

# Fixed Income: Australian Debt Securities Update

18 April 2011 – 29 April 2011



## A\$ MTN Primary Issuance Update

- As a result of a number of Australian public holidays, the past fortnight saw only 7 trading days, with issuance in the primary domestic MTN market amounting to A\$600 million, compared with the prior week's A\$2.2 billion.
- Nederlandse Financierings-Maatschappij ("FMO") priced its inaugural kangaroo issue, a A\$200 million April 2014 line, priced at BBSW + 50, whilst the Sydney branch of United Overseas Bank launched a A\$350 million May 2014 floating rate note at BBSW + 92. Finally, Mirvac Group Finance added to its March 2015 fixed rate note, with a A\$50 million tap at Swap + 205, taking the total outstanding in the line to A\$200 million.
- In the absence of other issuance, the MTN market was largely focussed upon the decision by S&P to place the AAA long-term credit rating of the United States on review for a possible downgrade. S&P indicated that such a move represents a one-in-three chance of an actual downgrade in the next two years.
- Although CBA believes it is unlikely that the United States will lose its AAA rating in the near term, the action taken by S&P does highlight the possibility of a downgrade in coming years if the U.S. fiscal deficit issue is not addressed and resolved. There is unlikely to be much of an impact on bond markets, as evidenced by the short-lived price reaction following the revision, with yields subsequently rallying in light of the drop in risk appetite. If anything, the announcement places a greater impetus on the need for fiscal tightening in the U.S., which tends to influence the economy and put downward pressure on bond yields.

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
Mirvac Group Finance Senior Unsecured	BBB	BBB	Mar-15	A\$50m Total outstanding A\$200m	8.25%	Swap + 205
United Overseas Bank Sydney Branch Senior Unsecured	A+ / Aa1	A+ / Aa1	May-14	A\$350m	BBSW + 92	BBSW + 92
Nederlandse Financierings- Maatschappij (FMO) Kangaroo	AAA	AAA	Apr-14	A\$200m	BBSW + 50	BBSW + 50
AOFM CGS Tender	AAA / Aaa	AAA / Aaa	Jun-16	A\$700m Total outstanding A\$8.8bn	4.75%	Weighted average yield 5.2350%
			May-21	A\$700m Total outstanding A\$11.3bn	5.75%	Weighted average yield 5.5157%

Sources: CBA & Bloomberg

## 2011 Primary Issuance Table

Sector	Fortnight ending 29 April 2011		2011 Year to Date		2010 Year to Date		Comparison Volume
	No. of Transactions	Volume	No. of Transactions	Volume	No. of Transactions	Volume	
SSA	1	A\$200m	28	A\$12.2bn	37	A\$17.4bn	-A\$5.2bn
Domestic Banks	-	-	8	A\$7.4bn	12	A\$9.5bn	-A\$2.1bn
Foreign Bank/Branches	1	A\$350m	15	A\$11.3bn	14	A\$10.6bn	+A\$700m
Non Bank Financial	-	-	7	A\$2.3bn	3	A\$440m	+A\$1.9bn
Corporate	1	A\$50m	10	A\$2.7bn	9	A\$1.6bn	+A\$1.1bn
Semi Government	-	-	3	A\$8.7bn	8	A\$12.8bn	-A\$4.1bn
<b>Total</b>	<b>3</b>	<b>A\$600m</b>	<b>71</b>	<b>A\$44.6bn</b>	<b>83</b>	<b>A\$52.3bn</b>	<b>-A\$7.7bn</b>

