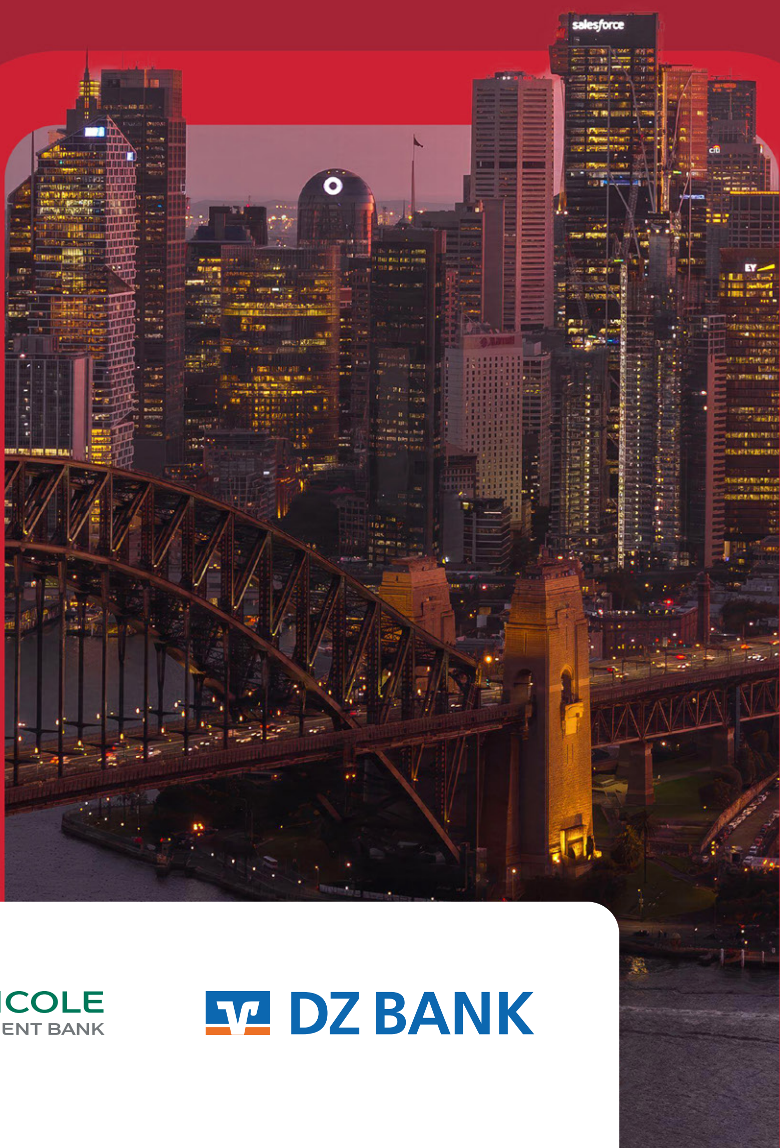
GlobalCapital

Australian Bank Issuers Roundtable

Special Report August 2026



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Turmoil becomes fact of life for Australian bank bond issuers

Conflict in the Middle East has not thrown the world's capital markets into the spin that bankers and issuers might have expected. Instead, they have adapted to the heightened volatility and focused on their priorities: tapping into liquidity, diversifying their investor bases and satisfying demand for AT1, tier two, covered bonds and other products.

For its third annual Australia roundtable, *GlobalCapital* assembled a panel of senior treasury, funding and debt capital markets executives to discuss the impact of geopolitical tensions on fundraising, alternatives to US dollar issuance, investor diversification and the future for smart contracts and digital bonds.

***GlobalCapital*: What impact have the Iran conflict and other geopolitical events had on capital markets access, flows, pricings and structures for our issuers around the table?**

Michael Johnson, National Australia Bank: It's had an impact on capital markets that has been probably less significant than anyone would have thought. Certainly, from our perspective, that of debt issuers, it has made accessing windows a little bit more challenging, particularly in markets where we would expose ourselves to market risk for a longer period, whether that's a US dollar trade that is typically an 18 hour exercise or thinking about how we execute in Europe. That's probably been the most challenging aspect, awaiting any headlines or posts overnight from various participants in the activities in the Middle East.

But fundamentally, markets have performed very strongly despite about a month of relatively challenging conditions in terms of spreads moving a bit wider and access being limited. From our perspective, spreads have pretty much retraced all the way and access has been very much available across all products and currencies.

