

# Fixed Income: Australian Debt Securities Update

16 January 2012 – 20 January 2012



## The Week Ahead

- Markets continue to keep an eye on developments in Europe, however the more relaxed tone of recent weeks is likely to continue absent any adverse developments. Data from the US will give an indication of how the US economy has been performing with Q4 GDP data due out on Friday, and the Federal Reserve FOMC meeting on Wednesday may shed some light on future monetary policy expectations.
- Domestically, fixed income markets will keep an eye on CPI figures due out Wednesday, and how the data may influence the RBA at its next board meeting.

## A\$ MTN Primary Issuance Update

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
Commonwealth Bank of Australia (Covered)	AA- / Aa2	AAA/Aaa	Jan-17	A\$2bn	5.75%	s/q Swap + 175
				A\$1.5bn	BBSW + 175	BBSW + 175
GPT RE Limited	A- / A3	A- / A3	Jan-19	A\$150m	6.75%	s/q Swap + 235
Industrial Bank of Korea	A/A1	A/A1	Jan-15	A\$350m	BBSW + 305	BBSW + 305

*Highlighted transactions denotes Commonwealth Bank of Australia acted as a lead manager to the transaction.*

## 2012 Primary Issuance Table

Sector	Week ending 20 January 2012		2011 Year to Date		Comparison Volume
	No. of Transactions	Volume	No. of Transactions	Volume	
SSA	-	-	12	A\$5.45bn	-A\$5.2bn
Domestic Banks	1	A\$3,500m	4	A\$3.75bn	-A\$0.25bn
Foreign Bank/Branches	1	A\$350m	7	A\$2.82bn	-A\$2.45bn
Non Bank Financial	-	-	-	-	-
Corporate	1	A\$150m	-	-	A\$0.15bn
Semi Government	-	-	-	-	-
<b>Total</b>	<b>3</b>	<b>A\$4.00bn</b>	<b>23</b>	<b>A\$12.02bn</b>	<b>-A\$7.77bn</b>

Sources: CBA & Bloomberg

Sector	Full Year 2011	
	No. of Transactions	Volume
SSA	60	A\$22.2bn
Domestic Banks	33	A\$22.4bn
Foreign Bank/Branches	34	A\$15.6bn
Non Bank Financial	19	A\$5.2bn
Corporate	28	A\$5.9bn
Semi Government	18	A\$15.4bn
<b>Total</b>	<b>192</b>	<b>A\$86.8bn</b>

## Upcoming Economic Events

Monday 23 January	Tuesday 24 January	Wednesday 25 January	Thursday 26 January	Friday 27 January
AU PPI QIV, q/y%ch, 0.6/3.2, (0.6/2.7) CA Leading indicators, Dec, m%ch, (0.8)	JP BoJ target rate, %, 0-0.10, (0-0.10) EU Industrial new orders, Nov US Richmond Fed Index, Jan CA Retail sales, Nov	AU CPI, QIV, q/y%ch Headline (nsa), 0.2/3.3, (0.6/3.5) RBA Underlying, 0.8/2.7, (0.3/2.5) AU DEWR skilled vacancies, Dec, m%ch, (-1.0) JP Trade bal total/adj, Dec, ¥bn, (-684.7/-537.9) UK Bank of England minutes UK GDP, QIV US Pending home sales, Dec US FOMC rate decision, %, 0-0.25, (0.25) CA Teranet House Prices, Nov	AU AUSTRALIA DAY HOLIDAY NZ RBNZ official cash rate, %, 2.50 (2.50) NZ Business PMI, Dec, Index, (45.7) US Durable goods orders, Dec US New home sales, Dec	NZ Trade balance, Dec JP CPI, Dec, JP Retail sales, Dec UK GfK consumer confidence survey, Jan US GDP, QIV US Uni. Of Michigan confidence, Jan