Sources: CBA & Bloomberg



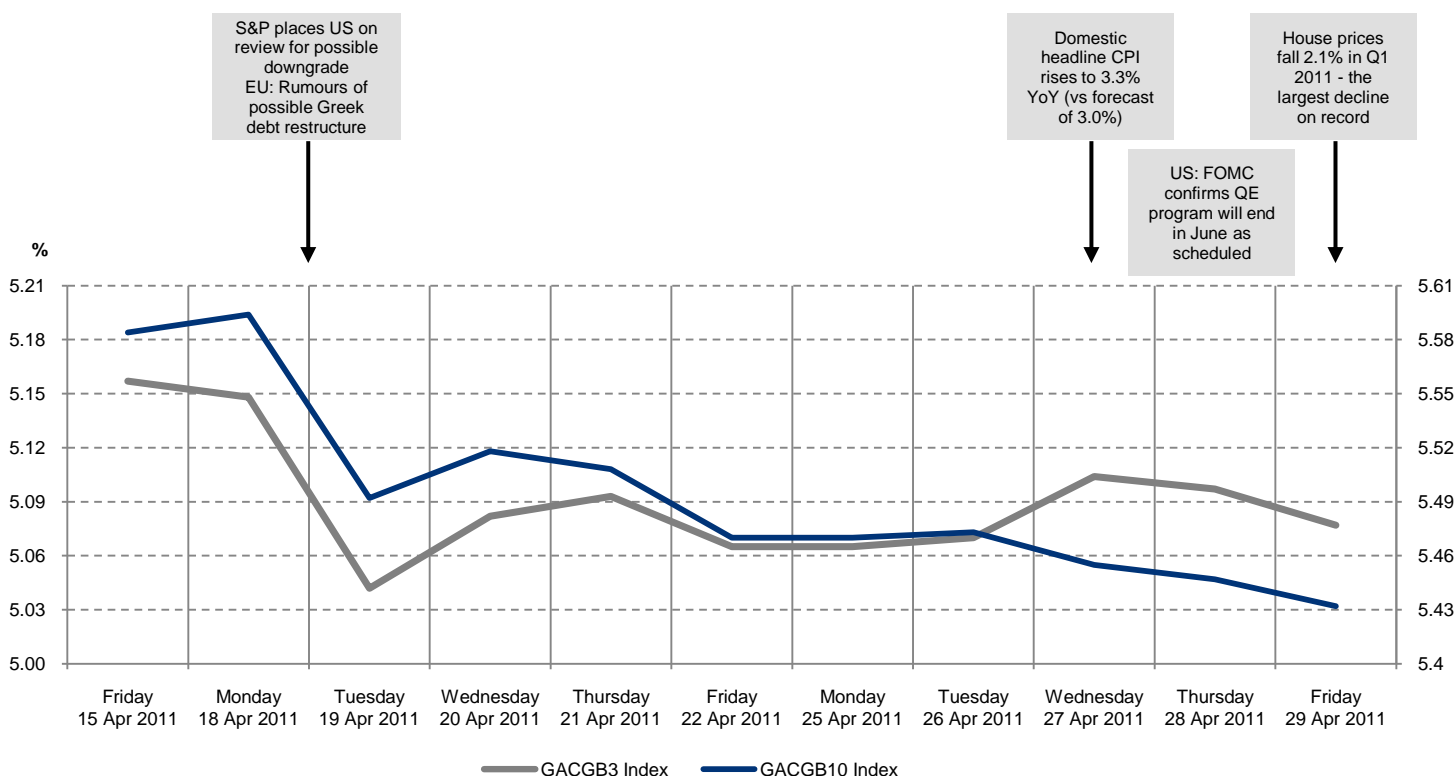
## Offshore Issues by Australian Borrowers

Issuer	Market	Rating (Issuer)	Maturity	Amount	Coupon
Commonwealth Bank of Australia	EMTN	AA / Aa1	May-15	CAD100m	3.25%

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 over the last fortnight, as the front end of the curve rallied around 9 bps, and the long end of the curve rallied around 15 bps. The 3/10 spread flattened to 36 bps.
- Early in the fortnight, Australian 3 and 10 year bonds largely followed offshore movements. Peripheral European sovereign debt concerns continued to influence bond yields, with rumours that Greece may be forced to restructure its debt triggering a rally in AUD bonds. Coupled with S&P's decision to revise the AAA rating of the United States to a negative outlook, the Australian 3 and 10 year curves rallied 11 bps each on Tuesday.
- On the domestic front, the market generally looked through the minutes from the RBA's April board meeting released on Tuesday the 19th. Import and export prices released on Wednesday the 20<sup>th</sup> showed increases of 1.4% and 21% YoY respectively – the terms of trade rose 20.8% YoY and remains near 50 year highs. The figures, however, were also in line with expectations, and had only a modest impact, causing yields to drift 3 and 2 bps higher in 3 and 10 year bonds.
- Following the extended Easter break, markets reopened to Wednesday's CPI release, which showed an increase in headline inflation to 3.3% YoY (vs forecast of 3.0%), prompting a 3bps rally in 3 year yields. However, Australian 3 and 10 year yields fell modestly for the remainder of the week in the build up to, and following, the FOMC decision to leave the cash rate in the United States unchanged at near 0%, and signalling its intention to end the QE program at the end of June.



