

GlobalCapital

# Kangaroo Bond Roundtable

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# Maturing Kangaroo market stakes 'G4' claim

On a range of measures — liquidity, investor base, regulation — Australia scored highly this year as a source of fixed income funding. Growing interest from new and repeat issuers, and strong investor demand suggest the Australian dollar market will continue its upward march. While diversification is a common reason for banks from outside the country to operate Kangaroo programmes, it is not the only one. Relative value is also important. In November, *GlobalCapital* gathered senior funding leaders from major lenders in the UK, Nordics, EU, Canada, Asia and Australia — all with varying amounts of experience in the Australian market — to discuss all of this and more.



**GlobalCapital:** How has the Australian dollar FIG bond market performed this year? Is the volume that has been raised so far in line with your expectations?

**Enrico Massi, Commonwealth Bank of Australia (CBA):**

We've had an excellent year for financial institutions issuance in the Australian dollar market, running at approximately A\$94bn (\$61.1bn) year-to-date. Although we have been tracking better than previous years, supply did slow down a little bit around August/September, so we may end up flat to 2023, perhaps a little bit under.

Liquidity has been strong and continues to impress — the investor base has a very good

understanding of global borrowers and its regulatory frameworks and is open to different credits. It has been a strong and busy market in 2024 and with conditions remaining constructive, it feels as if 2025 will be as buoyant.

**Vera Savina, Commonwealth Bank of Australia (CBA):**

Compared to last year, there are more trades, with larger sizes, higher books and higher levels of subscription. We see tier two performing really well this year, with more interest from both investors and issuers. It's been an excellent year, I would say. We are very pleased with where we are right now.

**GlobalCapital:** And to our bank treasurers, how have you found

your experiences this year in the Australian dollar market?

**Jesse Tennant-Brown, Lloyds Bank:**

We've visited the market twice — once in senior, once in tier two. The real difference this year versus previous years, is around book size. We're getting about double the book size we were just a couple of years ago. That has been a very positive development and that gives us the ability to price with more certainty.

And the Australian dollar is functioning more like G3 markets or it's at least getting that way. It's nice to see the strength of demand that we're attracting in the tier two market. So yes, I think it's been a very positive year and that's a good development from our perspective.

## Roundtable participants



<b>Kieran Salter,</b> CEO UK, Commonwealth Bank of Australia	<b>Jesse Tennant-Brown,</b> director, senior funding, covered bonds and ratings, Lloyds Bank	<b>Enrico Massi,</b> executive director, head of FI debt capital markets, Commonwealth Bank of Australia	<b>Mattias Lidgren,</b> head of funding and liquidity, Handelsbanken Bank of Australia	<b>Vera Savina,</b> head of DCM europe, Commonwealth Bank of Australia	<b>Mark Anwender,</b> head of documentation and funding, NatWest Treasury Markets	Moderator: <b>Frank Jackman,</b> covered bond editor, <i>GlobalCapital</i>	<b>Aurelien Harff,</b> deputy head of medium and long term funding, Crédit Agricole Group	<b>Cameron Joynt,</b> vice-president, funding, treasury and balance sheet management, TD Bank	<b>Chris Ngooi,</b> head of wholesale funding, DBS Bank	<b>Andreas Wein,</b> head of funding and investor relations, LBBW
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**Aurelien Harff, Crédit Agricole:** At Crédit Agricole, we are relatively new to the market, having previously mostly issued tier two in a relatively small size. We set up a Kangaroo programme in 2023, issuing last year and issuing again in January 2024 on the senior front and we were positively surprised by the market depth and the granularity of the book. We raised A\$1.75bn this year in one go — a size way above our expectations. This shows just the type of funding volume we could expect in that market.

**Andreas Wein, LBBW:** I can only echo what Aurelien was just saying. We are also very new to the market. We issued our first senior bond in Aussie dollars earlier this year, having only historically been active in tier two. Furthermore, this was our first time using a proper Kangaroo programme and we were extremely pleased with the very positive outcome of this transaction for us.

**GlobalCapital: Jumping ahead to 2025, Vera and Enrico, how do you feel about next year? What's in store? Can we expect another similar year or perhaps one that's a little bit better?**

**Savina, CBA:** We can always hope. The market is growing. We think there is more interest from new potential issuers, and we see repeat issuers returning twice a year, potentially maybe even three times. The market capacity to accommodate more trades per issuer per year is there. And investor demand is very, very strong at the

moment. So, there is nothing to suggest that the trend of growth that we've experienced this year and last year is going to reverse.

And we don't see a major move in spreads that would put people off the market. We believe that our market will remain where it is, or potentially widening a tiny bit in line with other markets.

The trends we're discussing right now suggest that next year will be very successful and issuer supportive.

**Massi, CBA:** I echo those comments. We are also seeing the market becoming more open and accepting of different names and structures. Tier two has been one of the sectors that has developed quite nicely in the Australian market, quickly becoming a real and viable option for many issuers.

Spreads conditions appear benign. Of course, we are subject to global events, but Australian dollar spreads feel pretty conducive to issuance, in particular when complemented by the strong liquidity in the market.

**GlobalCapital: And how about our bank treasurers, do you feel equally as positive?**

**Chris Ngooi, DBS Bank:** I think as long as the short-end dollar rate remains inverted, then the Aussie dollar market is likely to remain constructive going into 2025.

