Fixed Income: **Australian Debt Securities Update**

22 November – 26 November 2010

Australian $MTN Market Update

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
KfW Bankengruppe Kangaroo	AAA / Aaa	AAA / Aaa	Aug-20	A$250m New total A$1.25bn	6.00%	ACGB + 96.5
International Finance Facility for Immunisation (IFFIm) Kangaroo	AAA/ Aaa	AAA / Aaa	Dec-15	A$400m	5.75%	ACGB + 76
HSBC (Sydney Branch) Senior Unsecured	AA- / A1	AA- / A1	Nov-20	A$200m	BBSW + 280	BBSW + 280
Suncorp Metway Senior Unsecured	A+ / A1	A+ / A1	Jun-13	A$300m	6.50%	Swap + 110
				A$600m	BBSW + 110	BBSW + 110
AOFM CGS Tender	AAA / Aaa	AAA / Aaa	Jan-18	A$800m	5.50%	Weighted average yield 5.4123%
			Dec-13	A$700m New total A$6.5bn	5.50%	Weighted average yield 5.1650%

- Domestic primary issuance last week was driven by financials and SSA issuance. The International Finance Facility for Immunisation priced their inaugural Kangaroo transaction, a A$400m December 2015 Kangaroo bond issue at ACGB + 76. The transaction received strong interest from bank liquidity books with the Reserve Bank of Australia confirming the securities would be repo-eligible and classified as 'general collateral'. The week also saw issuance from Suncorp and KfW. Suncorp priced a new A$900m Jun-13 issue in two tranches. The A$300m fixed rate and A$600m floating rate tranches priced at Swap/BBSW + 110. This transaction marked the issuer's first benchmark non-government guaranteed transaction from an Australian bank outside the big four since 2008.
- Secondary market trading volume was significantly lower last week compared to the prior week. This was primarily driven by the decrease in trading of domestic bank paper in both fixed and floating rate formats. While the aggregate secondary market turnover was lower, we observed notable support from domestic and Japanese investors for SSA fixed rate paper, in particular Asian Development Bank.

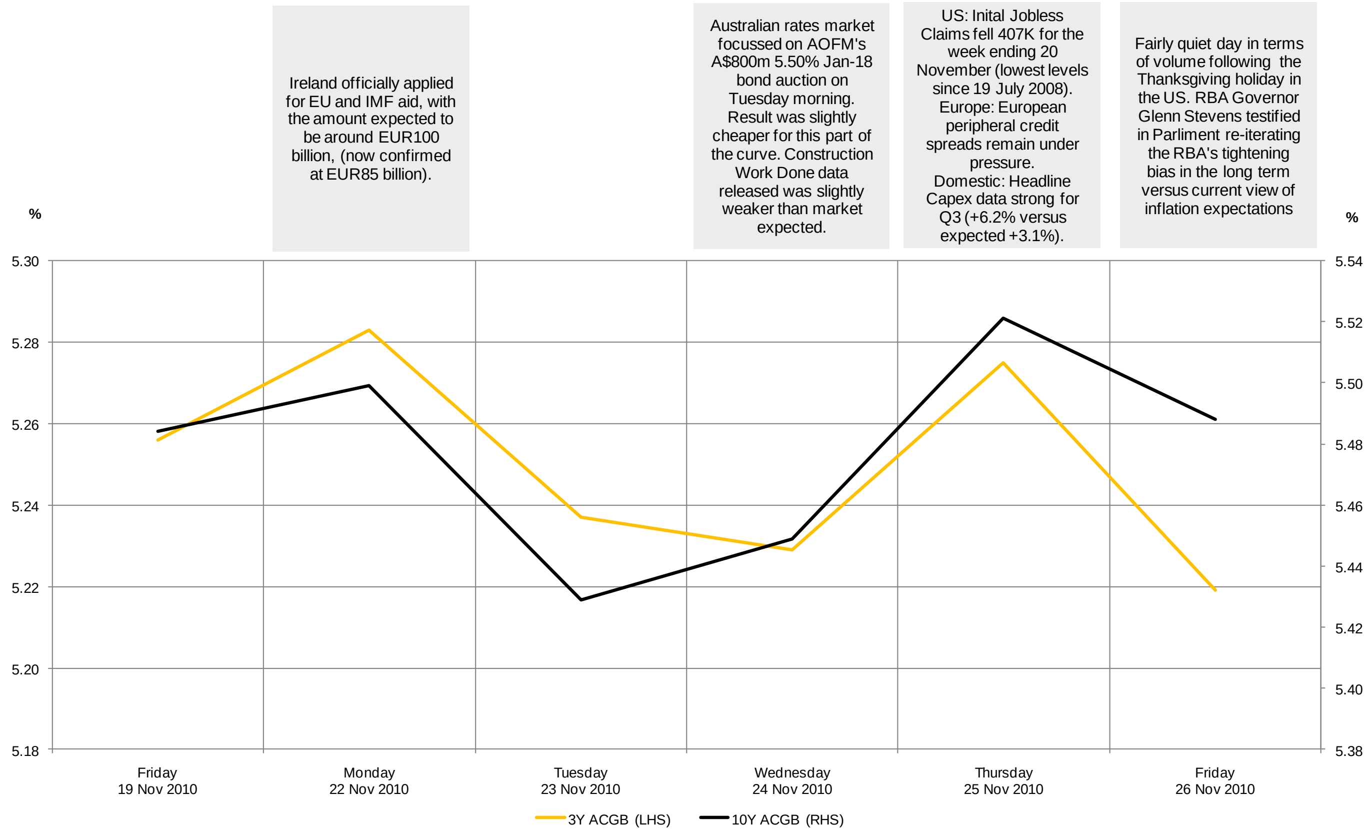
Offshore Issues by Australian Borrowers ***sizeable issuance only***