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

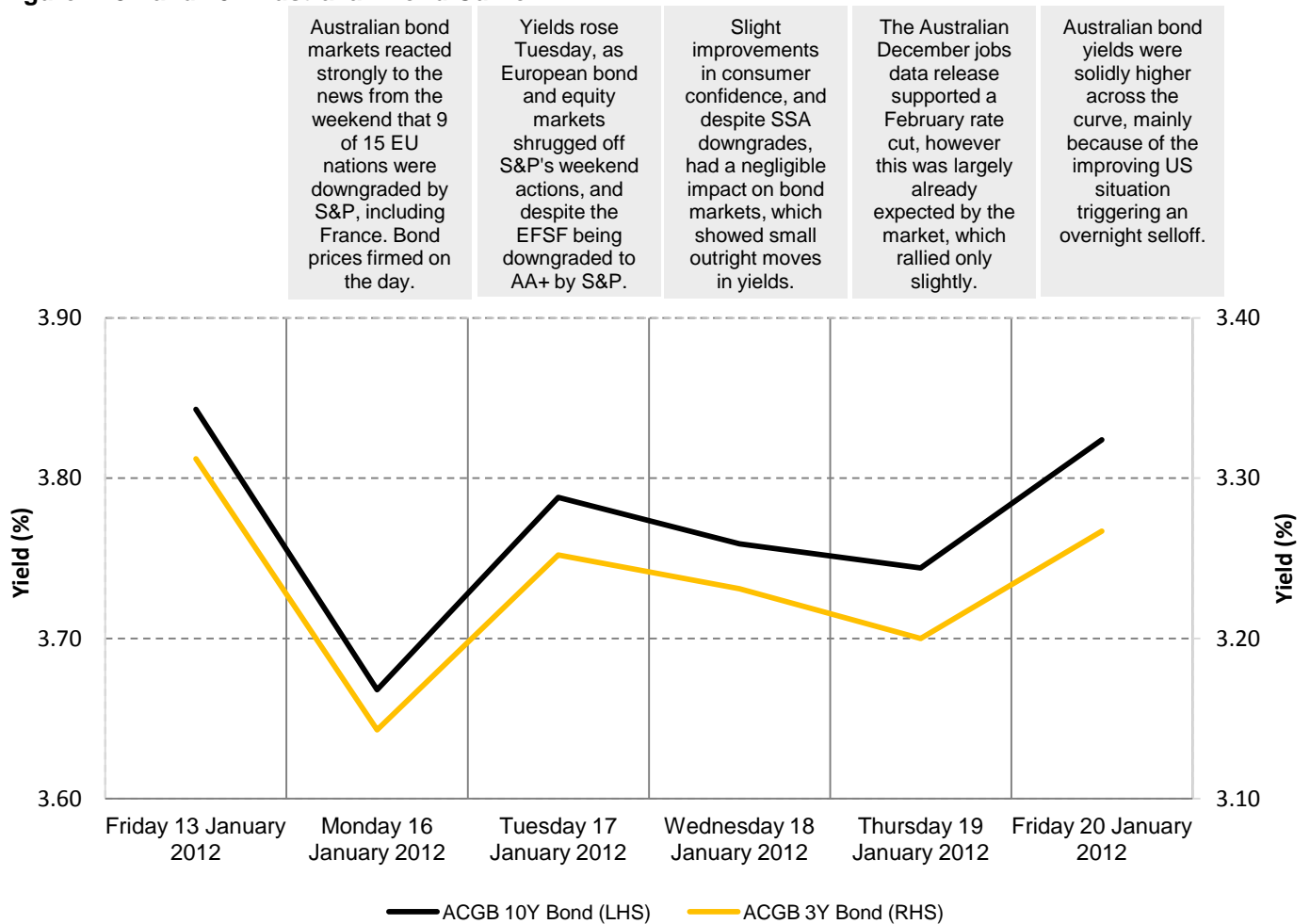


## Australian Credit Market Update

- European volatility continues to impact on Australian-denominated credits, however there has been a noticeable improvement in financial market conditions since the start of 2012. Australian issuance has started the year strongly with SSA and FI issuance, including the Commonwealth Bank of Australia issuing an A\$3.5bn covered bond – the first A\$ denominated covered issuance by a domestic major bank, and the largest issue into the A\$ MTN market from an FI.
- The Aussie dollar swap curve finished the week higher. 3-year swaps finished the week 1bp higher, and 10-years higher by 9bps. The 3 year-10 year spread increased 8bps to +77bps.

