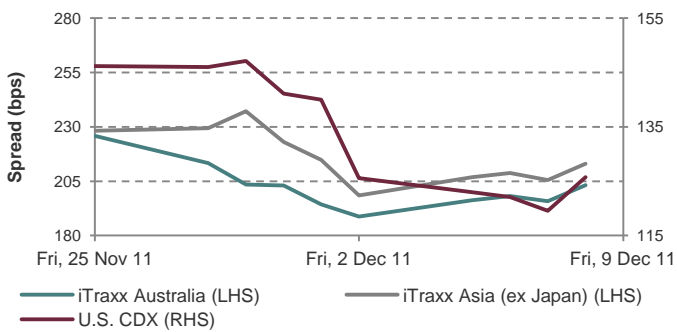
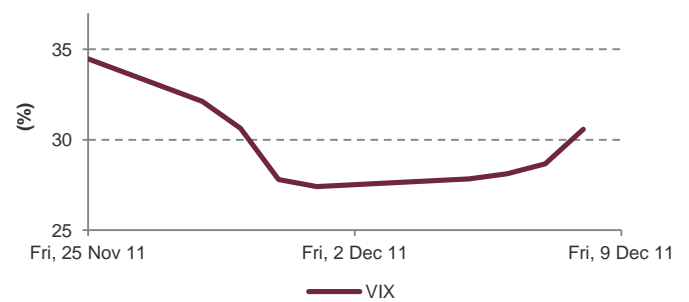


Figure 4b: VIX

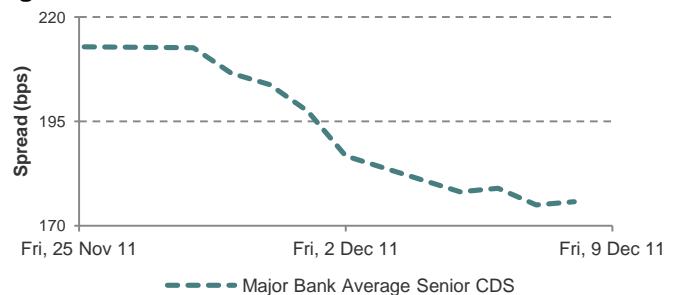


Australian Banks

Figure 5a: Current Major Bank Spreads

Issuer	Issuer Rating	Maturity	Coupon	Spread to Swap
ANZ	AA / Aa2	Feb-14	6.25%	+101
CBA	AA / Aa2	Jul-14	6.50%	+107
CBA	AA / Aa2	Feb-20	7.25%	+207
NAB	AA / Aa2	Sep-14	6.75%	+111
WBC	AA / Aa2	Aug-14	7.00%	+110
WBC	AA / Aa2	Feb-20	7.25%	+206

Figure 5b: Australian Bank CDS





Appendix: Secondary Levels of Recent Transactions

Supra/Sov/Agency Issuers

Issuer	Issue Rating	Maturity	Amount	Coupon	Issue Margin	Secondary Trading Margin
Council of Europe Development Bank	AAA / Aaa	Sep-14	A\$150m	5.75%	Swap + 18	Swap + 134
KfW Bankengruppe	AAA / Aaa	Jan-16	A\$500m Total Outstanding: A\$2bn	6.00%	ACGB + 75.25	ACGB + 130
International Finance Corporation (IFC)	AAA / Aaa	Aug-16	A\$1.25bn	5.00%	Swap + 15	Swap + 24
Rentenbank	AAA / Aaa	Apr-18	A\$250m Total Outstanding: A\$1bn	6.25%	Swap + 52	Swap + 119
Export Finance & Insurance Corp	AAA / Aaa	Sep-16	A\$200m	BBSW + 7	BBSW + 7	BBSW + 7
KfW Bankengruppe	AAA / Aaa	May-21	A\$250m Total Outstanding: A\$1.65bn	6.25%	ACGB + 91	ACGB + 128
Kommuninvest	AAA / Aaa	Nov-21	A\$125m	5.375%	ACGB + 118	ACGB + 118
Kommunalbanken Norway	AAA / Aaa	Apr-21	A\$100m Total Outstanding: A\$350m	6.50%	ACGB + 116	ACGB + 88

