AUSTRALASIAN HIGH-GRADE YEARBOOK

KangaNews

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KangaNews is proud to present key data and information on all the major issuers in the Australian and New Zealand government sectors. The issuer section includes funding data and interviews with the largest borrowers.

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Artist's impression of the new world-class, multi-purpose venue courtesy of Optus Stadium

Western Australia

Secure: Western Australian Treasury Corporation is the central financing authority for the State of Western Australia. All Western Australian Treasury Corporation debt is guaranteed by the State of Western Australia and it is currently rated AA+ (Negative Outlook) by Standard & Poor's and Aa2 (Stable) by Moody's.

Liquid Bonds: Western Australian Treasury Corporation's bonds are issued in large benchmark lines and are eligible collateral for repurchase agreements with the Reserve Bank of Australia.

Growing Economy: Western Australia is a vibrant, export orientated economy that accounts for 14% of Australian GDP and produces 40% of the nation's exports whilst having only 10% of the population.

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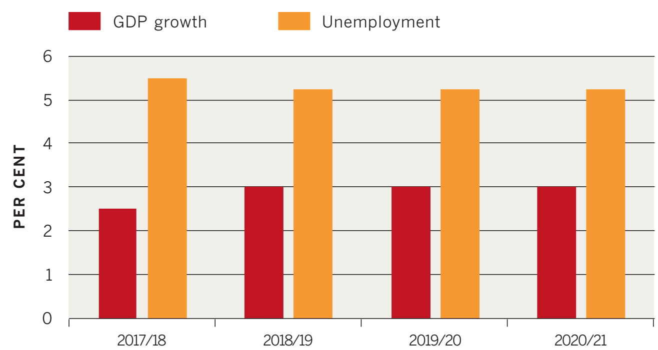
Headline data

Australian economic indicators were broadly positive in 2017 but produced little to set pulses racing. A 26th straight year of economic growth was characterised by marginally improving GDP growth, a consistently falling unemployment rate, inflation hovering just below the Reserve Bank of Australia (RBA)'s target band and limited expectation of the RBA hiking the cash rate in the short-to-medium term.

AUSTRALIAN BUDGET FORECASTS: GROWTH AND UNEMPLOYMENT

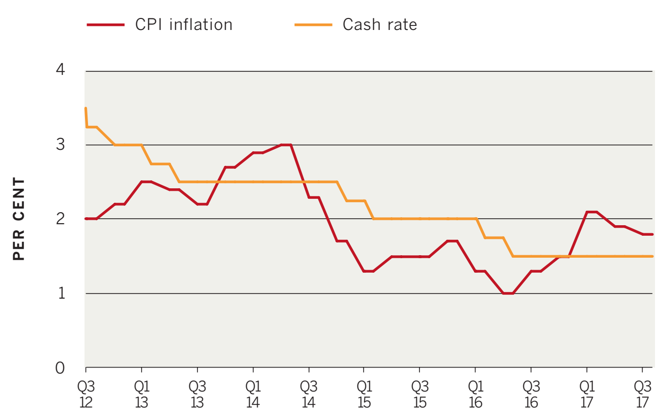


SOURCE: COMMONWEALTH BUDGET PAPERS MAY 2017

AUSTRALIAN GROWTH AND UNEMPLOYMENT (SEASONALLY ADJUSTED)

SOURCE: AUSTRALIAN BUREAU OF STATISTICS 2017-18

AUSTRALIAN INFLATION AND RBA CASH RATE



SOURCE: AUSTRALIAN BUREAU OF STATISTICS 2017-18

"Australia's economy is expected to grow at a solid pace in 2017-18 as the drag on growth from falling mining investment nears completion. Support to growth is expected from nonmining business investment, household consumption, public final demand and exports."

AUSTRALIAN COMMONWEALTH GOVERNMENT
MID-YEAR FISCAL AND ECONOMIC OUTLOOK

"Our assessment is that the government's assumptions around the economic outlook appear credible for the most part, although the wage forecasts continue to look ambitious."

ANZ RESEARCH

"Recent data suggest that the Australian economy grew at around its trend rate over the year to the September quarter. The central forecast is for GDP growth to average around 3 per cent over the next few years. The outlook for nonmining business investment has improved further, with the forward-looking indicators being more positive than they have been for some time."

PHILIP LOWE RESERVE BANK OF AUSTRALIA

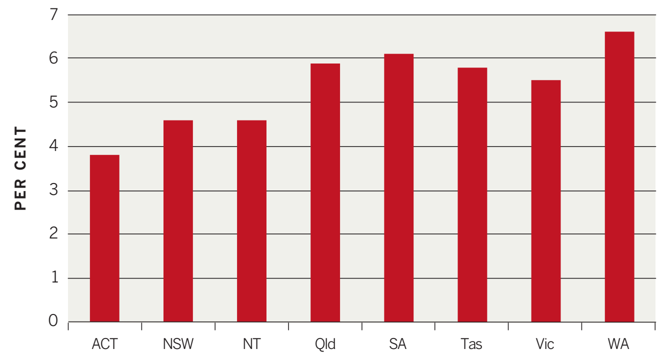
"GDP growth hit a low of 1.8 per cent in the first quarter, but managed to lift back to a trend-like 2.8 per cent in the third quarter. The main upside surprises came in the most important labour market indicators. Employment growth picked up over the year to November and the unemployment rate crept lower over the year. The missing piece of the puzzle was inflation."

COMMONWEALTH BANK OF AUSTRALIA RESEARCH

Employment in depth

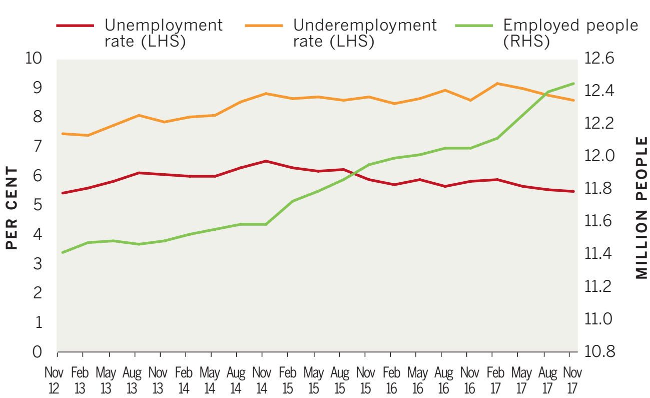
Underlying and regional employment data produced some intriguing results in 2017. The labour force experienced constant improvement throughout the year, adding jobs in every individual month for the first time ever. Underemployment remained a trend to watch although the level declined somewhat from a historical peak. Analysts are looking to 2018 as the year when wage growth starts to catch up.

AUSTRALIAN UNEMPLOYMENT BY STATE, NOVEMBER 2017



SOURCE: AUSTRALIAN BUREAU OF STATISTICS JANUARY 2018

AUSTRALIAN UNEMPLOYMENT AND UNDEREMPLOYMENT (SEASONALLY ADJUSTED)



SOURCE: AUSTRALIAN BUREAU OF STATISTICS 2017-18

AUSTRALIAN WAGE PRICE INDEX

SOURCE: AUSTRALIAN BUREAU OF STATISTICS 2017-18

"In our view, the strong jobs market performance is set to continue through 2018, although it's not uniform across the states and cities. Victoria and New South Wales are generating most of the new jobs. They have benefited from the large rises in residential and commercial property prices which are driving record construction. Low interest rates help."

COMMONWEALTH BANK OF AUSTRALIA RESEARCH

"To forecast a pace of growth in household incomes and consumption consistent with rate hikes, we need to assume that the current pace of employment growth is sustained and that wages growth also picks up reasonably rapidly. We appreciate that some view this as a central case. In our view that's not quite right... While our forecasts have real GDP growth rising a little over 2018, it remains too weak to deliver both strong employment growth and a strong acceleration in wages growth this year."

DEUTSCHE BANK RESEARCH

"The Phillips curve tells us that wages growth should follow such prolonged outsized employment growth, in turn boosting core CPI. So far this year that pass-through has been feeble at best but at least wages (2 per cent) and underlying inflation (1.9 per cent) are both off the floor and rising."

TD SECURITIES RESEARCH

Regional variation

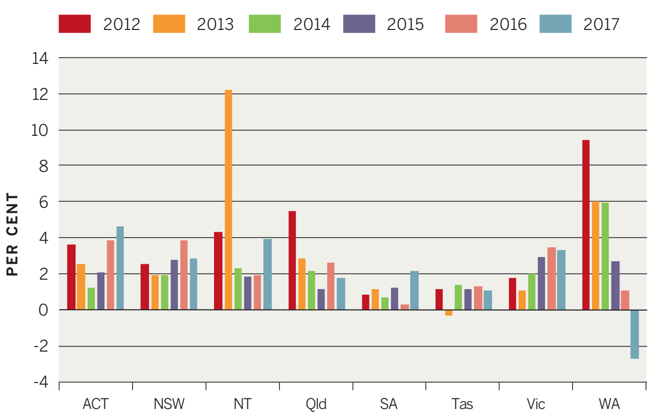
Australia's largest states, New South Wales (NSW) and Victoria, have outperformed nationwide economic growth for the past three years, with the margin growing each year. All states and territories except Western Australia, which continues to rebalance after the mining investment boom, recorded increases to their gross state product (GSP) in 2016/17. Australian Capital Territory and Northern Territory delivered particularly strong outcomes.

CONTRIBUTION TO AUSTRALIAN GDP GROWTH

CITY/REGION	COMPONENT OF GDP GROWTH 2009/10-2016/17 (PER CENT)	COMPONENT OF GDP GROWTH 2016/17 (PER CENT)
Sydney	28	41.6
Regional NSW	5.4	6.3
Melbourne	20.3	27.1
Regional Victoria	2.4	12.5
Brisbane	8.1	6.7
Regional Queensland	8.6	9.8
Adelaide	2.2	2.1
Regional South Australia	0.4	4.6
Perth	10.4	-15.8
Regional Western Australia	8.6	-4.0
Tasmania	0.8	1.0
Northern Territory	2.2	3.0
Canberra	2.6	5.1

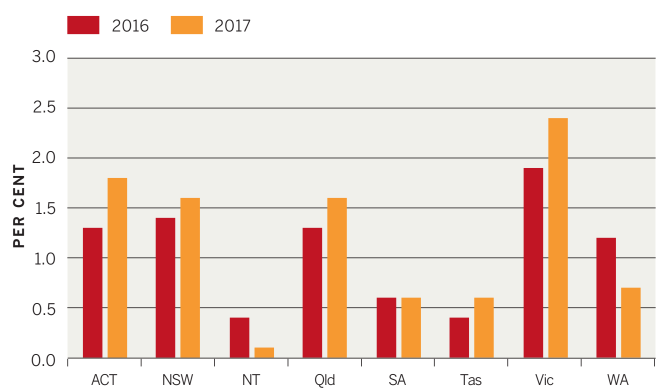
SOURCE: SGS ECONOMICS AND PLANNING DECEMBER 2017

AUSTRALIAN GSP GROWTH



SOURCE: AUSTRALIAN BUREAU OF STATISTICS JANUARY 2018

AUSTRALIAN STATE AND TERRITORY POPULATION GROWTH, YEAR TO END MARCH



SOURCE: COMMSEC OCTOBER 2016 AND OCTOBER 2017

"The mining states, of Western Australia and Queensland, finally started to show some good numbers in 2017, particularly in the labour market. New South Wales and Victoria continued to grow solidly and South Australia got some fiscal support, particularly from announced defence spending."

HSBC RESEARCH

"We have seen a rebound in labour-market conditions in the resource states, with Queensland and Western Australia recording the strongest employment outturns among the states over the past year. In absolute terms, employment growth over the past year has been strongest in New South Wales with around 140,000 jobs added."

DEUTSCHE BANK RESEARCH

"New South Wales, Victoria, Queensland and the Northern Territory have seen current financial-year improvements to general-government operating balances, although the outer-year projections are generally lower. Western Australia's 2021 surplus forecast has disappeared, while South Australia revised its surplus expectations lower."

WESTPAC INSTITUTIONAL BANK RESEARCH

"Population growth is clearly an important driver of the broader economy, especially retail spending and housing demand. Only three states have population growth above long-term averages. Victoria continues to record the strongest annual population growth."

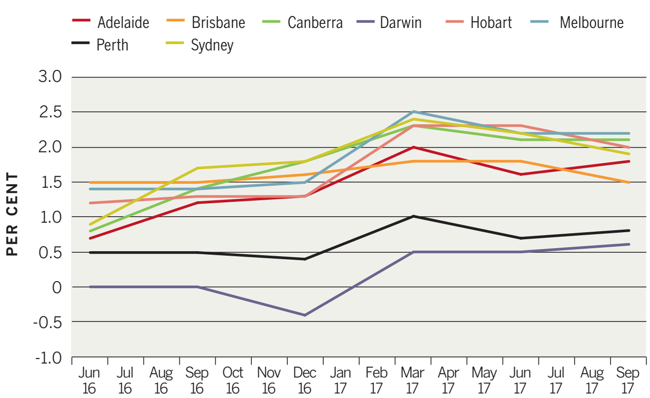
COMMSEC RESEARCH

Inflation signs

Inflation in Australia has remained sluggishly sub-band for several years (see p4), while wage growth is also subdued (see p6). Analysts say low inflation is a global phenomenon staying central banks' hands, while a more detailed look at the Australian story shows signs of only a limited pickup from historically low inflation – although consumer confidence does appear to be rising.

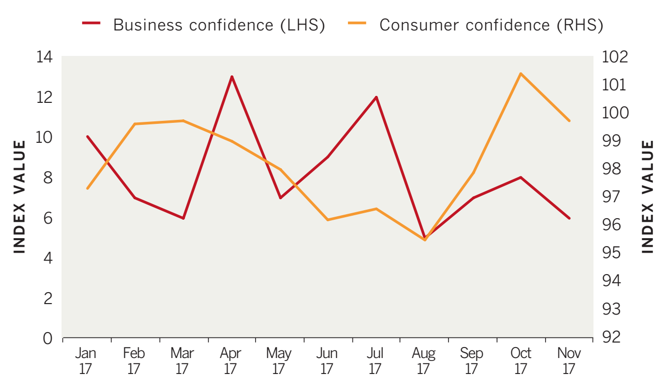
Inflation rates across Australia's major state-capital cities were in line with the tepid Australia-wide results seen throughout the year. Melbourne was the only state capital within the Reserve Bank of Australia's target band in September 2017, with the population boom likely the main contributor.

AUSTRALIAN CAPITAL CITY INFLATION RATES



SOURCE: AUSTRALIAN BUREAU OF STATISTICS JANUARY 2018

AUSTRALIAN BUSINESS AND CONSUMER CONFIDENCE



SOURCE: NATIONAL AUSTRALIA BANK, WESTPAC BANKING CORPORATION-MELBOURNE INSTITUTE 2018

"Inflation is certainly the missing link. Looking at how the labour market has performed in 2017, we would have expected there to have been more of an inflationary tone coming through – but this just hasn't been the case."

ADAM DONALDSON COMMONWEALTH BANK OF AUSTRALIA

"I don't expect the RBA will start hiking until it has at least seen satisfactory evidence that inflation and wage growth are picking up."

SKYE MASTERS NATIONAL AUSTRALIA BANK

"The tightening cycle is not going to the peaks of previous examples, and the backdrop of very cautious policy and very low inflation makes it hard to see a major yield reversion."

DAVID GOODMAN WESTPAC INSTITUTIONAL BANK

"The consumer mood has posted a clear improvement since the September quarter. This points to some recovery in spending which saw a disturbing slump in the third quarter, a view broadly consistent with recent more positive updates on retail sales and vehicle purchases. However, the degree to which spending improves still looks likely to be constrained."

WESTPAC INSTITUTIONAL BANK RESEARCH

"Home loans and consumer confidence both strengthened at the start of the year, which was particularly important for sentiment as both areas had been feared to be areas of potential risk in 2018."

COMMONWEALTH BANK OF AUSTRALIA RESEARCH

"We have had to think about the rules differently because we haven't had the inflation we would expect by this point in the cycle. We have to recalibrate where we think long-end yield goes."

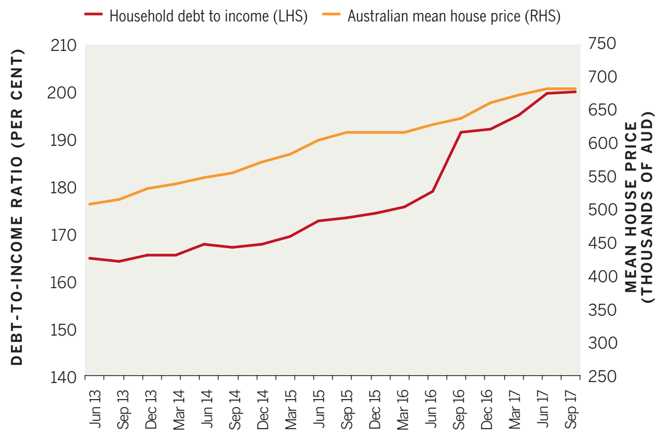
MARTIN WHETTON ANZ

Housing-market trajectory

The Australian housing market has been a focal point for a vast swathe of interested parties in recent years. Investors, regulators, politicians and the media are just some of those paying keen attention to the seemingly ever-upward trajectory and the means by which a soft landing can be managed.

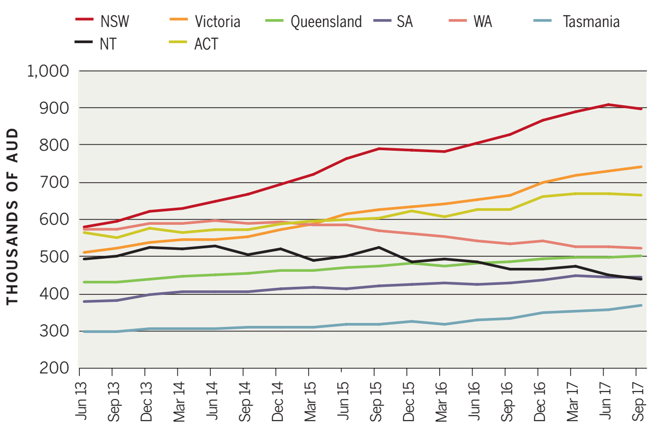
An important consideration is the regional nature of Australian house prices – especially the way Sydney, and to a slightly lesser extent Melbourne, has been the main driver of rapid price growth.

AUSTRALIAN HOUSE PRICES AND HOUSEHOLD INDEBTEDNESS



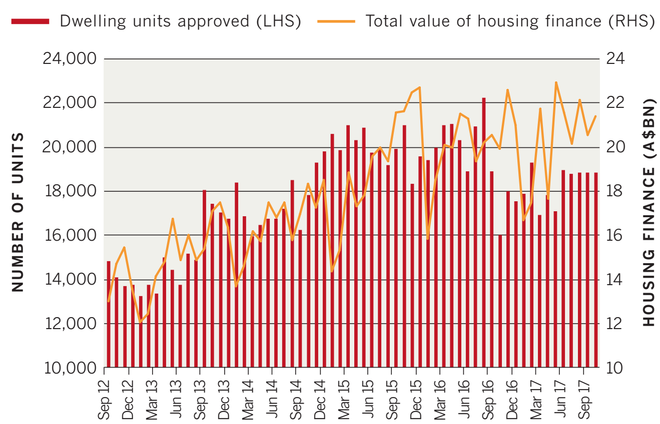
SOURCE: AUSTRALIAN BUREAU OF STATISTICS, RESERVE BANK OF AUSTRALIA JANUARY 2018

AUSTRALIAN MEAN HOUSE PRICE BY STATE



SOURCE: AUSTRALIAN BUREAU OF STATISTICS JANUARY 2018

AUSTRALIAN HOUSING APPROVALS AND FINANCE



SOURCE: AUSTRALIAN BUREAU OF STATISTICS JANUARY 2018

"After a period of strong price growth over the past five years, housing markets are now adjusting. The major issue for households seeking to manage mortgages over the coming year is the prospect of quite weak disposable income growth. It will slow the growth in new housing lending."

COMMONWEALTH BANK OF AUSTRALIA RESEARCH

"Overall, the November 2017 report points to the housing construction cycle having more enduring strength than anticipated. However, we still believe that we are past the peak in activity. Hence, GDP growth is unlikely to receive lasting support from the sector."

WESTPAC INSTITUTIONAL BANK RESEARCH

"In 2017 we saw growth rates and transactional activity gradually lose steam, with national month-on-month capital gains slowing to zero in October before turning negative in December. Sydney's housing market has become the most significant drag on the headline growth figures."

TIM LAWLESS CORELOGIC

"In 2018, housing market performance is likely to be significantly different relative to previous years. We're likely to see lower to negative growth rates across previously strong markets, more cautious buyers and ongoing regulatory vigilance of credit standards and investor activity."

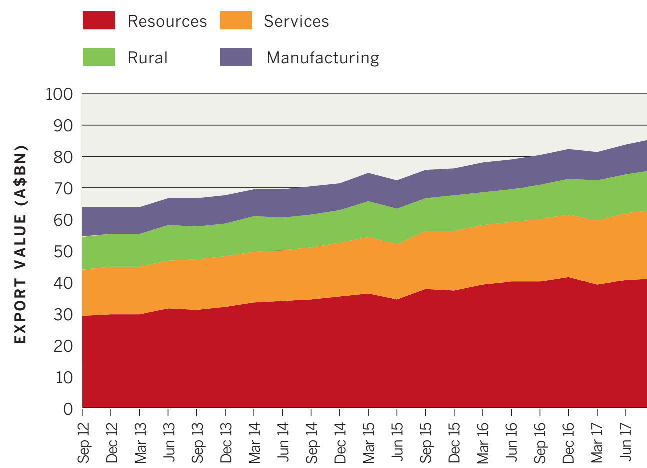
TIM LAWLESS CORELOGIC

Trade view

Australia's terms of trade have picked up since mid-2016 having suffered an extended period of decline from the historical highs of the mining investment boom. While terms of trade and commodity prices continue to track closely together, most analysts believe the Australian economy as a whole has largely completed the rebalancing process following the resources boom.

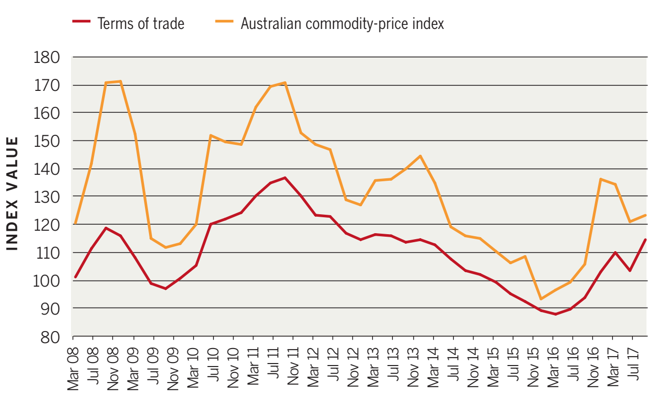
Even so, resources remains by some distance the largest national export sector, and growth created by the scale of investment in the sector around the turn of the current decade continues to drive volume.

