# Fixed Income: **Australian Debt Securities Update**

14 March 2011 – 18 March 2011

CommonwealthBank

## A$ MTN Primary Issuance Update

- Financial markets were heavily influenced by the catastrophic earthquake and tsunami in Japan last week, with subsequent concerns gathering momentum on news of a potential nuclear meltdown. As a result, primary issuance activity in the A$ MTN market took a pause.
- In the absence of issuance in the domestic market over the week, one of the highlights included an address from the RBA's Assistant Governor, Guy Debelle, to the KangaNews Australian DCM summit. Mr. Debelle's address included a discussion regarding the state of demand for Australian dollar issues and the recent announcement from the Australian Prudential Regulation Authority (APRA).
- Debelle noted that the fastest growing segment of Australian capital markets has been in A$ issuance by non-residents. Underpinning the expansion of the Kangaroo market has been increasing demand for AAA issuance in a post-GFC world. This has been complemented by increasing issuance predominantly from SSA borrowers, in light of investors' healthy appetite for high-yielding A$ assets, and will continue to do so in the future.
- Attention was also given to APRA's recent announcement regarding clarification on the high-quality assets eligible for the proposed liquidity coverage ratio (LCR). In particular, Debelle focussed upon the implications for financial institutions and the demand for assets not covered under the proposal. Given that, under the RBA's committed liquidity facility, any qualifying repo-eligible asset can still be used to meet the LCR, he doesn't expect the relative demand for classes of securities to be affected going forward.

| Issuer (Format) | Rating | | Maturity | Amount | Coupon | Spread to Benchmark |
|---|---|---|---|---|---|---|
| | Issuer | Issue | | | | |
| **AOFM** CGS Tender | AAA / Aaa | AAA / Aaa | Oct-14 | A$700m Total outstanding A$5.6bn | 4.50% | Weighted average yield 4.9782% |
| | | | Jan-18 | A$500m Total outstanding A$2.4bn | 5.50% | Weighted average yield 5.3126% |