Lucy Carroll, Westpac: Probably the most surprising thing has been the rate at which the impact on markets has diminished over time, and markets have resumed normal functioning despite a lack of progress in the Middle East. When the conflict in the Middle East initially escalated, you saw the markets react in a very traditional way in terms of risk-off. Issuers accessed markets through defensive products like covered bonds and short-dated tenors. But the speed at which markets returned to somewhat normal funding and functioning across the capital stack showed how resilient fixed income markets have been.

Francisco Sarmiento, Macquarie Group: If you told me in January that we were going to have a

Roundtable participants

Friedrich Luithlen, global head of debt capital markets, DZ BANK

James Knight, executive director, group funding and non-traded FX, ANZ

Lucy Carroll, head of global funding, group treasury, Westpac

David Waller, head of funding execution, Commonwealth Bank of Australia

Francisco Sarmiento, executive director — head of funding, liquidity and markets, Macquarie Group

Michael Johnson, executive, funding and liquidity, National Australia Bank

Jonathan Ng, director, debt capital markets, Crédit Agricole

Leonhard Enck, head of debt origination Asia-Pacific, DZ BANK

Daniel Dela Cruz, head of debt capital markets Australia and New Zealand, Crédit Agricole CIB

Moderator **Toby Fildes**, chief product and strategy officer, *GlobalCapital*

multi-month conflict, given where IG markets were trading at the time, I would have had a view that things were going to get wider and access was going to get harder and it was going to become a more negative environment. To some extent, we thought it might be the catalyst for waning credit interest and a sell-off, but that just hasn't come about.

The only significant impact has been around execution strategy in terms of maybe having to target a narrower issuance window, because of the volatility, but the trend has continued to be one of more money flowing into the sector and better credit conditions. I never in a million years would have expected that

James Knight, ANZ: The sell-off in rates has also been a shock absorber. If we think about the US, for example, we've now got two-year Treasuries above 4%, we've got five years even higher, so the degree to which rates have sold off has insulated credit spreads. It's actually quite remarkable if you think about it — the US IG index trading at 73bp-74bp, despite seeing $1.2tr worth of supply in the first half. So, if you consider that being almost 30% higher year on year, and the uncertainty around the geopolitical situation, it's quite remarkable where we find ourselves today.

David Waller, Commonwealth Bank of Australia: It's remarkable how short-lived the periods of volatility have been and how quickly markets have bounced back. It demonstrates the need to be flexible and to have the ability to sit out the volatility and wait for the right windows to present themselves.

***GlobalCapital*: Are the quick recoveries and resilience that we are talking about because we've grown used to these situations, and we have more information so we can move on faster?**

Friedrich Luithlen, DZ Bank: Investors simply look through the conflict. They regard it as a short-term issue, which is politically driven. The details of the MOU are not very interesting to investors. Rather, people notice that both conflict parties have their own very pressing reasons to open the Strait of Hormuz again. It's obvious in the context of Iran, but there is also a cost-of-living crisis in full swing in the US, affecting the middle- and low-income brackets. Moreover, there's a lot of pressure to fuel further inflationary impulses by keeping energy prices high. All in all, people look past the noise more, focusing on the fundamentals and recognise that this cannot be a long-term issue.

The long-term issue in the Middle East remains the Iran-Israel conflict, but this has been the case for decades, and it's not going to change after this war. The more prevalent topic in terms of market impact has been the new changes at the top of the Fed. Not having forward guidance anymore, for example, adds more uncertainty around the directionality of rates in the US, given that from a credit perspective, US Treasuries (USTs) have a different quality than they would have had 10 years ago.

Carroll, Westpac: It may be jumping the gun to say that we're seeing such resilient market conditions and a return to tight credit spreads because the markets have evolved and are no longer motivated by the same drivers that they were a decade ago. Coming into this conflict in the Middle East, markets had been very constructive for issuance for a considerable period of time. One other reason things have been so resilient is because issuers have been, for the most part, able to remain ahead of their tasks. That's something that we're still hearing about anecdotally. The backdrop of those conditions and the rate story that James was speaking to earlier, which insulated credit spreads, are probably all things that reduced the impact directly flowing through to issuers. If you think about periods like 2022, people did go out and pay expensive premiums to issue and there was broad-based use of covered bond products in defensive tenors and things like that. We're potentially coming into a new period where you've got to test it against what the true liquidity backdrop is.

Daniel Dela Cruz, Crédit Agricole CIB: Furthermore, technicals continue to favour the debt markets with an abundance of liquidity. We still see constant fund inflows across different jurisdictions/currencies.