AUSTRALIA'S MAJOR EXPORT SECTORS



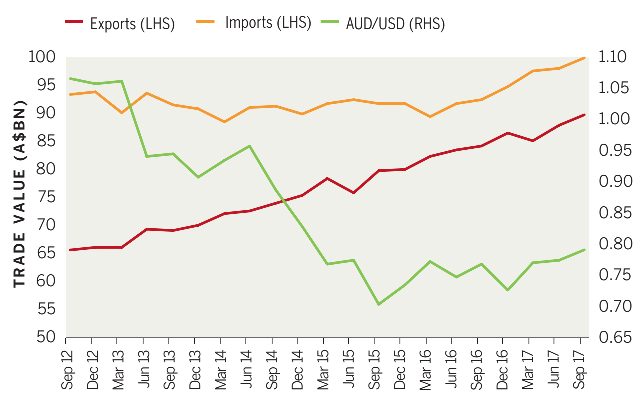
SOURCE: RESERVE BANK OF AUSTRALIA JANUARY 2018

AUSTRALIAN TERMS OF TRADE AND COMMODITY PRICES



SOURCE: RESERVE BANK OF AUSTRALIA JANUARY 2018

AUSTRALIAN TRADE AND EXCHANGE RATE



SOURCE: RESERVE BANK OF AUSTRALIA JANUARY 2018

"Our bullish view on the Australian dollar should get a helping hand from the terms of trade with key export commodity prices having lifted by 29 per cent over the past three months. This is Australian dollar-supportive from both a structural perspective and within a cyclical context. Importantly, the Australian dollar has lagged the upward momentum in the terms of trade since 2016, leaving risks asymmetrically pointing to the upside for the currency."

HSBC RESEARCH

"While we retain a generally positive view on medium-term prospects, given positives such as the terms of trade and the positive outlook for household incomes, we see the cooler picture persisting over the next few quarters. The economy is not only navigating headwinds from the softer housing market but is also transitioning in terms of its growth drivers."

ANZ RESEARCH

"We expect commodity prices to remain around current levels. That, and a low level of global yields, keeps the current-account deficit relatively narrow – by Australian standards – out to 2020. As a result, we remain of the view that the Australian dollar will prove much more resilient than in the past to US yields being higher than Australian yields."

DEUTSCHE BANK RESEARCH

GOVERNMENT-SECTOR ISSUERS ROUNDTABLE PART ONE:

AUSTRALIAN PERSPECTIVES

In January 2018, *KangaNews* invited representatives of Australia's biggest government-sector funders to a roundtable discussion in Sydney. In the first part of the discussion, the issuers share insights into the global funding environment, global investor demand and their own ambitions with respect to curve duration.

PARTICIPANTS

■ **Vince Cinquina** Head of Financial Markets WESTERN AUSTRALIAN TREASURY CORPORATION ■ **Chris Collard** Treasurer EXPORT FINANCE AND INSURANCE CORPORATION ■ **Jose Fajardo** Head of Funding and Liquidity QUEENSLAND TREASURY CORPORATION ■ **Andrew Kennedy** Director, Treasury Services SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY ■ **Justin Lofting** General Manager, Treasury TREASURY CORPORATION OF VICTORIA ■ **Rob Nicholl** Chief Executive AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT ■ **Fiona Trigona** Head of Funding and Balance Sheet NEW SOUTH WALES TREASURY CORPORATION

AUSTRALIAN ROUNDTABLE MODERATOR

■ **Laurence Davison** Managing Editor KANGANEWS

MARKET CONDITIONS AND DEMAND

Davison Perhaps we can start with issuers' review of funding conditions during 2017. Markets in general were very benign, but how was this reflected in demand for Australasian high-grade bonds?

■ **NICHOLL** After the big global sell-off in late 2016, Australian Commonwealth government bond (ACGB) yields retraced this rise progressively over about six months. This coincided with the second half of our biggest issuance programme to date, so we were pleased to see strong and steady demand throughout 2017. The results of our syndications and tenders show there has been solid underlying demand.

AUSTRALIAN ISSUERS AND *GLOBAL RELATIVE VALUE*

It remains to be seen how global demand for Australian assets will evolve in the next phase of the rates cycle. So far, issuers say the erosion of Australia's global yield advantage has not cost them excessively.

■ **DAVISON Flat Australian cash rates and the hiking Federal Reserve have drained much of the yield advantage that helped put the Australian dollar on the global investor radar in the early part of the decade. What are investors saying about appetite for Australian dollar assets if the yield pickup remains limited?**

COLLARD Even though Export Finance and Insurance Corporation (Efic) did not engage in any term funding during calendar 2017, we continued to receive reverse enquiry from existing and, more importantly, new investors looking to buy Efic debt in Australian dollars and foreign currencies. There are two parts to the investment decision – the return and the credit. Investors are happy with the credit and perhaps they previously saw higher outright interest rates as some sort of 'arbitrage' for buying Australian dollar product.

Now the US yield curve is steepening, this overcompensation isn't necessarily going to be there. But I don't think this will bring about a decrease in demand for Australian credits because of the quality of the bonds debt investors are putting onto their balance sheets.

LOFTING The Australian-to-US 10-year sovereign spread got out to about 65 basis points at one stage last year and it's now down to about 20 basis points. There was a lot of flow into Australian markets at one stage, particularly out of Europe, and many of these buyers are now much quieter.All investors have been pushed out along the curve to chase yield – in every asset class and every currency. This was the big theme from the second half of 2017.

But ultimately prices move and adjust for demand. I don't see conditions now as being radically different from what they were at any stage last year. There is still a lot of money in the world that needs a home, and Australia is still a solid place to put your money even if relative spreads to US aren't as great as they were. I'm not concerned about relative spread outlook.

We are probably not among the states with the biggest component of offshore investors – we are at about 25 per cent. The domestic and offshore reinvestment story we have mentioned remains the key component, and we are also experiencing increased breadth of domestic participation in our deals.

It would be interesting to have more information on from where the flow of domestic funds is coming, because I suspect quite a lot of it is actually Japanese-origin money being managed by Australian asset managers. We have seen domestic investors acting in the manner we have come to expect from Japanese accounts, precisely because this is the source of a lot of the money.

TRIGONA Whenever we do a deal we look at the stats for domestic and offshore distribution, but we also overlay on this our knowledge of which domestic accounts have proportions of their funds coming from Japan in particular. Our sense is that our offshore participation is somewhat higher than the numbers show at face value.

Calendar 2017 was also one of our busiest years for investor engagement. We consistently heard from investors that they weren't concerned about the Australian sovereign being placed on negative outlook by S&P Global Ratings, which confirmed once more in our mind that offshore participation is driven primarily by yield and liquidity.

ACGB spreads to US Treasuries (USTs) remain a key factor for some investors, though – and these spreads have contracted quite significantly at times, especially in the second half of 2017. A few investors have suggested that if the ACGB curve gets too flat to UST they may stop buying while they look to the market to reprice – but none have suggested they would necessarily start selling as a result.

The final thing I'd note is the shape of the ACGB curve towards the end of 2017. I think it's fair to say that other sovereign curves have flattened more than ours, and some investors expect to see further flattening of the ACGB curve in time. This expectation seems to be borne out by ongoing interest in the ultra-long end of the curve.

■ **TRIGONA** I agree that it felt throughout 2017 that the market was in good shape for our issuance. The positive conditions were in evidence for us as early as March, when we issued a

"It has been particularly pleasing to see more aggressive interest out of the domestic real-money sector. This is certainly a positive dynamic, alongside the good demand for semi-government securities in general."

VINCE CINQUINA WESTERN AUSTRALIAN TREASURY CORPORATION

It doesn't matter to us whether Japanese money comes to us directly or via Australian-domiciled fund managers – just that it's finding a home in Australian dollar bonds.

LOFTING Most of us have quite well-developed investor-relations programmes in Japan, which means we are often in touch with the end holders of the investments even if some of them come via Australian fund managers rather than direct from Tokyo. It's still important to tell our story.

■ DAVISON There has been talk of international investors looking further down the credit spectrum for their Australian dollar assets as yield has continued to crunch in – including for credit. Are high-grade issuers losing any of the offshore investor bid to higher-yielding Australian dollar product?

LOFTING There are certainly pockets of demand transition. I visited Asian investors a few months ago and there were some accounts in Korea, for instance, that said fairly clearly that they favoured Australian dollar supranationals over semi-governments – for the yield. But it's not a wholesale change, and there are still plenty of investors out there for the semis. I think the strength of issuance conditions over the past six months illustrates this point pretty clearly.

TRIGONA Liquidity is still an issue for lots of investors, and investing in other market segments for yield often means giving up liquidity. Having said this, investors have certainly been attracted to higher yields. It is a balance.

NICHOLL There is an impact from the hunt for yield, though. It's true that some investors tell us the ACGB market doesn't provide enough yield so they have to look elsewhere. But for every one of these there are plenty more that aren't as focused on yield specifically.

What this reinforces to me is the value of having diversity of investors. With a good spread of potential buyers in different jurisdictions, the investor base is never all going to react the same way to market events. This is a positive thing – and we certainly haven't experienced any element of inability to place bonds.

LOFTING I think we all learned during the financial crisis about the importance of having a breadth of investor relationships. Depth follows from there – what matters is being on the road and putting your story out there, as often as possible.

COLLARD The investors who are looking further down the credit spectrum for Australian assets are not necessarily the buyers of triple-A rated sovereign paper. So I don't see this increase in appetite for lower credits affecting the ability of high-quality issuers to have satisfactory demand for their paper.

"IT'S TRUE THAT SOME INVESTORS TELL US THE ACGB MARKET DOESN'T PROVIDE ENOUGH YIELD SO THEY HAVE TO LOOK ELSEWHERE. BUT FOR EVERY ONE OF THESE THERE ARE PLENTY MORE THAT AREN'T AS FOCUSED ON YIELD SPECIFICALLY."

ROB NICHOLL AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

new 2027 bond that was oversubscribed and certainly put aside any lingering questions about liquidity.

Since then, we have topped up our 2030 benchmark bond via syndication and issued a new 2029 benchmark bond – with both transactions being oversubscribed and very well received in the market. We continued to increase the amount outstanding in various benchmark bond lines, primarily via taps but and also by tender. Going into 2018, we have been encouraged by very positive new-issuance volume in the first few weeks of the year.

■ **COLLARD** Funding conditions for high-grade issuers and other well-rated credits remained very accommodative during 2017. This was partly driven by a continuation of the desire for high-quality credits by investors during a period where globally there were ongoing uncertainties – for example the election of a new US president, Brexit 'indigestion' and the sluggish European economic recovery.

In the context of these factors, well-rated Australian and New Zealand issuers remained one of the highest-quality credit groups in global capital markets. With this as the background, demand for high-quality Australian credit remains very strong.

Credit has clearly repriced and tightened over the last 12 months and the market's appetite to embrace credit – whether in fixed-income or equity markets – appears to be insatiable. There is global uncertainty in some jurisdictions and currencies, but this is why investors continue to support Australasian credits which have a proven track record of stability and certainty.

■ **LOFTING** Treasury Corporation of Victoria (TCV) wasn't active until later in 2017 – we did a A$500 million (US$397.7 million) tender of our 2028 bond in October – as prior to this we were still digesting the funds from the sale of Port of Melbourne. We could easily have done a larger transaction when we returned – we just didn't need additional funds.

Our focus in recent months has been on extending our yield curve. We increased our 2040 by A$200 million, did a A$100 million 2047 issue and also increased the outstanding volume of our 2032 quite significantly. Conditions were also very favourable for this type of semi-government issuance. The only caveat is that our spreads had widened somewhat in expectation of the return to term issuance – while still being very attractive on an outright basis.

CINQUINA Western Australian Treasury Corporation (WATC) was quite active in the market throughout 2017. The observation I would make is of the surprising strength of investor interest we found, especially in the second half of the year, as evidenced by the results of our syndications. From our perspective it has been particularly pleasing to see more aggressive interest out of the domestic real-money sector. This is certainly a positive dynamic, alongside the good demand for semi-government securities in general.

FAJARDO The support for issuance from both domestic and offshore investors has been very strong. This has allowed us to get ahead of our programme: we have issued A$6 billion in the current financial year, predominantly in the long end.

The subtle change in demand patterns is, I think, the strength of demand for 10-plus year paper – especially from offshore investors. Our landmark transaction in 2017 was a 2030 maturity, which attracted 40 per cent offshore distribution. This is higher than our recent experience in syndicated trades.

We were also able to issue a new 2047 line in 2017, the outstanding volume of which is now at A$250 million. In addition, we continue to tap into our euro-denominated 2046 bond. There's no doubt that we could have issued a lot more long-dated paper had we had further need from our clients.

LOFTING One other thing I'd note is the change in apparent capacity for our group of issuers to issue at around the same time. Three of the states issued around the 10-year mark close together in 2017, and the market digested this without any real problems. I'm not sure we'd have had the same experience, particularly in the long end of the curve, at any previous point.

KENNEDY There was a good combination of factors at play. Rates had backed up internationally and offshore uptake was very positive. We had a similar experience to what Jose Fajardo describes when it comes to the offshore participation in the new 10-year syndication we executed in February 2017 – the largest international participation in the book for one of our deals for many years. We certainly experienced a widening and deepening of our investor base around this time.

The only thing that was a little different for South Australian Government Financing Agency (SAFA) was that we experienced some political overhang from the question of whether the state would introduce a bank tax. This made us a little cautious about market entry in the second half of calendar 2017. Given the tax is now off the table we believe we are back to having good market access, as proved to be the case when we issued in December.

Davison What sort of feedback have issuers received that might explain the strength of demand from, in particular, offshore investors in 2017?

LOFTING I think the fact that yields had backed up, especially in the long end of the curve, certainly helped. Our experience was that the biggest area of demand growth was from Asian investors in the very long end.

TRIGONA Our curve widened more than the US in the 10-20 year segment, which prompted offshore investors to look hard at Australian dollars beyond 10 years. New South Wales Treasury Corporation (TCorp) also issued a 2037 bond in 2017 – our first 20-year transaction – and offshore participation was important in this deal, too.

Davison How likely are issuers to flex issuance into the long end to take advantage of demand?

TRIGONA Our borrowing clients have themselves been lengthening, so this type of issuance is something we have wanted to do anyway. Overall rates are also still very low, so it's clearly a good time to issue.

FAJARDO It's similar for us. We've had a strategy of smoothing and extending our maturity profile in place for some time, to reduce our refinancing over time. This, combined with client requirements, has given us capacity to issue in the long end.

LOFTING As TCV has been absent from long-term markets for a few years we need to do some work to re-establish the back end of our yield curve. Our clients want to borrow at 10-years or longer duration, too – they are building long-term infrastructure so they want long-term funds.

Davison TCorp and TCV have both had periods of low or zero new-issuance requirements thanks to the proceeds of state asset transactions. Did these issuers have capacity take advantage of good market conditions on the basis that term funding was always set to resume at some stage?

"We are seeing investors from parts of Europe we never expected to see. But this is part and parcel of good investor relations work globally – you meet investors you weren't previously familiar with, and in time some of them come into your curve."

FIONA TRIGONA NEW SOUTH WALES TREASURY CORPORATION

TRIGONA We certainly had capacity to take advantage of market conditions. We issued A$3 billion at the very long end in 2016/17 while buying back short-term bonds.

The asset-lease transactions by the New South Wales (NSW) government saw a requirement for more aggressive liability management despite the overall low net funding requirement. We saw market opportunities to issue and we are able to warehouse risk on our balance sheet. We can prefund when we feel it is appropriate to do so.

LOFTING We always try to maintain our access to markets and our liquidity but there is only so far we will go to do so, given any additional debt is still a cost to the state. Ultimately, what we want to do is link our client funding as closely as we can with what we issue. We prefund at the margin, but we won't get years ahead of the issuance task.

Davison Are there any other thoughts on prefunding to take advantage of positive issuance conditions?

FAJARDO We have taken prefunding opportunities in the past. Once we have completed our funding task we may look at issuance opportunities if the market is supportive. We have certainly had positive feedback on this approach over the years we have used it.

NICHOLL We have certainly prefunded over the past few years, for a number of reasons. One is that we have had a run of syndications that were a lot larger than expected – in this case we weigh factors like the additional cash we are carrying and the benefit of regular supply into the market. We tend only to update our issuance rate twice a year and the market has come to expect consistent supply from us. Calibrating our regular issuance against the costs and benefits of prefunding at times – of taking more volume when it is 'on the table' – is something we constantly consider.

We were prepared to carry larger cash balances when funding tasks were increasing and the market outlook was distinctly more risky. It's a different story now, especially given declining issuance and the fact that we are the other side of some significant market-risk events in Europe. This leaves us somewhat more circumstance-specific about prefunding over the coming few years.

KENNEDY As a smaller borrower we feel there is more benefit to us from being transparent in our programme and sticking

to what we say we will do. Having investor confidence around when and how our supply will come to market has been a long-term positive. We also probably lack the balance-sheet capacity to run too far off programme, at least compared with some of the larger states.

CINQUINA We don't usually fund years in advance, but we do undertake some prefunding – largely of loans we know are coming in the next three months or so.

FINDING DEMAND

Davison The net new-issuance outlook for the Australian government sector – broadly sovereign down, states up – is one that hasn't been seen for many years. What considerations does this bring for issuers?

FAJARDO It's a dynamic that has definitely been talked about, especially the element of increased semi-government supply. But it's still a positive environment given the supply of ACGBs is poised to fall quite significantly.

Queensland Treasury Corporation (QTC) had early maturities this financial year – in September 2017 and February 2018 – so we got well ahead of our issuance programme. In general what we'll be watching for is whether execution windows get more crowded. We might start to see a greater number of syndications as they are coming from a range of semis, rather than issuance concentrated to some degree into a small number of very large ACGB syndications.

> "There is still lots of potential in Asia – and it's not just Japan. We recognise the importance and potential of the broader Asian investor base and remain highly focused on marketing to the region."
>
> **JOSE FAJARDO** QUEENSLAND TREASURY CORPORATION

AUSTRALIAN CREDIT IN DEPTH

Australian semi-government issuers say global investors tend to be satisfied with a broad overview of their credit stories. While a strong federal-state relationship is important, most buyers do not require an intimate understanding of the minutiae of how the linkage works.

DAVISON Has there been any interest from the market community in potential changes to goods and services tax (GST) distribution in Australia? How engaged are global investors with the detail of the Australian high-grade credit story and do they really care about things like the mechanics of horizontal revenue equalisation?

CINQUINA I think it's still important to tell the Australian state credit story to offshore investors. This doesn't necessarily mean the specifics of GST, but the fundamental nature of the federal-state relationship and the way it provides part of the states' strength is crucial.

The Australian Office of Financial Management does a great job of marketing Australia, of course, but as states we still have to tell our part of the story. GST is just a corollary of this – a part of the story.

The reality is that at any time around 50-60 per cent of each state's revenue comes from the federal government. But we also need to recognise that we aren't always talking to the same individual at any specific investor – for example, personnel turnover in the central-bank sector tends to be on a 12-24 month cycle. We have to keep telling the story.

NICHOLL We get asked periodically about the nature of the relationship between the Commonwealth and states. Most investors need to understand the basic principle of budget revenue support and the strength and depth of relations between the Commonwealth and the states – but I don't think they look to understand the detail.

What investors want to establish is that the states are fiscally competent in their own right and that revenue from a national tax is available to create a link between their budget revenue and national economic growth. The existence of a mechanism to compensate for state-level fluctuation also seems important.

FAJARDO We have been informed of discussions with our dealer group and domestic investors about GST changes. But it's an uncertain outcome at this stage and we haven't seen any market impact.

NICHOLL My sense is that it is really just of academic interest at this stage.

TRIGONA We discuss the revenue that New South Wales gets from central government – and sometimes at a higher level of detail, if required. Generally, though, the conversation is around the existing framework rather than any speculation on future possibilities.

DAVISON Is it reasonable to say global investors want to understand Australian government-sector credit largely in the sense of being comfortable with its rating level and thus arming themselves to buy on relative value?

TRIGONA That's about the level of interest we see, yes.

NICHOLL Investors obviously want to be confident that they're buying something with low credit risk. Knowing that there is a strong federal-state relationship is important, but they rarely need to go into the details.

Periodically we get asked by investors whether there is a legal guarantee to the states from the Commonwealth. But this is pretty rare – it tends to come from first-time investors.

We have already seen SAFA and Tasmanian Public Finance Corporation announcing syndications in 2018, and we are only two weeks into the new year as we speak.

NICHOLL We only have one more syndication this financial year, but next year we will have at least three new maturities to do – some of which will be issued by syndication.

From our perspective, a factor that's worth noting is that, as our supply increased and that of the semis fell over the past two years, there has been increased absorption of our paper by domestic bank balance sheets.

It's no secret that the local banks began accumulating semi-government bonds well ahead of ACGBs – for the obvious reason of yield. But there was a noticeable increase in ACGB uptake as this sector's level of ownership of the semi sector increased and semi supply decreased. I don't expect this story to reverse as supply dynamics change, and overall I think the impact will be close to neutral.

Davison This raises the question of who will be the marginal buyer of new semi-government issuance. The last time the states faced a collective large increase in their funding tasks they were assisted by the implementation of Basel III liquid-assets rules in the Australian banking sector. From where will the marginal investment dollar come this time?

TRIGONA In the last couple of years we have witnessed an increase in the fund size for some of the Australian fund managers. These are existing investors with increased appetite for our issuance, especially in the long end. The impact of this phenomenon has been quite significant.

At the same time, we have also seen offshore interest coming through, particularly out of Japan but also throughout Europe. Having this demand as well as the domestic bid is important for us, and it also highlights the need to get on the road and see investors face-to-face.

FAJARDO Two specific areas I would highlight as sources of demand growth are Asian life-insurance companies and central banks in Europe. There are also investors in Latin America, Europe and parts of Asia that we have seen diversify their ACGB holdings into the semi-government sector.

One area where we have attracted new investors is through our debut green-bond transaction, which we priced in 2017. This brought specifically green-mandated investors to our books for the first time, which was certainly a positive outcome.

I should also note, though, that our established balance-sheet investors will have to reinvest their funds and we expect this to continue to be supportive of demand. QTC has negative new issuance in the current financial year – we have A$9 billion of maturities and A$7 billion of expected issuance.

■ **CINQUINA** WATC has had quite substantial issuance growth over the last 5-7 years and our offshore marketing was minimal prior to the removal of interest withholding tax on domestic semi-government bonds in 2008. This changed reasonably quickly, and we certainly now see offshore investors as a critical element of our marketing.

We are probably still at the low end on the scale of offshore holding among our peers – at around 20-25 per cent – so there is still work to do. But going offshore to meet investors, wherever they may be, has been part of our programme for some time now and will continue going forward.

We are also seeing growing interest out of Europe, as well as from the Asian region that has been a good supporter of Australian semis for many years. One area that has been lacking in recent times has been the US, though we have seen glimmers of demand from there recently.

■ **NICHOLL** It's the same for us. We have a core base of investors in the US but overall I would say the US remains underrepresented in the ACGB market.

Davison QTC has pursued US demand by adding 144A language to its programme. What is QTC's perspective on US demand?

■ **FAJARDO** We had significant success in our syndicated issuance when we first introduced the 144A documentation, with a lot of US investors coming into our books. It has been more sporadic of late, and I agree with the observation that these buyers have been less active than those from other jurisdictions.

However, when US investors come in they tend to do so in reasonable size. We continue to find the 144A component a useful tool to have within our programme.

■ **NICHOLL** As I just noted, we have meaningful investor representation from the US but don't see much potential, at this point, for this to grow much further – or at least not as much as other parts of the world. I did an investor update in the US in 2017 and they were undoubtedly less concerned about the Australian story compared with 3-4 years ago – but Australia certainly didn't seem to be a priority. We seem to be flying under the radar in the US to some extent.

