

Fixed Income: Australian Debt Securities Update

02 May 2011 – 06 May 2011



A\$ MTN Primary Issuance Update

- In the first full week since the Easter public holidays, issuance in the primary domestic MTN market picked up significantly, totalling A\$4.45 billion as domestic financial issuers returned to the market, making it the largest week of issuance since mid February.
- Following the release of H1 FY11 results, Australia and New Zealand Banking Group (“ANZ”) and Westpac Banking Corporation (“Westpac”) both returned to the market. ANZ priced a new, dual-tranche May 2016 line at BBSW/Swap + 113, raising A\$2 billion, with A\$550 million issued in the fixed rate tranche and A\$1.45 billion of FRNs. Similarly, Westpac priced a new A\$2.25 billion May 2016 note, with A\$425 million of fixed notes and A\$1.825 billion of FRNs, also pricing at BBSW/Swap + 113.
- Financial issuance for the week was rounded off with a subordinated issue from Bank of Queensland. Raising A\$200 million and priced at BBSW + 375, the 10-year, non-call five lower tier two domestic bond was the first from an Australian regional bank in 2011.

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
Bank of Queensland Subordinated	BBB+ / A2	BBB / A3	May-21	A\$200m	BBSW + 375	BBSW + 375
Westpac Banking Corporation Senior Unsecured	AA / Aa1	AA / Aa1	May-16	A\$425m	6.75%	Swap + 113
				A\$1.825bn	BBSW + 113	BBSW + 113
Australia and New Zealand Banking Group Senior Unsecured	AA / Aa1	AA / Aa1	May-16	A\$550m	6.75%	Swap + 113
				A\$1.450bn	BBSW + 113	BBSW + 113
AOFM CGS Tender	AAA / Aaa	AAA / Aaa	Jul-22	A\$600m Total outstanding A\$7.4bn	5.75%	Weighted average yield 5.4001%
			Mar-19	A\$600m Total outstanding A\$12.5bn	5.25%	Weighted average yield 5.3544%

Sources: CBA & Bloomberg

2011 Primary Issuance Table

Sector	Week ending 06 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	-	-	28	A\$12.2bn	38	A\$17.5bn	-A\$5.3bn
Domestic Banks	3	A\$4.5bn	11	A\$11.9bn	13	A\$9.7bn	A\$2.2bn
Foreign Bank/Branches	-	-	15	A\$11.3bn	14	A\$10.6bn	+A\$700m
Non Bank Financial	-	-	7	A\$2.3bn	3	A\$440m	+A\$1.9bn
Corporate	-	-	10	A\$2.8bn	9	A\$1.6bn	+A\$1.2bn
Semi Government	-	-	3	A\$8.7bn	8	A\$12.8bn	-A\$4.1bn
Total	3	A\$4.5bn	74	A\$49.2bn	85	A\$52.6bn	-A\$3.4bn

