Fixed Income: **Australian Debt Securities Update**

16 May 2011 – 20 May 2011

CommonwealthBank

A$ MTN Primary Issuance Update

- Primary issuance in the domestic MTN market totalled A$2.25 billion last week, with issues from the SSA, financial and corporate sectors. Year to date issuance of A$53.7 billion has now surpassed the corresponding 2010 year to date total of $52.6 billion, largely due to the A$9.0 billion priced so far in May.

- Kicking off the week was a transaction from Morgan Stanley, who returned to the domestic MTN market for the first time since February 2007. The new benchmark A$500 million May 2015 line, which was capped in light of robust investor demand, priced at Swap/BBSW + 180, at the tighter end of initial price guidance of +180-185 bps. Support was evenly distributed across both the fixed and floating rate tranches, with a final volume of A$250 million printed across each tranche. The transaction also makes Morgan Stanley the all-time largest aggregate financial institution issuer in the Kangaroo market, having raised A$6.2 billion since April 2001, and was executed despite a recent flurry of financial issuance, evidencing continuing demand for the issuer's credit. CBA was a lead manager on this transaction.

- Corporate issuance continues to gather momentum with Telstra Corporation Limited tapping its existing fixed rate July 2020 A$ MTN, adding a further A$150 million. Initially launched with a volume of A$100 million, the deal was upsized as a result of investor demand, with some scaling required. The trade follows an increase of A$200 million in November 2010, and the most recent tap takes the total amount outstanding to A$500 million, consistent with Telstra's target maximum volume for individual A$ benchmark maturities. The deal was priced at Swap + 160, representing a significant tightening of 15 bps since the November 2010 tap.

- Sydney Airport Finance Company also launched a new A$100 million July 2018 fixed rate note at Swap + 120. The transaction follows Sydney Airport's July 2010 issue and was driven by reverse enquiry interest from investors. Sydney Airport's issue reiterates that the market is now willing to selectively fund non-financial corporate issues in tenors greater than 5 years. CBA was a lead manager on both this deal and the Telstra transaction.

- KfW Bankengruppe mandated a further tap of its January 2016 line, with an additional A$500 million raised, taking its total outstandings in the line to A$1.5 billion. The trade was priced at Swap + 68.5. Meanwhile, BNP Paribas Australia launched a new A$1.0 billion May 2016 dual tranche line, raising $250 million and $750 million in the fixed and floating rate tranches respectively, and was issued at Swap/BBSW + 143.

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
Sydney Airport Finance Company Senior Secured	BBB / Baa2	BBB / Baa2	Jul-18	A$100m	7.75%	Swap + 210
Telstra Corporation Ltd Senior Unsecured	A / A2	A / A2	Jul-20	A$150m Total outstanding A$500m	7.75%	Swap + 160
BNP Paribas Australia Senior Unsecured	AA / Aa2	AA / Aa2	May-16	A$250m	7.00%	Swap + 143
				A$750m	BBSW + 143	BBSW + 143
Morgan Stanley Kangaroo	A / A2	A / A2	May-15	A$250m	7.25%	Swap + 180
				A$250m	BBSW + 180	BBSW + 180
KfW Bankengruppe Kangaroo	AAA / Aaa	AAA / Aaa	Jan-16	A$500m Total outstanding A$1.5bn	6.00%	Swap + 68.5
AOFM CGS Tender	AAA / Aaa	AAA / Aaa	Oct-14	A$750m Total outstanding A$8.5bn	4.5%	Weighted average yield 5.0482%
			Apr-23	A$990m	5.50%	Weighted average yield 5.4820%

Sources: CBA & Bloomberg
Note: Yellow border indicates CBA acted as a Lead Manager on the transaction

2011 Primary Issuance Table

	Week ending 20 May 2011		2011 Year to Date		2010 Year to Date		Comparison Volume
Sector	No. of Transactions	Volume	No. of Transactions	Volume	No. of Transactions	Volume	
SSA	1	A$500m	32	A$13.6bn	38	A$17.5bn	-A$3.9bn
Domestic Banks	-	-	11	A$11.9bn	13	A$9.7bn	+A$2.2bn
Foreign Bank/Branches	1	A$1.0bn	17	A$13.5bn	14	A$10.6bn	+A$2.9bn
Non Bank Financial	1	A$500m	8	A$2.8bn	3	A$440m	+A$2.4bn
Corporate	2	A$250m	13	A$3.2bn	9	A$1.6bn	+A$1.6bn
Semi Government	-	-	3	A$8.7bn	8	A$12.8bn	-A$4.1bn
Total	**5**	**A$2.25bn**	**84**	**A$53.7bn**	**85**	**A$52.6bn**	**+A$1.1bn**

Sources: CBA & Bloomberg

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

- Visy priced a new U.S. Private Placement, issuing US$250 million. The transaction was upsized from its launch volume of US$150 million to meet strong investor demand. Visy has enjoyed ready access to the USPP market as this transaction represents their third USPP since 1998. CBA was a lead agent on this transaction.