## Ratings News

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*New Rating /  
Withdrawal*

- Nothing to report.
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*Upgrades or  
Downgrades*

- S&P upgraded its rating on **Rio Tinto** from BBB+ (Positive) to A- (Stable).
  - S&P upgraded its rating on **Alumina** from BBB- (Stable) to BBB (Stable).
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*Credit Watch /  
Outlook*

- S&P revised its outlook on the **United States'** AAA rating from Stable to Negative.
  - S&P revised its outlook on **Japan's** AA- rating from Stable to Negative.
  - Fitch affirmed its AA ratings on **Australia and New Zealand Banking Group** (Positive), **Commonwealth Bank of Australia** (Stable), **National Australia Bank** (Stable) and **Westpac Banking Corporation** (Stable).
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Swap Rates

Figure 2a: Australian Swap Rates

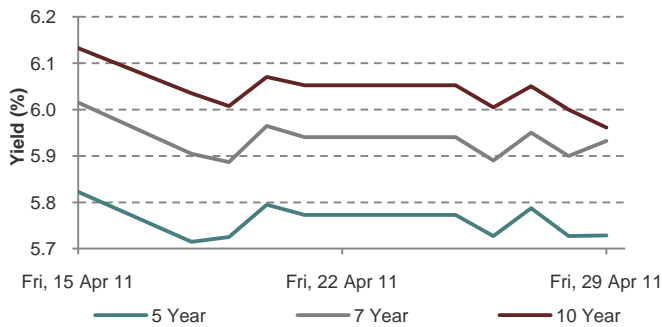
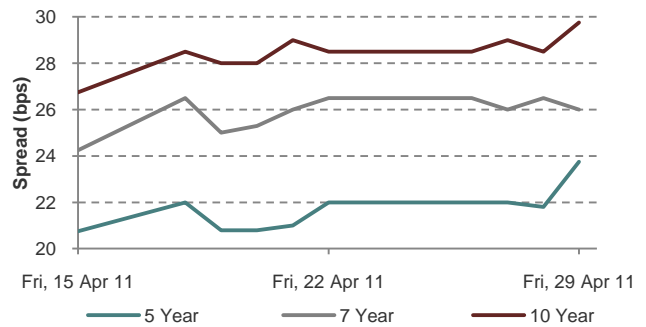


Figure 2b: Australian Basis Swap Rates



Rates

Figure 3a: Australian Rates

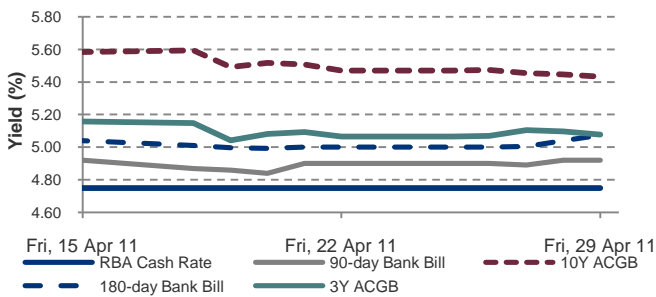


Figure 3b: CBA Rates Forecasts

	End period			
	Jun-11	Sep-11	Dec-11	Mar-12
RBA Cash Rate (%)	4.75	5.00	5.25	5.50
90-Day Bank Bill (%)	5.30	5.60	5.80	6.00
180-Day Bank Bill (%)	5.60	5.70	5.90	6.00
3 Year Bond (%)	5.60	5.80	5.90	5.90
10 Year Bond (%)	5.80	5.90	6.00	6.00

