Fixed Income: **Australian Debt Securities Update**

10 January 2011 – 14 January 2011

Welcome to the first edition of the Australian Debt Securities Update for 2011. We would like to wish all our readers a successful year ahead.

Australian $MTN Market Update

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
Commonwealth Bank of Australia Senior Unsecured	AA / Aa1	AA / Aa1	Jul-15	A$1.0bn	6.50%	Swap + 105
				A$1.5bn	BBSW + 105	BBSW + 105
BNP Paribas Australia Branch Senior Unsecured	AA / Aa2	AA / Aa2	Jan-14	A$250m	6.50%	Swap + 115
				A$550m	BBSW + 115	BBSW + 115
Rabobank Nederland Australia Branch Senior Unsecured	AAA / Aaa	AAA / Aaa	Apr-15	A$475m	6.00%	Swap + 105
				A$425m	BBSW + 105	BBSW + 105
African Development Bank (AfDB) Kangaroo	AAA / Aaa	AAA / Aaa	Jan-16	A$300m	5.75%	ACGB + 63.5
KfW Bankengruppe (KfW) Kangaroo	AAA / Aaa	AAA / Aaa	Jan-16	A$600m	6.00%	ACGB + 87
Asian Development Bank (ADB) Kangaroo	AAA / Aaa	AAA / Aaa	Feb-16	A$1.0bn New total A$1.85bn	5.50%	ACGB + 68
European Investment Bank (EIB) Kangaroo	AAA / Aaa	AAA / Aaa	Aug-20	A$600m New total A$2.2bn	6.00%	ACGB + 105
AOFM CGS Tender	AAA / Aaa	AAA / Aaa	Dec-13	A$700m	5.50%	Weighted average yield 4.9564%
			Nov-12	A$700m	4.75%	Weighted average yield 4.9771%

Issuer (Format)	Rating		Maturity	Amount (Buyback)	Margin at Issue	Buyback Margin
	Issuer	Issue				
ANZ Bank Government Guaranteed	AA / Aa1	AAA/ Aaa	Dec-11	US$752.3m Outstanding US$1.148bn	T + 211	Flat to Treasuries
Westpac Banking Corporation Government Guaranteed	AA / Aa1	AAA/ Aaa	Dec-11	US$2.1bn Outstanding US$896.5m	T + 212.5	Flat to Treasuries

- Primary issuance for 2011 kicked off with transactions from the SSA and financial sector totalling A$6.7 billion to date.

- As expected, the beginning of 2011 saw significant issuance from the SSA sector. To date issuance has totalled A$2.5 billion over 4 transactions from European Investment Bank (EIB), KfW Bankengruppe (KfW), Asian Development Bank (ADB) and African Development Bank (AfDB). Both EIB and ADB tapped existing lines, EIB priced their A$600m 6.0% August 20 tap at ACGB + 87 and ADB priced their A$1.0 billion increase to the 5.50% February 2016 at ACGB + 68. This took EIB and ADB's total outstandings to A$2.2 billion and A$1.85 billion respectively. KfW issued a new A$600m 6.00% January 2016 at ACGB + 87. AfDB returned to the Kangaroo market for the first time since October 2006, pricing their A$300m 5.75% January 16 at ACGB + 63.5.

- The Australian branches of Rabobank Nederland and BNP Paribas also completed domestic transactions this week, pricing a A$900m April 15 and A$800m January 2014 issue respectively in two tranches. Rabobank's issue comprised of A$475m fixed rate and A$425m floating rate notes priced at Swap/BBSW + 105bps, and BNP Paribas's issue comprised of A$250m fixed rate and A$550m floating rate priced at Swap/BBSW + 115bps.

- Finally, CBA priced a new A$2.5 billion July 2015 issue, marking the largest ever non-government guaranteed domestic issue by an Australian bank. The new 4.5 year transaction was the bank's first benchmark A$ bond transaction since September 2010 and was successfully marketed and executed within one day. The issue comprised of a 6.50% A$1.0bn fixed rate tranche and a A$1.5bn floating rate tranche priced at Swap/BBSW + 105bps.

- Westpac and ANZ announced the buyback of their 3.25% US$3.0bn December 2011 and 3.20% US$1.9bn December 2011 respectively at Flat to Treasuries, which was completed at the end of last week. Following the buyback the new total outstanding volumes are US$896.5m and US$1.148bn respectively.