Davison Which regions are providing the most positive demand story?

■ **NICHOLL** I've been surprised at the change in European demand in the past three or four years, actually. It started as a central-bank story but has developed to reflect our curve extensions. We have seen a lot more European pension and hedge-fund money entering the market, to the point that London is now the second most important city for us – behind Tokyo – as an aggregated source of demand. I did three trips to Europe in 2017 and still didn't cover all the investors I could have seen.

■ **TRIGONA** We are seeing investors from parts of Europe we never expected to see. But this is part and parcel of good investor-relations work globally – you meet investors you weren't previously familiar with, and in time some of them come into your curve. The ticket sizes we have seen from Europe have certainly surprised on the upside, though.

■ **FAJARDO** There is still lots of potential in Asia, as well – and it's not just Japan. We recognise the importance and potential of the broader Asian investor base and remain highly focused on marketing to the region.

■ **NICHOLL** There are a lot of insurance funds in Asia with the potential for expanded appetite. This is an investor category that in my view has been underrepresented in the past.

Davison Are you talking about Australian dollar-denominated insurance assets?

■ **NICHOLL** Not necessarily – and in fact one of the barriers to greater participation from this sector remains currency fluctuation and the cost of hedging. There is also the fact that some of these investors have had bad historical experiences in Australian dollar investments, especially during the Asian currency crisis. But I remain of the view that there is potential for more funds to flow to Australian dollar fixed income.

> "There is global uncertainty in some jurisdictions and currencies, but this is why investors continue to support Australasian credits which have a proven track record of stability and certainty."
>
> **CHRIS COLLARD** EXPORT FINANCE AND INSURANCE CORPORATION

LOFTING As a rule, Asia ex-Japan investors tend to be very yield-sensitive, though – this is certainly the case for insurance flow. Japanese demand tends to be more reliant on pension funds and therefore it has largely been a regular flow of money.

KENNEDY The reality is that every individual deal attracts a different investor base depending on its timing, yield and tenor. We don't go into any transaction with preconceived ideas about where it's going to sell, and we have ended up with some very unusual and diverse investors in books in which we would never have expected to see them.

Going back to the US, I think there may be a change coming based on what's happening in the regulatory space. A lot of global funds are now being run by US fund managers rather than out of the UK or Europe, largely as a product of MiFID reporting rules.

This means more active involvement from these underlying funds than was previously the case, but also a new ability to invest in primary – because they are global, rather than US, portfolios. At the margin, I expect we will see more tickets coming from the US though often the underlying assets will be Asian or European in origin.

EXTENDING TENOR

Davison Now the 30-year point has been established, can we assume the period of AOFM curve extension is finished?

NICHOLL Yes – we consider our curve-extension work to be finished. We will maintain a 30-year curve but we see no merit, and in fact a number of risks, in trying to go beyond this point. We are aware that some European sovereigns have issued even longer-dated bonds. But our view is that this is largely opportunistic and driven by the desire to lock in low interest rates rather than to sustainably extend yield curves.

We continue to be very active in the long end. Since we syndicated the 2047 ACGB we have tapped it for around A$4 billion, to A$11.6 billion, and we have also done taps in the 20-year part of the curve to the tune of around A$5 billion so far in fiscal 2017/18. We plan to continue issuance of this type but will be mindful of the need to support liquidity across the curve.

We haven't committed to issuing a new 30-year bond every two years – the best timing for this is under active consideration. Market feedback suggests it is better to have a smaller number of lines, but liquid ones, than several smaller lines. Obviously at this duration the difference between a 2047 and a 2049, for instance, is not material. Over time, it's possible that ACGBs issued at 30-year tenor will become less actively traded until reaching the 20-year futures basket. We already see this dynamic between other futures baskets.

Davison Does the AOFM have a specific strategy in place to maintain weighted-average maturity (WAM) as its issuance task eases?

NICHOLL We think the WAM of the portfolio will most likely remain around its current level – about 7.5 years – even as the new-issuance task declines. We don't have specific portfolio targets at this point in time but it's an open question as to whether we should once again develop a benchmark portfolio, as was the case prior to 2008.

We have not overlooked the question of how we support the market in the context of declining issuance programmes. The buybacks we are conducting are not specifically about maintaining WAM – though this will be a result. The main thing for us will be how we allocate issuance to support the different components of the investor base across the curve.

Davison Front-end buybacks and lower issuance by the AOFM have led some to predict the end of the basket trade. Does supporting different aspects of market demand extend to technical factors like this?

NICHOLL We are aware of the basket trade but it's not a focus for us. We know there are short-end buyers, including some investors that are only short-end buyers. The buyback programmes are there primarily to help us manage funding risk, and are a useful way of taking stock off the hands of intermediaries' trading books – which in turn allows them to support liquidity in other parts of the curve.

We usually fund the buybacks by issuing basket stocks and supporting the futures contracts is undoubtedly a higher priority for us than promoting liquidity in the very short end. We continue to monitor liquidity across the ACGB curve, though, and have consistently made clear that we can change our practices accordingly.

> "At the margin, I expect we will see more tickets coming from the US though often the underlying assets will be Asian or European in origin."
>
> **ANDREW KENNEDY** SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

Davison How, if at all, do changes in sovereign liquidity and issuance dynamics across the curve affect the shape of the market for semis?

■ **LOFTING** We hope that as the AOFM's issuance declines it becomes more concentrated at the longer end of the curve. We certainly want the AOFM to maintain its efforts to back-fill the ACGB curve to 20 from 30 years – there are still gaps in this tenor.

I'd note that the work the AOFM has done to extend the yield curve in recent years has definitely allowed the semis to go out further in tenor. The semi market now goes out to 15 years in Australia, and I don't think we could have said this even six months ago. Whether we can fill the gap between 10 and 15 years in benchmark size is still to be determined, but we are testing this – and we would also like to look at 20-30 years in due course.

■ **NICHOLL** AOFM curve extensions have certainly broadened the long-dated Australian dollar investor base, and as those investors become familiar with the Australian market they tend to broaden the range of assets they look at.

■ **FAJARDO** We are seeing investor breadth come through not just in our primary issuance but also in long-dated secondary turnover.

■ **LOFTING** I think the impact on pricing of having the AOFM present at the long end is the most important factor. We always used to have conversations about the fair price for long-dated TCV issuance, and being able to see where an ACGB trades is a big help in this respect. This said, there is still plenty of debate about relative pricing – we discussed fair value for our 2040 issue for several months before issuing.

■ **COLLARD** We also receive enquiry from investors around long-dated maturities. Export Finance and Insurance Corporation aims to match-fund its assets and therefore we would quite happily issue in the longer part of the curve – if we were funding a long-dated project. Given our explicit guarantee by the Commonwealth, we expect that any long-dated issuance would be received favourably by the market.

■ **KENNEDY** It's worth noting that while the AOFM's net issuance task is declining the gross programme is still a big number. There will be ample liquidity for an extended period unless there is a turnaround in the federal government's fiscal position on a scale that I don't think anyone is predicting.

We might see benchmark ACGBs becoming A$10-12 billion in size rather than A$14-16 billion, but there can and will still be good liquidity in these lines.

■ **TRIGONA** Our goal when it comes to issuance duration is to maintain what we have already achieved or perhaps to go a little longer.

■ **FAJARDO** We had a strategic goal of bridging the gap between our 2028 maturity and the 2033. We have achieved this with the introduction of our 2030 benchmark, and going forward I don't envisage we will issue benchmark bonds longer than the 2033 for at least the next year.

■ **TRIGONA** We are actively issuing into maturities from 2027 to 2030, so investors have the ability to cherry-pick which bond they want. Liquidity is continuing to grow at the back end of our curve.

■ **CINQUINA** Going back five or six years, WATC had quite a short WAM but we have done a lot of work to extend it – it is close to four years at this point. We are reasonably comfortable with where we are at this stage, because we don't have borrower clients with the desire or need to go to 15-20 year debt maturity.

We will likely issue a new five-year floating-rate note and a 2028 benchmark in the first half of calendar 2018, which we have communicated to the market. We have also had some internal discussion about potentially doing something a little longer than 10 years. This will push our WAM out slightly, but given the demand of our client borrowers this is likely to be the extent of our duration ambitions. •

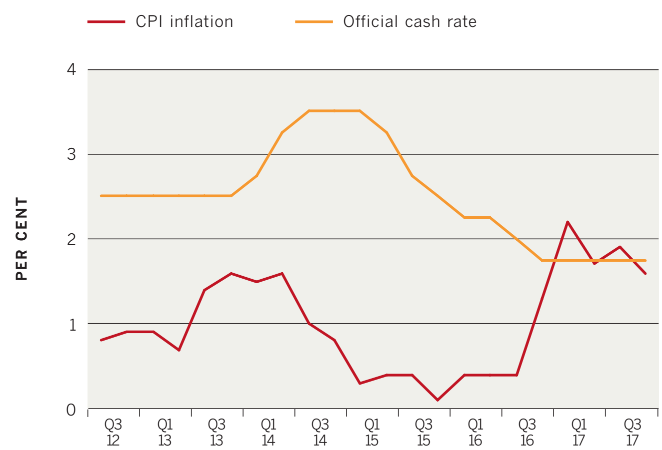
> "Three of the states issued around the 10-year mark close together in 2017, and the market digested this without any real problems. I'm not sure we'd have had the same experience, particularly in the long end of the curve, at any previous point."
>
> **JUSTIN LOFTING** TREASURY CORPORATION OF VICTORIA

New Zealand economic snapshot

Expectations that robust economic performance might cause New Zealand to lead Australasia into a new rate-hiking cycle appear to have receded to some extent at the start of 2018.

With a new coalition government between Labour, the Greens and New Zealand First since October 2017, the tone of fiscal policy in New Zealand became if anything more expansionary in the early months of 2018. Inflation picked up in 2017 but momentum was not maintained, supporting an extended period of flat rates.

NEW ZEALAND INFLATION AND RBNZ OFFICIAL CASH RATE

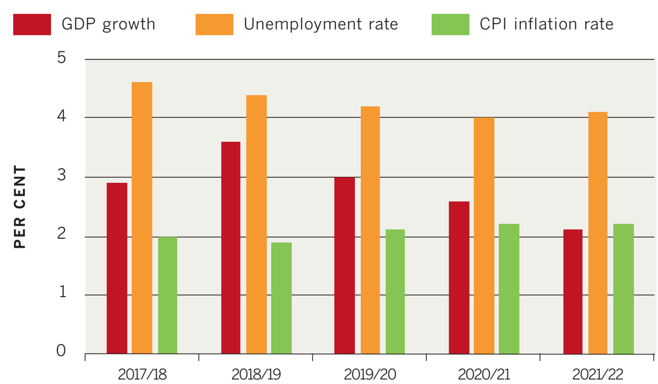


SOURCE: RESERVE BANK OF NEW ZEALAND JANUARY 2018

NEW ZEALAND GROWTH AND UNEMPLOYMENT (SEASONALLY ADJUSTED)

SOURCE: NEW ZEALAND TREASURY JANUARY 2018

NEW ZEALAND BUDGET FORECASTS: GROWTH, UNEMPLOYMENT AND INFLATION



SOURCE: ANZ DECEMBER 2017

"The fiscal stance is clearly turning more expansionary. Depending on the measure used, the fiscal impulse could be between 1.4 per cent and 1.8 per cent of GDP in 2017/18, followed by a 0.4-0.7 per cent of GDP boost in 2018/19. This is the most positive since 2010. It marks a dramatic shift from the past five years, where fiscal drag averaged around 1 per cent of GDP per year."

ANZ RESEARCH

"Global economic growth continues to improve, although inflation and wage outcomes remain subdued. Commodity prices are relatively stable. Bond yields and credit spreads remain low and equity prices are near record levels. Monetary policy remains easy in the advanced economies but is gradually becoming less stimulatory."

GRANT SPENCER RESERVE BANK OF NEW ZEALAND

"Beyond the relatively small and routine changes in weights introduced this quarter, which our forecasts accounted for, there appears to have been at least some impact on the quarterly change in headline CPI stemming from sampling changes. To this end, our suspicion is that the Reserve Bank of New Zealand will look through at least some of the weakness in headline CPI for Q4 2017."

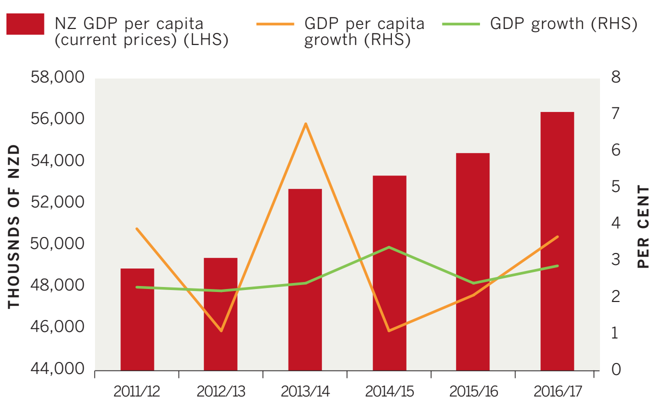
DEUTSCHE BANK RESEARCH

Momentum in question

Growth in New Zealand's GDP per capita in 2016/17 was the best result for the country since 2013/14. The outcome was boosted in particular by public-sector wage growth, which overtook the private sector in the first quarter of 2016 and only converged materially in the third quarter of 2017.

However, the labour-cost index has remained stubbornly flat. Meanwhile, data from the back end of 2017 suggest a notable if short-term downturn in both consumer and business confidence.

NEW ZEALAND PER CAPITA GDP GROWTH



SOURCE: STATS NEW ZEALAND JANUARY 2018

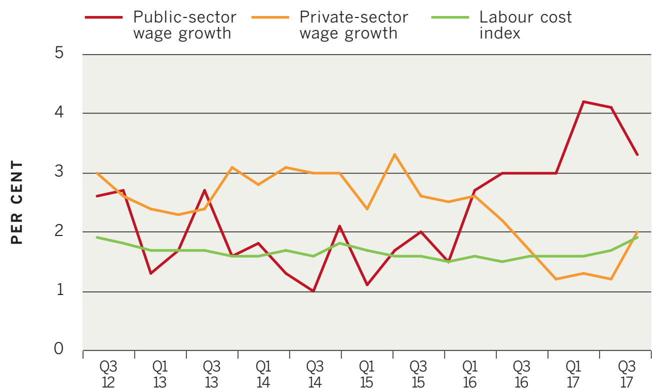
"The new government is expected to lift the minimum wage at a faster rate and is also likely to boost public-sector pay to some degree. A significant recent pay settlement that boosted wages for care and support workers may also spill over to related service sectors. In addition, higher CPI outcomes could influence wage-setting behaviour."

HSBC RESEARCH

"Confidence survey responses were received after the final government makeup was decided. However, it would be too simplistic to ascribe the full move to the change of government. There is a lot else going on. The softening in house price inflation is one obvious factor that shouldn't be overlooked, as is the reported difficulty of getting credit."

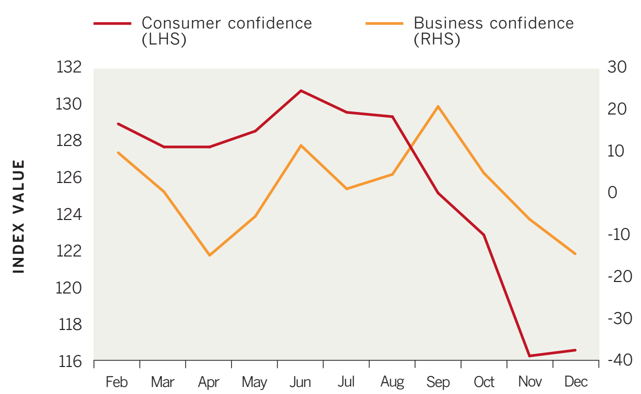
ANZ BUSINESS OUTLOOK

NEW ZEALAND WAGE GROWTH



SOURCE: RESERVE BANK OF NEW ZEALAND JANUARY 2018

NEW ZEALAND CONSUMER AND BUSINESS CONFIDENCE, 2017



SOURCE: ANZ BUSINESS OUTLOOK SURVEY, ANZ-ROY MORGAN NEW ZEALAND CONSUMER CONFIDENCE SURVEY 2017

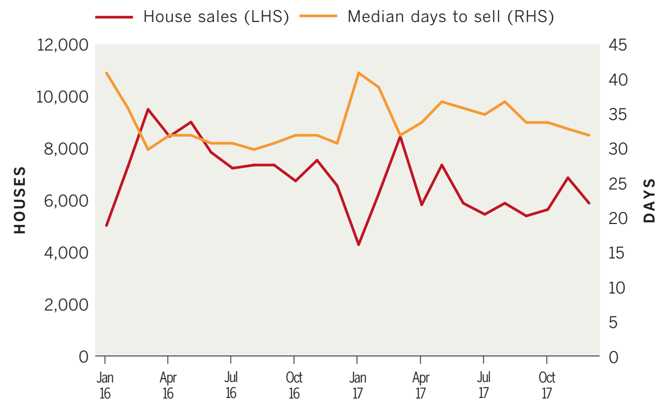
"Upward revisions to consumer spending and overall economic activity have helped to reassert the historically close linkage between house prices and consumer spending. There are, nonetheless, good reasons to expect the two to diverge over the next year to two. We expect a period of mild rises to house prices over 2018. Consumer spending volume growth, however, is expected to advance at a solid clip, supported by increasing labour incomes, the historically high terms of trade, still-low interest rates and a solid outlook for residential building."

ASB BANK RESEARCH

Housing in focus

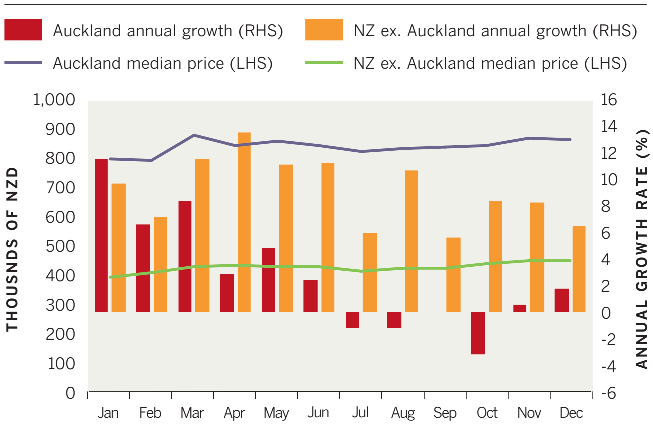
The New Zealand housing market eased in 2017. Auckland's median house price remains far above the national average. However, growth rates in the largest city stagnated through the second half of the year before a late pick-up in December. Across New Zealand, the volume of houses sold was consistently lower year-on-year with longer for-sale periods. Affordability issues consequently eased somewhat. The ratio of housing cost to total household income fell across New Zealand in 2016/17, with the most pronounced fall coming in Auckland.

NEW ZEALAND HOUSING SALES



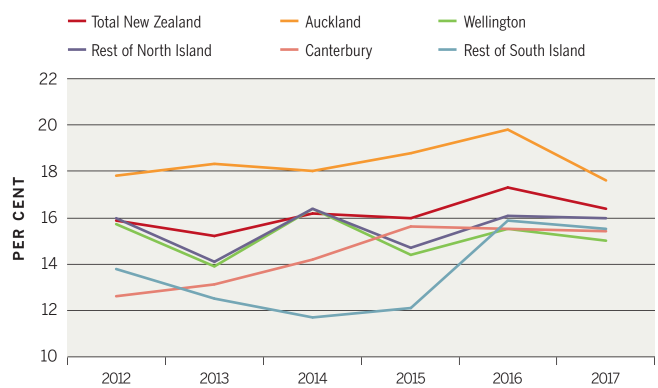
SOURCE: REAL ESTATE INSTITUTE OF NEW ZEALAND JANUARY 2018

NEW ZEALAND HOUSE PRICE GROWTH, 2017



SOURCE: REAL ESTATE INSTITUTE OF NEW ZEALAND JANUARY 2018

PROPORTION OF HOUSEHOLD INCOME SPENT ON HOUSING, NEW ZEALAND



SOURCE: STATS NEW ZEALAND JANUARY 2018

"The housing market picked up in late 2017, with lower borrowing rates boosting both prices and sales. This reversed some of the softening we saw earlier in the year. We expect the positive trend in the housing market to continue for a few more months as buyers rush to beat looming regulatory and tax changes, as mortgage rates fall, and as banks loosen lending requirements following the RBNZ's loan-to-value ratio changes. However, over 2018 we expect changes in government policy will see the market slow again."

WESTPAC INSTITUTIONAL BANK RESEARCH

"Uncertainty post-election remains as it did pre-election, with concern as to how the policies of the new government will play out. There is much discussion about the effects new immigration policies and potential Overseas Investment Act changes may have on the market going forward."

BINDI NORWELL REAL ESTATE INSTITUTE OF NEW ZEALAND

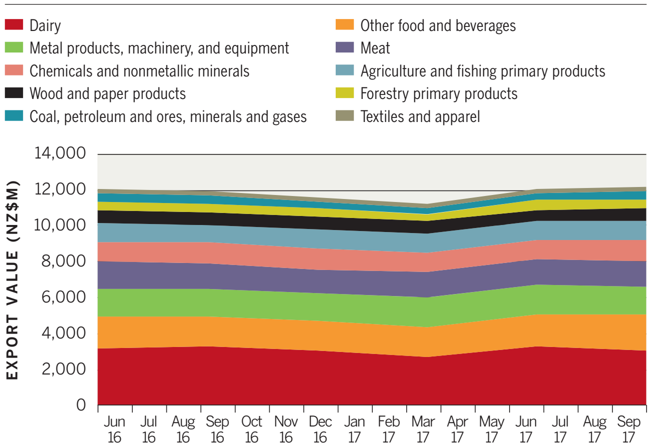
"Household net wealth has more than trebled since the late 1990s. Over that period, the fourfold increase in housing equity – the value of housing assets less the debt secured on it – has outpaced the more than doubling in non-housing net wealth and household disposable incomes. Housing equity is now more than 55 per cent of household wealth, as opposed to around 40 per cent 20 years ago."

ASB BANK RESEARCH

Key sectors

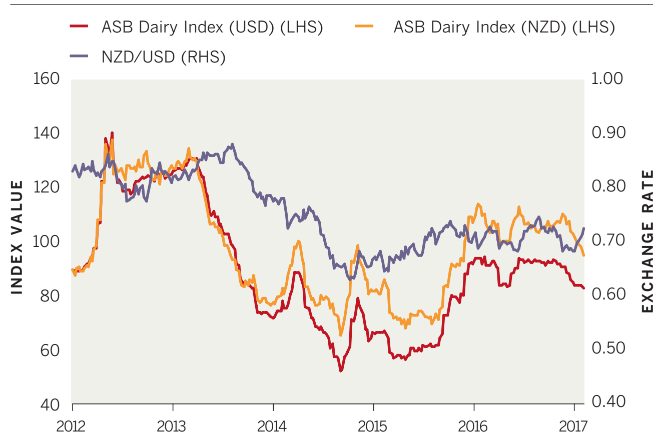
The dairy industry continues to be New Zealand's most important export, accounting for a quarter of total goods exports for the September quarter of 2017. The value of New Zealand's exports was strong in the June and September quarters, as the terms-of-trade index soared to a record level.