***GlobalCapital*: Australia has been keen to push its status as an energy exporter recently.**

Waller, CBA: Iron ore is another good example. We've noted for a number of years that the weight of money to be invested in Australia doesn't seem to diminish. We've seen that with the recent hyperscaler issuance, which has had very little impact on IG credit. So where has that money come from? It was already in the system, yet there still seems to be plenty of money to be invested. We're continuing to see large order books whenever issuance comes to market.

Luithlen, DZ Bank: David, the question you ask, where does the money come from is the decisive one. We see a lot of increase in demand from NBFIs [non-bank financial institutions], asset managers buying a lot more than they used to. Also, banks are overly liquid or very liquid, with high deposit rates. We see the Hong Kong bid from Chinese banks. That points to one thing: that the economic slowdown in Europe and Asia, along with the increase in inflation, have led people to put their money into financial assets rather than investing in the real economy. Be it housing — surely a point we're going to come to — but corporate investments are also down. Strangely enough, we as the financial community benefit from it, because more money is in the financial markets. There is this element of Trump inducing the slowdown with tariff policies and of us financing the AI boom in the US as a result. You mentioned the hyperscaler issuance that's going on. I don't know whether that was intended, but it's an interesting consequence.

***GlobalCapital*: What impact have the recent Australian budget and associated tax changes had on this sector in particular?**

James Knight, ANZ: Without getting into the detail of what's changing, the ANZ research view is that as a result of the federal budget changes, the RBA rate hikes, and the general sentiment shift with the geopolitical backdrop, capital city house prices will fall this year and next year. ANZ Research is expecting about 2%-3% in national price reductions each year. We're also seeing a reduction in credit growth which is now expected in the mid to low single digits, slightly higher in business than housing, due to the tech and data centre build-out. It certainly feels like sentiment has dampened with auction clearance rates dropping to around 50% in Sydney and Melbourne which is around 10%-20% lower than recent averages.

Finally, there's probably a subtle shift towards income-generating assets, which is actually supportive for fixed income as an asset class, because of some of the capital gains tax changes that come into play. Furthermore, bank issuance volumes may reduce from the lower credit growth. So, net-net it could benefit markets as a whole.

Johnson, NAB: The policy changes are geared towards increasing access to housing for first-time buyers. That seems to be a good thing, but there is expected to be an impact on the housing market to some extent. What impact specifically from policy versus higher rates versus the broader economic conditions remains pretty blurred. It's something, I guess, we're all monitoring reasonably closely.

Waller, CBA: There's still a supply and demand imbalance in the Australian housing market as well. We still need an increase in the supply of homes. While some of the federal budget measures support that, it will take time for those initiatives to have an impact.

It remains to be seen what impact the capital gains tax changes will have on inflation and clearance rates. The implications for banks' balance sheets over time are still uncertain and have the potential to affect both sides of the balance sheet.

Carroll, Westpac: The only thing I would add is from a credit perspective. From the point of view of a debt investor, the portfolios coming into these changes were performing strongly. The rigour of underwriting standards have created a constructive backdrop from a balance sheet perspective. That is something that comes across very clearly when you talk to investors about the infrastructure behind lending in Australia.

Sarmiento, Macquarie: It is a very good point that even with the expected potential pullback in house prices, the reality is that the asset books of most of the banks are still going to be incredibly strong. If you actually look at the dynamics of the asset class, I think banks could take a 10% pullback without significant issues. The real question from these policies is what you were saying earlier about the expectation that credit growth will slow down. With that, I guess the continued growth in our balance sheets in the banking sector will slow down in Australia. That may, actually, if anything, override the need for funding, and so, again, be potentially positive for our credit spreads.

***GlobalCapital*: In the previous two instances of this roundtable discussion, participants have been very keen to paint a very positive story around Australian banks and their capital story. Given the geopolitical situation, and the recent budget announcements, is the panel still as positive?**

Carroll, Westpac: There continue to be a lot of moving parts, including the situation in the Middle East and impacts on global growth and inflation. So, it's pretty hard to gaze into that crystal ball and pinpoint what that full circle effect is. Probably the key thing I would go back to is balance-sheet strength coming into this period. We will be monitoring all these dynamics very closely.