Sources: CBA & Bloomberg



Offshore Issues by Australian Borrowers **sizeable issuance only*

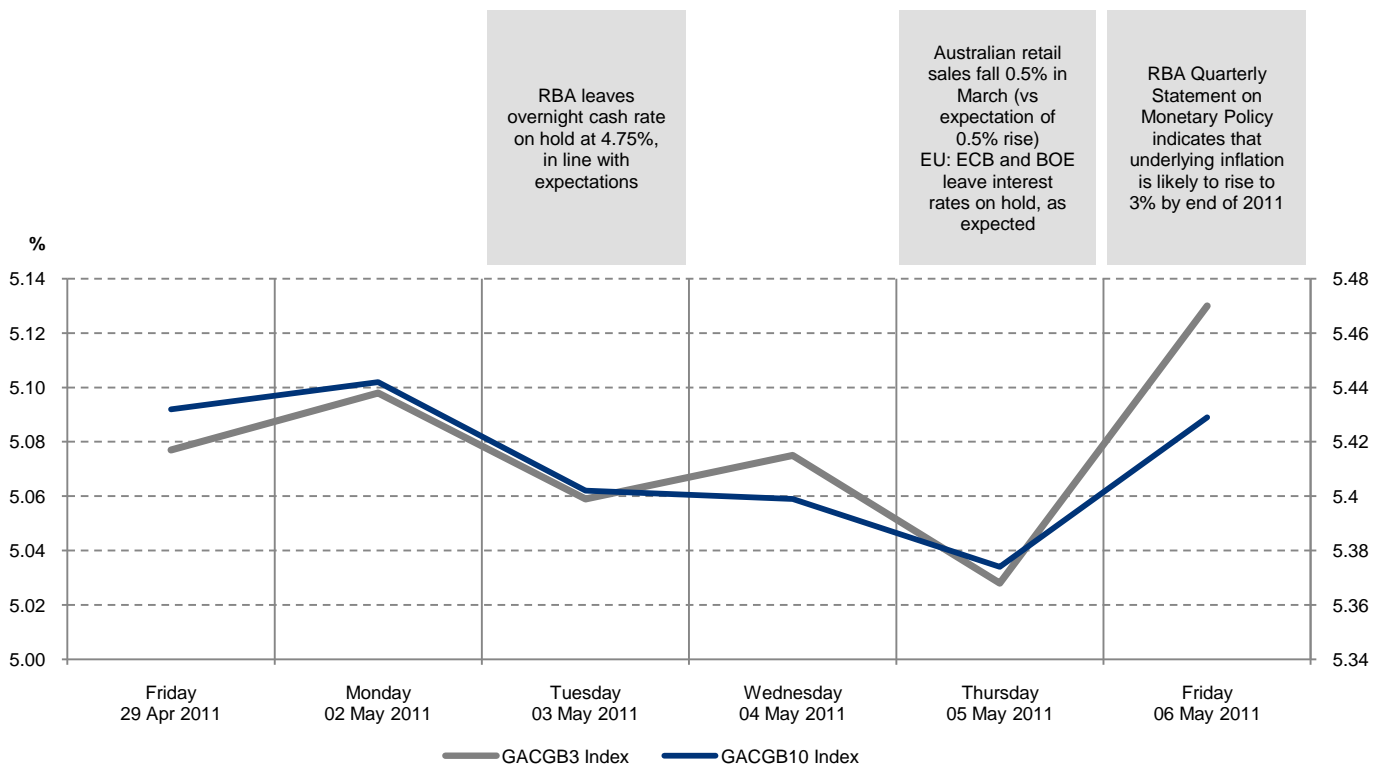
Issuer	Market	Rating (Issuer)	Maturity	Amount	Coupon	Issue Margin
Woodside Finance Ltd	US144a / RegS	BBB+ / Baa1	May-21	US\$700m	3.250%	T + 135
WEA Finance LLC (Westfield)	US144a / RegS	A- / A2	May-21	US\$1.0bn	4.625%	T + 147

Sources: CBA & Bloomberg

- Woodside Finance Ltd, a wholly owned subsidiary of Woodside Petroleum Ltd, issued US\$700 million into the US144a market. The May 2021 line was heavily oversubscribed and ultimately priced at T + 135, much tighter than the initial guidance of T + 150. The bulk of the proceeds will be used to fund ongoing capital expansion and exploration programs, and to also repay debt maturing in 2011.
- WEA Finance LLC, a unit of Westfield Group, also returned to the US144a market during the week. The transaction, a US\$1 billion May 2021 issue, was priced at T + 147.
- These two deals, representing the only Australian corporate issuance since the Easter break, are indicative of favourable funding opportunities offshore, relating to tenor, volume and pricing, despite improving conditions in the domestic MTN market.

Australian Rates Market Update

Figure 1: 3Y and 10Y Australian Bond Curve



Sources: CBA & Bloomberg

- Australian Government Bonds were mixed across the curve last week, as the front end of the curve sold off around 5 bps, and the long end of the curve was broadly unchanged. The 3/10 spread flattened to 30 bps from 36 bps.
- For most of the week, Australian 3 and 10 year bonds tracked domestic data releases. The RBA left the overnight cash rate on hold at 4.75% at Tuesday's Board meeting, in line with market expectations. However, it still prompted a 4bps fall in both 3 and 10 year yields, in light of the Board's outlook that Q1 GDP growth will suffer a flood-related decline. Further to this, retail sales data released on Thursday showed a 0.5% decline in March (vs expectations of a 0.5% increase), highlighting continuing softness in the Australian economy, and causing 3 and 10 year yield to drift 5 and 3 bps lower respectively.
- These gains were reversed on Friday following the RBA's quarterly Statement on Monetary Policy. The Board revised upward its inflation forecast, with the expectation that underlying inflation will reach 3% by December 2011, a year earlier than predicted in its February quarterly statement, and further indicated that interest rate hikes in the near future were becoming more likely. Consequently, 3 and 10 year yields rose 10 and 6 bps respectively.