NEW ZEALAND'S MAJOR EXPORT SECTORS



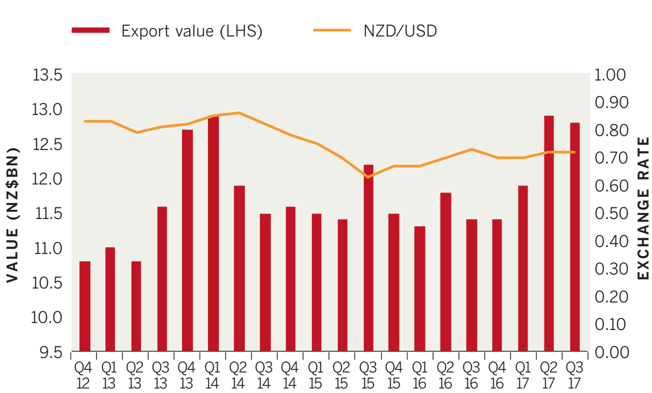
SOURCE: STATS NEW ZEALAND JANUARY 2018

ASB DAIRY INDEX



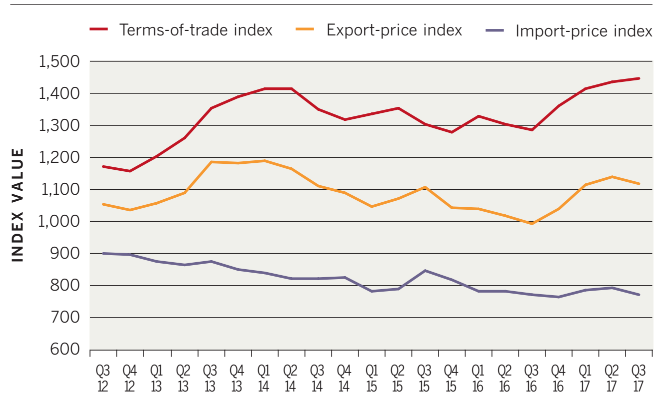
SOURCE: ASB BANK, RESERVE BANK OF NEW ZEALAND JANUARY 2018

NEW ZEALAND EXPORTS AND EXCHANGE RATE



SOURCE: RESERVE BANK OF NEW ZEALAND JANUARY 2018

NEW ZEALAND TERMS OF TRADE



SOURCE: STATS NEW ZEALAND JANUARY 2018

"The Labour-NZ First coalition has been welcomed, albeit cautiously, by the farming sector. The removal of the water-tax policy at least has started relations off on the right foot. The full impact of the government's new policies, however, will take time to play out. In the meantime, though, the materially weaker New Zealand dollar since the election is lifting all agriculture sector boats."

ASB BANK RESEARCH

"New Zealand's terms of trade rose 0.7 per cent to a record high in the September 2017 quarter, with the fall in the price of imports outpacing that of exports. The record-high terms of trade is a valuable support for national income growth at a time when key growth drivers of recent years look set to take a breather."

ANZ RESEARCH

GOVERNMENT-SECTOR ISSUERS ROUNDTABLE PART TWO:

NEW ZEALAND PERSPECTIVES

The New Zealand government-sector bond market is well placed going into 2018, issuers tell *KangaNews*. A positive economic story and projected lower issuance from the sovereign should support a solid supply-demand dynamic – though issuers say they continue to work hard at investor engagement at home and abroad.

PARTICIPANTS

■ **John Bishop** Treasurer and General Manager, Transaction Services AUCKLAND COUNCIL ■ **Mark Butcher** Chief Executive NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY ■ **Andrew John** Funding Manager AUCKLAND COUNCIL ■ **Sarah Vrede** Director, Financial Operations and Head of New Zealand Debt Management Office NEW ZEALAND TREASURY

NEW ZEALAND ROUNDTABLE MODERATOR

■ **Helen Craig** Deputy Editor KANGANEWS

MARKET VIEWS

Craig How do New Zealand issuers sum up market conditions in 2017?

■ **BUTCHER** While global credit-market sentiment remained supportive, we found that issuance conditions were slightly more difficult than previous years. We responded to market conditions accordingly throughout the year.

At the start of 2017, I would not have expected that by year end the New Zealand Local Government Funding Agency (LGFA) yield curve would be 60-80 basis points lower in yield and spreads would be 25 basis points tighter to swap. Spread movement gains to New Zealand government bonds (NZGBs) were maturity-dependent, with gains in front-end spreads while longer-dated spreads were unchanged.

Demand from domestic investors was more subdued over 2017 but offshore investor holdings of LGFA bonds increased to 40 per cent from 25 per cent. We benefited from the low levels of Kauri issuance and saw continued switching from NZGBs into LGFA bonds as investors sought the additional yield pick-up. Demand at our tenders was inconsistent, with bid-cover ratios below historic trend, but secondary-market activity was very strong.

■ **VREDE** We saw solid demand for New Zealand government bonds (NZGBs) in 2017 as illustrated by a number of metrics. Tenders generally performed well, with an average bid-cover ratio over the year of more than three times. The syndication of the new September 2035 inflation-indexed bond attracted good demand within the initial price-guidance range. The proportion of nonresident holdings of NZGBs also remained above 60 per cent during the year. Finally, NZGB yield spreads to key peers narrowed over the course of 2017 – also reflecting consistent demand.

■ **BISHOP** Generally we found funding conditions to be relatively strong, bearing in mind that Auckland Council's focus was predominantly on offshore markets during 2017. We saw significant demand for our paper at attractive spreads, culminating in a euro-denominated transaction issued towards the end of 2017 that was well supported by a wide range of European investors.

"Offshore buyers don't have concerns relating to New Zealand and will continue to have these exposures in their portfolios. In fact, we experienced continued accumulation by offshore investors throughout the New Zealand election period at the end of 2017."

MARK BUTCHER NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

■ **JOHN** In 2016 we issued more than NZ$400 million (US$289.6 million) of domestic bonds but take up was patchy. This led us to focus more heavily on offshore markets and to issue our first euro deal in January last year, which we followed in November. We also issued a Kangaroo-format transaction in the middle of 2017.

SUPPLY OUTLOOK

Craig Issuance by the New Zealand sovereign is not expected to grow in the coming years. Do other New Zealand high-grade issuers now have to find investors that aren't coming into a growing NZGB programme?

■ **VREDE** Steady gross issuance of NZGBs will continue, at NZ$7 billion per fiscal year, even though total net issuance will be flat over the New Zealand Debt Management Office (NZDMO)'s forecast period to June 2022.

Regardless of the net issuance programme for NZGBs, the NZDMO maintains a structured and proactive investor-relations strategy to continue to build and diversify its investor base. The NZDMO continues to value diversity in its investor base – by investor type and location and also by term and product preferences.

■ **BUTCHER** Our investor strategy has been unashamedly to seek out existing NZGB and high-grade Kauri investors and market to them either the LGFA's additional yield pick-up over NZGBs or the additional liquidity and diversification relative to Kauris. Offshore accounts remain underinvested in LGFA bonds relative to the other high-grade New Zealand dollar opportunities, so it is good to continue to see growth in their holdings month to month.

The NZDMO has done a great job over the years building up a strong and diverse offshore investor base and I am sure it will continue to do so going forward. We have no concerns regarding diminished support.

■ **JOHN** The challenge for us remains the same as it has always been – that because Auckland Council issues in foreign currencies our investor base is already different from that of the NZDMO.

The NZDMO not projecting new-issuance growth doesn't really change anything for us. We continue to need to go offshore to look for and market to offshore investors and grow our international investor base just as we have done in the last few years.

■ **BISHOP** The more we engage with offshore investors the better the response we receive from these buyers. Bear in mind, too, that outside the New Zealand major banks, which are all subsidiaries of Australian banks, the number of New Zealand issuers that target offshore markets is low. It takes a while for investors to get up to speed on New Zealand as a credit and to find the effort it takes to carry out the credit work on a New Zealand entity worthwhile.

Craig Perhaps the biggest news from the New Zealand high-grade market in 2017 was the government commitment to maintaining a minimum supply of NZGBs on issue. How has the market responded?

■ **VREDE** The New Zealand government first announced a commitment to maintain NZGBs on issue at not less than 20 percent of GDP over time at budget 2017. Prior to this, the NZDMO had been fielding questions from investors and intermediaries on what the government's focus on paying down net debt and running sustained budget surpluses would mean for NZGB programmes and levels of bond outstandings over time.

The commitment to maintain NZGBs on issue was reiterated by the new government in the December 2017 budget-policy statement. The commitment by successive governments has further supported investor and intermediary confidence in the sustainability of the NZGB market and has been very positively received by NZGB market participants.

Craig How do other New Zealand issuers feel this commitment will affect the market?

■ **BISHOP** We aren't expecting any impact. Having a minimum issuance commitment will generally be positive for the New Zealand dollar market but I am not sure there will be any direct flow-on effect to Auckland Council.

■ **BUTCHER** We appreciate this as a positive commitment. Given we align LGFA maturities and coupons to those of the NZGB curve, it is positive for us to see a yield curve between the three-month and 2033 maturities maintained. Investors and issuers alike need a sovereign issuer to ensure a healthy capital market and to provide a comparable benchmark.

"The more we engage with offshore investors the better the response we receive from these buyers. Bear in mind, too, that outside the New Zealand major banks the number of New Zealand issuers that target offshore markets is low."

JOHN BISHOP AUCKLAND COUNCIL

Craig What is the view of the NZDMO – and other Kiwi issuers – on duration of issuance? Are there any changes to strategy around weighted-average maturity (WAM)?

VREDE The WAM of the NZDMO's debt portfolio, including Treasury bills, has increased to 7.1 years at the end of 2017 from four years in 2008. We envisage the WAM remaining close to the current level in 2018.

BUTCHER We extended the term of our issuance each year for the first five years we issued bonds until mid-2017, when a combination of slightly higher interest rates and wider spreads to swap led our council borrowers to shorten their maturity preferences.

We extended our curve out to 2033 in the past year but are unlikely to go further than that in the near term. While the longer-dated New Zealand dollar swaps market has deepened over the past year, many of our council borrowers are restricted by their treasury policies from borrowing beyond 2033.

BISHOP We intend to maintain our WAM at 6-7 years. Given the council's long-dated assets and the interrelated infrastructure focus, it serves us well to issue long-term debt provided it is appropriately priced.

The potential issue we have is that we swap everything back to New Zealand dollars and a cross-currency swap beyond 20 years is difficult, so we have a hard cap at 20 years.

On the other hand, we are also conscious of our double-A rating. This means we think we should be able to access markets relatively easily, and as such we don't want to have too long a WAM. Having at least some short-term debt in our book enables us to benefit from a lower yield cost.

JOHN We don't feel it is justified to pay excessively for additional tenor. At 10 years the curve becomes relatively flat and we find it challenging to pay more than the margin at 10 years to extend our WAM. The challenge we have had in the last year or so, which has been a feature of the wider market to some extent too, is that some investors are demonstrating a preference for shorter duration in anticipation of higher yield.

CURRENCY DEMAND

Craig We have heard some dealers suggesting New Zealand could benefit from flows, out of Australian dollars in particular, if the official cash rate (OCR) starts to rise – though rate hikes are yet to emerge. What are New Zealand issuers hearing about outlook for relative yields and the consequences for demand?

BISHOP I don't think anyone is expecting a significant rise in the OCR, certainly not in the 2018 calendar year, so I am not sure the yield differential will be significantly greater in 12 months. But obviously rising yield in New Zealand – whenever it happens – will benefit our market and will attract greater offshore investor interest.

VREDE Investors' decisions will continue to be influenced by their views of relative cash rates, supply dynamics, sovereign risk and market liquidity among other factors.

A broad investor base helps ensure diversity in the various motivations that investors have for participating in the NZGB market and in the timing of their participation. Our aim is to have a diversified set of investors that participate in the market at different times and with different objectives, contributing to consistent demand through time.

The NZDMO has a solid plan for investor engagement this year as activity was a little lighter around the period of the New Zealand general elections in 2017 – but this is standard practice.

BUTCHER The question we thought was going to be answered in 2017 might finally be answered in 2018: what will the impact on international investor appetite for New Zealand be if global interest rates rise, curves steepen, credit spreads widen and New Zealand spreads compress further to US and Australian markets?

Our investor feedback has been that international buyers don't have concerns relating to New Zealand and will continue to have these exposures in their portfolios. In fact, we experienced continued accumulation by offshore investors throughout the New Zealand election period at the end of 2017. Admittedly our investor base is predominantly long-term, real-money accounts that have held New Zealand dollars for many years.

Our domestic investor feedback is that – relative to other New Zealand issuers – the larger size of our maturities, our relative liquidity and the ability to take curve trades in LGFA bonds will ensure we remain attractive for the ever-growing KiwiSaver portfolios.

BISHOP The biggest story is centred around the long end. The differential between long-dated New Zealand and US government bonds is relatively slim and the more US rates increase the more demand for US dollar assets relative to New Zealand dollar assets increases.

We have observed strong demand from true retail investors further down the credit spectrum, particularly at the triple-B level and for issuance of between four and seven years. We expect this bid to grow if interest rates increase. •

> "Regardless of the net issuance programme for NZGBs, the NZDMO maintains a structured and proactive investor-relations strategy to continue to build and diversify its investor base."
>
> **SARAH VREDE** NEW ZEALAND DEBT MANAGEMENT OFFICE

GOVERNMENT-SECTOR ISSUERS ROUNDTABLE PART THREE:
ISSUANCE INSIGHTS

The final part of *KangaNews*'s exclusive Australasian government-sector issuers roundtable covers the specifics of funding plans – including the outlook for foreign-currency, floating-rate, and green and social securities.

PARTICIPANTS

■ **John Bishop** Treasurer and General Manager, Transaction Services AUCKLAND COUNCIL ■ **Mark Butcher** Chief Executive NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY ■ **Vince Cinquina** Head of Financial Markets WESTERN AUSTRALIAN TREASURY CORPORATION ■ **Chris Collard** Director, Treasury EXPORT FINANCE AND INSURANCE CORPORATION ■ **Jose Fajardo** Head of Funding and Liquidity QUEENSLAND TREASURY CORPORATION ■ **Andrew John** Funding Manager AUCKLAND COUNCIL ■ **Andrew Kennedy** Director, Treasury Services SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY ■ **Justin Lofting** General Manager, Treasury TREASURY CORPORATION OF VICTORIA ■ **Rob Nicholl** Chief Executive AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT ■ **Fiona Trigona** Head of Funding and Balance Sheet NEW SOUTH WALES TREASURY CORPORATION ■ **Sarah Vrede** Director, Financial Operations and Head of New Zealand Debt Management Office NEW ZEALAND TREASURY

MODERATORS

■ **Helen Craig** Deputy Editor KANGANEWS ■ **Laurence Davison** Managing Editor KANGANEWS

FOREIGN CURRENCIES

Davison Foreign-currency issuance by states is a perennial topic. Can issuers that have placed these deals discuss their value and prospects?

■ **FAJARDO** Our issuance strategy focuses on smoothing and extending our funding profile. But we don't actually have substantial client demand for anything longer than 15-year tenor – which is where our benchmark curve extends to now. Further issuance really comes down to client demand, and we are in regular dialogue with those among our clients that have the capacity for long-dated funding.

Looking at the issuance we have done outside Australian dollars, we started to get reverse-enquiry demand from European investors back in late 2016. The cross-currency basis swap has made it efficient for us to take advantage of this opportunity – we have now issued eight tranches and have €401 million (US$491.2 million) outstanding.

We are happy to issue into the euro lines we have outstanding. But more recently we have seen significant growth in long-dated Australian dollar demand while the basis swap has moved quite significantly against us. As a consequence, euro issuance is a less attractive option than it was.

■ **TRIGONA** New South Wales Treasury Corporation (TCorp) issued 30-year bonds in sterling, Swiss francs and yen some years ago. There wasn't an active domestic market beyond 10 years at the time so this issuance was the best way of meeting specific client demand. These bonds are mostly still outstanding – we have bought back some of the sterling issuance – and we have continued to look at opportunities to meet our clients' funding needs in long-dated markets. We have had opportunities to issue, but the position of the 30-year basis swap makes it inefficient to issue in foreign currencies at present.

■ **COLLARD** The foreign-currency transactions we have issued in the past were typically structured private placements, for example into the Uridashi market. Over the years we have issued bonds in US, Australian, New Zealand, Singapore and Hong Kong dollars as well as sterling, euros and yen. But we have always swapped the proceeds into US dollars as Export Finance and Insurance Corporation (Efic) is broadly a US dollar funder.

Through the use of derivatives, Efic is able to issue debt in suitable currencies to achieve the lowest possible cost of funding available in global markets.

Davison Does the ability of the Australian dollar market to provide long-dated funding change the equation on foreign-currency issuance?

■ **TRIGONA** We look at all options in order to make the most of opportunities and to diversify sources of funding. We consider factors such as the ability to execute, pricing relativities – particularly the basis – and whether the opportunity matches our clients' borrowing needs. The difference is that we don't have to wait for specific client needs when we issue in Australian dollars – we can manage any mismatch.

■ **CINQUINA** We don't have underlying clients that borrow to the type of very long tenor being discussed. Unless we can bring foreign-currency issuance back to Australia at pricing somewhere close to our domestic curve it's just not something we can justify doing.

■ **KENNEDY** We don't have enough debt on issue to warrant the type of diversification in our programme that foreign-currency issuance – or, indeed, extended tenor – offers. Liquidity in our existing Australian dollar benchmark lines remains our primary focus.

■ **LOFTING** It has been more expensive to fund in foreign currencies for many, many years – going back at least to 2009. We would only look at it if it provided something the Australian dollar market couldn't. As the domestic market continues to build liquidity at long duration, it seems to be getting harder to justify foreign-currency issuance.

Davison Do issuers get reverse enquiry for foreign-currency issuance?

■ **TRIGONA** Certainly.

■ **LOFTING** I would be surprised if we were not all shown the same or similar foreign-currency transactions to the ones Queensland Treasury Corporation (QTC) has completed over the past year or so. The pipeline of reverse enquiry has been in evidence for two years at least – and we will always look at them. Reverse enquiry is part of the investor-diversity toolkit, it's just that we will tend to look to exhaust domestic options first.

Craig Unlike the Australian Office of Financial Management, the New Zealand Debt Management Office (NZDMO) is allowed to issue in foreign currencies – but it does not. Why is this?

■ **VREDE** In recent years the NZDMO has only issued New Zealand dollar-denominated debt. The two key reasons for this are concentrating issuance in our core New Zealand dollar-denominated products to support liquidity and the fact that debt issued in foreign currencies is typically less cost-effective. We do not envisage any imminent change in our activity or strategy, although we maintain documentation to enable issuance in other currencies.

■ **BUTCHER** The New Zealand Local Government Funding Agency (LGFA) has also established an Australian dollar programme to enable us to issue other than in New Zealand dollars. But foreign-currency pricing remains unattractive relative to domestic pricing. Given our annual funding requirement and projected peak debt level it is more desirable to continue to issue benchmark size in New Zealand dollars rather than in foreign currency.

Craig Auckland Council mainly issued in foreign currencies in 2017. What is the outlook for 2018?

■ **BISHOP** We continue to monitor domestic and offshore markets closely for issuance opportunities. However, our funding need for the first six months of 2018 is relatively modest because we executed a large euro transaction towards the end of last year.

The fact that we have three funding sources – the domestic market in our own name, offshore markets and the LGFA – leaves us feeling relatively relaxed about the range of funding opportunities on offer.

We have now issued two euro benchmark transactions and thus built a very broad investor base, so this is a market we will continue to focus on. As far as timing for another euro issue goes, it is difficult to pinpoint specifically when this might emerge. But what I can say is that we will continue to focus our efforts on the region in the medium-to-long term.

FLOATING-RATE NOTES

Davison Floating-rate note (FRN) issuance by Australian states had a brief spell in vogue but has all but disappeared in recent months. Why have all but one of the states stopped issuing FRNs – and what might bring them back onto the agenda?

■ **KENNEDY** When we entered the FRN market we had very short debt duration – which was a conscious decision. We

GREEN AND SOCIAL ISSUANCE

Two Australian state-treasury corporations had issued green bonds by the start of 2018. While these issuers report positive experiences from their transactions, the prospects of a widespread increase in green issuance volume – or diversity of social-themed issuance – seem slim.

■ DAVISON The green-bond market seems to be gathering some momentum in Australia with 2017 seeing the first corporate issuance and various other breakthroughs. There have still been just two government-sector transactions, however. Can issuers update on any plans they have in the green-bond arena?

LOFTING Treasury Corporation of Victoria (TCV) will issue another green bond at some stage in calendar 2018. We are currently working on broadening the pool of assets in our eligible portfolio. We have enough to do another issue already, but investors have expressed a desire to see diversity in the pool away from just transport projects. The makeup and scale of the 2018 deal will be determined by market feedback at the time.

FAJARDO The benchmark programme is our principal source of funding, but, like TCV, we are looking at expanding our asset pool to support green-bond issuance. Our debut issue was very successful especially in terms of the diversity it brought to our investor base. We will look at the market again in 2018, if we can expand the asset pool.

We are looking at programmatic green-bond issuance, which should add more flexibility to our plans in the sector. But our first priority is to have liquid benchmark bonds. It would be great to have liquid green bonds, too – but this has to be considered in context.

LOFTING We don't have enough debt to establish a second curve, so green bonds will always be one-off transactions and unlikely to be of the same size as our benchmark bonds.

CINQUINA At this stage Western Australian Treasury Corporation is not actively looking at bringing a green bond to market, though obviously we're interested in market developments and our plans may change in future.

TRIGONA The benchmark-bond programme remains our principle source of funding. We have been closely monitoring the green-bond market for some time but it is still in development stage. There is nothing imminent.

COLLARD It's similar for Export Finance and Insurance Corporation (Efic). We have considered issuing in the green-bond space but to date we have not had any suitable assets to warrant this type of funding. However, Efic practices responsible lending and upholds social and environmental best practice in the transactions it supports.

NICHOLL We have also followed developments closely but I don't see an immediate role for green bonds for us from a funding perspective. I also don't see it as an Australian Office of Financial Management decision – it would be up to the government.

VREDE We can confirm that we have no plans to alter our product mix at this time.

BISHOP Green bonds are certainly on the radar for Auckland Council. We have observed exponential market growth and are starting to see some traction within this type of issuance by other New Zealand borrowers. We think there is merit in looking at green bonds and we see additional benefits from doing so – for example in being able to further diversify our investor base.

Our view is that councils should be supportive of this form of funding as it fits with our DNA. We have observed municipalities in Europe and Scandinavia do just this.

BUTCHER We remain committed to building liquidity in the domestic New Zealand Local Government Funding Agency curve and any green-bond issuance would take liquidity away from our existing benchmark curve. I have yet to

have extended duration in the current, low-rates environment and this has reduced focus on what is a relatively short-tenor instrument.

At the same time, there are questions over the robustness and appropriateness of floating-rate benchmarks. I have always had some concern about the use of a bank benchmark for issuance by a semi-government. Is this really suitable?

What happens in the benchmark space will be a very important driver of our FRN issuance in future. We have to decide whether we want to be locked into a benchmark that is not necessarily representative of our sector or is sustainable and robust in the long term. We continue to do what work we can to support alternative benchmarks – and we think there are some good options out there. We would be supportive of the FRN sector if we have a representative benchmark.