Knight, ANZ: APRA [the Australian Prudential Regulatory Authority] remains committed to unquestionably strong capital ratios. If you think about it on an internationally comparable basis, total capital ratios are around 30% across the major banks and CET1 is almost 20%. So APRA remains committed despite seeing some of the deregulatory thematics across the globe. If you think about Canada, for example, OFSI [the Office of the Superintendent of Financial Institutions] has reduced their stability buffer by half a percent or so. APRA has not done that. Even with higher rates, there is still a 300bp serviceability buffer in place when we assess new mortgages coming on the book. As such, capital settings remain unquestionably strong in Australia.

Dela Cruz, Crédit Agricole CIB: Australia as a whole remains a relative safe haven given the highly rated growing economy. Global investors will continue to view Australian credits favourably, especially during periods of uncertainty.

"It demonstrates the need to be flexible and to have the ability to sit out the volatility and wait for the right windows to present themselves"

David Waller, Commonwealth Bank of Australia


committed
partner
Commonwealth Bank
Commonwealth Bank of Australia
EUR 1,250,000,000
3.331% Covered Bond Due 2033
Joint Bookrunner
Westpac
Westpac Banking Corp.
EUR 1,250,000,000
3.038% Covered Bond Due 2030
EUR 600,000,000
3.477% Covered Bond Due 2036
Joint Bookrunner
nab
National Australia Bank
HKD 2,500,000,000
3.699% Debut Wonton Senior Unsecured Due 2029
Joint Lead Manager
ANZ
Australia and New Zealand Banking Group Limited
HKD 3,500,000,000
3.791% Debut Wonton Senior Unsecured Bond Due 2029
Joint Lead Manager
Endeavour Energy
Network Finance Co Pty Ltd
EUR 500,000,000
3.500% Debut EUR Senior Secured Due 2033
Joint Bookrunner
MACQUARIE
Macquarie Bank
EUR 650,000,000
2.738% EUR Covered Bond Due 2031
Joint Bookrunner
QBE
QBE Insurance Group
EUR 500,000,000
4.293% Debut EUR Tier 2 11NC6
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Sydney's Airport
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***GlobalCapital*: Let's move on to markets, if we can, particularly the euro. Has the popularity of the euro as a funding currency grown over the last 12 months for Australian issuers?**

Waller, CBA: The euro market has always been an important funding source for Australian banks, particularly for covered bonds and tier two. It remains one of the deepest fixed income markets globally and offers compelling economics relative to alternative funding markets after taking the cross-currency costs into account. European investors remain highly receptive to bank issuance and robustly support deals and efficient execution. It's always been important, and it certainly has been for CBA's last financial year. In fact, our issuance in euros was higher than our US dollar issuance.

Johnson, NAB: Particularly as the tier two requirements increase in Australia, it's an important market for all the major banks and we see the market continuing to offer diversity in terms of tenor as well. Historically, it was more a 10 year non-call five type market, but we've certainly seen some flexibility around tenor, which is really positive and gives all of us an opportunity to manage maturity profiles more effectively. So for us, it is a really important market across all products. With the tier two volumes that we do, senior funding may come at the expense of that to a degree.

Dela Cruz, Crédit Agricole CIB: Does anyone have any concerns about the increased tier two requirements in light of the Reserve Bank of New Zealand's proposed capital framework changes?

Lucy Carroll, Westpac: Since the beginning of our TLAC [Total Loss Absorbing Capacity] build in 2019, we have seen significant growth in capacity for issuance across domestic and offshore markets, and, to date, we've probably underutilised some markets such as euros, sterling, and Swiss francs. So, in terms of volume and capacity to execute the task, we remain comfortable with the requirements. For us, it's predominantly a question of cost and getting execution right, so we maintain ongoing access to a diversified and supportive investor base.

"Global investors will continue to view Australian credits favourably, especially during periods of uncertainty"

Daniel Dela Cruz, Crédit Agricole CIB

I would add that in 2019, we were coming from a very low base of tier two outstanding relative to where we are now. Even with the RBNZ changes, a much higher proportion of our task in the next few years is replacement of outstanding tier two and AT1 instruments, rather than new issues.

***GlobalCapital*: Quickly, just bringing you back to that euro question, is the euro now your second most important currency for funding?**

Waller, CBA: It's a hard question to answer — it's like having to name your favourite child!

Lucy Carroll, Westpac: What you've seen from the cohort is that clearly the demand for product and the competitiveness has been focused on covered bonds and then tier two. That increasing competitiveness of tier two pricing across offshore currencies has been really pleasing to see. MJ talked about the developments in tenor. That's really important. We need diversified sources of demand across the curve.