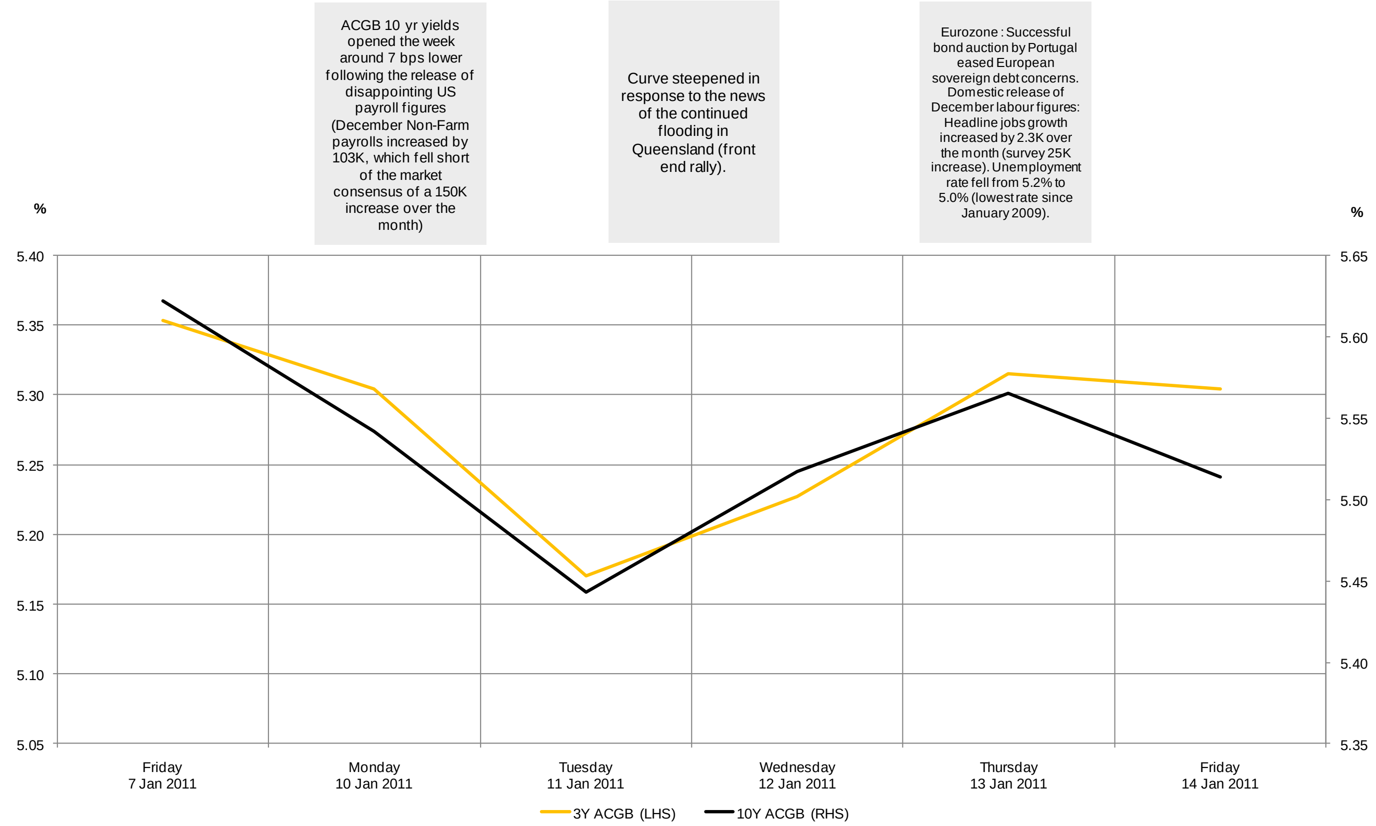
- Secondary market trading activity was heavily skewed towards turnover in floating rate paper this week, with turnover levels approximately six times that of fixed rate paper. This was driven by domestic demand for CBA floating rate paper (switching out of shorter dated paper), which accounted for over 80% of total turnover of floating rate format. Turnover of fixed rate formats was similarly led by trading of domestic bank paper, particularly CBA and NAB. We also observed notable domestic support for SSA fixed rate formats, in particular, International Finance Corporation.

