

# Fixed Income: Australian Debt Securities Update

17 January - 21 January 2011



## Australian \$MTN Market Update

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
<b>Volkswagen Financial Services Australia</b> Senior Unsecured	A- / A3	A- / A3	Jan-15	A\$150m	7.00%	Swap + 145
<b>Bank of Nova Scotia</b> Covered Bond	AA- / Aa1	AAA / Aaa	Jan-14	A\$1.0bn	5.75%	Swap + 46
<b>National Australia Bank</b> Senior Unsecured	AA / Aa1	AA / Aa1	Jan-14	A\$250m	6.00%	Swap + 75
				A\$1.0bn	BBSW + 75	BBSW + 75
<b>European Investment Bank (EIB)</b> Kangaroo	AAA / Aaa	AAA / Aaa	May-14	A\$350m Total outstanding A\$2.75bn	5.375%	Swap + 26
				A\$350m	BBSW + 26	BBSW + 26
<b>International Bank for Reconstruction &amp; Development (IBRD)</b> Kangaroo	AAA / Aaa	AAA / Aaa	Oct-14	A\$600m Outstanding A\$1.4bn	5.50%	ACGB + 49.3
			Oct-20	A\$400m Outstanding A\$1.1bn	5.75%	ACGB + 65.5
<b>Landwirtschaftliche Rentenbank (Rentenbank)</b> Kangaroo	AAA / Aaa	AAA / Aaa	Jan-16	A\$375m	6.00%	ACGB + 87
				A\$425m	BBSW + 54	BBSW + 54
<b>Kommunalbanken Norway (KBN)</b> Kangaroo	AAA / Aaa	AAA / Aaa	Oct-14	A\$250m Total outstanding A\$875m	6.00%	ACGB + 76.5
			Jan-15	A\$200m	BBSW + 41	BBSW + 41
<b>Kreditanstalt fuer Wiederaufbau (KfW)</b> Kangaroo	AAA / Aaa	AAA / Aaa	Aug-20	A\$700m Total outstanding A\$1.95bn	6.00%	ACGB + 103.25
<b>QTC</b> Semi Government	AA+ / Aa1	AA+ / Aa1	Feb-20	A\$500m Total outstanding A\$4.993bn	6.25%	n/a
<b>AOFM</b> CGS Tender	AAA / Aaa	AAA / Aaa	Jun-16	A\$700m Total outstanding A\$6.7bn	4.75%	Weighted average yield 5.3654%
			Oct-14	A\$700m Total outstanding A\$4.2bn	4.50%	Weighted average yield 5.2881%
			Sep-30	A\$200m Total outstanding A\$1.46bn	2.50%	Weighted average yield 2.770%

Issuer (Format)	Rating		Maturity	Amount (Buyback)	Coupon	Margin at Issue	Buyback Margin (Price per A\$100)
	Issuer	Issue					
<b>SNS Bank NV</b> Kangaroo	A- / A3	BBB+ / Baa1	Nov-16	A\$200m	6.75%	ACGB + 88.5	\$95
				A\$200m	BBSW + 42	BBSW + 42	