Luithlen, DZ Bank: I can only advertise the euro market at the moment obviously. It's the most charming market! It's a market for long dated issuance across asset classes and always happy to see it.

Sarmiento, Macquarie: It's definitely true of the sterling market too.

Dela Cruz, Crédit Agricole CIB: What about de-dollarisation? What impact has it had on other issuing currencies, core or non-core?

Johnson, NAB: I don't call it core or non-core. It's important to have access to a range of transactions that provide benefits in terms of different pools of liquidity, diversification of investors and maturity profile. So for us, we think about transactions in Japanese yen or Hong Kong dollars, or Swiss francs for example, as being really incremental and important to the funding task. Otherwise, you can become too reliant on large benchmark transactions that make it more challenging to execute the overall task and access the pools of liquidity that you'd like. I think also, more recently, the growth in liquidity through Asia has enabled some diversification across currencies and incrementally more issuance opportunities.

Waller, CBA: Diversification of the investor base isn't just limited to issuing in different currencies. The Australian dollar market has evolved to the point where it is not just supported by Australian-based investors. We're now seeing much greater participation from Hong Kong and broader Asian investors. We've even seen European investors in our Aussie deals as well.

Carroll, Westpac: I try to steer away from the specific term de-dollarisation, because I don't think that's what we've seen. Certainly, the liquidity for US dollar trades has been significant for all of us. It's that the universe of investors has broadened and an increasing proportion of the marginal dollar from some portfolios is diversifying across currencies and issuer types. Australia, as a geography, has benefited from investors looking to diversify the names and regions in which they're investing.

Luithlen, DZ Bank: On that point, when we look at official institutions and central banks, which is where de-dollarisation would happen

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Michael Johnson, National Australia Bank

because that's where you keep your reserves, it's not a huge topic. Rather, we see that the overall fixed income markets are growing. On the back of that, we are seeing USTs being sold and proceeds moving into other dollar-denominated assets driven by credit concerns around USTs. But much of the funds stay in dollars. And as the entire fixed-income universe rises — for the reasons we noted earlier — you also see those more localised assets and markets improve and gain traction. That's a good thing.

Sarmiento, Macquarie: There's definitely a benefit that has come from the growth of the Aussie-denominated market, where we have seen a lot of this interest coming from Asian investors.

I agree with what you were saying about Asian interest in your Aussie books is often very significant. We have also seen that those investors, once they're comfortable with our names, are looking for other products in which to invest. We have seen an increase in activity in some of those other local currencies, from investors that have first become exposed to us through some of these benchmark Aussie deals.

GlobalCapital: Is this something that you are seeing James?

Knight, ANZ: We've been very committed to Asian marketing for a long time. We used to do one roadshow. We now break it up into two — northeast Asia and southeast Asia. We're still seeing new pockets of liquidity develop. It's very much that sense of liquidity begets liquidity. People become familiar with the currency, familiar with the trading behaviour of the underlying credit market, and, as a result, continue to establish and extend lines.

So, as we think about Aussie dollars, I'd bucket it in terms of senior versus subordinated. Senior is very much a bank treasury bid — and loan-deposit ratios suggest that there is excess liquidity within the Asia region. Whereas on the subordinated side, Aussie dollar rates have been higher than the rest of the world for some time, so there's been a natural gravitation towards the higher outright yields for some of the buyers there.

That gave us confidence, for example, to issue a 20 year tier two bullet, which had, from statistics, reasonable placement into some of these core Asian official institutions, asset managers, insurers, so on and so forth. Finally, with the growth in systemic buying, both offshore with the Asia Pacific Index for US dollars now including Australian issuers, in addition to domestically with the growth in the ETF industry from the AT1 phase out here in Australia. This has led to systemic buying of credit products in Australia. That's different to where we were, say, three or four years ago.

GlobalCapital: Let's drill down a bit into covered bonds, EU covered bonds specifically, the EU covered bond regulatory roadmap and the impact on international issuers and investors. What has been its impact?

Dela Cruz, Credit Agricole CIB: Just to add to that question. Are you expecting any updates regarding third-country equivalence as well as any views regarding the recent APRA review of HQLA [High Quality Liquid Asset] eligibility for covered bonds?