Bank/Holding Co. Issuers

Issuer	Issue Rating	Maturity	Amount	Coupon	Issue Margin	Secondary Trading Margin
Commonwealth Bank of Australia	AA/Aa2	Aug-16	A\$2.7bn	BBSW + 117	BBSW + 117	BBSW + 148
ANZ Bank	AA/Aa2	Oct-15	A\$1bn	BBSW + 135	BBSW + 135	BBSW + 135
Commonwealth Bank of Australia	AA/Aa2	Jan-15	A\$1bn	BBSW + 115	BBSW + 115	BBSW + 117
Canadian Imperial Bank of Commerce (CIBC)	AAA / Aaa	Jan-15	A\$600m	5.25%	Swap + 50	Swap + 85
Rabobank Nederland (Australia)	AAA/Aaa	Jul-16	A\$300m	BBSW + 115	BBSW + 140	BBSW + 165
ANZ Bank	AA/Aa2	Nov-14	A\$500m	BBSW + 100	BBSW + 95	BBSW + 109
JP Morgan Chase & Co	A+/Aa3	Mar-16	A\$275m Total Outstanding: A\$475m	BBSW + 135	BBSW + 145	BBSW + 227
			A\$75m Total Outstanding: A\$475m	7.00%	Swap + 145	Swap + 227
Rabobank Nederland (Australia)	AAA/Aaa	Jul-16	A\$800m	BBSW + 115	BBSW + 115	BBSW + 165

Corporate Issuers

Issuer	Issue Rating	Maturity	Amount	Coupon	Issue Margin	Secondary Trading Margin
Australian Rail Track Corporation	Aa2	Dec-14	A\$200m	BBSW + 130	BBSW + 130	BBSW + 130
Caltex Australia Finance Ltd	BBB+	Nov-18	A\$150m	7.25%	Swap + 275	Swap + 275
Wesfarmers Ltd	A-/Baa1	Nov-16	A\$500m	6.00%	Swap + 105	Swap + 152
Airservices Australia	AAA	Nov-16	A\$200m	5.50%	Swap + 110	Swap + 110

Sources: CBA & Yieldbroker



Contact Us

Fixed Income Origination Sydney		Telephone	Email Address
Peter Christie	Head of Fixed Income Origination & Distribution	+612 9118 4328	christp@cba.com.au
Simon Ling	Head of Retail and Wholesale Origination	+612 9118 6463	simon.ling@cba.com.au
Daniel Cassels	Executive Manager, FIG Origination	+612 9118 1217	daniel.cassels@cba.com.au
Rob Kenna	Executive Manager, Corporate Origination	+612 9118 1219	rob.kenna@cba.com.au
Truong Le	Executive Manager, Retail Fixed Income Origination	+612 9118 1205	truong.le@cba.com.au
Danielle Lavars	Senior Manager, Fixed Income Origination	+612 9118 1221	danielle.lavars@cba.com.au
Tabitha Potts	Senior Manager, Fixed Income Origination	+612 9118 1225	tabitha.potts@cba.com.au
Simon Rutz	Manager, Fixed Income Origination	+612 9118 2858	simon.rutz@cba.com.au
Andrew Murray	Manager, Commercial Paper	+612 9117 0047	andrew.murray@cba.com.au
Jay Tolson	Manager, Fixed Income Origination	+61 2 9118 4429	jay.tolson@cba.com.au
Alex Lucy	Associate, Fixed Income Origination	+612 9118 1218	alexander.lucy@cba.com.au
Katherine Chan	Analyst, Retail Fixed Income Origination	+612 9118 1220	chank@cba.com.au

New York / Sydney		Telephone	Email Address
Bill Stevenson	Executive Manager, USPP Fixed Income Origination	+612 9118 2859	William.stevenson@cba.com.au
Mark Wang	Executive Manager, USPP Fixed Income Origination	+1 212 848 9308	mark.wang@cba.com.au
Hilary Ward	Executive Manager, USPP Fixed Income Origination	+1 212 848 9373	wardhi@cba.com.au
Amy Lung	Senior Manager, USPP Fixed Income Origination	+1 212 848 9341	amy.lung@cba.com.au

London		Telephone	Email Address
James Hammermaster	Senior Manager, FIG Origination	+44 20 77103626	james.hammermaster@cba.com.au
Sean Rosas	Senior Manager, Fixed Income Origination	+44 20 77103959	sean.rosas@cba.com.au

Auckland		Telephone	Email Address
Brian McTaggart	Head of Capital Markets NZ	+649 301 5955	brian.mctaggart@asb.co.nz
Richard Howse	Director	+649 301 5956	richard.howse@asb.co.nz
Charlotte Hover	Executive Assistant	+649 301 5958	charlotte.hover@asb.co.nz

Fixed Income Syndication Sydney		Telephone	Email Address
Paul O'Brien	Head of Fixed Income Syndication	+612 9117 0046	paul.edward.obrien@cba.com.au
Patrick Moore	Senior Manager, Fixed Income Syndication	+612 9117 0047	patrick.moore@cba.com.au

Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
	+612 9117 0341	Asia	+613 9675 6967
Credit	+612 9117 0020	Lon/Eu	+44 20 7710 3573
Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495	Corporate	Telephone
	+613 9675 6618	NSW	+612 9117 0377
	+613 9675 7757	VIC	+612 9675 7737
Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
Sing	+65 6349 7077	Metals Desk	+612 9117 0069
NY	+1212 336 7739	Agri Desk (Corp)	+612 9117 0157
		Agri Desk	+612 9117 0145