■ **COLLARD** We have issued FRNs in the past and certainly would consider doing so again in the future. All Efic debt is swapped into floating rate. We are therefore very comfortable issuing FRNs in Australian dollars – or other currencies – over a term that suits investor demand and also the requirements of our book at the time.

■ **LOFTING** Our clients are fixed-rate borrowers so we don't really have a need for FRN issuance.

■ **TRIGONA** It's the same for TCorp. We have issued some FRNs but at the time some of our clients were borrowing in floating-rate format. They're almost all in fixed now.

■ **BISHOP** By contrast, all Auckland Council's debt is swapped into floating-rate New Zealand dollars – so we are open to FRN issuance provided it is fairly priced.

■ **NICHOLL** We came under pressure a few years ago to resume Australian Office of Financial Management (AOFM) issuance of FRNs. We resisted this pressure, mostly because we didn't see the need to develop another market and especially one that would likely have been seen as a substitute for our short-be convinced that green-bond issuance will deliver cheaper funding, extend the tenor of our issuance or diversify our investor base relative to our current issuance strategy.

This still seems to be a common theme among all domestic New Zealand issuers, hence the lack of green issuance by domestic borrowers in New Zealand dollars.

KENNEDY By their nature, governments are mandated to be socially responsible – so their debt programmes are also socially responsible. Our existing lines aren't deep enough to risk challenging our liquidity by issuing into a separate programme, especially given the often overlooked aspect of the nature of government programmes. I think we should be targeting having our whole programmes classified as socially responsible.

LOFTING This is a fair point. But, in the meantime, issuing a green bond did align TCV more closely both with investors that wanted something different and with our clients that are investing in sustainability. This is a key principle and value for the Victorian government, and our activity was received very positively by our borrowing clients. It was about saying to the whole world that Victoria is open for investment in clean energy and presenting the ways in which this is demonstrably the case.

BUTCHER I agree with Andrew Kennedy. Much of our council borrowing is for water and public transport projects so they are already in effect 'green borrowers' without the need to for a formal green programme. We would be an ideal issuer of green bonds and have talked in the past about 'greening' our entire programme. But we won't consider it until there is a clear financial benefit for our council borrowers.

JOHN Our view is that green bonds would be a natural extension of what we're already doing. Auckland Council already funds electric trains and waste-water projects that have positive environmental impacts. We are already operating in this space in a project sense so being active from a funding point of view makes sense, too.

■ **DAVISON The idea of a broader pool of green-bond collateral has been mentioned. Is there any interest in benchmark-sized social bonds like the gender-equality bond issued in 2017 by National Australia Bank?**

LOFTING We don't have any plans to go down that path.

FAJARDO It's the same for us – we are committed to the green-bond path. Having said this, there is discussion about the idea of green bonds in future supporting both specifically green and social outcomes. We will follow developments. Again, though, as Andrew Kennedy says, as a government issuer much of our funding is for social purposes like healthcare and housing.

BISHOP At this stage this type of issuance would be secondary to a green bond, but we will continue to follow developments in this market.

■ **DAVISON We are hearing more about institutional-investor interest in social-benefit bonds but transaction volumes remain small. How involved are treasury corporations in state and federal social-benefit-bond programmes?**

LOFTING We have provided advice to parts of government that are looking at this type of project. The biggest area for us is around affordable housing, and I have had conversations with investors that want to be more involved in lending to, for instance, housing associations to increase the stock of affordable housing. The state also has schemes in place to provide guarantees to bank loans to housing associations, and TCV will itself be lending to housing associations in future to support these projects.

Our involvement has been around things like helping assess the bids that come in to project processes. Bidders might be offering slightly different payment streams, say – and we can give advice there. But it's not a funding area, and there's no expectation that it will become one.

TRIGONA New South Wales (NSW) Treasury has issued social-impact bonds directly through the Office of Social Impact Investing, but they are quite different from NSW Treasury Corporation's main funding transactions. They are smaller and have a payoff profile dependent on certain social outcomes. This programme is kept very separate from what we do.

FAJARDO Social-benefit bonds have proved to be a good way to achieve social-policy outcomes, but the capacity is very small. Queensland Treasury manages it all in Queensland, rather than Queensland Treasury Corporation.

duration Treasury notes. I remain confident that this was a good decision.

■ **FAJARDO** More than 90 per cent of our client-funding requirements are fixed rate, so we view FRN issuance as a complement to our benchmark fixed-rate programme. We receive feedback from our dealer group that there is demand, especially from bank investors, for FRNs. So we may look at the market this financial year. We will consider it relative to the cost of our traditional benchmark issuance.

■ **CINQUINA** Western Australian Treasury Corporation (WATC) is something of an outlier here in that about 30 per cent of our client debt is lent on a floating-rate basis, so we have an underlying interest in having floating-rate exposure at the front of the curve – out to about five years. We have about A$9.5 billion (US$7.6 billion) of FRNs outstanding and as long as we continue to see investor interest in the format – and have client needs for floating-rate debt – we will continue to issue.

Davison Does anyone share Andrew Kennedy's concerns about benchmark appropriateness?

■ **CINQUINA** My sense is that the issue with the bank bill swap rate (BBSW) would go away if – as we were prior to the financial crisis – we were all trading at 20-30 basis points below BBSW. But the reality is that we trade where we do, relative to swap, in the fixed-rate market, and we don't have much control in the matter.

We're interested in developments around things like an overnight indexed swap (OIS) benchmark. But as things stand FRNs trade off BBSW and we can either accept this and continue to issue or not. We choose to take advantage of domestic demand in the format to meet some of our lending requirements.

We discount our swap book on an OIS basis, but we can't issue on the same basis.

■ **FAJARDO** We have looked into this topic, but it's not something that would prevent us from issuing FRNs at the moment. We are open to alternative benchmarks, such as OIS, if they are accepted by investors.

Craig New Zealand government-sector issuers have not used the FRN format of late. Is there any prospect of change?

■ **BUTCHER** We continue to focus on increasing liquidity in our benchmark, fixed-rate coupon lines that match the New Zealand government bond (NZGB) curve. This means no appetite for FRN – or inflation-linked – issuance.

THE MISSING LINKERS

Davison Inflation has been the 'missing link' and government-sector issuance of inflation-linked bonds has eased. What is the status of demand and supply prospects for linkers?

■ **NICHOLL** The market remains relatively slow for us, certainly compared with a couple of years ago. The underlying dynamic reflects superannuation-fund growth, some of which will continue to be invested in inflation assets. Our recent strategy with the linker market has been to maintain a liquid asset class and to have the ability to respond to demand growth should it emerge.

We issued a new 10-year linker in 2017 and we have indicated our plan to introduce a new 2045 at some stage. The question is when this will be appropriate, and we will base the answer largely on market feedback.

■ **VREDE** The NZDMO has a strong commitment to the market for inflation-indexed bonds (IIBs). We remain committed to regular tender supply and maintaining a core level of outstandings, as well as a range of IIB maturities.

The attractiveness and viability of other funding instruments such as FRNs – and green bonds for that matter – is evaluated strategically. Key considerations are trade-offs regarding the product's risk characteristics within the debt portfolio and overall Crown balance sheet, our ability to sustain and support liquidity in all debt products, diversification of our investor base and cost effectiveness.

■ **BISHOP** Inflation-linked issuance is certainly on the radar. We know there are some investors, both in New Zealand and offshore, that would like to buy Auckland Council bonds in this format. So this is something we are actively considering.

■ **TRIGONA** TCorp has some natural demand for inflation-linked debt. But the recent asset-recycling initiatives of the state government saw us retire loans from the relevant electricity utilities. We were able to reassign these loans to other borrowing clients that had inflation-linked demand, so we have effectively been able to provide the funding without issuing. Going forward I expect issuance into this sector will be somewhat limited.

■ **NICHOLL** This story could change in a quarter – or even a month. If inflation was to take hold in the US and market users believed Australia could follow, I think interest in the linker market could resurface in volume and at pace.

USE OF SYNDICATION

Davison How has the AOFM changed its syndication strategy in response to the changing new-issuance dynamics?

■ **NICHOLL** Over the last six or seven years we have used syndications very effectively – at least in our view – to achieve a number of market-development aims. We have continued to refine the way we use syndication and this has helped to underpin their effectiveness.

Calendar 2017 was our largest syndication year with A$28.5 billion issued across six deals. Each time we use a syndication we are thinking about reducing execution risk, achieving useful volume – both to build liquidity more quickly and to help with the overall issuance task – and the cost effectiveness of issuance. It is also true that syndications provides both incentive and reward for intermediaries to be price makers.

Our considerations going into any deal are circumstance-specific. For example, pricing for yield-curve extensions has been more difficult to determine and there have been times when allocating issuance across the year has weighed against the opportunity to print several large deals.

Last year we had almost the opposite of this when we were looking to achieve our largest annual task ever with the risk that external events could have increased this even more during the year. This is why we syndicated a new five-year bond – there was an opportunity at the time to reduce funding risk for the year. This shouldn't have come as a surprise or necessarily been seen as a structural change in our behaviour given that our issuance programme was so high.

As our issuance programme falls, syndications will play a different role for us. There is no longer a need to achieve large issuance volume via outsized deals. This means the market should not expect to see syndicated issues of new five-year bonds, nor deals as consistently large as last year's A$11 billion syndicated issue.

The past two deals had print-volume caps at launch but with the benefit of hindsight I am not sure they produced the best overall outcome. This experience has changed the way we would think about this approach were it to be considered in future transactions.

We introduced syndicated taps as an issuance method last year. So far this has proven to be a useful tool to build liquidity in the ultra-long end of the nominal and linker curves. It also assists in extending portfolio duration. It is an open question as to how far into the future these will remain appropriate. But we will continue to use syndicated taps while we see relevant opportunities to do so.

One of the benefits of syndication is that it gives a useful window into market behaviour and preferences at the time, which over time can also be informative. There is now a lot of data to hand from our syndications and we have reviewed it closely.

Davison We saw signs in 2017 that could be interpreted as a move away from syndication – large tenders including for new lines, in particular. Has there been any change in strategy by issuers in this respect, even at the margin – and if so why?

■ **LOFTING** The way we have always approached our debt-raising activities is that we like to avail ourselves of all the appropriate tools and select the one that is most suited to our funding objectives at the time. The objectives we take into consideration when making this decision include volume, duration, if it's a new line or a tap, and general market conditions.

We had been absent from long-term debt markets for a long period, so when we executed the 2028 tender in October 2017 we knew we wanted to issue a public transaction. We also only had a volume requirement of A$500 million and we wanted to tap an existing line in which we had seen significant demand in the weeks prior. So a tender suited our needs. If our volume requirement had been closer to A$1 billion there is a strong possibility we would have opted for a syndication.

In the last six months, we have observed issuers within the semi-government sector considering – and using – a mix of syndications, tenders and dual tenders. The reality is that all these options are open.

Tap issuance provides flexibility, including the ability to respond to clients' funding requirements and also to reverse enquiry from investors. It also suits smaller transactions. On the other hand, we normally favour a more public format, whether via syndication or tender, if we're establishing a new bond line or issuing a more esoteric transaction in the long end of the curve.

■ **VREDE** There has been no change to the NZDMO's primary-issuance strategy. Regular, preannounced tenders are the main method of issuing NZGBs and T-bills. For new bond lines, syndication continues to be valued as a method that enables the placement of a large volume into the market, creating liquidity in the new bond from the outset and reducing illiquidity premia.

■ **FAJARDO** QTC issues by syndication, tender and reverse enquiry – and will continue to be flexible in issuing by whichever method is optimal. In our last financial year we issued relatively more by tender and less by syndication, but so far this year we have been more active in syndication and reverse-enquiry issuance.

QTC remains committed to public issuance formats such as syndication due to the transparency that such issuance provides to the investor. In current market conditions, we feel syndication provides the best execution transparency for all market participants when we are issuing new benchmark-bond lines or tapping an existing line for volume in excess of A$500 million.

■ **TRIGONA** Like QTC, TCorp issues via syndication, tenders and taps to existing lines prompted by reverse inquiry. We've tended to issue new benchmark bonds by syndication and this financial year we tapped the 2030 bond via syndication as well. Syndication is a relatively transparent process for the investor and issuer, and focuses attention on a particular bond.

Issuance via tender has been relatively limited so far for us this financial year. We have completed one such transaction – a A$300 million increase to the 2027 bond via Yieldbroker tender. The regular activity we undertake across the benchmark-bond curve with taps and buybacks is also a useful way to manage exposures and issuance across our maturity spectrum, and to support liquidity in our bonds.

■ **CINQUINA** WATC will continue to use all forms of access to markets, be it tap, syndication or reverse enquiry. In the 2017 calendar year we have undertaken three syndications and three tenders in the benchmark-bond space and one dual-maturity syndication in FRN format.

At this point I believe we will continue to look to syndications as our preferred methodology for issuing new bond or FRN maturities and for taps of existing issues where the volume requirement is a minimum of A$500 million in a single maturity. •

COMMONWEALTH OF AUSTRALIA

Australian Government

Australian Office of Financial Management

SECTOR	SOVEREIGN		
CREDIT RATINGS (LONG-TERM AUD)	AAA/Aaa/AAA (negative/stable/stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	N/A		
RISK WEIGHTING	0%		
TERM FUNDING REQUIREMENT (A$BN)	FY18 79-80 (f/c)	FY17 106	FY16 96.4
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About Commonwealth of Australia

The Commonwealth of Australia was formed in 1901 as a federation of six states: New South Wales, Queensland, South Australia, Victoria, Tasmania and Western Australia. It now also incorporates 10 territories including the Australian Capital Territory – which contains the national capital, Canberra.

Australia is a stable, culturally diverse and democratic society with a skilled workforce and a vigorous, competitive economy. Between June 1992 and June 2017, Australia's real economy grew by an average of around 3.2% a year. Australia's GDP in 2016/17 was close to A$1.7 trillion.

Fiscal position

The Australian government had an underlying cash deficit of A$33.1 billion (1.9% of GDP) in 2016/17.

Debt position

At the end of 2016/17, net debt was A$322.3 billion (18.4% of GDP) and is estimated to be A$343.8 billion (18.9% of GDP) at the end of 2017/18.

Funding strategy

The Australian government currently only issues debt securities denominated in Australian dollars. Treasury bonds are medium- to long-term securities which carry a fixed annual rate of interest, payable semi-annually. Treasury-indexed bonds (TIBs) are medium- to long-term securities for which the capital value of the security is adjusted by reference to movements in the consumer price index. Treasury notes are short-term discount debt securities issued to assist with the government's within-year financing needs.

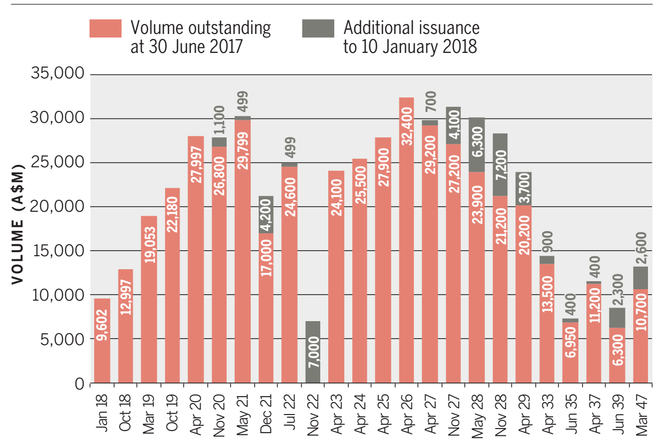
The Australian Office of Financial Management (AOFM) is the agency responsible for the issue and management of Australian government debt.

Issuance is normally by competitive tender and by syndication to introduce new bond lines. However, in 2017 the AOFM began using tap syndications to issue into existing ultralong bond lines to assist the operation of the bond market and build liquidity.

At 10 January 2018, there were 24 lines of Treasury bonds on issue with a gross aggregate face value of A$477.3 billion. Nominal-bond issuance in 2017/18 is expected to be around A$74 billion. At 10 January 2018, there were eight lines of TIBs on issue with an aggregate face value of A$34.9 billion. TIB issuance in 2017/18 is expected to be around A$5-6 billion. Treasury notes are issued for within-year cash-management requirements. The total volume of Treasury notes on issue at 10 January 2018 was A$3.5 billion.

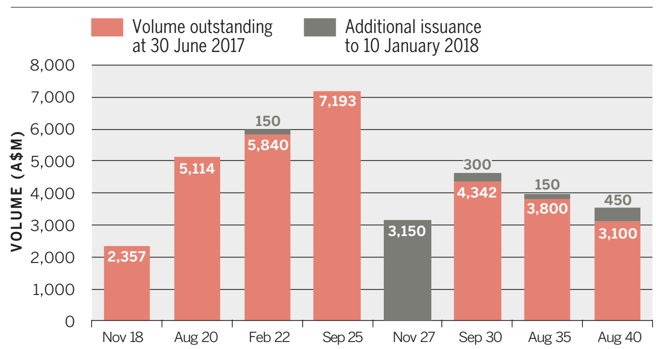
The AOFM commenced a programme of regular competitive buyback tenders in September 2016. These operations are conducted via separate tenders and focus on short-dated bonds.

AUSTRALIAN GOVERNMENT TREASURY BONDS OUTSTANDING



SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT JANUARY 2018

AUSTRALIAN GOVERNMENT TIBs OUTSTANDING



SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT JANUARY 2018

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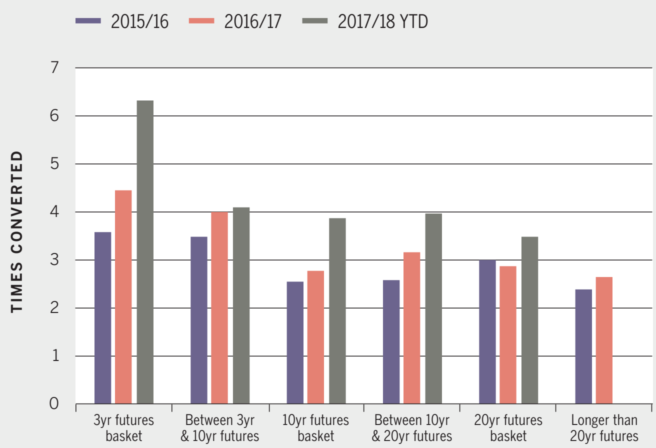
The ACGB market in depth: key facts and figures

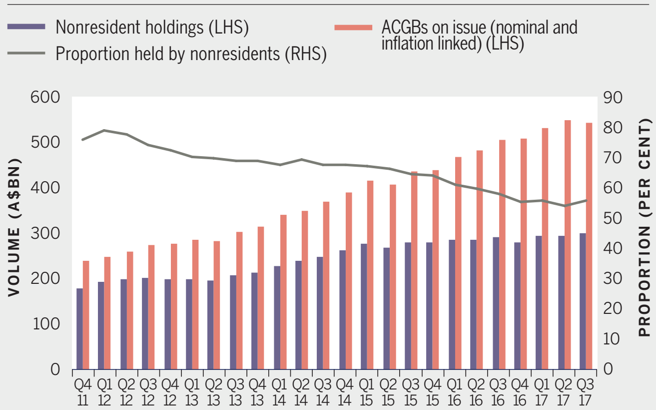
Issuance of Australian Commonwealth government bonds (ACGBs) went through an extended upwards trajectory in the wake of the financial crisis, with a commensurate broadening and deepening of the investor base on- and offshore. As the net new-issuance task peaks and starts to recede, based on current projections, market data clearly demonstrate the evolution of the asset class over the past decade and into the future.

ACGB TENDER COVERAGE RATIOS



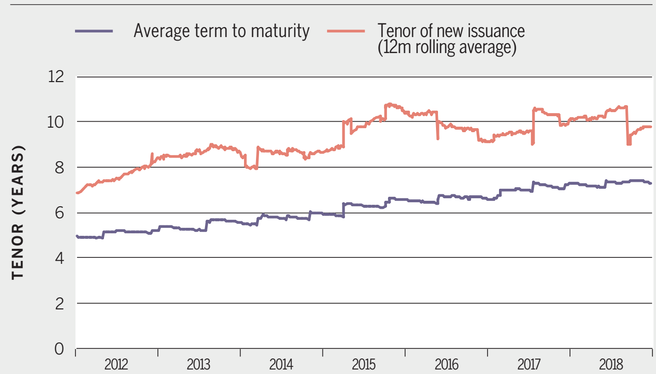
SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT JANUARY 2018

NONRESIDENT HOLDINGS OF ACGBs



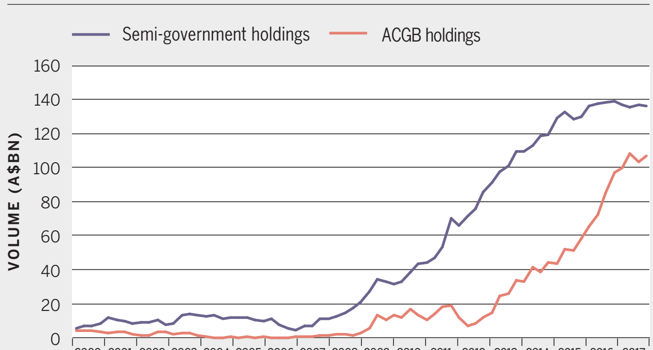
SOURCE: AUSTRALIAN BUREAU OF STATISTICS, AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT JANUARY 2018

NOMINAL ACGB TENOR OF ISSUANCE AND PORTFOLIO DURATION



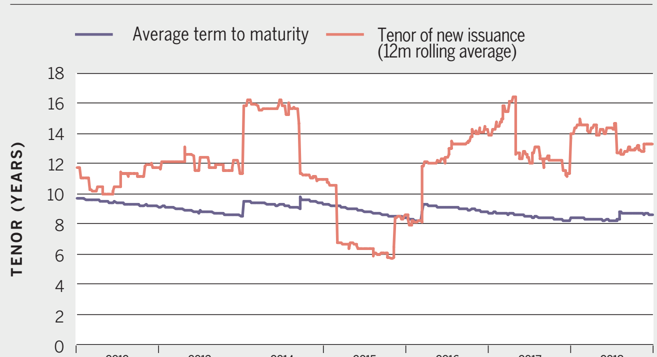
SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT JANUARY 2018

AUSTRALIAN AUTHORISED DEPOSIT-TAKING INSTITUTION HOLDINGS OF LOCAL HIGH-GRADE BONDS



SOURCE: AUSTRALIAN BUREAU OF STATISTICS JANUARY 2018

INFLATION-LINKED ACGB TENOR OF ISSUANCE AND PORTFOLIO DURATION



SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT JANUARY 2018

ISSUER SPOTLIGHT:

AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Australia's federal mid-year economic and fiscal outlook, released in December 2017, revealed a further improvement in the sovereign fiscal position. With a falling net new-issuance requirement, **Rob Nicholl**, chief executive at the **Australian Office of Financial Management** (AOFM) in Canberra, reflects on the sovereign funding and investor-relations task.

If the budget deficit continues to fall as forecast, how will this affect the AOFM's issuance volume? Should investors be concerned about liquidity?

Our gross issuance for 2017/18 is A$74 billion (US$59.8 billion), a decrease of A$6 billion from the budget announcement and representing net issuance of A$28 billion. The Treasury-indexed bonds programme remains unchanged, at around A$5-6 billion for the year. Even though this is around A$30 billion lower than last year it is still quite a large issuance programme.