Carroll, Westpac: We remain frequent issuers in global covered bond markets and are following these developments closely. Developments in the EU remain constructive and, as you point out, Dan, locally APRA is going to consult on the use of Australian dollar covered bonds for HQLA. A lot of the details are to be determined and the consultation itself has not yet begun. That said, all else being equal, I would expect this local change to lead to incremental issuance domestically, as opposed to detracting from the amount of issuance you see from us offshore. In the last 12 months, we've used covered bonds for all the core reasons you'd typically expect: value for collateral, extension of duration, targeting specific points in our maturity profile and defensive issuance when the conflict in the Middle East initially kicked off. Access to offshore covered bond markets through the cycle will remain important for all these reasons.

Johnson, NAB: Particularly on the domestic front, the initial announcements out of APRA are a positive thing, from the perception of our market and our regulatory environment from offshore investors and offshore regulators. That's an important aspect of it. The extent to which covered bonds become HQLA, that could create incremental

"I try to steer away from the specific term de-dollarisation, because I don't think that's what we've seen"

Lucy Carroll, Westpac

demand for the product here. For a market that is very small for Aussie dollar covered bonds, there's clearly an opportunity there for Australian banks, but also offshore issuers in our market and our own balance sheets as investors.

***GlobalCapital*: Just as an observation, where we sit in Europe, participants have commented how Australian dollars are now the third largest global funding currency for many global issuers, not just SSAs.**

Johnson, NAB: The speed at which liquidity in the Australian dollar market has grown, it's hard to see how a covered bond product doesn't work in this market. This reflects how much liquidity we have seen domestically, but also particularly through Asia.

Luithlen, DZ Bank: We see from a European perspective that non-EU covereds have outperformed European covered bonds. Some say that may already be a form of anticipation of third-country equivalence. I think that's a little bit early. There's still a lot to be done to achieve a proper equivalence regime across Canada, the UK, Europe, Australia and New Zealand. Others think that it's the anticipation of less supply in euros due to more domestic supply and you shifting your supply more into the Aussie dollar space. But with the cap going up, that's also not really a good argument either. Maybe it's just the spread.

Carroll, Westpac: There has been a thematic of compression across asset classes and issuer types, given how tight credit spreads have been in the last 12 months. We do offer a bit of incremental spread for a very high-quality credit.

Knight, ANZ: One last point as it relates to covered bonds and third-country equivalence. In many ways that would be risk reducing for the Australian system if there was LCR [Liquidity Coverage Ratio] eligibility. The risk is that Australia is left behind and other jurisdictions progress down that track. The Australian covered bond market is very small, only A$20bn of outstandings. To Lucy's earlier point, in a market dislocation, the covered bond is a very important outlet for us to go and fund. We experienced that during our $2.25bn US covered bond in March, when spreads were elevated and market access was slightly challenging amidst the Middle East conflict.

That trade was largely derisked through cornerstone interest. The ability to execute that in challenging market conditions is a very important data point as we present our stress-testing results to our regulators and as we think about our liquidity buffers. My concern would be if Australia is left behind and other jurisdictions progress, what that would mean for system stability risk here.

***GlobalCapital*: Where do Australian banks sit in the senior unsecured market pecking order alongside European and Canadian issuers?**

Johnson, NAB: I'd probably look at it through the lens of where do we price, essentially. We are, particularly in US dollars, significantly tighter from a senior perspective. It's not necessarily comparable because the Canadians don't do the same products as us these days, but it's clear that we do price at a level that is relatively tight compared to those issuers. That does reflect the relative strength of the Australian issuer base, the Australian economy and the very strong regulatory environment we operate within. We've been consistent issuers over a long period of time with very limited idiosyncratic events impacting any bank or the system more broadly here. That can come with its challenges as well, being such a tight issuer across some markets. But we also do benefit from broad geographical sponsorship that enables us to, particularly as we've spoken about a number of times out of Asia, really build a transaction, particularly a US dollar transaction, through support globally. We see a similar dynamic across other currencies.

Carroll, Westpac: To the phrase pecking order, that's clearly going to change depending on which market you're looking at. All of us enjoy a home court advantage in our domestic market, hence why MJ has spoken to the US dollar market, where we're on a more even footing with international peers, generally speaking.

Luithlen, DZ Bank: Globally, we're in a super-interesting situation where bank balance sheets are super-strong on capital, liquidity and profitability, given where the rates environment is. Even though some of our domestic economies may not look that strong, loan losses haven't come through yet, and that is the backdrop against which we find, on the credit side, super-conducive levels to issue. I appreciate that the dollar looks more attractive than the euro. There is always the factor of credit concerns around US dollars and the high current account deficit behind the currency. Once the euro appreciates against the dollar again, the cross-currency swap looks more benign for euro issuance than for dollar issuance, but that's something everybody monitors on a daily basis anyway. So, on balance, in terms of pecking order, it's a good market for everyone at the moment.