*Sources: CBA & Bloomberg*

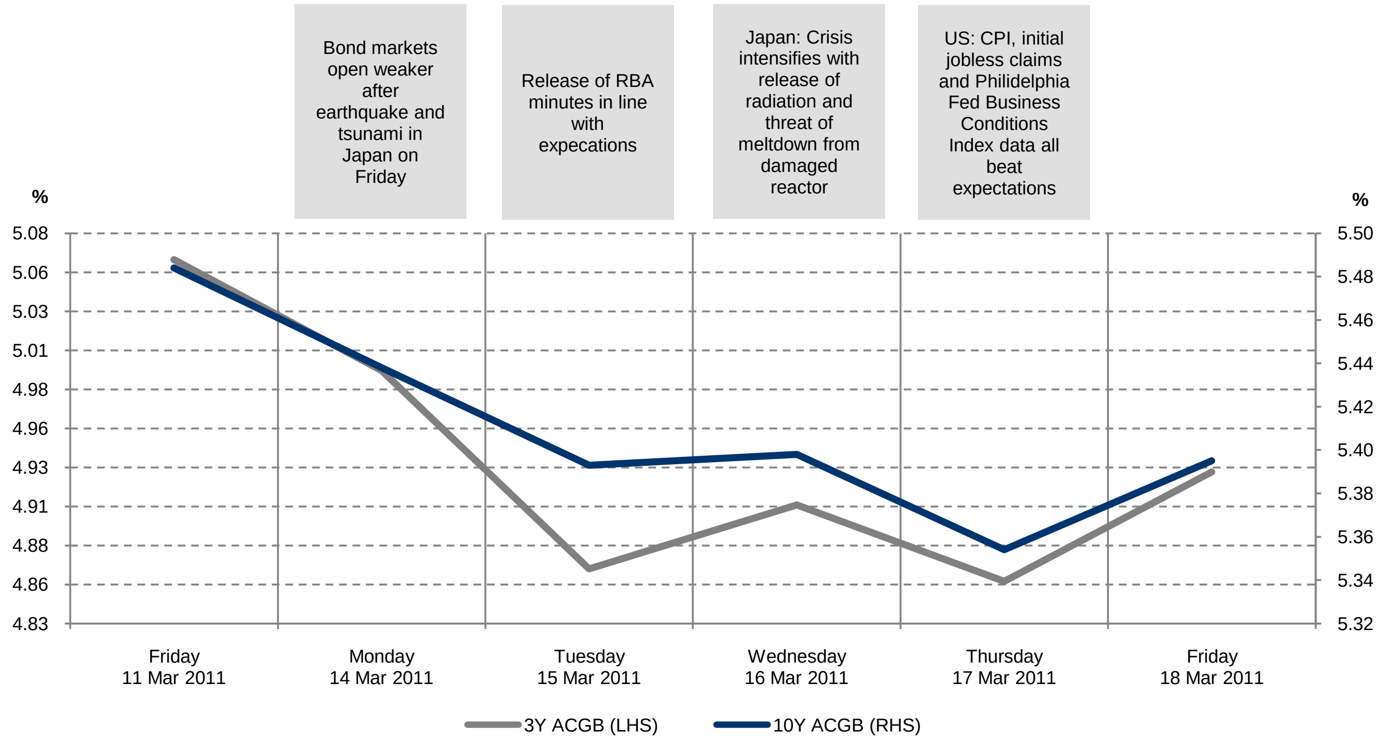
## 2011 Primary Issuance Table

| Sector | 2011 Year to Date | | 2010 Year to Date | | Comparison |
|---|---|---|---|---|---|
| | No. of Transactions | Volume | No. of Transactions | Volume | Volume |
| SSA | 23 | A$11bn | 27 | A$12.2bn | -A$1.2bn |
| Domestic Banks | 8 | A$7.4bn | 9 | A$5.7bn | +A$1.7bn |
| Foreign Bank/Branches | 10 | A$7.6bn | 11 | A$8.9bn | -A$1.3bn |
| Non Bank Financial | 6 | A$1.7bn | 1 | A$50m | +A$1.6bn |
| Corporate | 4 | A$900m | 2 | A$550m | +A$350m |
| Semi Government | 2 | A$5.5bn | 5 | A$8.3bn | -A$2.8bn |
| **Total** | **53** | **A$34.1bn** | **55** | **A$35.7bn** | **-A$1.6bn** |

*Sources: CBA & Bloomberg*

# Australian Rates Market Update

**Figure 1: 3Y and 10Y Australian Bond Curve**

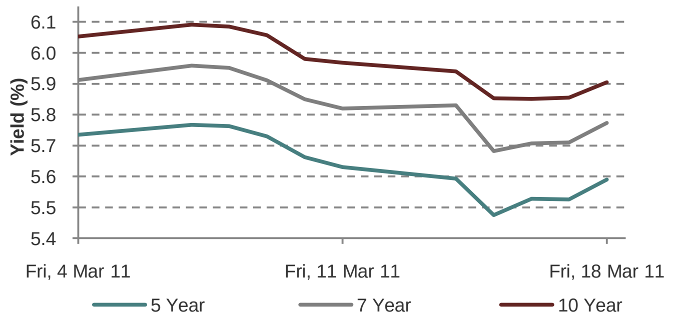



*Sources: CBA & Bloomberg*

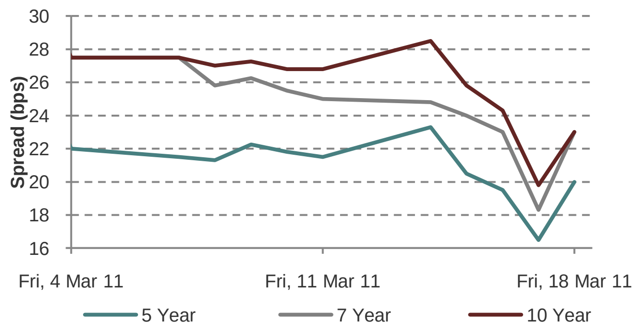
- Australian Government Bond yields fell across the curve last week, as the front end of the curve rallied around 14 bps and the long end around 9 bps. The 3/10 spread steepened to 47 bps.
- These movements were predominantly driven by offshore events. Tuesday's publication of the minutes from the RBA's March meeting was in line with expectations and the market generally looked through the release. The earthquake and tsunami in Japan, coupled with the ongoing threat of a serious nuclear incident, drove down yields lower for both the 3 and 10 year parts of the curve for much of the week.
- However, a speight of positive US economic data released on Thursday triggered a sell-off, with US 2 and 10 year yields rising 6 and 10 bps respectively. This flowed through to Australian yields on Friday, paring back some of the gains from last week.