## Australian Rates Market Update

Figure 1: 3Y and 10Y Australian Bond Curve



Sources: CBA & Bloomberg

- The market reacted to the news from the weekend that 9 of the 15 EU nations had been downgraded by S&P. Most notably, France and Austria lost their coveted AAA rating through one-notch downgrades, and Italy was downgraded two notches to BBB+. Aussie bonds rallied strongly (yields lower) on the news on Monday, prior to witnessing the full reaction from the European markets in the overnight session.
- S&P downgraded the EFSF to AA+, but this didn't have any immediate negative implications for markets. Equities rallied in Europe prior to the Tuesday market open in Australia and peripheral bond yields were mostly steady, despite the S&P's downgrade action. France successfully sold €8.6bn of bills, and a number of Chinese economic data releases allayed some fears of a slow-down in Asia. Against this brighter international backdrop, Aussie bonds gave back most of Monday's gains on Tuesday.



- There were relatively small outright moves in Aussie bond yields, as consumer confidence data registered a slight improvement but didn't impact the bond market on Wednesday. S&P downgraded SSAs CADES and OKB to AA+ from AAA, however, since CADES has \$1bn of bonds outstanding and OKB have just \$350m in Australian markets, the downgrades represent only a small amount of the total kangaroo market.
- December jobs data showed a modest fall in employment on Thursday, which supports the case for another RBA rate cut in February. The market largely already expected a rate cut and the jobs figures caused only a small rally in Aussie bonds. European and US bond yields remained close to Wednesday's levels.
- There was positive data from the US Friday morning (prior to the Australian market opening) as CPI was steady, at an annual headline pace of 3% - although December housing starts and the January headline Phil Fed reading were marginally below expectations. Jobless claims were better-than-expected, dropping 50,000 to 352,000. The positive data drove a sell-off in Australian bonds on Friday. Bonds did not gain any support from Australian Trade Prices data, which indicate that the Terms of Trade have probably peaked and should continue to move lower in the coming months.

## Ratings News

*New Rating /  
Withdrawal*

Nothing to Report

*Upgrades or  
Downgrades*

- S&P rating actions on 16 EU sovereign governments, expressing its concern that "the policy initiatives taken by European policymakers in recent weeks may be insufficient to fully address ongoing systemic stresses in the Eurozone." The below table summarises all of S&P's ratings actions:

Sovereign	To	From
<b>Austria</b>	AA+/Negative	AAA/Watch Neg
<b>Belgium</b>	AA/Negative	AA/Watch Negative
<b>Cyprus</b>	BB+/Negative	BBB/Watch Neg
<b>Estonia</b>	AA-/Negative	AA-/Watch Negative
<b>Finland</b>	AAA/Negative	AAA/Watch Negative
<b>France</b>	AA+/Negative	AAA/Watch Neg
<b>Germany</b>	AAA/Stable	AAA/Watch Negative
<b>Ireland</b>	BBB+/Negative	AAA/Watch Negative
<b>Italy</b>	BBB+/Negative	A/Watch Neg
<b>Luxembourg</b>	AAA/Negative	AAA/Watch Negative
<b>Malta</b>	A-/Negative	A/Watch Neg
<b>Netherlands</b>	AAA/Negative	AAA/Watch Negative
<b>Portugal</b>	BB/Negative	BBB-/Watch Neg
<b>Slovak Republic</b>	A/Stable	A+/Watch Neg
<b>Slovenia</b>	A+/Negative	AA-/Watch Neg
<b>Spain</b>	A/Negative	AA-/Watch Neg

- S&P subsequently downgraded the EFSF from AAA to AA+, with a developing outlook. S&P quoted "the EFSF's obligations are no longer fully supported either by guarantees from EFSF members rated AAA by Standard & Poor's, or by AAA rated securities".
- S&P downgraded CADES and OKB to AA+ from AAA to equalise the ratings of both SSA issuers with the sovereign ratings of France and Austria.