**Harff, Crédit Agricole Group:** Maybe one thing to note here is that we have increased the volume that we issue in non-euro markets as and when our funding needs increase. But the trend

now is probably for slightly lower funding needs next year. However, I expect we will still try to find opportunities to issue in the Australian dollar market, be it senior or tier two. We like the diversification that comes with those issuances, so even if our funding needs are lower, we will still try to make use of the market.

**GlobalCapital: Why are banks choosing to access the Australian market? Is it primarily for diversification or is there anything else that's driving the decisions that you're making?**

**Mattias Lidgren, Handelsbanken:** Well, it's quite far from home. When people see us issue in Aussie dollars, they ask us why? We clearly don't have a business in Australia, coming from the Nordics.

It is a pure diversification transaction for us. Looking at the Swedish market, our home market, it's one where we do mostly covered bonds whereas we do senior funding in euros, US dollars and Aussie dollars. As of now, about 10% of our senior funding is done in Aussie dollars.

Although, we acknowledge that the market has been very strong, we have not been active yet this year and there are a few reasons for that. One of them, I guess, goes for quite many banks — our lending growth is quite limited, so we have actually brought down slightly the funding needs for this year.

And the second reason is relative value (RV). We were looking at the market in the first quarter and some of you were faster than us

and managed to do something in the senior space. We are only active in senior and not in tier two or additional tier one. But the euro market rallied, and it got a bit different from the Aussie market. We were a bit too slow this year, but we are hopeful for next year.

**GlobalCapital:** Cameron, Mattias mentioned Australia is quite far from home, but Canada is arguably even further away from Australia. I'm wondering how or why you're choosing to access the Australian dollar market so repeatedly in size?

**Cameron Joynt, TD Bank:** We're happy to go wherever investors are interested in our paper — we've been issuing covered bonds in Australia for a long period of time. It's one of our core markets and we've had a great reception over the years.

Issuing senior unsecured is not new but much less frequent and something that we're very interested in. Historically, it's been because we saw a lack of a senior investor base. But with the increased reception, the last senior we did came to A\$1bn.

It really feels to me like the covered and senior markets can coexist. And that's something new and very interesting. I'm not concerned at all about it being far from home — I'm very happy to do a bond from 8pm onward, that's totally fine.

**GlobalCapital:** How do you find the pricing on offer in Australian dollars compared to where you might fund in euros or US dollars? Is it just a pure arbitrage market or are you happy to pay up a little bit for the benefits already mentioned?

**Joynt, TD Bank:** I think it's the opposite of an arbitrage market, given the way that the domestic investor base works — at least for covered bonds, where the pricing is domestic senior paper plus a little bit of spread. And when that starts to get in a strike zone and people start to see that you're making a few basis points versus a different currency, the price starts getting wider.

But it's good investor diversification and we're happy to pay a little bit of money for that, for sure.

**Harff, Crédit Agricole Group:** I think we can say the same for senior. We don't mind paying a little bit or not achieving any arbitrage when we issue in Australia as the idea is really to expand our investor base. In previous years we were able to sometimes find arbitrage in tier two, and obviously that's a double win, diversification plus arbitrage.

**Wein, LBBW:** I very much see it as an investment in ourselves. I can only echo what others have said — we are trying to diversify our investor base. With our first transaction earlier this year, we definitely did achieve this diversification. A large number of the investors were new to us in the book. We were told that a number of them, especially from Australia, were looking to see how credible our approach was this time around in establishing our name in the Australian market. We definitely want to go back in 2025 and make sure that we then also garner interest from those investors that maybe this time didn't play, especially the local ones.

**Mark Anwender, NatWest Treasury Markets:** Yes, it's diversification for NatWest as well. We see it as a niche market similar to Japanese yen or Swiss francs. But in some respects, it's far more flexible, it's more consistent, and it's generally there all the time whereas some of the others aren't so in the same volume.

The Australian dollar market is consistently open from January right through to December. It's only the later part of December when the market is now closed, just like any other major market. And it's there in the northern hemisphere

summertime, which is a great opportunity. It's a market where you can do covered bonds, you can do senior — whether it's opco or holdco — and if you have the ability, you can do tier-two subordinated debt. Going forward, there may be an opportunity to do additional tier one (AT1) if the Aussie majors and Aussie banks stop issuing in the format. Is there an opportunity for offshore banks to take advantage of the investor demand for that product?

**Tennant-Brown, Lloyds Bank:** The relative value is still important. We monitor the RV throughout the year — we're not going to go into the Aussie market if we can't price in and around a typical G3 currency.

The only distinction there is sometimes the secondary comp is not that liquid, at least not as quoted, which does pose some challenges. However, with the increasing order book sizes, hopefully that gets better.

**Anwender, NatWest Treasury Markets:** Capital has been attractive from an RV perspective, but if you look at say senior opco, it hasn't been. We consistently look at half a dozen or so currencies. However, when you're looking at, say, six key currencies and it's the widest of those six, it makes it harder to justify.

