

# Fixed Income: Australian Debt Securities Update

23 May 2011 – 27 May 2011



CommonwealthBank

## A\$ MTN Primary Issuance Update

- Credit spreads were under some pressure last week and primary issuance in the domestic MTN market was relatively subdued. Issuance totalled A\$1.525 billion, with SSA and financial issuers dominating activity. 2011's year to date issuance of A\$55.9 billion continues to push further ahead of the corresponding 2010 year to date total, with the positive gap now sitting at A\$2.8 billion.
- The week commenced with Suncorp Metway launching a new A\$650 million May 2014 floating rate line, which priced at BBSW + 110, taking its total outstandings to A\$6.5 billion across 9 issues.
- SSA issuance in May continued with 2 further transactions. European Investment Bank priced a new A\$500 million June 2021 deal at ACGB + 113.00, whilst Council of Europe Development Bank tapped its September 2014 fixed rate line. The tap, which raised A\$125 million at Swap + 16.7, increases the total outstanding in the line to A\$1.0 billion.
- Finally, Investa Commercial Property Fund completed its inaugural A\$ MTN issue, with a A\$250 million deal at Swap + 145.

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
Investa Commercial Property Fund Senior Unsecured	A-	A-	Jun-16	A\$250m	6.75%	Swap + 145
Suncorp Metway Senior Unsecured	A+ / A1	A+ / A1	May-14	A\$650m	BBSW + 110	BBSW + 110
Council of Europe Development Bank Kangaroo	AAA / Aaa	AAA / Aaa	Sep-14	A\$125m Total Outstanding A\$1.0bn	5.75%	Swap + 16.7
European Investment Bank Kangaroo	AAA / Aaa	AAA / Aaa	Jun-21	A\$500m	6.25%	ACGB + 113.00
AOFM CGS Tender	AAA / Aaa	AAA / Aaa	Jun-16	A\$750m Total outstanding A\$9.5bn	4.75%	Weighted average yield 5.0583%
			May-21	A\$750m Total outstanding A\$12.1bn	5.75%	Weighted average yield 5.2847%

Sources: CBA & Bloomberg

## 2011 Primary Issuance Table

Sector	Week ending 27 May 2011		2011 Year to Date		2010 Year to Date		Comparison Volume
	No. of Transactions	Volume	No. of Transactions	Volume	No. of Transactions	Volume	
SSA	2	A\$625m	34	A\$14.3bn	38	A\$17.5bn	-A\$3.2bn
Domestic Banks	1	A\$650m	13	A\$12.5bn	14	A\$10.2bn	+A\$2.3bn
Foreign Bank/Branches	-	-	17	A\$12.6bn	14	A\$10.6bn	+A\$2.0bn
Non Bank Financial	-	-	10	A\$4.1bn	3	A\$440m	+A\$3.7bn
Corporate	1	A\$250m	14	A\$3.4bn	9	A\$1.6bn	+A\$1.8bn
Semi Government	-	-	4	A\$9.0bn	8	A\$12.8bn	-A\$3.8bn
<b>Total</b>	<b>4</b>	<b>A\$1.525bn</b>	<b>92</b>	<b>A\$55.9bn</b>	<b>86</b>	<b>A\$53.1bn</b>	<b>+A\$2.8bn</b>