Although forecasts are for gradually decreasing issuance programmes, there will still be sufficient volume to support meaningful nominal and linker issuance. While there is still more to do to complete our long-end yield-curve development, I would argue that we are very close to having achieved this overall aim. This puts us in a position from which we will soon be viewed as undertaking stable market maintenance.

Our core focus – of supporting the futures contracts through regular bond-basket issuance, maintaining a 30-year yield curve and facilitating liquidity – will still be attainable with reduced gross issuance. We will have sizeable bond maturities to fund each year and buybacks can be funded by additional bond-basket issuance.

Notwithstanding lower programmes, we will continue to be a regular issuer in the market with tenders as the mainstay of our operations. We can adjust tender frequency and volume, and our use of syndication, as a means of recalibrating supply dynamics. To the extent this may happen it would do so gradually with clear advance guidance. As a result, I don't see the likelihood of a sharp adjustment impact on the market.

Nonresident holdings have declined over the last few years. We know the AOFM doesn't target a percentage of nonresident versus domestic investors, but is this a concern?

The fall in nonresident holdings as a percentage of total outstanding Australian Commonwealth government bonds (ACGB) has been ongoing for more than six years (see chart on p35). This might have been a concern if it was due to nonresident net selling or if there wasn't sufficiently increasing domestic investor demand to pick up the extra ACGB supply.

But in reality neither of these things has occurred. Offshore investors have for the last 6-7 years, except for three or four quarters, been consistent net ACGB buyers and absolute offshore ACGB holdings are now at a record level. That the rate of nonresident net buying has not matched the overall increases in issuance programmes is not of concern. In fact, it is more likely to be in line with longer-term offshore interest, rather than us taking the extraordinary period of central-bank accumulation from 2010 to late 2014 as being normal.

It should also be remembered that the yield-curve extensions have been heavily supported by offshore demand and a broadening of the investor base. So while these influences had an impact during this period there is no reason to expect a reversal during future periods of market maintenance.

What we have also seen is strong demand from domestic investors, particularly over the last couple of years, due to a rapid increase in the holdings of bank balance sheets and domestic real-money managers. We expect the regulatory influences on bank balance-sheet accumulation of ACGBs now to abate, but this will be coincident with declining issuance programmes.

The sovereign rating has been a market focus but the level of rating pressure appears to have eased. How would you describe the level of interest in the sovereign credit outlook at present?

It is certainly of considerably less interest to investors than the first 6-8 months after the announcement.

For some new investors, or accounts we have not previously met, this may still be a question they ask. Occasionally there are comments from regular investors that seem to be aimed at checking our updated views on the issue. But more often than not it seems these investors are really trying to test the views we have picked up from others in the market.

However, virtually every investor we meet or talk to would regard a downgrade by the rating agencies as far less significant than liquidity, outright yields, the outlook for the currency and spreads to competing sovereign markets – namely the US.

In our view, Australia would need to be downgraded by several notches in a single adjustment for there to be any rethinking of offshore involvement in the ACGB market. •

HER MAJESTY THE QUEEN IN RIGHT OF NEW ZEALAND

THE TREASURY
Kaitohutohu Kaupapa Rawa

SECTOR	SOVEREIGN		
CREDIT RATINGS (LONG-TERM NZD)	AA+/Aaa/AA+ (all stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AA/Aaa/AA (all stable)		
RISK WEIGHTING	0%		
TERM FUNDING REQUIREMENT (NZ$BN)	FY18 7.0 (f/c)	FY17 8.0	FY16 8.0
RBA REPO ELIGIBLE	NO		
RBNZ REPO ELIGIBLE	YES		

About New Zealand

New Zealand is a parliamentary democracy. The *New Zealand Constitution Act 1852* provided for the establishment of a parliament with an elected House of Representatives. The British monarch is the titular head of state. New Zealand's land size is similar to Japan or Britain, with a resident population of 4.8 million. It has a large services and a sizeable manufacturing sector complementing a highly efficient export-oriented primary sector. Tourism is a key services export, as New Zealand is a popular destination for overseas visitors. Over the year to September 2017, the economy grew at an annual average rate of 3% in real terms.

Fiscal summary

The *Public Finance Act 1989* requires the New Zealand government to be transparent in its short- and long-term fiscal objectives and to maintain prudent debt levels. Recent and current governments have a strong commitment to prudent fiscal management.

The Crown's fiscal position has strengthened over recent years. In the fiscal year 2014/15 the government achieved an operating surplus for the first time since the global financial crisis. In 2016/17, the operating balance was a surplus of NZ$4.1 billion (1.5% of GDP). Surpluses are forecast to continue in coming years, reaching 2.5% of GDP in 2021/22.

Net core Crown debt was 21.8% of GDP in 2016/17. This ratio is forecast to rise slightly, to 22.2% in 2018/19, before falling to 19.3% in 2021/22.

The New Zealand government recognises the importance of maintaining a sustainable NZGB market. In 2017, it made a commitment to maintain levels of NZGBs on issue at not less than 20% of GDP, over time, even if net core Crown debt were to fall sustainably below 20% of GDP.

About the NZDMO

The New Zealand Debt Management Office (NZDMO) is an operational unit of the New Zealand Treasury. It is responsible for the efficient management of the Crown's debt and associated financial assets within an appropriate risk-management framework. It has been operating in international debt markets for almost 30 years and is guided by the principles of transparency, even-handedness and consistency.

Funding strategy

The NZDMO manages the issuance of nominal bonds, inflation-indexed bonds (IIBs) and treasury bills in the wholesale market. Primary issuance is undertaken through competitive tenders or syndication. Syndication has historically been confined to launching new bond lines.

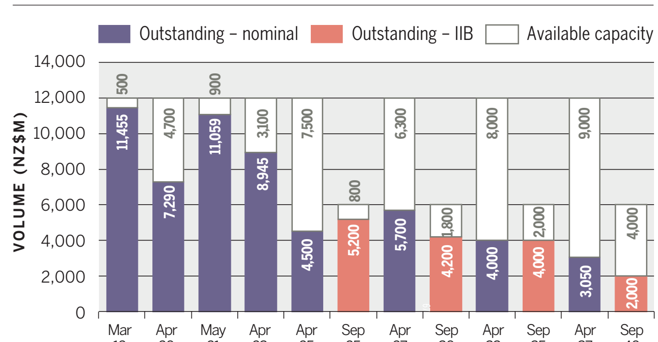
New Zealand government bonds (NZGBs) are currently issued only in New Zealand dollars. However, the NZDMO maintains EMTN and ECP programmes.

The NZDMO's funding strategy aims to minimise the Crown's borrowing costs over the long term, with due consideration to risk. This requires:

- Balancing a debt portfolio structure appropriate for the Crown's balance-sheet requirements with investor demand.
- Building and maintaining depth, diversity and confidence of the investor base to ensure ongoing market access to funding.
- Ensuring the NZDMO's actions support secondary-market liquidity and a well-functioning New Zealand capital market to minimise borrowing costs through time.

At 31 December 2017, there was NZ$74.4 billion of nominal and IIB NZGBs on issue. Of these, NZ$71.4 billion were market bonds that may be freely traded in the secondary market. In addition, there was NZ$4.1 billion of treasury bills on issue.

NZDMO DEBT MATURITY PROFILE (MARKET BONDS)



SOURCE: NEW ZEALAND DEBT MANAGEMENT OFFICE DECEMBER 2017

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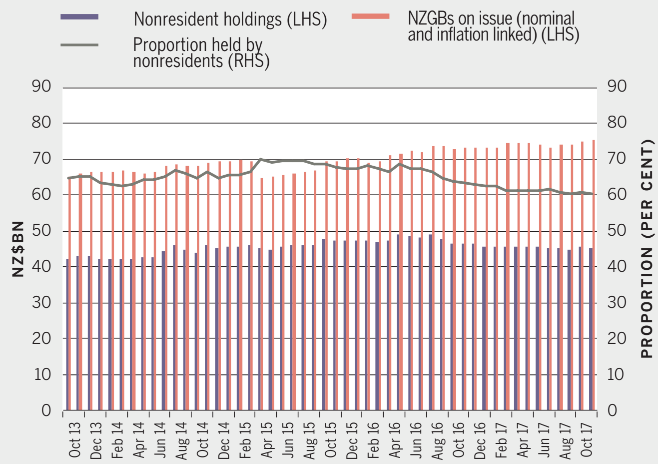
The NZGB market in depth: key facts and figures

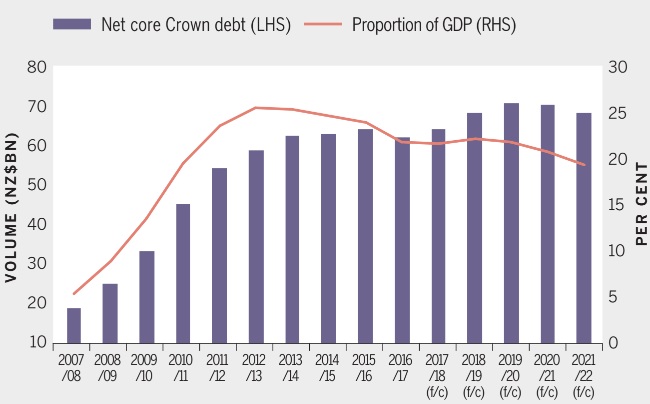
The New Zealand government recognises the importance of maintaining a sustainable New Zealand government bond (NZGB) market and intends to maintain levels of NZGBs on issue at not less than 20 per cent of GDP over time. This commitment complements the Treasury's New Zealand Debt Management Office issuance strategy, which has focused on enhancing NZGB market liquidity over recent years.

NONRESIDENT HOLDINGS OF NZGBs



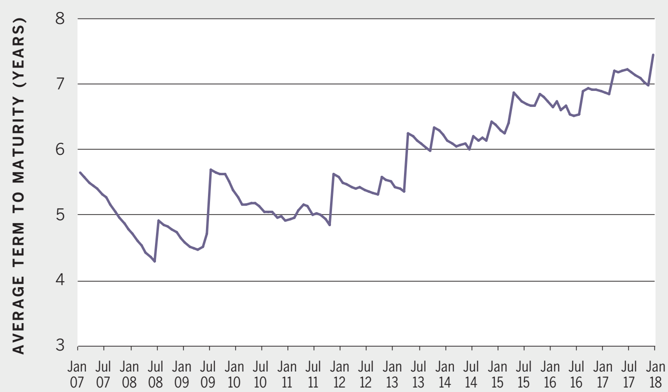
SOURCE: NEW ZEALAND TREASURY JANUARY 2018

NEW ZEALAND SOVEREIGN NET DEBT



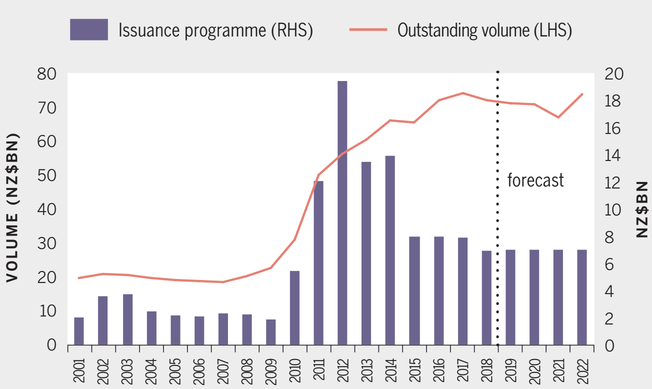
SOURCE: NEW ZEALAND TREASURY JANUARY 2018

NZDMO PORTFOLIO DURATION



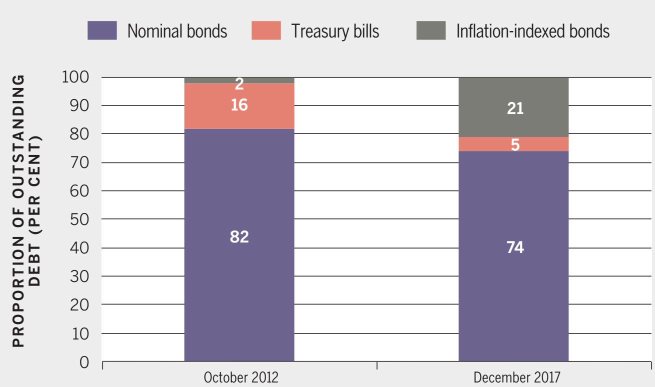
SOURCE: NEW ZEALAND TREASURY JANUARY 2018

NZDMO ANNUAL ISSUANCE AND BONDS OUTSTANDING



SOURCE: BLOOMBERG JANUARY 2018

NZDMO PORTFOLIO COMPOSITION MIGRATION



SOURCE: NEW ZEALAND DEBT MANAGEMENT OFFICE JANUARY 2018

ISSUER SPOTLIGHT:

NEW ZEALAND DEBT MANAGEMENT OFFICE

Sarah Vrede, Wellington-based director, financial operations at New Zealand Treasury and head of the **New Zealand Debt Management Office** (NZDMO), reflects on liquidity in the context of a falling funding task and a guaranteed level of bonds on issue.

With no further growth in net new issuance expected, does the NZDMO have specific plans in place to support liquidity?
We have an important role to play and the NZDMO's funding strategy has a strong focus on this. It aims to minimise the Crown's borrowing costs over the long term, with due consideration to risk. The funding strategy recognises the critical role of committed intermediaries in a well-functioning secondary market for NZGBs and includes a focus on offering a value proposition for intermediaries that commit expensive resources and put capital at risk when they support the NZGB secondary market.

There have also been multiple developments and changes over recent years that have supported secondary-market liquidity of NZGBs.

In 2017, two consecutive New Zealand governments committed to maintaining a sustainable NZGB market. Regardless of net debt levels, there is a commitment to maintain levels of NZGBs on issue at not less than 20 per cent of GDP over time. This commitment explicitly supports liquidity and helps sustain investor and intermediary confidence in the market over the long term.

Both stock and flow – in other words total bonds outstanding and annual funding programmes – of NZGBs have stabilised since 2014 at around 3-4 times greater than their pre-financial-crisis levels. Despite no forecast growth in net issuance over the next few years, gross issuance is forecast to remain steady at NZ$7 billion (US$5.1 billion) per fiscal year. This consistency of new supply is positive for investor participation and for liquidity in the NZGB secondary market.

In addition, the NZDMO structures its issuance strategy to support liquidity in many ways. We announce quarterly tender schedules in advance, including fixed amounts and specific maturities. We build and maintain capacity to tender two nominal maturities per month. We launch new bonds via syndication and issue into benchmark lines. We focus on core, domestic-market issuance over foreign-currency issuance or alternative products. We manage cash flows around upcoming bond maturities. And we broadly match Australian Commonwealth government bond maturities.

How has the growth of KiwiSaver changed the NZDMO's investor profile?
The NZDMO has not been under pressure to find offshore investors in recent years as investors have considered New Zealand government bonds (NZGBs) to offer a relatively attractive risk-reward return on a global basis.

It is interesting to note the parallel increase in offshore and domestic holdings of NZGBs. Since 2009, NZGBs on issue have increased threefold. Over this time the proportion of nonresident holdings of NZGBs has remained stable within a range of around 60-70 per cent – so participation has grown roughly threefold for domestic and offshore investors.

The growth in KiwiSaver has certainly been a key component in the growth in local demand. The "conservative" KiwiSaver portfolio, which is heavily weighted to fixed income, remains the default fund.

Domestic demand has also been supported by changes to regulation relating to bank balance sheets. We have also seen more general growth in assets under management domestically.

The NZDMO announced in November 2017 that it would not be proceeding with the planned syndicated launch of a new 2029 NZGB by the end of calendar 2017. Why was this, and what are the NZDMO's plans for this transaction?
The NZDMO is a strategic, rather than tactical, issuer that aims to execute its funding programme in a transparent, even-handed and consistent manner. Our announcements always stipulate that syndications will take place subject to market conditions. Cash-management requirements are a further important consideration in decisions regarding timing of syndications.

In the case of the 2029 syndication, the NZDMO assessment was that market conditions were not optimal during much of the second half of calendar year 2017. Our strategic, long-term perspective and adherence to our principles of even-handedness and transparency led us to the decision that investors and other stakeholders should have the opportunity to evaluate any new information contained in the half-year economic and fiscal update before participating in the transaction.

It remains our view that the reduced uncertainty for NZDMO's valued investors and intermediaries will contribute to a more successful 2029 transaction for the Crown. The 2029 syndication is now expected to occur before 30 June 2018. As always, this will be subject to market conditions. •

ISSUER SPOTLIGHT:

EXPORT FINANCE AND INSURANCE CORPORATION

For several years **Export Finance and Insurance Corporation** (Efic) has been more active as a short-term debt issuer than it has in term-funding markets. **Chris Collard**, Efic's Sydney-based director of treasury, explains why.

Efic has always been reasonably active in foreign-currency ECP markets. Did anything change in 2017?

Efic continues to be very active in the ECP market in US dollars. In the past 12 months we have consistently issued below Libor benchmark rates in the maturities we typically target, which are one, three and six months. Our average outstandings in calendar year 2017 were approximately US$800 million, which equates to an annual turnover of around US$3.5 billion per year.

Even though we don't deem ourselves to be a large ECP player there is enough paper on issue to assure investors we are committed to the market and to provide them with sufficient liquidity and ongoing reinvestment opportunities.

Investing in Efic ECP gives investors the opportunity to buy debt guaranteed by the Commonwealth of Australia in currencies other than Australian dollars.

To enhance our ECP offerings, we have recently appointed a new member to our ECP panel. This provides us with access to new investors and also ensures the tightest possible pricing. As well as being positive for us from a cost-of-funds perspective, this is also positive for investors as it means there is an additional pricemaker in Efic paper.

Might Efic be more active as an issuer in the year ahead?

Efic was quiet in issuance of longer-dated debt in 2017. This means our funding ratio has decreased slightly over the past 12 months, but we remain around 80 per cent match-funded.

We are still relatively well funded, even at this level. Given that the yield for issuing short-dated three- and six-month ECP, at sub-Libor, is far cheaper than longer-dated bonds, we have found it to be more cost-effective to issue short-term paper. We have been able to sustain this strategy over the last few years because, in the wake of the financial crisis when the cost of raising long-term debt became more favourable, our funding ratio got very close to 100 per cent.

Our funding strategy could change because of a couple of different factors, including the ratio continuing to diminish. But, more important, if significant new term-lending opportunities come onto the books in the next 12 months it would be prudent for us to revisit term-debt markets.

Overall, our aim is to continue to run a conservative funding strategy so we remain well funded and have good access to short-term debt markets in times of market dislocation. This will ensure we continue to be able to satisfy the requirements of the market gap that Efic is mandated to serve.

Even though we are not a large issuer of term debt, it is imperative that we continue to update investors not only of our funding requirements but also of any changes to our underlying business. It is equally important that we reinforce the strong and explicit guarantee we have from the Commonwealth of Australia.

What is the market outlook for Australian exporters?

Despite heightened political uncertainty, both domestically and globally, the long-awaited economic upswing appeared to be firmly underway in 2017. This was a product of stronger industrial activity and global trade coupled with better business and consumer confidence, which drove a recovery in global investment. All these factors helped boost commodity prices and led Australia's resources and energy exports to a record A$204 billion (US$162.3 billion).

However, the outlook for Australia's mainstay export sector is more subdued heading into 2018. In particular, iron-ore and coal prices will be dragged down by increased supply from low-cost producers, more than offsetting a 36 per cent jump in LNG export values as new and existing plants ramp up production.

Thankfully, the outlook for services exports remains robust with tourism and education set to outperform, given stronger household incomes. Manufacturing exports should also see upside in 2018 as the solid global outlook spurs demand for goods used in offshore supply chains.

Looking ahead, and provided the global economy successfully navigates risks such as financial vulnerabilities and political shocks, the strong performance and rebalancing of Australia's export profile is set to continue.

What kinds of opportunities does Efic provide to exporters?

Through its wide range of working-capital solutions, Efic continues to provide the foundations for Australian small businesses to expand globally. Over the past three years, we have worked with more than 250 SMEs, providing support to them totalling more than A$350 million.

Some of the opportunities we have helped facilitate include exporting wine to Sweden, Japan, Canada and the Caribbean, eyewear products to the US, specialised machinery and equipment for the mining and construction industry in South Africa, natural spring water products into Asia and polyethylene piping into sub-Saharan Africa. •

EXPORT FINANCE AND INSURANCE CORPORATION

Australian Government

Efic Finance for Australian Exporters

SECTOR	AGENCY		
CREDIT RATINGS (LONG-TERM AUD)	AAA (negative) (S&P)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AAA (negative) (S&P)		
RISK WEIGHTING (APRA)	0%		
TOTAL FUNDING REQUIREMENT (A$BN)	FY18 3.0 (f/c)	FY17 3.0	FY16 2.0
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About Export Finance Insurance Corporation

Export Finance Insurance Corporation (Efic) is committed to unlocking finance for export success. Efic is a specialist financier that delivers simple and creative solutions for Australian companies, helping them to win business, grow internationally and achieve export success.

As Australia's export-credit agency, Efic operates on a commercial basis to provide financial solutions for:

- SMEs that are exporters.
- Australian companies in an export supply chain.
- Australian companies looking to expand their business operations overseas to service their clients better.
- Australian companies operating in emerging and frontier markets.

Through its loans, guarantees, bonds and insurance products, Efic has helped many Australian exporters and subcontractors take advantage of new contract opportunities that may otherwise have been out of reach. In the past three years, Efic has worked with more than 250 small businesses and provided A$350 million in financial support, enabling them to export to countries all over the world.

Efic practises responsible lending and upholds social and environmental best practice in the transactions it supports. It is a self-funding organisation operating in accordance with commercial principles.

Efic operates in the part of the market that is not served by the private sector – the 'market gap'. It looks to assist Australian exporters when their banks are not able to help them. Efic's role is to complement, not compete with, private financiers and insurers.

Ownership

Efic is wholly owned by the Commonwealth of Australia. It has performed its role since 1957 and was established in its current form as a statutory corporation under the *Export Finance and Insurance Corporation Act 1991* (EFIC Act). Efic is part of the Australian government's Foreign Affairs and Trade portfolio. The minister for trade, tourism and investment is responsible for Efic, and Efic's annual report is tabled in federal parliament. Efic also pays an annual dividend to the Australian Commonwealth.

Guarantee structure

Efic is one of only two financial institutions that are explicitly guaranteed by the Commonwealth of Australia. The only other one is the Reserve Bank of Australia. Under section 62 of the EFIC Act, the Commonwealth guarantees the due payment of any money that becomes payable by Efic to a counterparty.

Capital quality/support

As at 30 June 2017, Efic had A$451.3 million in equity, invested in line with the prudential controls set by the *Public Governance, Performance and Accountability Act 2013*. In addition, section 54 of the EFIC Act provides access to A$200 million of callable capital from the Commonwealth. This facility has never been used.

Risk policy

Efic has very conservative risk policies and employs operating principles that meet or exceed financial-services industry best practice. Efic's comprehensive risk-management policies cover credit, liquidity, foreign-exchange, interest-rate, and operational and reputational risks.

Funding strategy

Efic has a domestic Australian dollar programme, a multi-currency EMTN programme and a multi-currency ECP programme. Efic generally benchmarks its funding against US dollar Libor.

Broadly speaking, Efic aims to match-fund its assets with its liabilities by both tenor and amount. Through the use of derivatives, Efic is able to issue debt in suitable currencies to achieve the lowest possible cost of funding available in global markets. Efic has historically relied on the private-placement market, ECP and, more recently, the Australian domestic market for funding. AUD denominated securities issued by Efic are eligible as level-one high-quality liquid assets under Australian Prudential Regulation Authority criteria.