Issuer	Market	Rating (Issuer)	Maturity / Tenor	Amount	Coupon	Issue Margin
Visy	USPP	NAIC-2	12 years (Jul 2011 funding)	US$125m	N/A	T + 220
			12 years (Oct 2011 funding)	US$125m	N/A	T + 230
Westpac Banking Corporation	EMTN	AA / Aa2	May-18	EUR1.0bn	4.125%	MS + 198
QBE Capital	US144a / RegS	BBB+ / Baa1	May-41	GBP325m	7.500%	MS + 400
				US$1.0bn	7.250%	T + 412.1
Rio Tinto	US144a / RegS	A- / A3	May-16	US$700m	2.500%	T + 83
			May-21	US$1.5bn	4.125%	T + 103
			Nov-40	US$800m	5.200%	T + 112.5

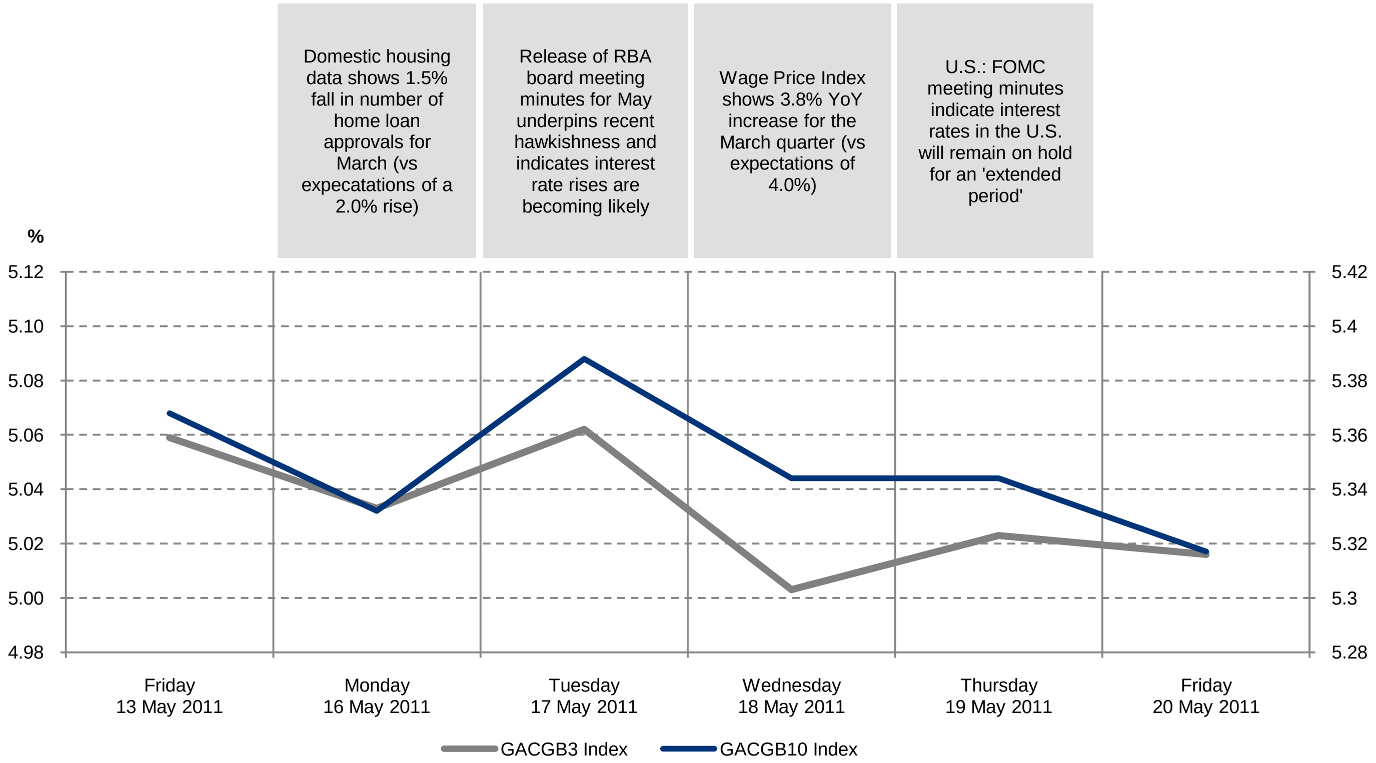
Sources: CBA & Bloomberg
Note: Yellow border indicates CBA acted as a Lead Manager on the transaction