**Joynt, TD Bank:** I don't want to insinuate that we're not interested in relative value, of course we're interested as that's the way we think about the funding programme — but the Australian investor base is also very conscious of global relative value compared to some other jurisdictions, as we are too. There's

*“Asian investors are very important in the evolution of this market and besides the ability to buy paper in primary, they have recognised that secondary liquidity has improved”*

*Enrico Massi, Commonwealth Bank of Australia*





*“We all learnt during Covid that we could do anything virtually, but travelling to Australia and looking at investors in the eye is an extremely valuable investment of time”*

*Vera Savina, Commonwealth Bank of Australia*

got to be a match. And when it's number six of six of the available currencies that you can do, then that's not a match from our side either. But when it gets into the strike zone, we love the opportunity to get some investor diversification and will choose that over a more frequent alternative.

**Massi, CBA:** That's a valid point that Cameron just made. We are seeing more domestic investors refer to global comparables as they recognise that sometimes our domestic market may not reflect larger core market relativities. So, we are seeing more look-through towards pricing in dollars or euros, which is a positive step for the development of the market.

The Australian dollar market continues to become more international in nature. The currency has always found good demand globally and this has increased markedly in the last few years, Asia perhaps being the key area of growth. Europe remains active as well and this cross-border interest brings more discipline to pricing and sustainability for both issuers and investors.

**Joynt, TD Bank:** A third of our books generally in Australian dollars are people who would buy us anywhere. The other two-thirds is more specific but certainly there is that material component of travellers.

**GlobalCapital:** Vera and Enrico, could you elaborate on who it is that is buying these notes? Who are the investors that only buy in Australian dollars and where are they coming from? Are there

other jurisdictions in the region that might be considering the product?

**Savina, CBA:** I think it's in line with what Cameron alluded to — there are a good number of investors who travel. This year we see at least one-third of the books coming from Asia, just because there is not much that these investors can buy in their own jurisdictions. They are frequent visitors to the Australian dollar market this year.

But if we think about diversification as a theme, there is a very large number of domestic investors who are focused on remaining domestic. To achieve true diversification from the perspective of the investor base, you want to be able to place your instruments with domestic investors and the local funds who support Kangaroo transactions.

**Massi, CBA:** I agree. As mentioned, Asian investors are very important in the evolution of this market and besides the ability to buy paper in primary, they have recognised that secondary liquidity has improved. This has not only increased their participation volume, but it has also brought in more investors who are now more comfortable with the ability to turn over their books as needed.

To Cameron's point, this is why we are seeing an overlap between investors in Australian dollars and other currencies, as these global investors are seeing it as a more attractive investment currency.

**Anwender, NatWest Treasury Markets:** The funds that are just Australian dollar-based are the ones

we would probably generally focus on more. The comments you often get from the global funds is that there is a credit limit covering all markets as you're an issuing entity they view globally and set limits for accordingly, regardless of the issuance currency. And sometimes we get comments back that investors like the trade in Aussie dollars but want to keep their powder dry for dollar and euro transactions. I generally never hear the opposite in terms of “I don't want to buy your dollar or euro trades because I'm saving up for an Aussie dollar transaction”.

It's one of the challenges that the market does face. I'll love it one day when an investor says to us, “I'm saving my limits for an Aussie dollar deal”.

**GlobalCapital:** An open question to the treasurers — how do you feel about the investor base? Does it differ between products or do people just see the name?

**Wein, LBBW:** When we issued tier two in 2017, we did so under our euro MTN programme. And that, at the time, was placed largely into Asia. When we recently visited Australian investors, we found that some of this paper had actually found its way into Australia via secondary. There was already a bit of a base and familiarity with some of the investors with our name, which was very helpful.

This was actually something we only found out when we were there on site. And I believe fundamentally that the investors would buy the tier two product here. But in our case, we're looking to issue senior bonds mostly when it comes to Aussie dollars, at least for the nearer future.

**Anwender, NatWest Treasury Markets:** For NatWest it's the same. We're relative newcomers to the market. We only started issuing two years ago and that was for the opco. We've subsequently set up another Kangaroo programme, at the group holding company level, that we haven't used yet. Hopefully, going into next year that will be the case and we do get to use it. But I think whenever we've thought about issuing just off the EMTN in Aussie dollars, that conversation probably lasted for about two or three minutes.

We're very convinced that going down the Kangaroo programme path makes it easy for investors to make the investment decision, as they're comfortable and familiar with the format. It settles locally, it has an AU ISIN and depending on the format, it can go into the index, and it can be repo-eligible with the [Reserve Bank of Australia (RBA)]. Where we can tick all these boxes, we will endeavour to do so. If it works for investors, it can generally work for us as well.

**Harff, Crédit Agricole Group:** We had a similar experience to Andreas. When we issued tier two it was historically mostly placed with Asia accounts. We set up a Kangaroo programme to reach more domestic investors.

But to add to what has just been said, there is one small issue in our case, and probably it applies to other European banks issuing in preferred senior, which is that since our Kangaroo senior preferred bonds are *pari passu* with some old bond issued before the resolution regime was put in place, and those old bonds include some old event of default language. For that reason, the RBA does not accept our Kangaroo bonds for repo. We could expect more participation from some domestic investors if our bonds were repo-eligible. If the RBA were to review its stand and allow all preferred senior bonds for repo, it would support the development of the Kangaroo market.

**Ngooi, DBS Bank:** Once Australian investors are familiar with the name, depending on the type of investors, they can buy value up and down the capital structure. From my own past experience, when we started issuing tier two in the Aussie market, the real money asset managers were very much happy to buy the paper for the spread pick-up once they were comfortable with the credit.

