

# Fixed Income: Australian Debt Securities Update

24 January - 28 January 2011



## Australian \$MTN Market Update

Issuer (Format)	Rating		Maturity	Amount	Coupon	Spread to Benchmark
	Issuer	Issue				
<b>KfW Bankengruppe</b> Kangaroo	AAA / Aaa	AAA / Aaa	Mar-17	A\$300m Total outstanding A\$2.05bn	6.00%	ACGB + 88.25
<b>AOFM</b> CGS Tender	AAA / Aaa	AAA / Aaa	Dec-13	A\$700m Total outstanding A\$7.5bn	5.50%	Weighted average yield 5.0348%

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\$174.75m	6.75%	Swap + 42	\$95
				A\$171.6m	BBSW + 42	BBSW + 42	

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

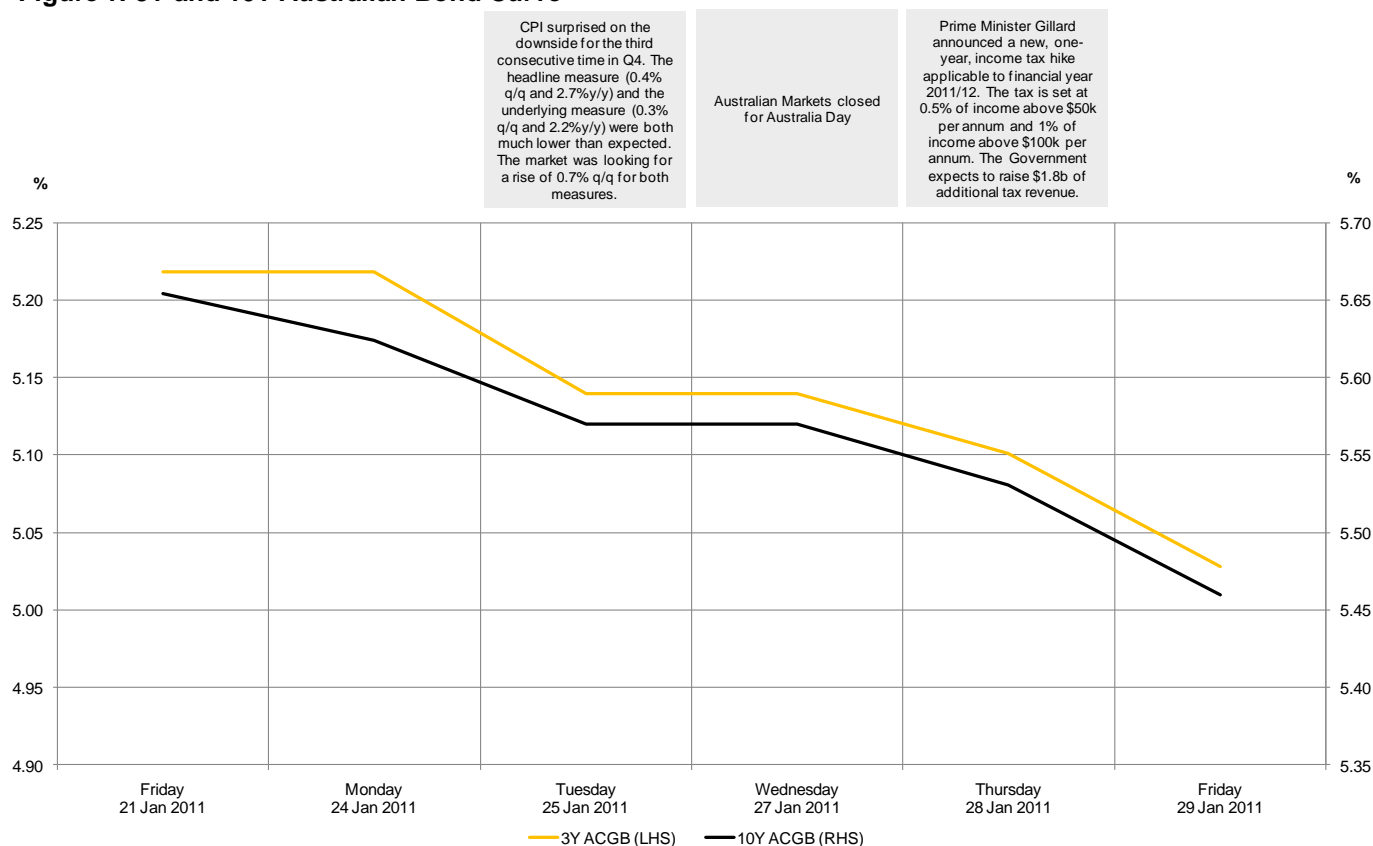
Issuer (Format)	Market	Rating (Issuer)	Tenor	Amount	Coupon	Issue Margin
<b>Westpac Banking Corporation</b>	EMTN	AA / Aa1	Jan-13	US\$123m	3m US\$Libor + 25	3m US\$Libor + 25
<b>National Australia Bank</b>	Samurai	AA / Aa1	Feb-16	JPY 50.0bn	1.01%	¥Swap + 31
				JPY 6.3bn	3m ¥Libor + 46	3m ¥Libor + 46