Ratings News

New Rating / Withdrawal	■ Nothing to report.
Upgrades or Downgrades	■ Moody's downgraded its ratings on **Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank** and **Westpac Banking Corporation** from Aa1 (Negative) to Aa2 (Stable). ■ S&P upgraded its rating on **Fortescue** from B (Positive) to B+ (Stable).
Credit Watch / Outlook	■ Nothing to report.

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 4 bps, and the long end around 5 bps. The 3/10 spread was broadly unchanged at 30 bps.
- For most of the week, Australian 3 and 10 year bonds tracked domestic data releases. Monday's domestic housing data produced softer than expected results, with a 1.5% fall in the number of new home loan approvals in March (vs forecast of a 2.0% rise), causing 3 and 10 year yields to fall 3 and 4 bps respectively.
- The release of the RBA's May Board meeting minutes on Tuesday reinforced their view that higher interest rates would be required at some point to combat rising underlying inflation, which is expected to reach 3.0% by the end of 2011, and pushed the 3Y and 10Y yields higher by 3 and 5 bps. This move was offset, however, by the weaker than expected wage price index data on Wednesday, highlighting a 3.8% growth in wages YoY (vs expectations of 4.0%). A stronger than expected print would have likely put even more pressure on the RBA to hike interest rates, but instead, the figures sparked a rally, with 3 and 10 year yields falling 6 and 4 bps each.
- 3Y yields recovered modestly on Thursday, rising 2 bps following the release of the FOMC April Board meeting minutes on Wednesday night, indicating that interest rates in the United States are likely to remain on hold for an extended period.

Swap Rates

Figure 2a: Australian Swap Rates

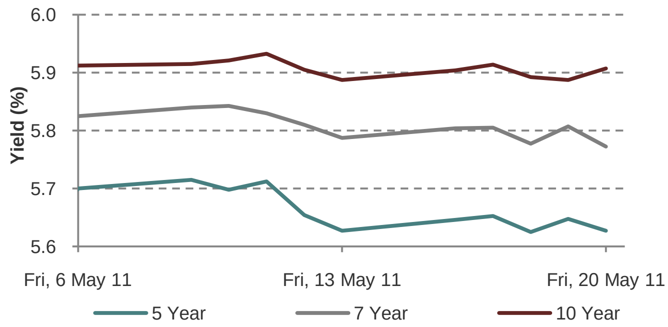
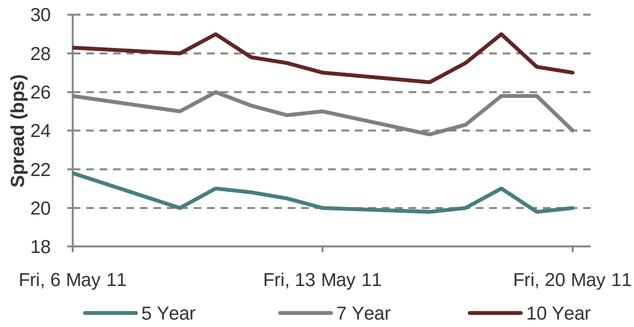


Figure 2b: Australian Basis Swap Rates



Rates

Figure 3a: Australian Rates

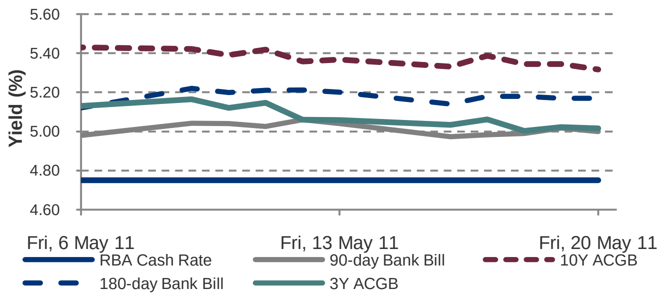


Figure 3b: CBA Rates Forecasts

	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 (%)	5.00	5.30	5.60	5.80
180-Day Bank Bill (%)	5.20	5.40	5.70	5.90
3 Year Bond (%)	5.30	5.50	5.75	5.90
10 Year Bond (%)	5.70	5.80	5.90	6.00