Of course, as you go up the credit curve into senior and covered, that's when the area gets a bit greyer. I think the pricing between senior and covered, especially over the last two years, has been extremely tight in terms of the spread differential, which explains why we have been only active in the senior space this year and kept the powder dry in covered for other currencies, for example euros.

In our case, we do track quite closely with the Aussie major bank



*"We monitor the relative value throughout the year — we're not going to go into the Aussie market if we can't price in and around a typical G3 currency"*

*Jesse Tennant-Brown, Lloyds Bank*

curve, so maybe the consideration is slightly different from the rest of the panel here.

**GlobalCapital:** Jesse, you mentioned the depth of demand earlier — how does it compare to your core markets? Is it on par yet with where else you're funding?

**Tennant-Brown, Lloyds Bank:** It's progressing along the journey towards that. Even if you look at the mechanism and how much you move from [initial price thoughts (IPTs)], I feel there's still an adjustment and an expectation where the order books perhaps warrant a bigger move than you would in, say, a G3 currency. And I think that's probably the distinction.

And also, when you price, take dollars, you can see exactly where we have a liquid comp. We know where the premiums are, it's very, very clear. As you move further away from that into smaller markets, it becomes less and less obvious exactly where you can price. It's not there yet but it's improved. If I look at this year versus last year, you can see that development and that's going to be helpful as it will encourage more market access from other issuers.

**Lidgren, Handelsbanken:** You cannot compare it yet to euros and dollars from a Nordic perspective. For us, it is becoming more like the sterling market. We're getting pretty much the same order book and the same big sizes. When we started, we'd typically issue A\$300m-A\$500m and in 2023 we issued A\$1bn, so of course that's quite a dramatic change.

We have been active for 10 years-plus in the Aussie market and how we price has shifted a bit. Previously, you could come to the market and pay 5bp-10bp more than the local major banks and everyone was happy. But as just discussed, the focus is moving to the global RV. You need to triangulate the global RV while of course looking at the major banks.

**Anwender, NatWest Treasury Markets:** This isn't unique to the Aussie market, we've seen it in some of the more niche markets. The secondary market is not always a good indicator of where you can come in primary, whereas in deep liquid markets like euros and dollars, you can pretty much tell that this is close to where you'd price — and that's against other comps, not just your own bonds as well. For instance, if I can see where another UK bank bond is trading, I've got a pretty good feeling where NatWest might be, even if there's no NatWest bond on that part of the curve. But in the Aussie market, you can see your own bond, your own curve — and if you went to issue in that part of the curve again, it's very possibly not going to be near that secondary level.

**Lidgren, Handelsbanken:** There's also the fact that you're not moving the transactions that much either, meaning you need to pinpoint the landing point quite early in the process. From an investor perspective, I guess it could be seen as a positive that you're not moving 20bp, 25bp or even 30bp. But from an issuer perspective, it's a bit harder to pinpoint where the actual landing should be. And as you were saying, the secondaries could be all over the place.

*“We don’t mind paying a little bit or not achieving any arbitrage when we issue in Australia as the idea is really to expand our investor base”*

*Aurelien Harff, Crédit Agricole Group*



**Massi, CBA:** This is one of our current challenges. We are seeing larger books, but on average, price progression seems to be more of a standard move, whether 3bp-5bp or 10bp-15bp.

We executed a covered bond transaction today, which moved 10bp, not something we see very often in this sector of the market. Admittedly, as the first Australian dollar covered bond this year, there was some price discovery involved but the book dynamics still allowed us to move by such a quantum.

To your point, Mark, when secondaries valuations are not as clear-cut as in core markets, it creates some challenges at arriving at an IPT strategy that will get us confidently to the landing price. Clearly this is a big part of our discussions with issuers in the lead up and during transactions.

**GlobalCapital:** How do you feel about the standard fixed and floating rate dual-tranche format in Australian dollars? Do you approach it differently to how you would approach euros or

sterling where you might not have a combination of the two?

**Ngooi, DBS Bank:** That combination allows us to print a bigger deal size. Last year, fixed-rate tranches were more popular as investors took a view on rates. But this year that interest level has somewhat dissipated. For us, we use the fixed/float strategy to build a bigger book. Whether we do end up getting both tranches really very much depends on the strength of the order book and the desired print size. I think to a certain extent, it’s similar to the US dollar market.

**Joynt, TD Bank:** It seems just so normal to me being a North American to do fixed and float rate tranches and give the buyer the option and access some more demand. It makes sense to me, but then I’m the guy who recently did a fixed and/or floating rate euro deal.

**Anwender, NatWest Treasury Markets:** Just on that point, I think what’s key — as Chris mentioned

— it’s like the US dollar market. There’s nothing unusual about that for some of us.

But the market has become more mature. There’s no negative connotation to dropping an FRN if the demand is not there. Once upon a time there was. You’d have been, as an issuer, fearful of going if you weren’t sure you were going to get that minimum A\$100m FRN tranche and you’d think twice about whether to offer it or not. But now, absolutely go out, if there’s not enough demand, you can just drop it, and no one will penalise you for that. That is a good sign for the market.

**GlobalCapital:** What does benchmark mean in Australian dollars? And how has the definition or target developed over recent years?