***GlobalCapital*: How do our Australian bank issuers feel about the competition, if we can describe it as that, from the growing international corporate hybrid market for tier two?**

Waller, CBA: I don't really see it as a threat. While there is some overlap in the investor base, the two asset classes typically serve

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Francisco Sarmiento, Macquarie Group

different purposes within portfolios and appeal to different investors, depending on mandate, risk appetite and regulatory considerations.

Australian bank tier two continues to benefit from the transparency of the regulatory framework, and it's well understood by investors where it sits within a bank's capital structure.

Liquidity is a key differentiator as well. Corporate hybrid liquidity can be more challenging, whereas major bank tier two is a very liquid product. Taking a step back to the phase-out of AT1, the A$40bn AT1 market needs to find a home. Some of that capital is finding its way into tier two products through middle market aggregators, through tier two ETFs and through other mechanisms. While corporate hybrids have become more prominent, they have not cannibalised demand for tier two issuance in Australia, which is growing as a result of the AT1 phase-out.

Carroll, Westpac: While on the one hand you can consider it competition, on the other, like James said before, liquidity begets liquidity. The amount of non-government Aussie dollar bonds outstanding has grown by over 40% since 2022.

The increasing diversification of issuers across the curve, Kangaroo issuers as well as the corporate hybrids, has meant that the universe of bonds investors can access has broadened considerably. Add to that the liquidity out of Asia, and we've seen an increasing number of market makers enter the Aussie dollar market. So, the overall level of secondary market liquidity has increased, which tends to support participation in primary markets.

Sarmiento, Macquarie: That's right, because none of these things happen in isolation. The A$40bn of AT1 that needs to find a home provides significant support to tier two, but that's not the only story in town. We've been talking here about the growth in the amount of money invested in credit globally and how much liquidity is available for issuers in general. That's happening in Australia as well. It's not just the A$40bn that needs to find a new home, but really, that A$40bn is probably bigger now than it was when we started replacing it. I think the growth in the credit markets in Australia, the increase in liquidity, is very significant if you compare our secondary markets today to how they were five years ago. Now Australia is the third largest funding market for investment grade in the world, just behind the euro and the USD. That is all quite conducive, in terms of demand, for the price to access tier two investors.

GlobalCapital: Are we missing AT1s in Australia?

Johnson, NAB: Perhaps the investor base is missing AT1.

Waller, CBA: AT1 was a reliable source of funding for the bank. It left a gap for investors, but the capital has largely been reallocated elsewhere.

Luithlen, DZ Bank: One point that came up earlier was around OSFI easing the regulations for the Canadian banks, which makes sense given the direct competition with US banks, which are operating in a much more lenient regulatory environment. Do you feel that, in an Australian context, you're more insulated from that sort of competition?

Johnson, NAB: From a regulatory perspective?

Luithlen, DZ Bank: Yes, it's easier to afford losing AT1 as a capital instrument because you don't have that much direct competition from banks abroad that have the privilege to issue AT1. You may also have a little more room to manoeuvre around senior non-preferred and those types of instruments, since foreign banks aren't competing that much in an Australian context. So, you don't feel disadvantaged in an international context by not having these?

Sarmiento, Macquarie: You're asking more broadly than funding markets.

Luithlen, DZ Bank: Yes, I'm also asking about the asset side and financing the whole asset side of the bank.

Johnson, NAB: We've historically been a very large issuer in offshore markets and having the strength of the regulatory environment is a really important part of that. We certainly noticed, particularly in the US, but across investors globally, that they're consistently asking about whether there is a deregulation agenda in Australia. You can see from the announcements that APRA's made on capital and liquidity risk that they're very focused on maintaining that resilience. There are some targeted adjustments on the capital front and we expect some of the changes on liquidity will probably strengthen the liquidity side, so, net-net, you're left in a similar position. That strength is part of our advantage that we talked about earlier, that investors value that strong regulatory environment.

Luithlen, DZ Bank: In the end, the risk is on the asset side and there should be one price for that risk and theoretically it shouldn't matter how you refinance that risk in a way.

GlobalCapital: What about AI and how it's impacting the treasury function in terms of efficiency or the bank as a whole?