Efic has a favourable view on geographic-diversification opportunities that satisfy investor demand and deliver cost-effective funding.

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ISSUER SPOTLIGHT:

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

The **New Zealand Local Government Funding Agency** (LGFA) continues to grow in significance within the New Zealand capital market. The agency's Wellington-based chief executive, **Mark Butcher**, updates on its funding need, its place among council borrowers and growing liquidity in LGFA bonds.

Can you give an outlook of the council sector's overall funding task in the years to come?

Councils are currently in the process of undertaking their long-term plans that set out budgets and underlying financial positions for each of the next 10 years. These will not be formalised until June 2018, but we are projecting our LGFA member councils' borrowing requirements to be around NZ$1.2 billion (US$868.9 million) for each of the next three years. This incorporates both refinancing of existing debt and new borrowing.

Given the LGFA has approximately 95 per cent market share of council borrowing, we expect our borrowing requirement to be of a similar size. This projected borrowing requirement is therefore also slightly lower compared with the previous three-year period. We will continue primary issuance via bond tenders approximately five weeks apart over the coming year, with tender issuance of NZ$100-150 million per tender. Our tender schedule is on our website.

In the coming year, we expect our council borrowers to commence refinancing their March 2019 LGFA loans. Based on our recent experience with the December 2017 loans, we expect refinancing activity to commence from around June 2018. This refinancing requirement is already built into our issuance forecasts.

Current bonds outstanding, including treasury stock, total NZ$7.5 billion across six maturities from 2019 to 2033. We expect to reach peak debt, of around NZ$10 billion, in 2021/22.

In short-term funding, we have NZ$370 million of LGFA bills on issue. These are spread between regular monthly tenders of three- and six-month bills and private placements out to one-year maturity. We will continue this short-dated issuance throughout 2018.

What is the 'Auckland versus the rest' dynamic going forward?

There are 78 councils in New Zealand, of which around 60 have debt and 54 are LGFA members.

Auckland Council is the largest council borrower and is among a small group of five high-growth councils that have large infrastructure requirements resulting from strong current and projected population growth. Hence Auckland and the other high-growth councils have a large borrowing requirement while the remaining LGFA council members have, in aggregate, a small net-borrowing requirement. Auckland Council comprises around 28 per cent of our lending book and the other four high-growth councils comprise a combined 10 per cent.

We are waiting for any policy developments regarding infrastructure funding or alternative additional-revenue sources for councils following the recent change in central government. The high-growth councils are constrained in their borrowing capacity by a desire to maintain their high credit ratings and to remain compliant with LGFA lending covenants. This has been recognised by central government, and we are waiting to see what this may mean.

The LGFA introduced a stock-lending facility in 2016, to support liquidity in its bonds. Can you give an update on this facility?

We are very pleased with the growing liquidity in LGFA bonds. Secondary-market turnover averages more than NZ$500 million per month, or around 7 per cent of outstandings. The stock-lending facility is working well with banks borrowing bonds on a weekly basis and giving our secondary-market liquidity providers the ability to source bonds.

Our continued focus is on building liquid lines of LGFA bonds, with a target of NZ$1-1.5 billion – to ensure they are in the top-10 largest individual tranches of New Zealand dollar bonds after New Zealand government bonds (NZGBs), and adjusting our issuance maturity to meet market demand and conditions.

Do Japanese accounts remain your key offshore investors?

Our offshore investor base has grown to almost 40 per cent of outstandings from 25 per cent a year ago. Offshore investors comprise our largest investor group and we expect them to continue to grow given they hold around 45 per cent of the Kauri market and more than 60 per cent of the NZGB market.

While Japanese investors were early supporters of the LGFA, growth in offshore holdings over the past year has been from Europe, UK and North America. Offshore investors remain heavily tilted to real-money accounts, which have taken a long-term approach to investing in New Zealand dollar securities. Achieving diversity among investor groups and across geographies is very important to us and we will continue to focus on this in the coming year. •

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

SECTOR	AGENCY		
CREDIT RATINGS (LONG-TERM NZD)	AA+/AA+ (both stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AA/AA (both stable)		
RISK WEIGHTING	20%		
TOTAL FUNDING REQUIREMENT (NZ$BN)	FY18 1.2 (f/c)	FY17 1.2	FY16 1.2
RBA REPO ELIGIBLE	NO		
RBNZ REPO ELIGIBLE	YES		

About New Zealand Local Government Funding Agency

The New Zealand Local Government Funding Agency (LGFA) was enabled under the *Local Government Borrowing Act 2011*. The agency is owned by 30 local authority councils and the New Zealand government. It is a council-controlled organisation operating under the *Local Government Act 2002*.

The LGFA's primary purpose is to provide more efficient funding and diversified funding sources for New Zealand local authorities. The LGFA has 54 council members which cover 95% of sector debt. It has provided investors with a new source of New Zealand dollar denominated securities rated at AA+ (domestic long-term) by international credit-rating agencies S&P Global Ratings and Fitch Ratings. These ratings are the same as those of the New Zealand government.

Debt position

The LGFA has NZ$7.1 billion of bonds outstanding as at December 2017. There are seven bond maturities from 2019 to 2033. LGFA bonds have the same maturity dates and coupons as New Zealand government bonds (NZGBs), but yield an additional 30-105 basis points over the comparable NZGB maturity as at December 2017. The LGFA statement of intent forecasts LGFA bonds on issue to approach NZ$8.2 billion in total volume by June 2020. All LGFA bonds are listed on the NZX debt market.

The LGFA also issues three- and six-month LGFA bills via monthly tenders and private placements. As at December 2017, there was NZ$370 million of LGFA bills on issue.

Funding strategy

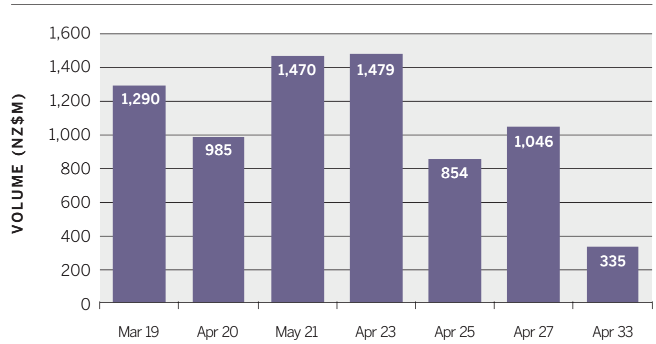
With outstandings of NZ$7.5 billion, the LGFA is one of the largest issuers of New Zealand dollar denominated debt securities after the New Zealand government. The agency commenced issuance in February 2012, and all bonds have been issued by tender in New Zealand dollars. There had been 52 such tenders by the end of 2017. Tenders are typically in the NZ$100-200 million range at five- to seven-weekly intervals.

The agency borrowed NZ$1.2 billion in financial year 2017. The funding requirement for the 2018 financial year is expected to be NZ$1.2 billion, depending on underlying council borrowing requirements.

The LGFA's funding strategy is to create liquidity in its bond curve. It will continue to offer existing bonds until outstandings in each maturity have been built up to at least NZ$1 billion. Tranche sizes at NZ$1 billion make LGFA maturities among the 10 largest individual New Zealand dollar tranches of debt securities.

The schedule of tender dates of LGFA bonds and LGFA bills for 2018 can be viewed on the LGFA website.

LGFA BONDS OUTSTANDING



SOURCE: NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY DECEMBER 2017

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AUCKLAND COUNCIL

Auckland Council
Te Kaunihera o Tāmaki Makaurau

SECTOR	SUBSOVEREIGN		
CREDIT RATINGS (LONG-TERM NZD)	AA/Aa2 (both stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AA/Aa2 (both stable)		
TERM FUNDING REQUIREMENT (NZ$BN)	FY18 1.1 (f/c)	FY17 1.6	FY16 0.9
RBNZ REPO ELIGIBLE	YES		
RBA REPO ELIGIBLE	NO		

About Auckland Council

Auckland Council was established on 1 November 2010 under the *Local Government (Auckland Council) Act 2009*, through the amalgamation of eight councils in the Auckland region. Auckland Council is New Zealand's largest local authority. As such it is responsible for – and has a range of mandatory and discretionary functions relating to – the regulation, management and direction of the Auckland region. Auckland is New Zealand's leading economic region, generating more than a third of the nation's GDP.

Auckland Council has responsibility for a wide range of activities, including regulatory functions such as the issuance of permits and consents for building activity within the Auckland region, and the enforcement of legislation, parking and licensing.

Auckland Council and its subsidiaries provide and maintain infrastructure such as city streets and essential public services such as water supply, sewerage, refuse collections and street lighting. Auckland Council also operates libraries and community facilities, and provides and maintains parks, reserves and sports fields.

Under the *Local Government (Rating) Act 2002*, Auckland Council has flexible powers to set, access and collect rates to fund its activities. Investors have security over rates and rates revenue under a debenture trust deed.

Debt position

The Auckland Council group had NZ$8.3 billion of debt outstanding at the end of June 2017. Some of the council's debt was inherited from former councils in the Auckland region. Since the formation of Auckland Council in 2010, debt has been issued in a range of maturities. The main funding sources are the domestic market (both retail and wholesale), the Local Government Funding Agency (LGFA) (see p43), and offshore markets through an EMTN programme and an Australian debt issuance programme.

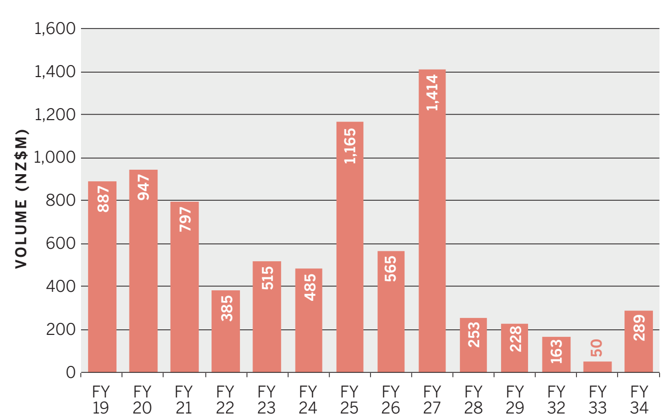
Funding strategy

Over the next 10 years, Auckland Council plans to spend approximately NZ$20 billion on capital expenditure, while through this period debt is expected to grow to NZ$12 billion. Domestic funding options and the LGFA may not meet all the council's funding requirements. Therefore, Auckland Council's recent focus has been to develop a strategic presence in offshore markets to provide diversity. All debt raised in foreign currencies is swapped back into New Zealand dollars.

In general, Auckland Council seeks to spread its debt maturities and looks to offshore markets for the majority of its longer-dated funding requirements.

Auckland Council expects to have annual funding requirements in the range of NZ$800 million to NZ$1.5 billion up to 2028, including the refinancing of existing debt. Debt requirements through to the end of June 2018 are expected to be NZ$100-200 million.

AUCKLAND COUNCIL DEBT MATURITY PROFILE



SOURCE: AUCKLAND COUNCIL DECEMBER 2017

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AUSTRALIAN CAPITAL TERRITORY

ACT Government

SECTOR	SUBSOVEREIGN		
CREDIT RATINGS (LONG-TERM AUD)	AAA (negative) (S&P)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	N/A		
RISK WEIGHTING (APRA)	0%		
TERM FUNDING REQUIREMENT (A$BN)	FY18 0.7 (f/c)	FY17 0.1	FY16 0.5
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About the Australian Capital Territory

The Australian Capital Territory (ACT) is a body politic under the Crown established by section 7 of the *Australian Capital Territory (Self-Government) Act 1988 (Commonwealth)*. The ACT is the home of Canberra, Australia's capital. The territory is governed by the elected legislative assembly (forming the ACT government).

Borrowing and investment activities for the ACT government are undertaken within the treasury portfolio of the chief minister, treasury and economic development directorate. This is an administrative unit established by the chief minister in accordance with the *Public Sector Management Act 1994*.

Ownership/guarantee structure

All borrowings are made directly in the name of the ACT, the issuing legal entity. The legislative provisions supporting territory borrowings and guarantees are specified in part six of the *Financial Management Act 1996*.

Funding strategy

The ACT government's funding requirements are mainly achieved by the issuance of debt securities in the domestic capital market via the territory's Australian dollar domestic debt-issuance programme. Term bonds are issued on a syndicated basis while promissory notes are issued on a tender basis. The ACT government also has some loan supplementation from the Commonwealth government.

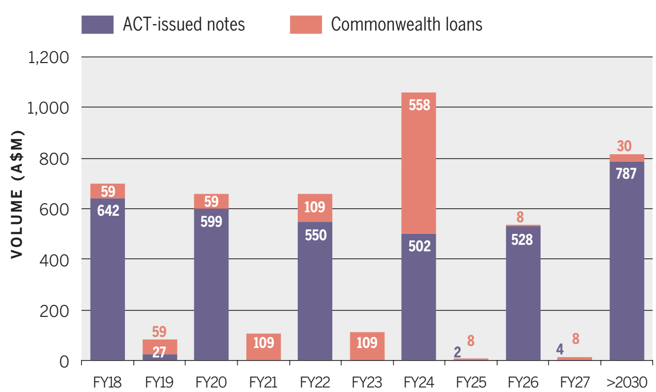
Total borrowings as at 30 June 2017 were A$4.7 billion including A$1.1 billion of loans provided by the Commonwealth. As detailed in the ACT government's 2017/18 budget, it is estimated that there will be a net increase in borrowings of A$94 million by 30 June 2018.

Debt-management objectives include:

- Managing the government's liquidity and financial payment obligations.
- Meeting the ongoing capital requirements of the government.
- Raising capital at a competitive cost in line with peers, having regard to the territory's credit rating and issuer profile.
- Establishing bond lines of select debt maturity and volume.
- Maximising investor participation and diversification.
- Minimising interest-rate volatility and refinancing risk.

ACT bonds carry the same credit rating as the Australian Commonwealth government but trade at a higher yield.

ACT GOVERNMENT DEBT MATURITY PROFILE



SOURCE: AUSTRALIAN CAPITAL TERRITORY DECEMBER 2017

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ISSUER SPOTLIGHT:

NEW SOUTH WALES TREASURY CORPORATION

After exiting a period of activity in state-asset transactions, **New South Wales Treasury Corporation** (TCorp)'s Sydney-based head of funding, **Fiona Trigona**, reflects on investor engagement during the process. She also reveals how investors are thinking about the significance of the Sydney property market to New South Wales (NSW) government revenue.

There are now visible signs of delivery on state infrastructure projects. Does physical evidence help the investor-relations task when telling the TCorp story?
We have been discussing infrastructure investment in NSW for some time now, especially the way it has been funded via asset recycling, public-private partnerships and other initiatives. It is helpful, particularly for longstanding investors who are familiar with the history of infrastructure in NSW, to have evidence of projects being built.

For instance, several years ago credit-downgrade concerns about NSW were expressed due to the need to replace ageing infrastructure and to keep pace with a growing population. The assumption was made that this would need to be funded by debt. This concern has been alleviated through the asset-recycling initiatives.

For newer investors, it is important to explain the means of funding, and the benefits to the community and the economy, of a number of initiatives.

Now that the process of state-asset transactions is complete how would you review the investor-relations task during this period? What are the lessons learned and is there anything you could have done differently to maximise investor engagement during the lower period of issuance?
The long-term lease programme in the 2015/16 and 2016/17 funding years saw a sharp reduction in TCorp's net-borrowing requirement. During this time it was more important than ever to keep investors well informed, specifically in relation to the size of the potential impact on the balance sheet as a result of repayment of borrowing-client loans.

Another big part of our work with investors during this period was to educate them around the fact that TCorp would continue to provide liquidity in its bonds, to ensure investors understood that our low term-funding requirement wouldn't keep us entirely absent from the market. We remained active in the market at the time of close-to-zero net issuance and maintained close contact with investors throughout.

How interested are global investors in the state of the Sydney property market and the importance of this sector to state-government revenue? What do you say to investors about the housing position and outlook?
Australia's property market is always a topic of keen interest to investors. For NSW stamp duties account for a little less than 15 per cent of state revenues, although this includes stamp-duty receipts on commercial as well as residential property.

There are two ways in which a downturn in the housing market could affect stamp-duty receipts. The first is if there was a decline in the number of transactions. Revenue would also decline if prices fall as duties are levied on the value of the transaction.

It seems clear that tightening of lending standards by the Australian Prudential Regulation Authority has slowed the housing market. But as investors retreat, it appears that first-home buyers are becoming more active.

Moreover, a hard landing for the housing market is most likely to follow a sustained rate hike cycle from the Reserve Bank of Australia (RBA). While some economists expect the RBA to raise rates a couple of times over the next year or so, this seems unlikely to trigger a hard landing. Indeed, with the reserve bank worried that inflation is too low rather than too high, there is no reason why it would want to precipitate a sharp downturn in the housing market. For this reason, we expect a soft landing for the housing market in 2018.

TCorp made a foray into Asian regional-currency issuance a couple of years ago but this market has been quiet in more recent times. What does TCorp think the prospects are for future activity outside Australian dollars?
The decision to issue in foreign currency is driven predominantly by the funding cost that can be achieved once these funds are swapped back to Australian dollars. The cost must be comparable with what we can achieve in the domestic market. TCorp last issued in renminbi in late 2014. But we are always assessing opportunities to issue in other currencies and markets in order to diversify our investor base.

Are there any other issuance priorities for 2018 that you would like to highlight?
We continue to seek opportunities to lengthen our maturity profile and diversify our funding base, while maintaining a good ongoing relationship with investors. •

NEW SOUTH WALES TREASURY CORPORATION

SECTOR	SUBSOVEREIGN		
CREDIT RATINGS (LONG-TERM AUD)	AAA/Aaa (negative/stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AAA/Aaa (negative/stable)		
RISK WEIGHTING (APRA)	0%		
TERM FUNDING REQUIREMENT (A$BN)	FY18 6.4	FY17 (0.2)	FY16 0
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About New South Wales Treasury Corporation

New South Wales Treasury Corporation (TCorp) is the central financing authority for the New South Wales (NSW) government. TCorp Investment Management also provides investment-management and advisory services to the NSW government and public-sector agencies.

Ownership

TCorp was established in 1983 under the *Treasury Corporation Act 1983 (NSW)*. Its principal objective is to provide financial services for the government, public authorities and other public bodies. TCorp is fully owned by the government of NSW and has an independent board and governance structure, consistent with publicly listed companies.

Guarantee structure

TCorp has an explicit guarantee from the state of NSW (AAA/Aaa) and enjoys the highest rating available to any Australian issuer.

Funding strategy

TCorp provides financing to the NSW government sector and all NSW government agencies. This central financing role underpins TCorp's balance sheet of around A$65 billion. TCorp finances NSW public authorities and the government's budget within strict limits, which are approved by the treasurer and governor of NSW under provisions laid down in the *Public Authorities (Financial Arrangements) Act 1987*.

TCorp's balance sheet is funded through the issuance of a range of debt instruments to domestic and international investors. The majority of TCorp's borrowings are sourced through the Australian dollar benchmark-bond programme.

By the end of December 2017, TCorp had 12 state-government-guaranteed bond lines with maturities between 2018 and 2030 totalling A$41 billion. New issuance into these lines can be by syndication, tender or tap issuance. TCorp also issues nonbenchmark bonds, including offshore currencies and longer tenors. In 2017, TCorp issued a nonbenchmark Australian dollar 2037 bond.

TCorp is an active participant in the short-term money market as a borrower and investor. The short-term issuance programme includes promissory notes and a US$5 billion ECP programme.

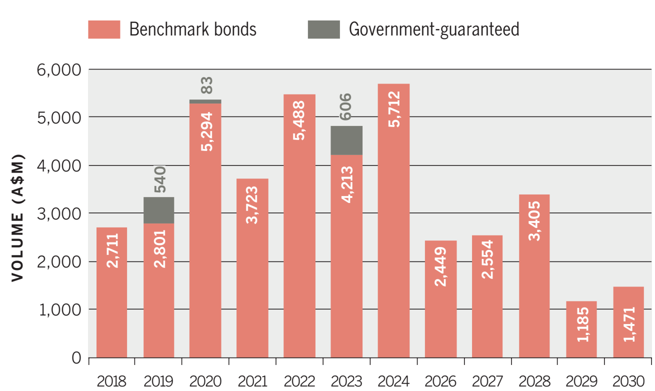
Offshore markets are used for diversification and to take advantage of attractive funding opportunities. Foreign-currency borrowings are fully hedged into Australian dollars. TCorp accesses offshore markets using its EMTN programme.

Key attributes of TCorp bonds

Investors are generally attracted to the quality of TCorp bonds as they offer safety, liquidity and return.

- Safety: TCorp is rated AAA/Aaa and enjoys the explicit guarantee of the state of NSW.
- Liquidity: TCorp's benchmark-bond programme is characterised by large, liquid bonds issued at regular intervals across the yield curve. TCorp actively supports this liquidity through its balance-sheet activities.
- Return: TCorp bonds carry the same rating as the Australian Commonwealth government, but trade at a higher yield.

TCORP AUD BENCHMARK-BOND MATURITY PROFILE



SOURCE: NEW SOUTH WALES TREASURY CORPORATION DECEMBER 2017

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NORTHERN TERRITORY TREASURY CORPORATION

SECTOR	SUBSOVEREIGN		
CREDIT RATING (LONG-TERM AUD)	Aa2 (stable)		
CREDIT RATING (LONG-TERM FOREIGN CURRENCY)	Aa2 (stable)		
RISK WEIGHTING (APRA)	0%		
TOTAL FUNDING REQUIREMENT (A$M)	FY18 1,478 (f/c)	FY17 527	FY16 33
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About Northern Territory Treasury Corporation

Northern Territory Treasury Corporation (NTTC) is the central financing authority for the government of the Northern Territory (NT) of Australia. NTTC undertakes borrowing and investment activities on behalf of the NT government and provides financial services and advice to the NT public sector.

Ownership

NTTC was established in 1994 under the *Northern Territory Treasury Corporation Act* (NTTC Act). The under treasurer of the Department of Treasury and Finance is designated as the corporation sole under the act and as such represents the Crown in right of the territory. Under section 5 of the NTTC Act, NTTC is subject to the direction of the NT treasurer.

Guarantee structure

All obligations incurred or assumed by NTTC are guaranteed by the treasurer on behalf of the NT under section 20 of the NTTC Act. The guarantee is a direct and unconditional obligation of the NT. Section 21 of the act provides that money payable by the treasurer under the guarantee constitutes a charge on, and is payable out of, the public moneys of the NT. The NT is a full member of the Australian Loan Council.

Status of the NT

The NT originally formed part of the state of New South Wales but became part of the state of South Australia (SA) in 1863. Under the *Northern Territory Acceptance Act 1910 (Commonwealth)* an agreement between the Commonwealth and the state of SA for the surrender to, and acceptance by, the Commonwealth of the NT was ratified. This act provided for the administration of the NT by the Commonwealth. Under section 122 of the constitution, the Commonwealth parliament may make laws for the government of any territory surrendered by any state to, and accepted by, the Commonwealth of Australia.

The *Northern Territory (Self Government) Act 1978 (Commonwealth)* and regulations made pursuant to this act established the NT as a body politic under the Crown in right of the NT. On areas in which the Commonwealth parliament and the NT parliament have concurrent powers, Commonwealth legislation prevails and the NT legislation, to the extent of any inconsistency, is invalid.