**Massi, CBA:** To an extent, benchmark is in the context of the issuer. We tend to find that for a particular borrower, issuance amounts over time determine to an extent the benchmark volume expected in the market. The good news is that over time, these issuance amounts have become larger, providing a more compelling volume proposition for borrowers.

Commensurate with benchmark size, the other factor that remains important is secondary liquidity and as alluded to previously, this is a critical component for the success of the market.

**GlobalCapital:** And on the issuer side, how do you feel?

**Ngooi, DBS Bank:** When we started our Aussie dollar journey about 10 years ago, we would be happy with a A\$300m benchmark size print. But I think the market has developed quite constructively. I think these days if I were to put out a number, I think it would be A\$500m for a benchmark. But these days because the market is so strong, nothing short of A\$1bn at a minimum would be considered a success.

**Harff, Crédit Agricole Group:** It might also depend on the format. And even if we issued size in January this year, we would be perfectly happy to issue a smaller trade. But we still want the trade to be large enough so there is some kind of

*“Some investors were very candid in sharing their views about how the Aussie dollar market functions and telling us what they believe we should know”*

*Andreas Wein, LBBW*



liquidity. I think A\$500m is a good size and I'd be happy if it's A\$1bn.

**Anwender, NatWest Treasury Markets:** It's an interesting market that is probably a little bit different to anywhere else. It has always been for so long a fixed and floating market, where a dual tranche is almost the norm. It's probably more unusual to drop one of the tranches, depending on where the curve is or what is happening with rates. The dual tranche is, I think, almost seen holistically; the two tranches are almost interchangeable in a way. We see it as a package. Even if you did, for example, A\$500m in total across the two tranches, say, between A\$200m and A\$300m tranches, you would still say that is benchmark because you did A\$500m, rather than see each tranche as an individual separate transaction in isolation.

I don't really see that in any other market that I'm aware of. It's quite unusual and quite unique the way the Aussie market treats that.

**GlobalCapital: Maybe to move away from the discussions of size and depth of demand and to think about timing: in the past few years, how have European banks used to their advantage the fact that when Europe is closed, Australia is open?**

**Lidgren, Handelsbanken:** I guess there's an element of that, of course. But the whole market has changed as well post-pandemic. For instance, we have issued tier-two trades in early August in euros, where I guess the dynamics have changed a bit. But yes, of course, typically it used to be that the European market had a bit of a summer holiday, and you could use that. However, there are so many other elements to consider, like relative pricing or value. So, I don't think that you can pinpoint issuance during the European summer months, although, I guess it would be on the margin, a positive thing.

**GlobalCapital: Do others share Mattias' experience?**

**Anwender, NatWest Treasury Markets:** One of the challenges you face as a frequent issuer is figuring out how you're going to sequence your transactions throughout the whole year when you're putting your

funding plan together. You've got different entities, — for instance, a holdco is only going to issue MREL or capital, the latter tier two or AT1. And then you've also got the opco and other subsidiaries that might be offshore. For instance, we've got our UK non-ring-fenced bank, NatWest Markets, and we've got a ring-fenced bank, NatWest Bank, which might want to do covered bonds as well.

So, now we can sequence trades in a month that used to just basically be written off. What are we going to do there? The first thing we'd probably put in our plan is Aussie dollars for August, as the entire month is open. It may or may not happen. It didn't happen this year, but it did the previous two years, so for us it's definitely a win.

We talk about the summer holidays, well, that was also the case in Australia. Once upon a time you wouldn't have considered doing an issue prior to Australia Day, which is the weekend around January 26, but as of this year that phenomenon was basically wiped out, and we expect that's not just a one-off. It's going to be the case now that in the first week of January, the market is expected to be open, which, again, that's something that's been consistent globally, but it's quite new in Australia.

**Ngooi, DBS Bank:** I would echo that. The Aussie dollar is one of the few markets that is open all year round, which is especially good for us issuers.

**Harff, Crédit Agricole Group:** If you have many bonds that historically have been issued over the summer, they will probably redeem

over the summer, freeing cash that we can use, so we don't specifically target the summer window, but we might target the windows when there are more redemptions.

**Joynt, TD Bank:** I don't get to take advantage of this because I'm in blackout in August with our weird Canadian October year-end. So, yes, I'm unable to take advantage of this wonderful openness.

**Massi, CBA:** Issuer blackouts are interesting and given reporting cycles, we tend to see a congregation of issuance at around the same time. With a larger and better market, though, capacity has improved which means that we see multiple trades on the same day with little, if any effect on each other. There are, of course, some trades that issuers may tactically not opt to go head-to-head with, but overall, the market can absorb multiple transactions well.

**Anwender, NatWest Treasury Markets:** Yes, and that again shows how the market has matured. Once upon a time it was one trade per day, but when we did our debut NatWest Markets trade two years ago, we came on the same day as an Aussie major bank. The first reaction was: Should we not do the trade today and try tomorrow? But we went ahead, and it worked in our favour. The Aussie major provided a fresh pricing benchmark and was a clear comp for us to benchmark against.

I do think there's a limit — you wouldn't come to market with six trades already announced on a day. But you could easily come with two, or even three or four, depending

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**Mark Anwender, NatWest Treasury Markets**



*“When we started our Aussie dollar journey about 10 years ago, we would be happy with a A\$300m benchmark size print, but I think the market has developed quite constructively”*

**Chris Ngooi, DBS Bank**



on the issuers. You can clearly go against a major bank with a kangaroo or with some corporates.