Dela Cruz, Crédit Agricole CIB: There has been some news locally about redundancies due to AI, but I guess the question is more on AI impacting the treasury function.

> "My concern would be if Australia is left behind and other jurisdictions progress, what that would mean for system stability risk here"
>
> James Knight, ANZ

Luithlen, DZ Bank: I would venture that AI, in terms of financial markets infrastructure, is the second step, and that at the moment, the automation of contracts promises the bigger efficiency gains.

Take smart contracts replacing old settlement technology around bond issuance, for example, which we think offers huge potential gains for the whole back office function — not just of the bank, but also of investors and central banks. If you start putting your transactions on-chain, you can generate the data that then informs the algorithms for your traders. But that's an apple much higher up the tree at the moment.

"We expect that the second half of the year will remain fundamentally very strong in terms of investor demand"

Friedrich Luithlen, DZ BANK

GlobalCapital: We've seen some progress over the last 12, 18 months around digital issuance. Have there been any breakthroughs in Australia?

Knight, ANZ: I think it's still very experimental. I've yet to see a scenario which has led to a significant change in approach as of yet, but the exploratory phase that we're still in is encouraging.

Luithlen, DZ Bank: How far are you from convincing your CSD [central securities depository], Austraclear, to move to a DLT [distributed ledger technology] infrastructure which could allow you to deploy smart bonds or smart contracts?

James Knight, ANZ: Any change needs to be an industry-led response with appropriate regulatory engagement and that's what we've seen with the RBA's Project Acacia, where they have brought together different market participants and the workstreams are looking at how the technology could be developed. But, it's still early days and it remains to be seen how to best utilise it. I'd note the importance of doing it in a safe manner that is fit for purpose in the Australian system.

GlobalCapital: How do we expect the next six months to play out?

Sarmiento, Macquarie: Frankly, the resilience that we have been experiencing definitely makes you feel like in this current market environment that the demand is still going to be present and the market's going to remember it. I look fairly positively at the next six months in terms of the environment that we're in towards issuance. Famous last words of course!

Johnson, NAB: Subject to ongoing uncertainty in the Middle East, the fundamentals of the market are very strong. From a supply perspective, we've certainly seen a lot of issuance brought forward to the first half of the calendar year globally, and that, in itself, from a technical view, would suggest a reason for optimism about how the market will work out over the second half. But still, there's a number of geopolitical risks that we need to look at. The mid-terms in the US are certainly a key consideration for the back-end of the year as well. We like to think of ourselves as a through-the-cycle issuer, so we tend not to want to predict markets but rather be consistent issuers across products.

Carroll, Westpac: As a frequent issuer, we'll continue to make sure that we utilise markets in a way that allows flexibility during more turbulent times, like we saw earlier this year, or back in the rate hiking cycle in 2022.

There remain a lot of risks to the constructive conditions we've enjoyed in recent years, so we will continue to balance relative costs and near-term needs with impacts to our profile and future flexibility.

Waller, CBA: I have to agree with MJ and Lucy. We started the roundtable talking about the geopolitical landscape and the volatility, and I think that will likely continue, whether that is war in the Middle East or elsewhere. That said, credit spreads are at historically tight levels, so how much tighter can they go? But then again, we've been asking that question for some time now.

I certainly agree that, as large issuers, we issue through the cycle, so it's a bit of a game of averages. We see real value in being consistent, both for ourselves and for our investors.

Knight, ANZ: From a valuation perspective, tier two is probably the asset class which may be of interest. If we think about, for example, the sub-senior ratios on US dollar tier two or Euro tier two. They are currently over two times whereas in Australia, they are trading around 1.75 times. If investors are comfortable with Australian risk, they're able to pick up incremental spreads on well-rated tier two products and continue to trade the compression when index spreads are incredibly tight. So, tier two probably has a little bit of runway left in it, whereas I agree with David's comments that senior is incredibly tight from a valuation standpoint.

Dela Cruz, Crédit Agricole CIB: To echo that, euro tier two supply here today is tracking 14%-15% down year on year, so, there's still an undersupply of euro tier two and investors are looking to lock in higher yields

Luithlen, DZ Bank: We expect that the second half of the year will remain fundamentally very strong in terms of investor demand. The risks are coming from the rates space. Should the new Fed chair turn out to be more hawkish than expected, we would expect people to adopt a wait-and-see stance on what happens to the euro curve and how it could shift upwards. However, we expect credit spreads to remain tight. It's more a rates issue than a credit spread issue.