Credit Markets

Figure 4a: Global CDS Indices

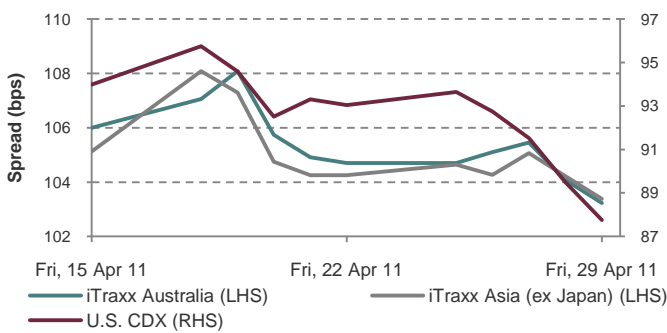
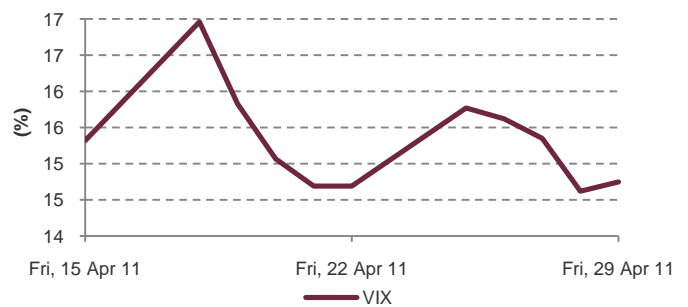


Figure 4b: VIX

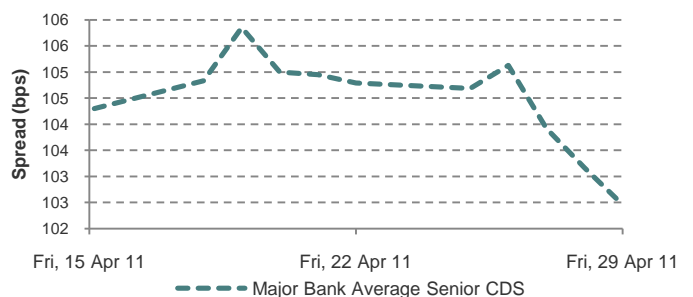


Australian Banks:

Figure 5a: Current Major Bank Spreads

Issuer	Issuer Rating	Maturity	Coupon	Spread to Swap
ANZ	AA	Feb-14	6.25%	+73
CBA	AA	Jul-14	6.50%	+73
CBA	AA	Feb-20	7.25%	+147
NAB	AA	Sep-14	6.75%	+78
WBC	AA	Aug-14	7.00%	+76
WBC	AA	Feb-20	7.25%	+142

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
Nederlandse Financierings-Maatschappij (FMO)	AAA	Apr-14	A4200m	BBSW + 50	BBSW + 50	BBSW + 50
KfW Bankengruppe	AAA / Aaa	Feb-18	A\$300m	6.25%	ACGB + 86.00	ACGB + 92.00
Queensland Treasury Corporation	AA+ / Aa1	Jul-22	A\$3.1bn	6.00%	ACBG + 61.25	ACGB + 60.25
Kommunalbanken AS	AAA / Aaa	Apr-21	A\$250m	6.50%	ACGB + 112.50	ACGB + 113.50
Rentenbank	AAA / Aaa	Apr-18	A\$250m	6.25%	ACGB + 100.25	ACGB + 106.00

### Bank/Holding Co. Issuers

Issuer	Issuer Rating	Maturity	Amount	Coupon	Issue Margin	Secondary Trading Margin
United Overseas Bank Sydney	A+ / Aa1	May-14	A\$350m	BBSW + 92	BBSW + 92	BBSW + 92
Rabobank Australia	AAA / Aaa	Apr-18	A\$600m	7.25%	Swap + 139	Swap + 132
HSBC Australia	AA / Aa3	Apr-14	A\$500m	BBSW + 84	BBSW + 84	BBSW + 80

### Corporate Issuers

Issuer	Issuer Rating	Maturity	Amount	Coupon	Issue Margin	Secondary Trading Margin
Mirvac Group Finance	BBB	Mar-15	A\$50m	8.25%	Swap + 205	Swap + 206
QIC Shopping Centre Fund	A-	Jul-14	A\$200m	6.75%	Swap + 125	Swap + 113
Westfield Retail Trust	A+	Oct-16	A\$800m	7.00%	Swap + 120	Swap + 119
			A\$100m	BBSW + 120	BBSW + 120	BBSW + 118

Sources: CBA & Yieldbroker



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