**Ngooi, DBS Bank:** I do agree that the Aussie dollar market has come a long way. But as more issuers join the party, what remains to be seen is whether the market can sustain multiple trades that are printing in the same format. For example, you don't get this issue in the US dollar market where you have similarly rated FI issuers hitting the screen as the market can digest it. But I think this year we saw that wasn't the case in the Aussie dollar market. Hopefully as the market matures and the depth increases, the market will support multiple trades in the same zip code.

**Joynt, TD Bank:** My experience has been pretty similar to Chris's. Directionally it's certainly positive but there's just a lot less capacity to deal with overlapping trades in Australia than there is in other currencies. It's something that you must be conscious of. It's not like it's the only market that's like this but compared to some other major markets, there's more lining up that must happen.

**Massi, CBA:** Yes, that is a fair point, absolutely. And to Chris's comment, I agree; when you see issuers offer similar price and tenor options, it can get a bit more complicated. I would like to think it will continue to improve over time.

**Anwender, NatWest Treasury Markets:** And I think that's unique

to Australia. It's like a crowding-out effect basically. When we're looking at markets and watching the screens and suddenly one of our UK peers is out with a transaction similar to what we're planning, we wouldn't then come immediately after that and go as well on the same day. I think we'd generally say we're going to leave the market to them for today and see what might be possible the next day.

With, say, a dollar or euro transaction, you don't do yourself any favours by going head-to-head with one of your competitors with a like-for-like transaction regardless of the depth of the market or how well it is performing. It's very much a case of leave it to them for today, we'll try tomorrow. And we see that behaviour reciprocated — if we're out first, we don't see our peers competing. It's just not a prudent way to do business and it's part of being a responsible issuer.

**GlobalCapital:** Mark, you mentioned earlier sequencing your funding plans. How does roadshowing to Australia fit into this? Are there any benefits to holding a physical roadshow instead of a virtual one?

**Anwender, NatWest Treasury Markets:** From our perspective, there's definitely a benefit to holding a physical roadshow. As a relative newcomer to the market, it was important to establish those investor relations from the beginning. They're relationships that develop over time. It was important for us before our debut transaction in

2022 to make sure that we were out there physically seeing people. And that's not just within Australia, it's throughout Asia as well. And we obviously visit Asia regularly with regards to the other currencies that we issue in as well.

In Australia specifically, yes, we want to go to places like Melbourne and Sydney where the key, critical investors are and make sure they know who NatWest is. Of course, we have the benefit of the UK banks having been issuers there for quite some time. But it's still a case that everyone is slightly unique and particularly for us as a large global opco borrower. We need to explain to people how that business model works and reiterate how ring-fencing works and why we have a holdco and an opco. It's a story that people are still learning. They're not faced with it every day, so to be able to do that face-to-face makes a huge difference versus doing it virtually.

**Savina, CBA:** We all learnt during Covid that we could do anything virtually, but travelling to Australia and looking at investors in the eye is an extremely valuable investment of time. Investors treat these annual trips as a commitment to the market and, yes, you might not come every 12 months, maybe it's 15 or 16 months but once you're there investors know you'll return. If you treat the Kangaroo market as an important one, then investors will treat you equally, they will follow you and buy your risk.

We've seen this year through the number of roadshows we've run that there are investors who previously were not, for instance, buying Kangaroos coming in. Investors who were previously small are increasing their intake. There is more and more attention from our domestic investor base towards the European names and investors appreciate the effort issuers put into travelling to Australia for a roadshow. Without this commitment, it would be a different market with issuers seeing different outcomes to their transactions.

**GlobalCapital:** Andreas, you mentioned that you debuted earlier this year. I know you've been roadshowing extensively as well. Did you have a similar experience to what's been discussed so far?

**Wein, LBBW:** Absolutely. I can only echo every remark that's been made about roadshowing. What I can add is that we very much enjoyed starting the dialogue here and I think it's a dialogue that would most likely not have been established via video calls. Some investors were very candid in sharing their views about how the Aussie dollar market functions and telling us what they believe we should know. In some respects, they made this almost an educational tool for us.

And at the same time there was a very frank exchange of views about the European economy, the German economy and how they viewed these markets. We found it was a very engaged two-way dialogue that we enjoyed absolutely and we will certainly want to continue that next year.

**GlobalCapital:** Chris and Cameron, as two of the more established issuers in the Australian dollar market, how have you found it? How do you approach roadshowing in Australia?

**Ngooi, DBS Bank:** I'm 100% behind physical roadshows. Australia is our first destination when we start our annual roadshow. We tend to tie it around some big conferences in the market to make it more efficient as the industry gathers around conferences. And, yes, it's extremely powerful to be able to sit in front of investors and, as mentioned, look into their eyes and ask tough questions — or maybe have the tough questions asked of me.

And over time, those personal relationships develop. I recently have had investors come straight to me saying, 'I have a particular maturity, can you help fill it up for me?'. That kind of relationship and engagement is a long-term investment. It's definitely a must do.

**Joynt, TD Bank:** It's important. And it's probably the furthest flight you can do from Canada because it's like literally twice as far as Japan for me. It takes more than a day to get there and more than a day to get back. But we still do it and it's important.