*Credit Watch/ Outlook*

Nothing to Report



Swap Rates

Figure 2a: Australian Swap Rates

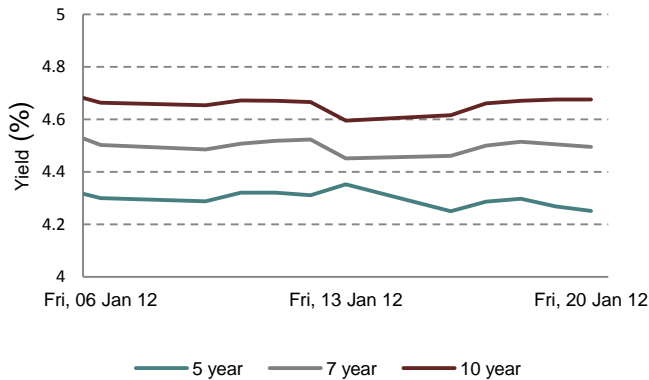
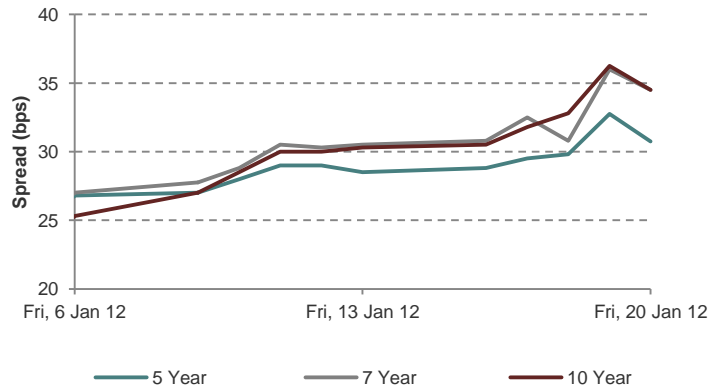


Figure 2b: Australian Basis Swap Rates



Rates

Figure 3a: Australian Rates

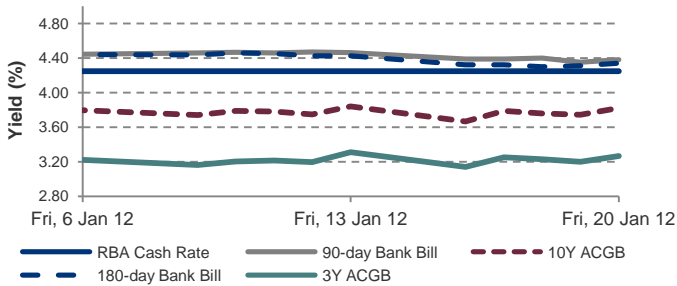


Figure 3b: CBA Rates Forecasts

	End period			
	Mar-12	Jun-12	Sep-12	Dec-12
RBA Cash Rate (%)	4.00	4.00	4.00	4.00
90-Day Bank Bill (%)	3.80	3.80	3.95	4.10
180-Day Bank Bill (%)	3.60	3.70	3.90	4.10
3 Year Bond (%)	2.70	2.70	2.90	3.10
10 Year Bond (%)	3.80	3.80	3.90	4.00