- Issuance in the domestic primary market took a breather last week with just one transaction being priced. KfW Bankengruppe (KfW) tapped its 6.00% March 2017 line with a A\$300 million increase, priced at ACGB + 88.25. This brings KfW's 6.00% March 2017 total outstandings to A\$2.05 billion.
- SNS Bank NV (SNS) confirmed buyback volumes of their A\$400 million November 2016 subordinated fixed and floating notes, which was announced in the prior week. SNS bought back A\$171.6 million FRNs and A\$174.75 million 6.75% fixed rate notes at a buyback price of A\$95 per A\$100 par amount plus accrued interest. The notes also have a call date in November this year.
- Secondary market activity was again skewed towards domestic bank paper this week, which made up over 60% of total turnover. This trend was particularly notable in floating rate paper, where domestic bank trading constituted almost 80% of volume, led by turnover of CBA notes. In fixed rate formats, the majority of activity originated from domestic investors, with notable offshore activity coming from European accounts selling out of domestic bank and SSA paper.



## Australian Government Bonds

Figure 1: 3Y and 10Y Australian Bond Curve



CPI surprised on the downside for the third consecutive time in Q4. The headline measure (0.4% q/q and 2.7%y/y) and the underlying measure (0.3% q/q and 2.2%y/y) were both much lower than expected. The market was looking for a rise of 0.7% q/q for both measures.

Australian Markets closed for Australia Day

Prime Minister Gillard announced a new, one-year, income tax hike applicable to financial year 2011/12. The tax is set at 0.5% of income above \$50k per annum and 1% of income above \$100k per annum. The Government expects to raise \$1.8b of additional tax revenue.

- Australian 3 and 10 year Government Bonds yields closed the week around 20 bps lower, while the 3/10 spread remained largely unchanged. The release of domestic inflation data and the new flood levy drove movements in Australian Government Bond market last week.
- The focus of the Australian market early in the week was the much anticipated release of the domestic CPI report on Tuesday. Q4 2010 Headline CPI increased only 0.4% qoq and 2.7% yoy, well below the consensus of 0.7% qoq and 3% yoy. This information triggered a mild steepening of the 3-10 curve (around 3 bps), with the front of the curve rallying around 8 points and the long end around 5 points. Towards the end of the week bonds rallied again following the Government's announcement of a new, one-year, income tax hike applicable to financial year 2011/12. The tax will help pay for damage to flood-affected regions. The tax is set at 0.5% of income above \$50k per annum and 1% of income above \$100k per annum. The Government expects to raise \$1.8b of additional tax revenue.
- AOFM issued a 5.50% A\$700m December 2013, which was well-received with a bid-coverage ratio of 5.79 times.



## Swaps

**AUD Swaps:** The Australian Swap Curve was largely unchanged across all tenors last week.

**AUD/USD Basis Swap:** The Australian Basis Swap Curve was better offered following the launch of KfW's March 2017 tap. By the end of the week, Samurai issuance saw the Curve push wider with better payside interest.

Term	AUD Fixed / Float Swap		AUD / USD Basis Swap	
	Mid Rate	Swap/Bond	BBSW v Libor	Change (week)
1 Yr	5.06% q/q	31.9	8.40	+2.4
3 Yr	5.31% s/s	30.8	15.50	-1.3
5 Yr	5.67% s/s	64.3	21.00	-1.5
7 Yr	5.83% s/s	35.3	23.80	-
10 Yr	5.96% s/s	46.9	23.50	-0.3

## Asset Backed Securities *\*Nothing to report*

## Rating News

*New Rating / Withdrawal* ■ Nothing to report.

*Upgrades or Downgrades* ■ S&P downgraded **Japan** from AA (Negative) to AA- (Stable).

*Credit Watch / Outlook* ■ Fitch affirmed **IAG**'s AA- rating with a stable outlook.  
 ■ Fitch has placed **Downer EDI**'s BBB- rating on Rating Watch Negative.



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