**GlobalCapital:** Thank you. What's the benefit of having a specialised Australian dollar



*"Looking at the Swedish market, our home market, it's one where we do mostly covered bonds whereas we do senior funding in euros, US dollars and Aussie dollars"*

**Mattias Lidgren, Handelsbanken**

debt issuance programme? And what sort of work did you have to do to access the Aussie dollar market for the first time?

**Anwender, NatWest Treasury Markets:** It's challenging to set up a new debt programme. And we've just gone through setting up one for NatWest Group, the holdco. Although we haven't used it yet, it was a long process in part due to internal factors and the various governance steps you need to go through. But the actual setting up of the programme is relatively simple. It's a well-worn path in terms of how a programme should look and how it needs to be set up. You can do that in relatively quick time. Operationally there are other challenges but from a documentation perspective, you can get there pretty quickly.

As I said earlier, it's important to tick as many boxes as you can to keep investors happy. For instance, we already have an EMTN programme that we could issue off, but there are drawbacks. We know there are investors who want a product that settles in their own domestic settlements system, so it's important to make sure that we do that.

But it's not like you're spending plenty of time to set these programmes up — the effort required to set up an Aussie dollar Kangaroo programme is not excessive. We've set up various programmes for NatWest Markets over the past few years, and a Kangaroo programme is far less work than setting up a US 144A

programme or an SEC shelf or even an EMTN programme. That's one thing to bear in mind.

**GlobalCapital:** Chris, I can see you nodding in agreement. How do you feel about the programmes you use to issue debt in Australia?

**Ngooi, DBS Bank:** We issue it off the global MTN programme or the global covered bond programme and we just add to it the requisite language that is required from an Australian law perspective. So, I think that's fairly light from a documentation perspective. Once you set up the foundation, the rest is pretty much manageable.

**Harff, Crédit Agricole Group:** I think in our case, as we are trying to expand our investor base, we look to issue the product that can attract more investors. So that's what we do in every market, and we have set up programmes in the US, in Japan, in China, but Australia is probably one of the lightest ones in terms of documentation weight.

There is still the issue about repo eligibility, but that's more about RBA criteria. The end idea is really to make the product as attractive as possible to as many investors as possible.

**GlobalCapital:** Thank you. And Enrico and Vera, from a DCM perspective, how have you found setting up these programmes and bringing these issuers to the market?

**Massi, CBA:** Seamless. Setting up an Australian dollar programme up is an easy process as it is true and tested and the documentation is relatively simple. The key importance of the domestic programme is that ability to settle domestically with an AU ISIN, allowing the security to be eligible for the local indices and potential repo-eligibility. This helps maximise demand for the product. In many cases, reference can be made to other key documents in existence, which means we are not replicating everything that is already in place. It is also less onerous as there is no need to have annual updates as with other programmes.

For us, the fun part is about bringing a new credit to the market, introducing it to investors and eventually work on a transaction that sees a strong book and attractive price compression and, importantly, to be able to repeat this and eventually assist in building a relationship between the issuer and the Australian dollar investor base.

**Savina, CBA:** The choice of programme is driven by what the issuer's intentions are for the Australian dollar market. Do they really want to find diversification? Then they need to have a programme.

**GlobalCapital:** For our final topic, you've spoken a lot about how you can access size and the breadth of demand in Australian dollars, but can we start calling it the new sterling? Could it displace sterling in that mix at the top? Could we be talking about US dollars, then euros and then Australian dollars?

**Anwender, NatWest Treasury Markets:** As a UK bank, it's going to be very difficult for a currency to displace sterling, so, from our perspective, it's going to be very different to someone out of the Nordics or from Canada or from Singapore, Germany, or France.

**Lidgren, Handelsbanken:** Yes, it is possible, but I can't say whether it's there or not. The sterling market from a Nordic perspective is also a bit off and on, so, yes, perhaps, from our perspective, it's possible that maybe we are almost there already in the Australian dollar senior market.

**GlobalCapital:** Does anyone else feel the same way?

**Ngooi, DBS Bank:** I call it G4 instead of G3.

**Harff, Crédit Agricole Group:** In sterling we tend to issue more non-preferred senior and tier two, and a bit less senior preferred. But we're not trying to issue less in sterling. We try to issue more in sterling and more in Australian dollars at the same time. Rather, we are trying to diversify more and issue less in euro and this goes for all these markets. I think we have issued 5%-10% of our funding plan in each of sterling, Australian dollars and yen this year, a third in US dollars and the last third in euros. We are happy with that currency mix.

**Joynt, TD Bank:** In the senior market, the sterling market has had its own challenges lately, at least for a non-domestic issuer. But the Australian market, as we talked about at the very beginning, has seen a huge transformation over the last 18 months or so. And the

trajectory is really good and really exciting. I hope it can stick.

If it does will depend on lots of factors about other Asian currencies, and issuance over there and how much Asian money we're getting in. In my book, there's been a lot more Asian demand for our most recent senior bond than we had experienced historically, which was very exciting. We're hoping that the trajectory holds. But you probably need to see a little more of a continued positive trajectory here before you're willing to declare it the next major currency, I think.

**Wein, LBBW:** And maybe to add, I think pretty much everybody at the start of this roundtable said they were looking at the Australian dollar market for diversification. And so why would I give up one currency that offers diversification, like sterling, and replace it with another? Since the two investor bases are somewhat complementary, I'd rather remain active in both.