Sources: CBA & Bloomberg



## Offshore Issues by Australian Borrowers

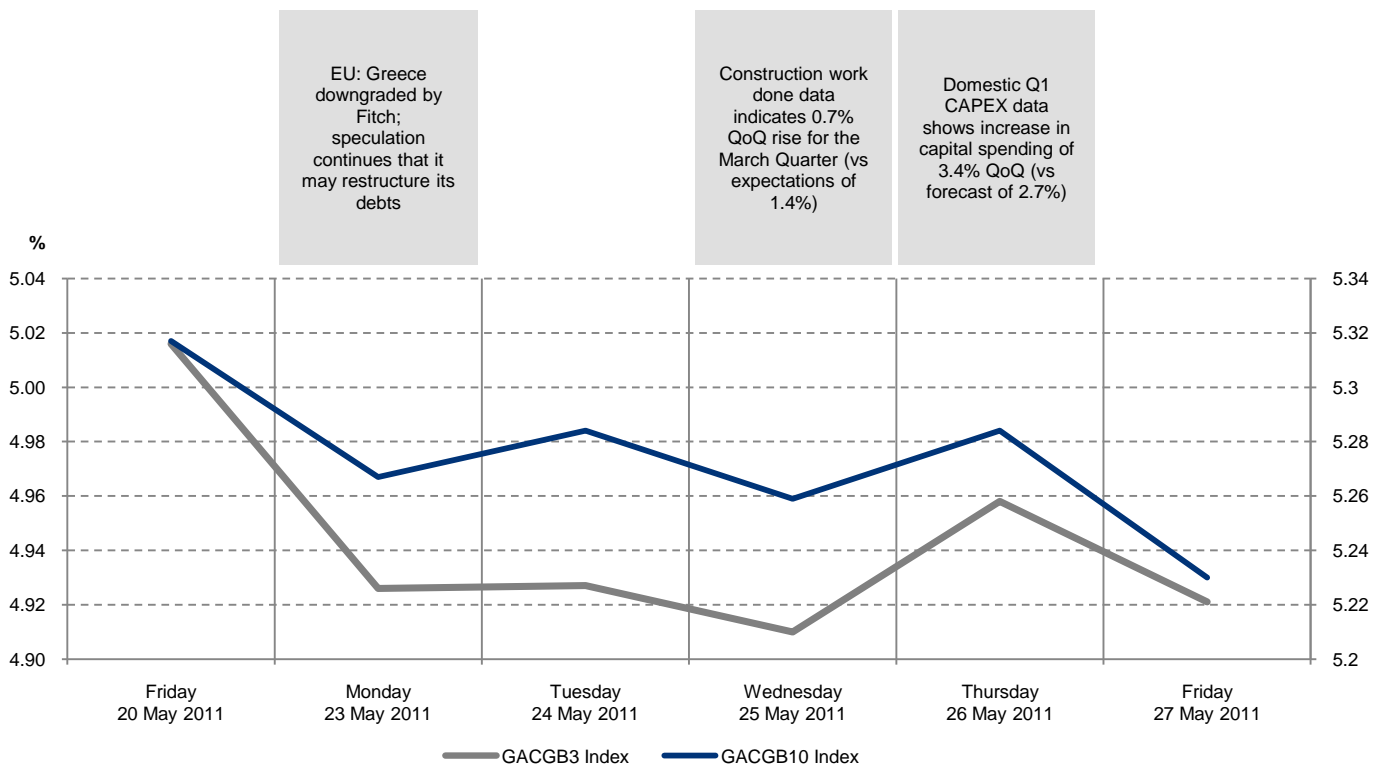
Issuer	Market	Rating (Issuer)	Maturity	Amount	Coupon	Issue Margin
Commonwealth Bank of Australia	EMTN	AA / Aa2	Jan-15	A\$50m	6.25%	BBSW + 27
Westpac Banking Corporation	EMTN	AA / Aa2	Jun-14	GBP600m	3m GB Libor + 65	3m GB Libor + 70

Sources: CBA & Bloomberg

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

## 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 10 bps, and the long end around 9 bps. The 3/10 spread was broadly unchanged at 31 bps.
- Early in the week, Australian Government bonds largely tracked offshore developments. Ongoing European peripheral sovereign debt concerns heightened risk aversion and continued to drive markets, fuelled predominantly by a further downgrade of Greece by Fitch, amidst speculation that it will restructure its debts or perhaps even leave the Euro zone. This triggered a sharp rally in the 3 and 10 year curves on Monday, with yields falling 9 and 5 bps respectively.
- Domestic data released later in the week had an overall mixed impact. Wednesday's Q1 data on construction work done indicated a 0.7% QoQ increase (vs forecast of a 1.4% increase). The softer than expected result triggered further buying of bonds, with 3 and 10 year yields tracking 2 and 3 bps lower each. However, CAPEX data for the March Quarter released on Thursday showed a jump in capital spending by 3.4% QoQ (vs forecast of a 2.7% rise), highlighting the underlying strength in the economy, and drawing further attention to the need for near-term interest rate increases. The 3Y and 10Y curves sold off 5 and 3 bps respectively on the news.
- In the absence of domestic data on Friday, yields tracked Thursday's movements in the U.S., falling 4 and 5 bps in the 3Y and 10Y curves.



## Ratings News

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*New Rating /  
Withdrawal*

- Nothing to report.
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*Upgrades or  
Downgrades*

- Fitch downgraded its rating on **Greece** from BB+ (Negative) to B+ (Negative).
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*Credit Watch /  
Outlook*

- S&P revised its outlook on **Italy's** A+ rating from Stable to Negative.
  - Fitch revised its outlook on **Belgium's** AA+ rating from Stable to Negative.
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Swap Rates

Figure 2a: Australian Swap Rates

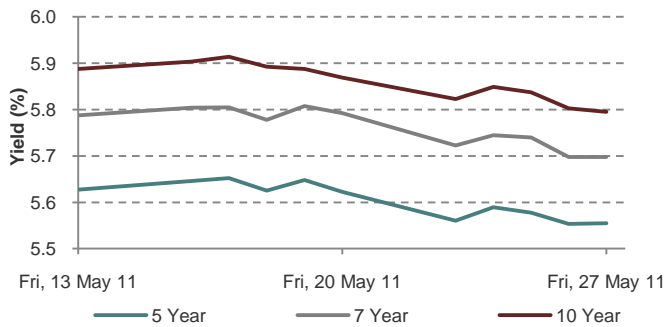
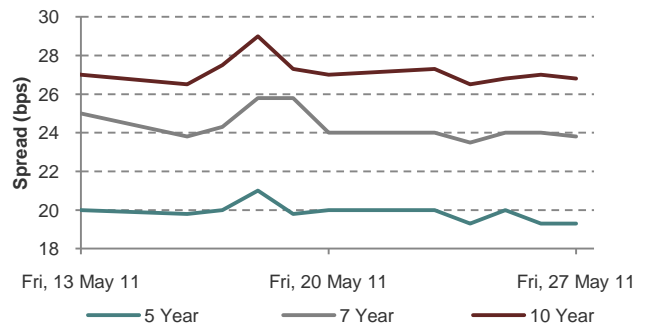