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

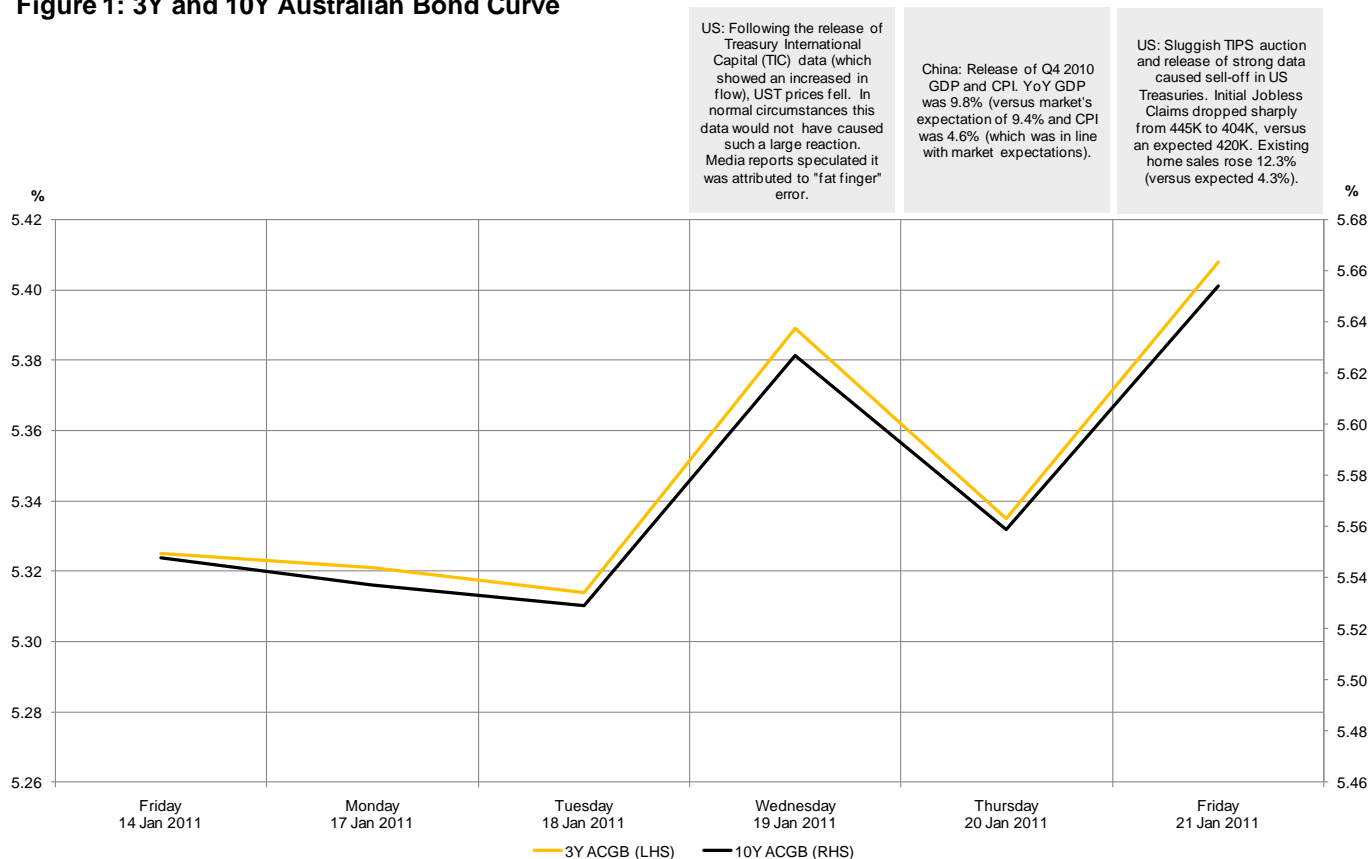
Issuer (Format)	Market	Rating (Issuer)	Tenor	Amount	Coupon	Issue Margin
Coca-Cola Amatil	EMTN	A- / A3	May-14	A\$175m	6.125%	Swap + 60