Issuer (Format)	Market	Rating	Tenor	Amount	Coupon	Spread to Benchmark
Auckland International Airport	USPP	NAIC-2	10 years	USD50m	4.42%	T + 150
			12 years	USD50m	4.57%	T + 165
			10 years (July funding)	USD50m	4.67%	T + 175

- Auckland International Airport (AIA) priced a USD150 million transaction in the US private placement market, consisting of 10 year, 12 year and 10 year (with July drawdown) tranches of USD50 million, each paying spreads of 150bps, 165bps and 175bps respectively. This transaction allowed AIA to significantly lengthen their debt maturity profile, using the proceeds to refinance bank debt. CBA acted as the sole lead agent for this transaction.

Australian Government Bonds

Figure 1: 3Y and 10Y Australian Bond Curve



- In spite of another volatile week in the rates market and general global risk aversion (namely, tensions in Korea and European sovereign risk concerns), Australian bonds ended the week largely unchanged from the previous week. The week kicked off with news that Ireland had officially applied for EU and IMF aid, with the amount confirmed at EUR85 billion. Anti bailout sentiment in Ireland led to a rally in offshore markets, which had flow on effects in the Australian bond market where bonds rallied by around 7bps across the curve.
- Domestic data released over the week included the Q3 Construction Work Done figures and Private Capital Expenditure data on Wednesday and Thursday respectively. Q3 Construction Work Done data was weaker than market expectations, falling -2.1% over Q3 which was below expectations of a 2.0% increase. Thursday's Private Capex was a strong 6.2% increase (3.1% increase expected). Finally on Friday, RBA Governor Glenn Stevens spoke before the House of Representatives Standing Committee on Economics where he suggested that current market pricing for no rate hikes any time soon was "probably a reasonable position". The indication of a pause on rate hikes led to a rally. Australian 3 year and 10 year bonds closed the week around 4bps lower.
- AOFM tendered a new 8 year benchmark on Tuesday, 5.50% A$800m Jan-18 bond, with a bid/cover ratio of 3.74. This bond fills the gap on the ACGB curve between the existing Feb-17 and Mar-19 bonds (around A$13.1bn and A$11.9bn outstanding respectively).

Swaps

AUD Swaps: The long end of the Australian Swap Curve has steepened, with the selloff driven by the tightening of China's monetary policy and European sovereign debt concerns. The front end of the curve remains stable.

AUD/USD Basis Swap: Bills/Libor was better offered across the curve last week as notable moves in the Euro basis had a flow on effect into AUD basis levels. The curve flattened over the week, the long end contracting out between 1 - 2 bps.

Term	AUD Fixed / Float Swap		AUD / USD Basis Swap	
	Mid Rate	Swap/Bond	BBSW v Libor	Change (week)
1 Yr	5.17% q/q	36.0	3.5	-1.0
3 Yr	5.46% s/s	33.9	17.0	-1.5
5 Yr	5.79% s/s	53.4	23.5	-1.75
7 Yr	5.94% s/s	51.4	25.5	-2.3
10 Yr	6.02% s/s	54.0	25.5	-0.75

Asset Backed Securities

- Police & Nurses Credit Society priced it's A$275 million first prime RMBS for the year, Pinnacle Series Trust 2010-T1. This transaction was upsized from its original indicative volume of A$250 million. The Class A1s priced 110bp, which was slightly wider than the initial price guidance of 105bp. The underlying portfolio has a WALTV of 61.5% and WAS of 17.4 months. A large percentage (94.7% of the total pool is located in WA given customer base. The AOFM bought both the Class A2 and the Class AB tranches, demonstrating its support for small lenders. Thus far the AOFM has invested A$12 billion of it's A$16 billion RMBS program to support competition in Australia's mortgage market.

Class	Amount	Rating (S&P / Fitch)	WAL (years)	Pricing over swap
A1	A$154.0m	AAA / AAA	1.6	+110bp
A2	A$96.5m	AAA / AAA	7.2	+125bp
AB	A$14.6m	AAA / AAA	6.7	+200bp
B	A$9.9m	AA- / NR	6.7	undisclosed

Rating News

New Rating / Withdrawal	▪ Nothing to report.
Upgrades or Downgrades	▪ S&P downgraded both its long term and short term sovereign credit rating on the **Republic of Ireland** from 'AA-' to 'A' and 'A-1+' to 'A-1' respectively. ▪ Moody's upgraded the long term deposit and senior debt ratings of **Standard Chartered Bank** from A2 and A3 to A1 and A2 respectively. Both ratings carry a stable outlook. ▪ S&P has downgraded its rating on **Aristocrat** from BBB- to BB+.
Credit Watch / Outlook	▪ Moody's has placed all of **Hana Bank's** ratings on review for a possible downgrade. ▪ Moody's has placed **Korea Exchange Bank's** debt and deposit ratings on review for upgrade and its unsupported ratings review for a possible downgrade.
Other News	▪ Nothing to report.

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