Ratings News

*New Rating /
Withdrawal*

- Nothing to report.
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*Upgrades or
Downgrades*

- Fitch upgraded its rating on **Bendigo and Adelaide Bank** from BBB+ (Positive) to A- (Stable).
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*Credit Watch /
Outlook*

- Moody's affirmed its Aaa rating on **Australia** (Stable).
 - S&P affirmed its AA ratings on **Australia and New Zealand Banking Group** (Stable), **National Australia Bank** (Stable) and **Westpac Banking Corporation** (Stable).
 - S&P revised its outlook on **Fairfax's** BB+ rating from Positive to Stable.
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Swap Rates

Figure 2a: Australian Swap Rates

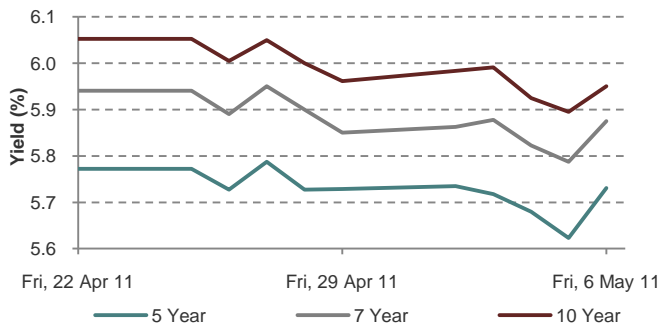
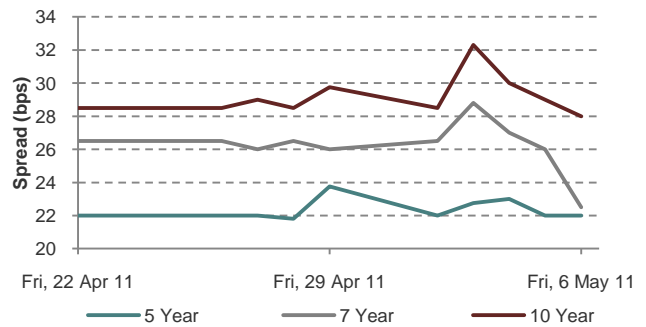


Figure 2b: Australian Basis Swap Rates



Rates

Figure 3a: Australian Rates

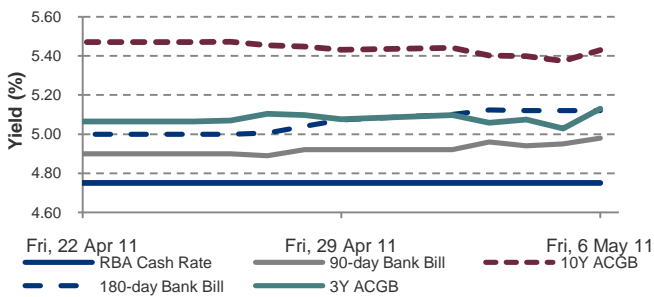


Figure 3b: CBA Rates Forecasts

	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 (%)	5.00	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

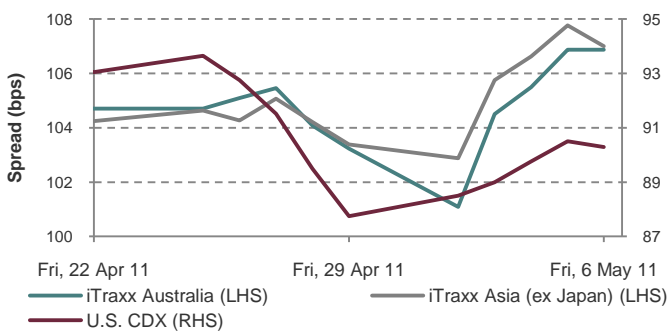
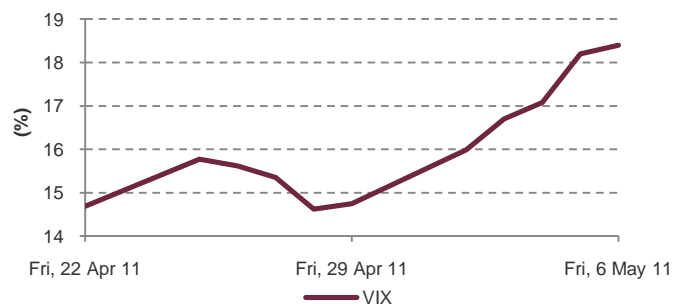


Figure 4b: VIX

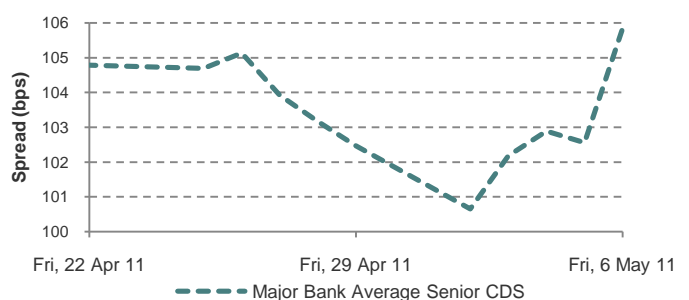


Australian Banks:

Figure 5a: Current Major Bank Spreads

Issuer	Issuer Rating	Maturity	Coupon	Spread to Swap
ANZ	AA / Aa1	Feb-14	6.25%	+73
CBA	AA / Aa1	Jul-14	6.50%	+73
CBA	AA / Aa1	Feb-20	7.25%	+139
NAB	AA / Aa1	Sep-14	6.75%	+78
WBC	AA / Aa1	Aug-14	7.00%	+75
WBC	AA / Aa1	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 + 60.00
Kommunalbanken AS	AAA / Aaa	Apr-21	A\$250m	6.50%	ACGB + 112.50	ACGB + 110.30
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	A+ / Aa1	May-14	A\$350m	BBSW + 92	BBSW + 92	BBSW + 83
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 + 209
QIC Shopping Centre Fund	A-	Jul-14	A\$200m	6.75%	Swap + 125	Swap + 115
Westfield Retail Trust	A+	Oct-16	A\$800m	7.00%	Swap + 120	Swap + 116
			A\$100m	BBSW + 120	BBSW + 120	BBSW + 118

Sources: CBA & Yieldbroker



Contact Us

Fixed Income Origination

Sydney		Telephone	Email Address
Peter Christie	Head of Fixed Income Origination & Distribution	+612 9118 4328	christp@cba.com.au
Simon Ling	Head of Retail and Wholesale Origination	+612 9118 6463	simon.ling@cba.com.au
Patrick Bryant	Executive Manager, FIG Origination	+612 9118 1217	patrick.bryant@cba.com.au
Rob Kenna	Executive Manager, Corporate Origination	+612 9118 1219	rob.kenna@cba.com.au
Truong Le	Executive Manager, Retail Fixed Income Origination	+612 9118 1205	truong.le@cba.com.au
Danielle Lavars	Senior Manager, Fixed Income Origination	+612 9118 1221	danielle.lavars@cba.com.au
Clare Lewis	Manager, Fixed Income Origination	+612 9118 1225	clare.lewis@cba.com.au
Simon Rutz	Manager, Fixed Income Origination	+612 9118 2858	simon.rutz@cba.com.au
Andrew Murray	Manager, Commercial Paper	+612 9117 0047	andrew.murray@cba.com.au
Casey de Souza	Associate, Fixed Income Origination	+612 9118 1173	casey.desouza@cba.com.au
Alex Lucy	Analyst, Fixed Income Origination	+612 9118 1218	alexander.lucy@cba.com.au
Katherine Chan	Analyst, Retail Fixed Income Origination	+612 9118 1220	chank@cba.com.au

New York / Sydney		Telephone	Email Address
Bill Stevenson	Executive Manager, USPP Fixed Income Origination	+612 9118 2859	stevenw@cba.com.au
Mark Wang	Executive Manager, USPP Fixed Income Origination	+1 212 848 9308	mark.wang@cba.com.au
Hilary Ward	Executive Manager, USPP Fixed Income Origination	+1 212 848 9373	wardhi@cba.com.au
Amy Lung	Senior Manager, USPP Fixed Income Origination	+1 212 848 9341	amy.lung@cba.com.au

London		Telephone	Email Address
James Hammermaster	Senior Manager, Corporate Origination	+44 20 77103626	james.hammermaster@cba.com.au
Sean Rosas	Senior Manager, Fixed Income Origination	+44 20 77103959	sean.rosas@cba.com.au

Singapore		Telephone	Email Address
Giles Chapman	Senior Manager, Fixed Income Origination	+65 6349 7087	giles.chapman@cba.com.au

New Zealand		Telephone	Email Address
Brian McTaggart	Head of Capital Markets NZ	+649 301 5955	brian.mctaggart@asb.co.nz
Richard Howse	Director	+649 301 5956	richard.howse@asb.co.nz
Gary Baker	Associate Director	+649 301 5957	gary.baker@asb.co.nz
Charlotte Hover	Executive Assistant	+649 301 5958	charlotte.hover@asb.co.nz

Fixed Income Syndication

Sydney		Telephone	Email Address
Paul O'Brien	Head of Fixed Income Syndication	+612 9117 0046	paul.edward.obrien@cba.com.au
Patrick Moore	Senior Manager, Fixed Income Syndication	+612 9117 0047	patrick.moore@cba.com.au

Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
	+612 9117 0341	Asia	+613 9675 6967
Credit	+612 9117 0020	Lon/Eu	+44 20 7710 3573
Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495	Corporate	Telephone
	+613 9675 6618	NSW	+612 9117 0377
	+613 9675 7757	VIC	+612 9675 7737
Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
Sing	+65 6349 7077	Metals Desk	+612 9117 0069
NY	+1212 336 7739	Agri Desk (Corp)	+612 9117 0157
		Agri Desk	+612 9117 0145