## Swaps

### Figure 2a: Australian Swap Curve

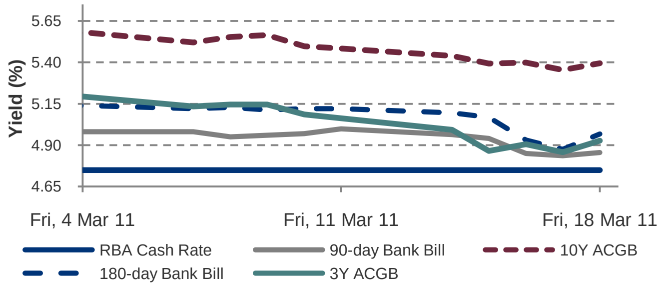



### Figure 2b: Australian Basis Swap Curve




## Rates

### Figure 3a: Australian Rates

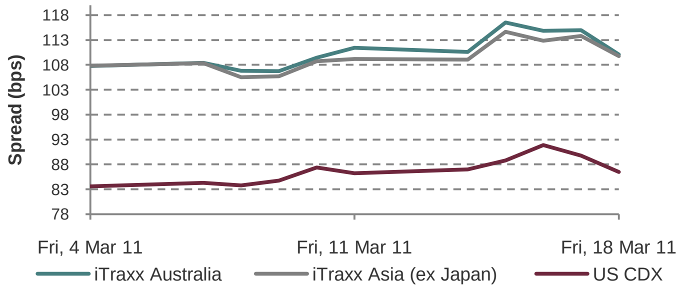



### Figure 3b: CBA FX Forecasts

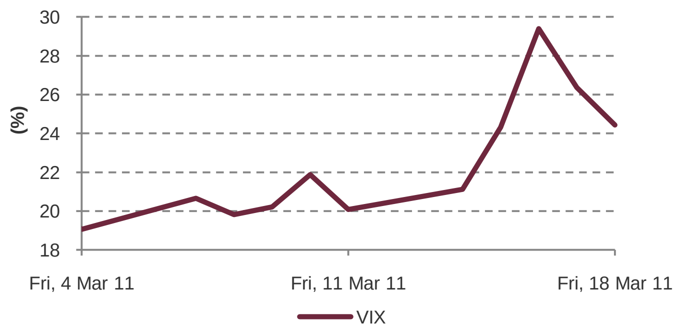
| | End period | | | | |
|---|---|---|---|---|---|
| | Mar-11 | Jun-11 | Sep-11 | Dec-11 | Mar-12 |
| AUD per USD | 1.02 | 0.99 | 0.94 | 0.92 | 0.90 |
| AUD per EUR | 0.73 | 0.68 | 0.66 | 0.66 | 0.66 |
| AUD per NZD | 1.34 | 1.32 | 1.31 | 1.30 | 1.29 |
| AUD per GBP | 0.63 | 0.58 | 0.56 | 0.56 | 0.56 |
| AUD per 100 JPY | 87 | 85 | 82 | 81 | 79 |