**Joynt, TD Bank:** More is more. More is more. The Australian dollar does have several legs up on the Canadian dollar, so I have to give you guys that.

**Massi, CBA:** We see the Aussie market as complementary to some of the core currencies. For example, for some high-grade borrowers, Australian dollars is already in their top-three issuance currencies, normally after dollars and euros.

And to Andreas' point, it is about diversification. If you can access additional investor capacity in a market that sustainably provides attractive issuance opportunities, this is a great addition to your funding mix. Australian dollars ticks all those boxes. We are excited about our trajectory, here's to continuing this journey.

**Joynt, TD Bank:** I have a pricing sheet that I see every week about all of our markets. For a very long time, five currencies were on it, the Canadian dollar being the fifth one and the Australian dollar being the fourth. It's been very firmly on our radar at TD for such a long period of time and it will continue to be so. I think we're splitting hairs a little bit. Is it number four or number five? But I'd much rather have five than four — and, of course, I'd much rather have six than five, so call your friends. GC



*"The Australian market has seen a huge transformation over the last 18 months or so and the trajectory is really good and really exciting"*

**Cameron Joynt, TD Bank**

# Aussie dollar FI supply will stay strong, but covered issuance in question



**GC:** What have been the main market developments for Aussie bonds in 2024?

**Holian:** The backdrop for issuers has been highly supportive. Australia's central bank is one of the few that has not yet reduced rates. The fact that rates have been at 4.35% for some time, combined with solid liquidity and macroeconomic stability, has made investors very receptive to new transactions. We have seen very strong book-to-cover ratios throughout the year, regardless of whether that's financial institution (FI) or corporate deals.

In terms of FI supply, at one point we were ahead of the run rate from 2023, which was a record year with A\$112bn issued. In Q3 this year we had A\$87bn, just ahead of the A\$86bn in the same quarter of 2023. The FI market then slowed slightly ahead of the US election, but we're seeing the pipeline build strongly towards year end and this has been supported by recent deals for CBA and Barclays in Tier 2 and ING in covered, all with very large books.

**GC:** How will the Australian Prudential Regulation Authority (APRA) proposals for AT1 affect issuers?

**Holian:** APRA is seeking to phase out AT1 capital for domestic banks over five years with the current proposal suggesting a January 2027 start date. One of the motivations behind this move is that AT1 in Australia is a retail dominated market, and in the event of a crisis, these investors may end up taking a significant amount of any AT1 losses, as was seen in other markets such as Switzerland.

Australian banks will likely refinance a large portion of existing AT1 in the Aussie dollar T2 market. But they will also look for attractive pricing, longer tenors and diversification opportunities in offshore markets. At the same time, that could create an opportunity for institutionally-placed offshore banks to tap the Australian market. On the buy side, we estimate that between 2025 and 2032 A\$42bn of cash will be returned

2024 has been another impressive year for Aussie dollar bank supply, almost outpacing the 2023 record. The year ahead will bring new opportunities along with regulatory change. *GlobalCapital* spoke to **James Holian**, Head of DCM & Syndicate Europe at **Commonwealth Bank**, about the outlook for issuance, the phase out of AT1 and whether covered bonds might spark into life in 2025



James Holian, Commonwealth Bank

to AT1 investors, who will be looking to deploy cash to comparable yielding securities. Wholesale AT1, T2 and corporate hybrids are the most obvious choice.

**GC:** What are you hoping to see across different asset classes in 2025?

**Holian:** If FI supply reaches north of A\$100bn this year, that will exceed all previous years with the exception of the record 2023. The maturities for the major banks in FY25 are lower than in FY24. Deposit growth remains strong. If rates stay higher for longer that is supportive for the banks raising funding for new lending through deposits. However, if credit growth picks up, we expect the banks to raise more wholesale funding in addition to the maturities. I would hope that in 2025, with no run-rate slowdown due to the US election, we would be in the 2023-2024 issuance range. What we have missed in 2024 is Aussie dollar covered bond supply. The first deal of

2024 only appeared in November with ING, followed by Bendigo and Adelaide Bank. This is partly because the secured-unsecured price differential has not been as beneficial to issuers as it has been in other currencies. From speaking to various issuers, their balance sheets have not necessarily grown as much as they were expecting and deposits have been stickier so covered supply has been lower as a result. Furthermore, the Aussie majors have tended to keep their covered issuance for markets such as euros to ensure they have issuance headroom to maintain a curve that satisfies those markets' investors. That said, recent swap spread movements have made the euro covered bond market less appealing for some issuers, so there might be an opportunity for the Aussie dollar market to step up and fill in the gap in 2025.

**GC:** How has the use of ESG-themed deals varied across asset classes, and will this change in 2025?

**Holian:** Over the last 12 months, AUD ESG issuance has largely seen high-grade issuers leading from the front. We've seen the SSAs leverage their ESG frameworks to enter the market. Supras like the ADB, IADB, IBRD continued to issue well received ESG deals. We've also seen AOFM and the semi-governments issue in green and sustainability. The AOFM issued its inaugural green bond earlier this year, which was a key milestone in the Australian Government's Sustainable Finance Strategy.

What we have not seen quite as much of in the ESG space is financials. There is untapped demand for labelled financial and corporate paper amongst domestic investors seeking portfolio diversification. Offshore banks have an