Offshore Issues by Australian Borrowers ***sizeable issuance only***

Issuer (Format)	Market	Rating (Issuer)	Tenor	Amount	Coupon	Issue Margin
Australia & New Zealand Banking Group	US144a / RegS	AA / Aa1	Jan-14	US$750m	3m US$Libor + 74	3m US$Libor + 74
				US$1.0bn	2.125%	T + 102
			Jan-21	US$1.0bn	4.875%	T + 145
	Samurai		Jan-16	JPY8.0bn	3m ¥Libor + 46	3m ¥Libor + 6
				JPY78.1bn	0.98%	¥Swap + 31
National Australia Bank	US144a / RegS	AA / Aa1	Jan-12	US$700m	3m Libor + 9	3m US$Libor + 9
			Feb-12	US$800m		
	EMTN		Feb-17	CHF150	2.125%	MS + 49
Macquarie Group Limited	US144a / RegS	A- / A2	Jan-21	US$750m	6.25%	T + 300
Commonwealth Bank of Australia Senior Unsecured	US144a	AA / Aa1	Feb-12	US$300m	1m US$Libor + 10	1m US$Libor + 10
			Feb-12	US$1.0bn	3m US$Libor + 6	3m US$Libor + 6
	EMTN	AA / Aa1	Jan-14	GBP200m	3m GBPLibor + 70	3m GBPLibor + 70

Australian Government Bonds

Figure 1: 3Y and 10Y Australian Bond Curve



- Australian 3 and 10 year Government Bond yields closed the week 7 and 11 bps lower, while the 3/10 curve flattened around 4 bps to 40 bps. Concerns over the degree of the economic impact resulting from the Queensland floods was the most prevalent theme over the past week, driving market movements.

- Australian 10 year Government Bond yields opened the week around 7 bps lower on Monday morning following the disappointing US payroll figures, which were released on the prior Friday evening. December Non-Farm payrolls increased by 103K, which fell short of the market consensus of a 150K increase over the month. Monday's domestic release of November retail trade figures (0.3% increase, which was in line with the market expectations) had little impact on the domestic market. Tuesday and Wednesday saw the curve steepen in response to the news of the continued flooding in Queensland. Upon news of evacuations in Brisbane, front end rates rallied sharply, causing the 3/10 curve to steepen to highs of +47.5 bps. Thursday saw the domestic release of December labour force data, falling short of market expectations (headline job growth increase of 2.3K versus market consensus of 25K increase). On a positive note, unemployment fell from 5.2% to 5.0% (lowest levels since January 2009), with the participation rate still at historical highs. By the end of the week, reports of flood water levels receding, and slightly more positive headlines from Europe following a successful auction of Portuguese government debt caused the 3/10 curve to flatten, closing the week at around +40bps.

- Last week saw the AOFM kick off its issuance for the year, with two tenders, 5.50% A$700m December 2013 and 4.75% A$700m November 2012 bonds. Both tenders were well received with bid coverage ratios of 3.6 times and 4.2 times respectively.

Swaps

AUD Swaps: Following the announcement of CBA's new A$2.5 billion July 15 transaction, swaps were well offered in the mid curve. The 3/10 year Swap curve ended the week at +95bps.

AUD/USD Basis Swap: The Australian Basis Swap Curve was better offered as supranational issuance commenced for 2011, with four transactions from EIB, ADB, KfW and AfDB totalling A$2.5 billion.

Term	AUD Fixed / Float Swap		AUD / USD Basis Swap	
	Mid Rate	Swap/Bond	BBSW v Libor	Change (week)
1 Yr	5.10% q/q	27.9	9.30	+2.8
3 Yr	5.07% s/s	28.6	16.80	-2.5
5 Yr	5.42% s/s	60.5	24.00	-1.8
7 Yr	5.90% s/s	36.9	25.80	-2.2
10 Yr	6.02% s/s	48.0	25.80	-2.2

Asset Backed Securities

- There has been no new issuance for 2011 completed yet. Total securitisation issuance in 2010 bounced back to A$23.3 billion, the composition of issuance (including New Zealand transactions) are as follows:

Asset Class	Issuance Volume	Number of deals
RMBS	A$19.5 billion	29
ABS	A$ 3.2 billion	9
CMBS	A$620.0 million	2
Total	**A$23.3 billion**	**40**

Rating News

New Rating / Withdrawal	■ Nothing to report.
Upgrades or Downgrades	■ Nothing to report
Credit Watch / Outlook	■ Nothing to report

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