## Credit Markets

### Figure 4a: Global CDS Indices




### Figure 4b: VIX

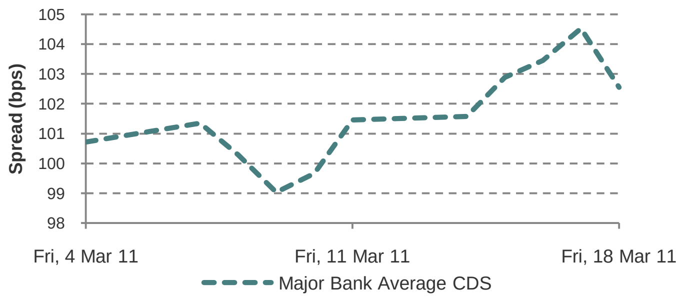



## Australian Banks

### Figure 5a: Current Major Bank Spreads

| Issuer | Issuer Rating | Maturity | Coupon | Spread to Swap |
|---|---|---|---|---|
| ANZ | AA | Feb-14 | 6.25% | +75 |
| CBA | AA | Jul-14 | 6.50% | +76 |
| CBA | AA | Feb-20 | 7.25% | +150 |
| NAB | AA | Sep-14 | 6.75% | +81 |
| WBC | AA | Aug-14 | 7.00% | +79 |
| WBC | AA | Feb-20 | 7.25% | +145 |

### Figure 5b: Australian Bank CDS




*Sources: CBA, Bloomberg & Yieldbroker*

# Appendix: Secondary Levels of Recent Transactions

### Supra/Sov/Agency Issuers

| Issuer | Issuer Rating | Maturity | Amount | Coupon | Issue Margin | Secondary Trading Margin |
|---|---|---|---|---|---|---|
| **Asian Development Bank** | AAA / Aaa | Feb-18 | A$700m | 6.00% | ACGB + 60.25 | ACGB + 67.75 |
| **European Investment Bank** | AAA / Aaa | May-14 | A$400m<br>Total Outstanding A$700m | BBSW + 26 | BBSW + 26 | BBSW + 25 |
| **Export Development Canada** | AAA / Aaa | Feb-16 | A$500m | 6.00% | ACGB + 53.25 | ACGB + 58.00 |
| **Kommuninvest** | AAA / Aaa | Mar-14 | A$200m | BBSW + 42 | BBSW + 42 | BBSW + 44 |
| **Oesterreichische Kontrollbank AG** | AAA / Aaa | Feb-16 | A$350m | 6.25% | ACGB + 84.50 | ACGB + 88.50 |
| **Rentenbank** | AAA / Aaa | Apr-17 | A$450m<br>Total Outstanding A$1.6bn | 6.50% | ACGB + 98.50 | ACGB + 102.50 |

### Bank/Holding Co. Issuers

| Issuer | Issuer Rating | Maturity | Amount | Coupon | Issue Margin | Secondary Trading Margin |
|---|---|---|---|---|---|---|
| **Barclays Bank Australia Branch** | AA- / Aa3 | Feb-14 | A$500m | 6.75% | Swap + 140 | Swap + 135 |
| **Bank of Nova Scotia**<br>*Covered Bond* | AA- / Aa1<br>(AAA / Aaa) | Jan-14 | A$1.0bn | 5.75% | Swap + 46 | Swap + 47 |
| **Canadian Imperial Bank of Commerce**<br>*Covered Bond* | A+ / Aa2<br>(AAA / Aaa) | Dec-13 | A$750m | 5.75% | Swap + 76 | Swap + 50 |
| **Canadian Imperial Bank of Commerce**<br>*Covered Bond* | A+ / Aa2<br>(AAA / Aaa) | Mar-16 | A$700m | 6.25% | Swap + 74 | Swap + 67 |
| **National Australia Bank** | AA / Aa | Mar-18 | A$700m | 7.25% | Swap + 145 | Swap + 140 |
| **RBS Australia Branch** | A+ / Aa3 | Mar-14 | A$700m | 7.25% | Swap + 195 | Swap + 189 |
| **Westpac** | AA / Aa1 | Nov-15 | A$500m | 6.50% | Swap + 110 | Swap + 102 |

### Corporate Issuers

| Issuer | Issuer Rating | Maturity | Amount | Coupon | Issue Margin | Secondary Trading Margin |
|---|---|---|---|---|---|---|
| **CFS Retail Property Trust** | A | May-16 | A$150m<br>Total Outstanding A$400m | 7.25% | Swap + 160 | Swap + 146 |
| **Woolworths Limited** | A- / A3 | Mar-16 | A$500m | 6.75% | Swap + 105 | Swap + 85 |

*Sources: CBA & Yieldbroker*

## Origination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