Credit Markets

Figure 4a: Global CDS Indices

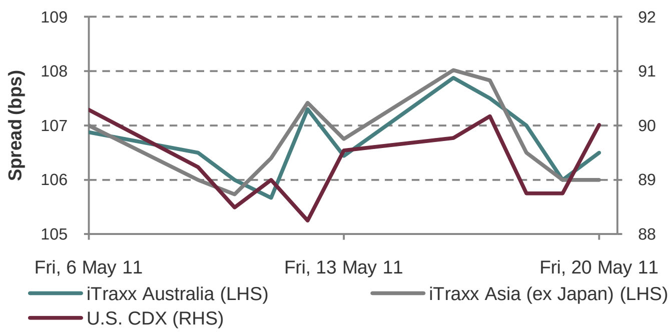
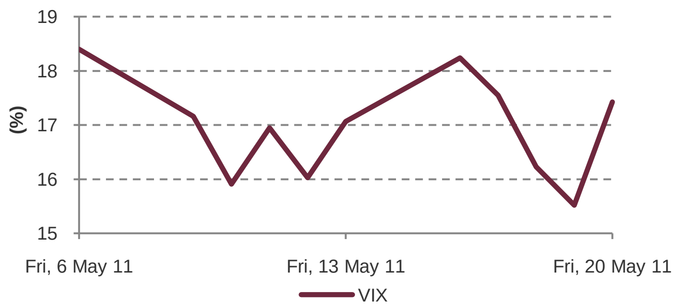


Figure 4b: VIX

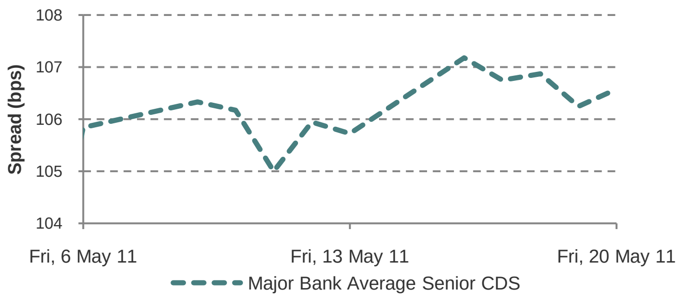


Australian Banks:

Figure 5a: Current Major Bank Spreads

Issuer	Issuer Rating	Maturity	Coupon	Spread to Swap
ANZ	AA / Aa2	Feb-14	6.25%	+71
CBA	AA / Aa2	Jul-14	6.50%	+71
CBA	AA / Aa2	Feb-20	7.25%	+136
NAB	AA / Aa2	Sep-14	6.75%	+76
WBC	AA / Aa2	Aug-14	7.00%	+74
WBC	AA / Aa2	Feb-20	7.25%	+138

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	A$200m	BBSW + 50	BBSW + 50	BBSW + 50
KfW Bankengruppe	AAA / Aaa	Feb-18	A$300m	6.25%	ACGB + 86.00	ACGB + 89.75
Queensland Treasury Corporation	AA+ / Aa1	Jul-22	A$3.1bn	6.00%	ACBG + 61.25	ACGB + 56.25
Kommunalbanken Norway	AAA / Aaa	Apr-21	A$250m	6.50%	ACGB + 112.50	ACGB + 112.50
Rentenbank	AAA / Aaa	Apr-18	A$250m	6.25%	ACGB + 100.25	ACGB + 103.80

Bank/Holding Co. Issuers

Issuer	Issuer Rating	Maturity	Amount	Coupon	Issue Margin	Secondary Trading Margin
United Overseas Bank Sydney Branch	A+ / Aa1	May-14	A$350m	BBSW + 92	BBSW + 92	BBSW + 84
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 + 118
Westfield Retail Trust	A+	Oct-16	A$800m	7.00%	Swap + 120	Swap + 129
			A$100m	BBSW + 120	BBSW + 120	BBSW + 120

Sources: CBA & Yieldbroker

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