Credit Markets

Figure 4a: Global CDS Indices

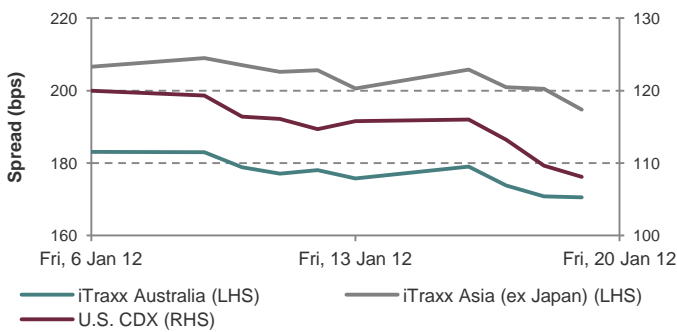
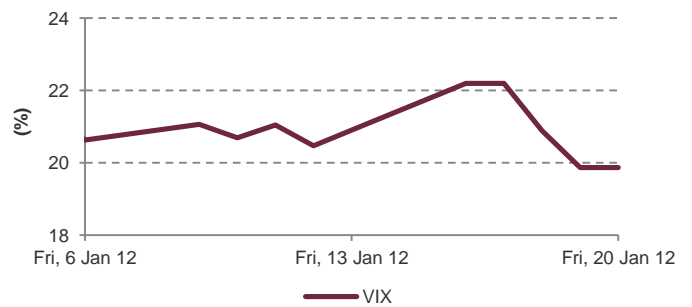


Figure 4b: VIX

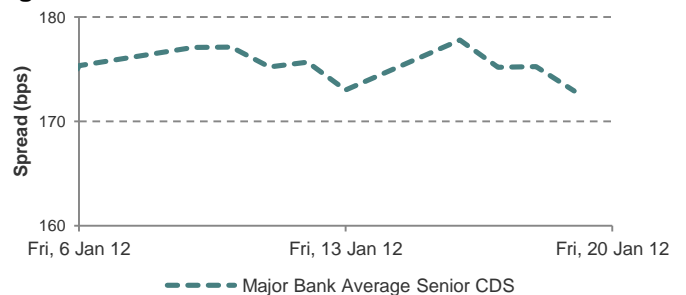


Australian Banks

Figure 5a: Current Major Bank Spreads

Issuer	Issuer Rating	Maturity	Coupon	Spread to Swap
ANZ	AA / Aa2	Feb-14	6.25%	+116
CBA	AA / Aa2	Jul-14	6.50%	+126
CBA	AA / Aa2	Feb-20	7.25%	+224
NAB	AA / Aa2	Sep-14	6.75%	+128
WBC	AA / Aa2	Aug-14	7.00%	+128
WBC	AA / Aa2	Feb-20	7.25%	+222

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 + 156
KfW Bankengruppe	AAA / Aaa	Jan-16	A\$500m Total Outstanding: A\$2bn	6.00%	ACGB + 75.25	ACGB + 164
International Finance Corporation (IFC)	AAA / Aaa	Aug-16	A\$1.25bn	5.00%	Swap + 15	Swap + 28
Rentenbank	AAA / Aaa	Apr-18	A\$250m Total Outstanding: A\$1bn	6.25%	Swap + 52	Swap + 116
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 + 180
Kommuninvest	AAA / Aaa	Nov-21	A\$125m	5.375%	ACGB + 118	ACGB + 110
Kommunalbanken Norway	AAA / Aaa	Apr-21	A\$100m Total Outstanding: A\$350m	6.50%	ACGB + 116	ACGB + 145

### 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 + 185
ANZ Bank	AA/Aa2	Oct-15	A\$1bn	BBSW + 135	BBSW + 135	BBSW + 158
Commonwealth Bank of Australia	AA/Aa2	Jan-15	A\$1bn	BBSW + 115	BBSW + 115	BBSW + 144
Canadian Imperial Bank of Commerce (CIBC)	AAA / Aaa	Jan-15	A\$600m	5.25%	Swap + 50	Swap + 90
Rabobank Nederland (Australia)	AAA/Aaa	Jul-16	A\$300m Total Outstanding: A\$1.1bn	BBSW + 115	BBSW + 140	BBSW + 192
ANZ Bank	AA/Aa2	Nov-14	A\$500m	BBSW + 100	BBSW + 95	BBSW + 137
JP Morgan Chase & Co	A+/Aa3	Mar-16	A\$275m Total Outstanding: A\$475m	BBSW + 135	BBSW + 145	BBSW + 213
			A\$75m Total Outstanding: A\$475m	7.00%	Swap + 145	Swap + 217

### 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 + 150
Airservices Australia	AAA	Nov-16	A\$200m	5.50%	Swap + 110	Swap + 116

Sources: CBA & Yieldbroker



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