- Activity in the primary market continued the strong start to the year with issuance across the spectrum this week. Kangaroo issuance volume for January has now reached A\$7.2 billion to date, with over A\$3.6 billion of SSA bonds issued in the last week. This week's issuance is the highest monthly volume of Kangaroo bond issuance on record, eclipsing prior volume of A\$6.33bn issued in January 2010.
- Issuance over the last week from the SSA sector included International Bank for Reconstruction and Development's (IBRD) A\$600m and A\$400m increase to its 5.50% October 2014 and 5.75% October 2020 lines, which was priced at ACGB + 49.3 and ACGB + 65.5 respectively. Rentenbank's new A\$800m January 2016 issue comprised of a 6.00% A\$375m fixed rate tranche and a A\$425m floating rate tranche priced at Swap/BBSW + 54bps. Kommunalbanken Norway (KBN) also issued a new 4 year floating rate note and added a A\$250m tap to their existing 6.00% October 2014 line at Swap/BBSW + 41. Finally, European Investment Bank also issued a new floating rate tranche and added A\$350m to their existing 5.375% May 2014 line at Swap/BBSW + 26. This takes EIB's total outstanding for their fixed rate tranche to A\$2.75bn.
- Bank of Nova Scotia debuted in the Australian market with their A\$1.0bn 5.75% January 2014 covered bond at Swap + 46 bps. This transaction was the first A\$ covered bond priced in 2011.
- Last week also saw the first domestic A\$ corporate bond launched and priced for the new year, from Volkswagen Financial Services Australia. The 7.00% A\$150m January 2015 MTN is guaranteed by Volkswagen Financial Services AG and was priced at Swap + 145 bps.
- SNS Bank NV (SNS) announced its offer to buyback the full amount of its outstanding Kangaroo bonds. SNS has A\$400m outstanding consisting of November 2016 fixed and floating rate tranches of A\$200m each, and has offered to buy the notes for A\$950 per A\$1000 par amount plus accrued interest. The notes also have a call date in November this year.
- Activity in secondary markets was again dominated by turnover of domestic bank paper. Trading activity was also heavily skewed towards floating rate paper last week, which totalled around 80% of total turnover. This was largely driven by local investors showing good demand for CBA and Westpac floating rate notes. There was notable support for recent fixed rate transactions including Asian Development Bank and IBRD from offshore accounts.



## Australian Government Bonds

Figure 1: 3Y and 10Y Australian Bond Curve



US: Following the release of Treasury International Capital (TIC) data (which showed an increased in flow), UST prices fell. In normal circumstances this data would not have caused such a large reaction. Media reports speculated it was attributed to "fat finger" error.

China: Release of Q4 2010 GDP and CPI. YoY GDP was 9.8% (versus market's expectation of 9.4% and CPI was 4.6% (which was in line with market expectations).

US: Sluggish TIPS auction and release of strong data caused sell-off in US Treasuries. Initial Jobless Claims dropped sharply from 445K to 404K, versus an expected 420K. Existing home sales rose 12.3% (versus expected 4.3%).

- Australian 3 and 10 year Government Bonds closed the week around 8 and 11 bps higher, while the 3/10 curve steepened 3 bps to 45 bps. The Australian Government Bond curve was largely driven by offshore market movements in the US and concerns of inflationary pressures in China.
- In the absence of any compelling domestic data released over the week, it was a quiet session for the Australian Government Bond market. There was a range of Chinese data release on Thursday, including Q4 GDP and December CPI. Thursday night's release of strong data in the US, which included the reduction of US Jobless Claims from 445K to 404K and a rise in existing home sales of 12.3% (versus an expected 4.1%), caused a sell-off in US Treasuries in the long end. The sell-off was also supported by a weak auction for US TIPS on Thursday night with a below average bid to cover ratio of 2.37 (and a higher than forecast yield). Subsequently Australian 10 year Government Bond yields opened around 10 bps higher on Friday and traded around this range over the day. The week also saw the release of Chinese Q4 2010 GDP (9.8% versus expected 9.4%) and CPI (4.6% in line with market expectations), adding to concerns that China will implement monetary policy tightening over the year.
- AOFM's 4.75% A\$700m Jun-16 and 4.50% A\$700m Oct-14 tenders on Wednesday and Friday respectively were well supported, with a bid/cover ratio of 4.14 times and 4.56 times respectively.



## Swaps

**AUD Swaps:** Kangaroo issuance, particularly around the 3-5 year tenor continues to be the dominant theme widening swap spreads across the curve over the past week. The 3-10 spread closed the week at +65 bps, which was largely unchanged compared to the prior week.