Figure 2b: Australian Basis Swap Rates



Rates

Figure 3a: Australian Rates

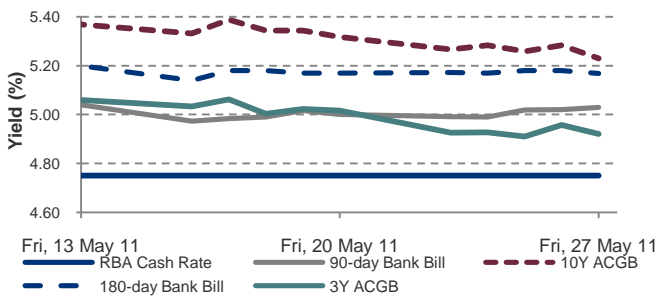


Figure 3b: CBA Rates Forecasts

	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 (%)	5.00	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

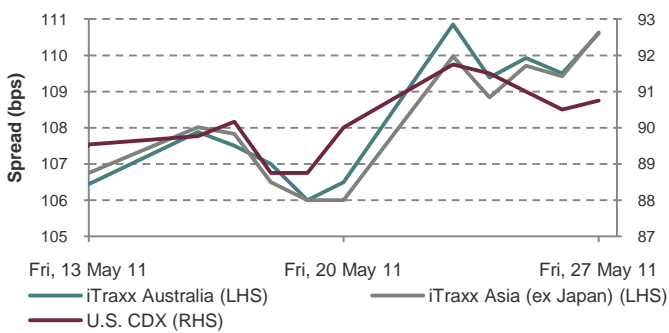
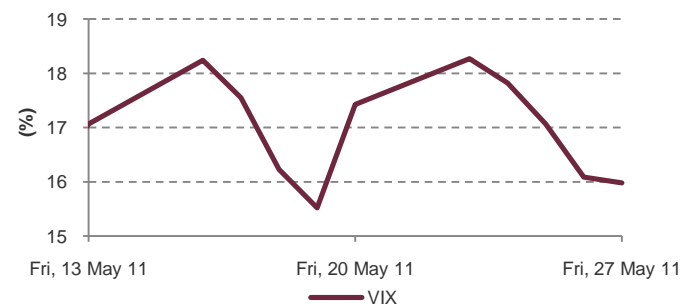


Figure 4b: VIX

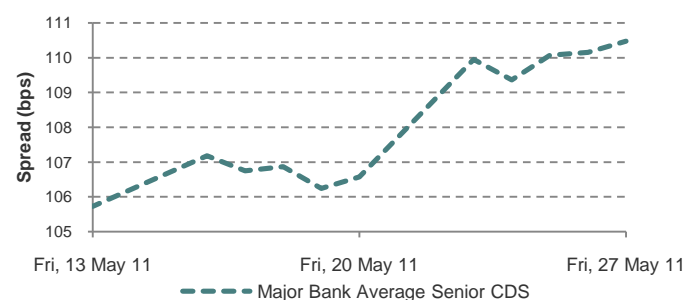


Australian Banks:

Figure 5a: Current Major Bank Spreads

Issuer	Issuer Rating	Maturity	Coupon	Spread to Swap
ANZ	AA / Aa2	Feb-14	6.25%	+74
CBA	AA / Aa2	Jul-14	6.50%	+74
CBA	AA / Aa2	Feb-20	7.25%	+134
NAB	AA / Aa2	Sep-14	6.75%	+79
WBC	AA / Aa2	Aug-14	7.00%	+78
WBC	AA / Aa2	Feb-20	7.25%	+136

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 + 90.50
Queensland Treasury Corporation	AA+ / Aa1	Jul-22	A\$3.1bn	6.00%	ACBG + 61.25	ACGB + 56.00
Kommunalbanken Norway	AAA / Aaa	Apr-21	A\$250m	6.50%	ACGB + 112.50	ACGB + 114.30
Rentenbank	AAA / Aaa	Apr-18	A\$250m	6.25%	ACGB + 100.25	ACGB + 104.50

### 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 + 133
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 + 211
QIC Shopping Centre Fund	A-	Jul-14	A\$200m	6.75%	Swap + 125	Swap + 122
Westfield Retail Trust	A+	Oct-16	A\$800m	7.00%	Swap + 120	Swap + 131
			A\$100m	BBSW + 120	BBSW + 120	BBSW + 123

Sources: CBA & Yieldbroker



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