**AUD/USD Basis Swap:** Last week's strong volume of Kangaroo deals (driven by issuance totaling over A\$3.6bn from the SSA sector), put receiving pressure on the Australian Basis Swap Curve.

Term	AUD Fixed / Float Swap		AUD / USD Basis Swap	
	Mid Rate	Swap/Bond	BBSW v Libor	Change (week)
1 Yr	5.12% q/q	25.9	6.00	-1.0
3 Yr	5.45% s/s	27.8	16.80	-1.2
5 Yr	5.83% s/s	62.0	22.50	-0.5
7 Yr	5.99% s/s	36.0	23.80	-1.2
10 Yr	6.10% s/s	47.8	23.80	-1.2

## Asset Backed Securities

- Fitch published their 2011 outlook for Australian structured finance transactions for each of the major asset classes. Strong Asia-based export demand for commodities such as iron ore and coal are anticipated to continue to hold the Australian economic conditions over good steady over 2011. A summary of Fitch's key trends include:
  - **RMBS (Stable Outlook)**
    - Over the past 10 years, household debt-to-income levels have steadily increased but recent data suggests moderation in house prices. Further affordability levels have been tempered as a result of the recent succession of interest rate rises.
    - In contrast to other comparable residential property markets, Australia's market continues to experience an undersupply in residential properties supporting current house prices.
    - Unemployment is expected to remain low at around 5% during 2011.
    - Inflationary pressures remain in check with the Reserve Bank of Australia's (RBA) target of 2-3%. Since October 2009, the RBA has increased the cash rate a total of 7 times, each by 25bps. The cash rate is currently 4.75%, after the most recent increase of 25 bps in November 2010.
    - Australian RMBS continues to perform well in comparison to other regions. Approximately 82% of tranches carry a stable outlook, with the residual 12% assigned a negative outlook (as rated by Fitch). Structural features such as principal-amortisation of securities provide for a build up of credit support for senior tranches and LMI on prime transactions which mitigate potential asset quality risk.
  - **ABS (Stable/Negative Outlook)**
    - An increase in used car prices have been attributed to the response from car manufacturers to curtail the production of new motor vehicles with dampening demand. The decrease in the supply of new cars has had the effect of enhancing used car prices and consequently, recovery rates.
    - A\$ appreciation assisted in the affordability of new cars. However, Fitch does not expect any material reductions in car prices/recovery rates in the short term.
    - As a result of mortgage stress from interest rate rises, delinquency and loss rates have increased towards the higher end of historic vintage losses experienced for the respective originator.
    - In 2010, Australian ABS experienced 2 upgrades and rating information on all other tranches.
    - The fast pay-down nature of asset classes and strong levels of excess spread should mitigate delinquency stress



### ■ CMBS (Stable/Negative Outlook)

- Refinancing was the key issue for 2010 and is anticipated to continue for 2011. All Fitch Australian CMBS met their scheduled maturities in 2010 with refinancing options opening over the year, allowing for optimism with respect to 2011 maturities. Rating may come under pressure for larger CMBS transactions where refinancing risk is higher.
- There was an upgrade and no downgrades of CMBS over 2010. This was considered an improvement, compared to the downgrades which occurred in 2009.
- Cap rates for prime commercial properties showed improved stability during 2010. Downward pressure is expected for non-prime properties
- Property liquidity trended upwards with increased asset sales across all property types. This is expected to continue in 2011.
- Occupancy rates for Australian property remains very high, supported by stable economic conditions and limited new supply.
- Limited property finance for the sector restricts acquisition of properties, in particular for medium-sized buyers.

## Rating News

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*New Rating /  
Withdrawal* ■ Nothing to report.

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*Upgrades or  
Downgrades* ■ Fitch downgraded **Greece** from BBB- to BB+ (Negative).  
■ Moody's has upgraded **Indonesia** from Ba2 to Ba1 (Stable).

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*Credit Watch /  
Outlook* ■ S&P has affirmed its BB+ rating on **Aristocrat** with a Negative outlook.

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