Corporate governance and risk

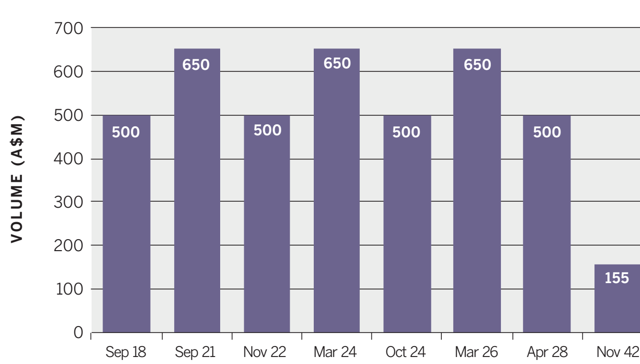
NTTC's objective is to provide the NT government with cost-effective funding, efficient financial management and reliable service and advice. NTTC's advisory board and management are committed to achieving this objective while upholding high standards of corporate governance, transparency and accountability through controls, policies and frameworks.

Funding strategy

NTTC has developed a series of benchmark-bond issues across a number of maturities with a minimum of A$500 million on issue. These have been established to meet investor demand for greater liquidity and to promote market awareness. In November 2017, NTTC issued a new 25-year bond of A$155 million, with the intention to tap over time. New issuance into existing lines is executed via syndication or tap.

In May 2017, the Northern Territory government budget for 2017/18 estimated NTTC will need to refinance A$521 million of maturing debt and borrow an additional A$950 million, to deliver a total borrowing programme of A$1.5 billion.

NTTC DEBT MATURITY PROFILE



SOURCE: NORTHERN TERRITORY TREASURY CORPORATION DECEMBER 2017

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ISSUER SPOTLIGHT:

QUEENSLAND TREASURY CORPORATION

Grant Bush, deputy chief executive and managing director, funding and markets at **Queensland Treasury Corporation** (QTC) in Brisbane, discusses the state's plans for long-tenor, green and floating-rate issuance.

QTC has pioneered the issuance of long-dated foreign-currency bond placements. What are the prospects for this type of issuance?
Our capacity to extend beyond our benchmark curve is somewhat limited as only a small number of our clients require funding longer than 15 years. We have had regular dialogue with these particular clients around securing their long-dated funding needs, should the investor demand become available and yields continue to be at attractive levels.

This opportunity arose in late 2016, when several European investors expressed reverse-enquiry interest in 30-year euro issuance. The strong investor demand and the favourable 30-year cross-currency basis swap meant we were able to fund at an efficient level. This resulted in QTC issuing eight tranches of this particular line over a six-month period, to an amount outstanding of €401 million (US$491.2 million).

Feedback from members of our distribution group suggests there continues to be interest in long-dated issuance from European investors. However, the denomination of future issuance will need to be considered, taking into account changes in the cross-currency basis swap as well as investor interest in long-dated Australian dollar product.

Can you give some detail behind QTC's increased funding task given the state government is returning surpluses?
QTC's forecast funding requirement combines the refinancing requirement with any new borrowing from Queensland's total state- and local-government sectors, which includes the general-government sector. While general-government surpluses are forecast across the forward estimates, the state continues to invest in productivity-enhancing infrastructure across all sectors, leading to a minor increase in the funding task going forward.

Demand for QTC bonds has been solid through 2017 and we have experienced a pickup in long-end demand, particularly from the offshore investor base. This suggests investors are comfortable with Queensland's economic and fiscal position.

QTC has already completed A$7 billion (US$5.6 billion) of its borrowing requirement for 2017/18 and has commenced prefunding towards future years.

Is there a strategy to focus syndication on longer-dated issuance?
As a result of QTC's strategy to smooth and extend its maturity profile, issuance has predominantly been focused in the long end irrespective of the chosen issuance method. We continue to issue via syndication, tender and reverse enquiry depending on what is appropriate at the time.

QTC remains committed to public issuance formats such as syndication due to the transparency these provide. For new benchmark-bond lines – irrespective of maturity – or in general to tap an existing line for volume in excess of A$500 million, we feel syndicated issuance often provides the best execution transparency for all market participants.

A syndicated transaction can also engage a broad spectrum of investors at a single point in time and maintain a degree of flexibility on volume and price to secure an optimal outcome for the issuer and investors. For a new benchmark line, syndication offers an appealing mix of outcomes in providing immediate liquidity to the market and establishing a public pricing point.

Are there any other issuance priorities for 2018?
While our Australian dollar benchmark bonds remain the principal source of funding, QTC actively considers a diverse range of funding sources.

Following the success of QTC's inaugural green-bond transaction in March 2017, we are looking at opportunities for further green-bond issuance. Our initial green bond enabled us to broaden our investor base while supporting the Queensland government's climate-adaptation strategy. For these reasons we are actively engaging clients to expand our asset pool and we are investigating programmatic issuance to give us greater flexibility to tap into investor demand.

We have returned to the floating-rate note (FRN) market as part of our funding strategy for 2018. QTC had been absent from this market for the last three years and, as our remaining FRN matures in November 2018, we felt it was important to be present in this market going forward.

QTC will also continue to assess opportunities in longer-dated issuance, of 20-plus years, in Australian dollars or other currencies subject to client requirements throughout 2018. We have two existing long-dated bonds – the 2046 euro line and a 2047 line in Australian dollars – and our preference is to tap these to increase liquidity. •

QUEENSLAND TREASURY CORPORATION

SECTOR	SUBSOVEREIGN		
CREDIT RATINGS (LONG-TERM AUD)	AA+/Aa1 (both stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AA+/Aa1 (both stable)		
RISK WEIGHTING (APRA)	0%		
TERM FUNDING REQUIREMENT (A$BN)	FY18 7.0 (f/c)	FY17 5.9	FY16 6.5
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About Queensland Treasury Corporation

As the Queensland government's central financing authority, Queensland Treasury Corporation (QTC) plays a pivotal role in securing the state's financial success. With a focus on whole-of-state outcomes, QTC provides a range of financial services to the state and its public-sector entities, including local governments.

In its funding role, QTC raises debt in global financial markets by issuing a variety of debt instruments. A dedicated fixed-income distribution group of 12 domestic and global banks is committed to making two-way pricing in the secondary market, as well as supporting QTC's issuance activity in the primary market.

Ownership

Established in 1988, QTC is 100% owned by the Queensland government and is a corporation sole, constituted by the under treasurer of the state of Queensland in accordance with the *Queensland Treasury Corporation Act 1988*.

Guarantee structure

The treasurer of Queensland, on behalf of the state government, guarantees QTC's obligations under all debt securities issued by QTC, as well as all payment obligations to counterparties under derivative transactions governed by International Swaps and Derivatives Association agreements.

QTC also has certain bond lines on issue guaranteed by the Australian government until maturity or retired.

Governance and risk

All financial risks – including interest-rate, foreign-exchange and counterparty risk – are strictly managed within QTC's board-approved risk parameters as well as independently from operational activities.

To minimise funding and refinancing risk, QTC manages its funding task using diversified global funding facilities and actively borrows along the yield curve.

Funding strategy

Although funding is sourced primarily in fixed-term Australian dollar denominated format, QTC maintains a diversified global funding strategy. Facilities include Australian dollar denominated bonds (both benchmark and nonbenchmark), euro and US MTNs, domestic treasury notes and euro and US CP programmes.

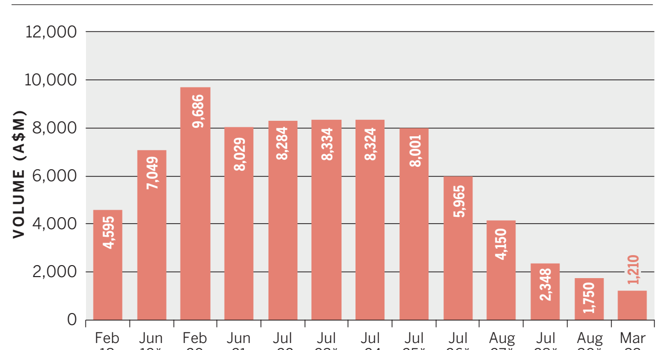
QTC's Australian dollar benchmark programme is the cornerstone of its funding. Bonds are issued on a tap, tender, reverse-enquiry and syndication basis. QTC has US144A capability in its benchmark programme, allowing US investors to purchase QTC bonds from day one of an issue rather than after a 40-day seasoning period. This benefits US investors and enhances liquidity for all QTC benchmark-bond investors.

Key attributes of QTC's bonds

The acceptability of QTC's bonds is strengthened by the fact that the bonds are:

- Eligible assets for outright holding by the Reserve Bank of Australia (RBA).
- Eligible collateral for repurchase agreements with the RBA.
- Zero per cent risk weighted for the Australian Prudential Regulation Authority's bank capital-adequacy requirements.

QTC AUD BENCHMARK BOND MATURITY PROFILE



*These lines all carry 144A capability.

SOURCE: QUEENSLAND TREASURY CORPORATION DECEMBER 2017

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ISSUER SPOTLIGHT:

SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

With a relatively limited funding task, **South Australian Government Financing Authority** (SAFA) is working hard to maximise its profile in a crowded landscape. Communication and transparency are key, as is a revamped syndication process, explains **Andrew Kennedy**, SAFA's Adelaide-based director, financial markets and client services.

SAFA has now used all its dealers on syndicated deals on a rotational basis, where the standard strategy is to favour the most active banks. What is SAFA's strategy and what has investor and dealer feedback been?

It's worth noting that SAFA's primary deals have been by syndicated placement. This means our dealer panel banks have no underwriting obligations and deals are at SAFA's risk as to how they are subscribed. SAFA's deals are also capped in volume, so investors know exactly what size is being offered in any transaction. This is consistent with our regular communication to markets in outlining what SAFA's future issuance programme looks like.

Being a smaller issuer, it can be difficult to remain relevant in a crowded landscape. So engaging all our dealer panel banks has been an important part of SAFA's strategy to widen both bank and investor interest. The more avenues an investor has to discover SAFA's name, especially given the breadth of coverage from global franchises, the better chance SAFA has of being able to access markets when funding is required.

Broadly, the dealer-panel banks as well as investors have been accepting and understand SAFA's motivation for pursuing this strategy as long as they remain well informed.

What about feedback from your peers on this topic? Has SAFA had any conversations with other state-government issuers about its reasoning here? Do you get the sense the strategy of dealer rotation on syndicated bond issuance is one others could adopt?

I have had discussions with peers. The issuers are quite collegiate and work together on a number of different levels. Like the dealer-panel banks, they understand our motives for pursuing this strategy. I think it's up to each issuer to adopt a strategy that will best meet its own needs and objectives.

The state of South Australia (SA) has been in focus in recent months around energy policy, specifically on renewables and ahead of a forthcoming state election. What level of interaction are you having with investors around these issues?

Investors are always interested in current affairs and the big-picture issues within SA and how these relate at a national level. Innovation and infrastructure, especially around energy policy, has been a major focus for SA.

While we broadly discuss the issues with investors it is more of a political conversation rather than a SAFA conversation. Following the 2017/18 budget, the SA treasurer presented to investors in Sydney and Melbourne and was quite detailed around the government's energy policy and initiatives.

SAFA was arguably the leading state issuer of floating-rate notes (FRNs) but this market has been quiet recently. How do you fill this natural funding need when you are not active in the FRN market?

SAFA was an early mover in the FRN issuance space as a number of the state's borrowers had a requirement for floating-rate funding. Therefore, SAFA could use the opportunity to term out its working-capital needs.

However, we have seen a shift in our borrowers' requirements as portfolios have been lengthened in duration due to the lower rates environment. We have also seen a desire among our borrower clients to lock in fixed-rate funding. SAFA's recently revised liquidity policy has also seen a shift to issue longer-dated, fixed-rate paper to meet these new guidelines. There is less emphasis on short-term funding.

FRNs still remain an important part of SAFA's funding strategy. However, at this point in time we are watching to see what developments occur in the benchmarking space as well as in the regulatory environment before issuing FRNs again.

Are there any other issuance priorities for 2018 that you would like to highlight?

SAFA's A$750 million (US$596.6 million) reopening of its 2024 line in January this year has seen it complete its 2017/18 revised funding requirement. SAFA revised its 2017/18 funding requirement following the mid-year budget review in December 2017, which saw its gross-funding requirement fall to A$3.6 billion from A$4.8 billion.

SAFA's 2018/19 gross funding need is likely to be in the region of A$5.25 billion including a term requirement of A$3.25 billion. At this stage, we are targeting a new 2028 line for early in the new financial year to meet client borrowing requirements. •

SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

SAFA
South Australian Government
Financing Authority

SECTOR	SUBSOVEREIGN		
CREDIT RATINGS (LONG-TERM AUD)	AA/Aa1 (positive/stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AA/Aa1 (positive/stable)		
RISK WEIGHTING (APRA)	0%		
TERM FUNDING REQUIREMENT (A$BN)	FY18 1.6 (f/c)	FY17 3.5	FY16 3.7
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About South Australian Government Financing Authority

South Australian Government Financing Authority (SAFA) functions as the central financing authority, captive insurer and manager of the passenger and light commercial-vehicle fleet operations for the government of South Australia (SA). It plays an integral role in the overall management of the state's finances and risks, harnessing economies of scale and relevant expertise to provide a range of treasury, insurance and vehicle services to public-sector clients.

Ownership

SAFA is a statutory authority constituted by the under treasurer under the *Government Financing Authority Act 1982* and is subject to the control and direction of the treasurer of SA. SAFA commenced operations in 1983.

SAFA's governing legislation was amended in 2006 to enable the amalgamation of the operations of the South Australian Government Captive Insurance Corporation with SAFA. From July 2006, SAFA's functions were expanded to include acting as captive insurer of the Crown.

Guarantee structure

Liabilities incurred or assumed by SAFA are guaranteed by the treasurer on behalf of the state of South Australia under Section 15 of the *Government Financing Authority Act 1982*.

Risk policy

SAFA is exposed to a number of financial and operational risks applicable to its treasury and insurance activities. A robust risk-management reporting framework is in place that is linked to its strategic and business plans and corporate-governance arrangements. SAFA's risk-management framework sets out the funding agency's attitude and tolerance to risks, and documents controls and risk-mitigation strategies for risks inherent in its various business activities.

Funding strategy

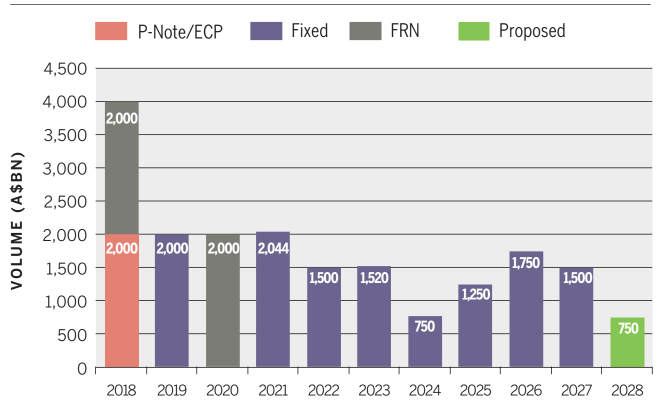
SAFA funds the SA public sector through a blend of fixed- and floating-rate select-line bonds to suit borrowers' requirements, as well accessing short-term funding through its CP and ECP programmes for liquidity-management purposes.

In July 2017, SAFA announced a gross funding requirement of A$4.75 billion for 2017/18, consisting of A$2.75 billion of long-term debt and A$2 billion of short-term debt. There was no new money required for client borrowings. In December SAFA issued a revised borrowing programme of A$3.6 billion after the state released its mid-year review. The lower requirement is primarily the result of additional proceeds from the Land Services commercialisation transaction and a better-than-forecast fiscal outcome in the general-government sector in 2016/17.

SAFA's funding strategy will continue to focus on domestic benchmark select lines and CP. In addition, SAFA will continue to tap offshore markets for ECP funding when funding conditions are favourable, with any issuance fully swapped back into Australian dollars.

SAFA will continue to target A$2 billion of outstandings in each select line. SAFA does not intend to access offshore markets for EMTN funding, or to issue inflation-indexed bonds. As at 31 December 2017, SAFA had A$16.3 billion of domestic fixed- and floating-rate select-line bonds on issue and A$2 billion outstanding under its CP and ECP programmes.

SAFA AUD DEBT MATURITY PROFILE



SOURCE: SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY DECEMBER 2017

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TASMANIAN PUBLIC FINANCE CORPORATION

TASCORP

SECTOR	SUBSOVEREIGN		
CREDIT RATINGS (LONG-TERM AUD)	AA+/Aa2 (both stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AA+/Aa2 (both stable)		
RISK WEIGHTING (APRA)	0%		
TERM FUNDING REQUIREMENT (A$BN)	FY18 0.5 (f/c)	FY17 0.4	FY16 0.9
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About Tasmanian Public Finance Corporation

Tasmanian Public Finance Corporation (Tascorp) is the central financing authority for the state of Tasmania. Established in 1985, the principal purpose of Tascorp is to develop and implement borrowing and investment programmes for the benefit of its Tasmanian public-sector clients including the state government. Tascorp's goal is to meet the borrowing and investment needs of its clients and thereby deliver economic value to the state of Tasmania.

Ownership

Tascorp is a corporation established under an act of the Tasmanian parliament. It is owned entirely by the Tasmanian state government, which is represented at shareholder level by the treasurer of Tasmania. It is governed by a state-appointed board of directors.

Guarantee structure

Tascorp's debt is all guaranteed by the state of Tasmania. The terms of the guarantee are set out in section 15 of the *Tasmanian Public Finance Corporation Act*, which states: "Liabilities incurred or assumed by the corporation in pursuance of this act are guaranteed by the state, and any liabilities of the Crown arising by virtue of this [guarantee]... shall be payable out of the Consolidated Fund without further appropriation."

Capital quality/support

Tascorp operates within a capital limit periodically agreed with the treasurer of Tasmania, which was A$38 million at 31 December 2017.

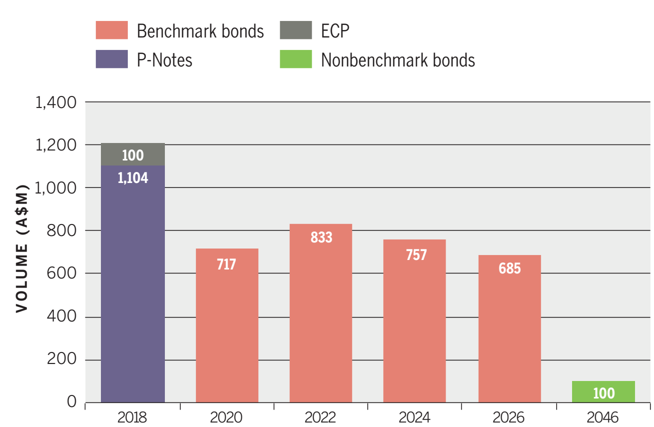
Risk policy

Tascorp's operations expose it to financial and operational risks. Management of these risks is a core element of Tascorp's organisational objectives. In order to manage risk, Tascorp allocates capital against credit default risk, market risk and operational risk broadly in line with the Bank for International Settlements and Australian Prudential Regulation Authority guidelines for banks.

Funding strategy

Tascorp plans to issue bonds in response to investor demand and is committed to diversifying its investor base. From 2009 it has also committed to structuring new bond issues so they are free of interest withholding tax for foreign investors. Tascorp operates three debt programmes: a domestic bond programme, a domestic CP programme and an ECP programme. The annual funding target for 2017/18 is A$500 million.

TASCORP DEBT MATURITY PROFILE



SOURCE: TASMANIAN PUBLIC FINANCE CORPORATION DECEMBER 2017

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ISSUER SPOTLIGHT:

TREASURY CORPORATION OF VICTORIA

The state of Victoria continues to focus on funding infrastructure, but the denominators change according to the speed of physical development. This is a task for **Treasury Corporation of Victoria** (TCV) to balance delicately, say **Bill Whitford**, managing director, and **Justin Lofting**, general manager, treasury, at TCV in Melbourne.

TCV's funding requirement fell significantly following Victoria's mid-year budget update. Can you give some more detail on why? How have you managed investor communication around this update?

■ **LOFTING** The reduction in the funding requirement is due to an improvement in cash flows since the budget in May 2017, which came about for several reasons.

First, we were in a stronger starting position after the 2016/17 financial year. Second, the state has benefited from higher taxation and GDP revenues. These are ultimately linked to stronger economic growth in Victoria in 2017/18, of 3.3 per cent from 3 per cent forecast, as well as stronger population growth, at 2.3 per cent versus 1.9 per cent. These factors combined mean the resulting revenue forecasts are stronger.

The important point to note is that our total funding requirement was always going to be the maximum of what could occur during the year, taking into account all the forecasts related to revenue and infrastructure investment.

What we have seen develop, as the year has progressed, is a gap. This is quite unusual. Infrastructure investment is averaging A$10.2 billion (US$8.1 billion) per year compared with A$4.9 billion previously. Larger projects are coming through, but over time, and there isn't as much infrastructure construction underway at this point as we expected.

We identified reasonably early, in around September last year, that this would lead us to revise our funding task. We felt the most appropriate time to do this was in the wake of the government's mid-year budget review. Around this time we communicated to our dealer panel that the A$8.3 billion task identified in the budget would be revised lower. At the same time we pushed back any plans to issue significant volume of debt into the second half of the funding year.

We believe we communicated this well to investors, and the proof of this is that when we announced our mid-year update and funding reduction there was very little reaction in spread terms.

We had also communicated our expectations for a lower funding task when we tendered our 2028 line in October.

Are you expecting the future issuance task to rebound – in other words will some of the previously expected issuance come through in future years?

■ **WHITFORD** There is an undeniable requirement in Victoria for new infrastructure so there is no question that there will be new infrastructure projects we will need to fund in the coming years.

■ **LOFTING** The budget update revises the level of debt slightly down over the four-year forecast period. By 2020/21 net debt is forecast to peak at A$28.2 billion, from A$28.9 billion, while over the next couple of years net debt will fall by around A$1-1.5 billion. Overall we view these differences as relatively minor.

The state treasurer has intimated that Victoria might be willing to use some of the accumulated headroom in its triple-A ratings band to support necessary infrastructure spend. How does this tie in with an issuance requirement that has just been revised down?

■ **WHITFORD** Certainly the treasurer has publicly said a number of times that within the bounds of the triple-A rating Victoria is prepared to push as far as possible, with the intention of using the funding for economic infrastructure. The treasurer believes we can accumulate more debt and use the proceeds for projects – but he still wants to do this within the headroom of the triple-A rating.

The capacity fluctuates as the denominators change, in other words as the economy grows. But there is certainly headroom – and the treasurer intends to use it.

Are there any other issuance priorities for 2018 that you would like to highlight?

■ **LOFTING** One of our issuance priorities is to continue to grow outstandings in the long-dated lines in our curve, specifically the 2028 maturity and beyond. Accordingly, we printed syndicated increases of A$800 million and A$500 million to our 2028 and 2032 lines in January and will continue to monitor issuance opportunities in this part of the curve. We would also like to take advantage of any opportunities that arise in the ultra-long part of the curve.

We intend to bring a second green bond during the 2018 calendar year, the shape of which we will be able to determine closer to the time based on market conditions and feedback. •

TREASURY CORPORATION OF VICTORIA

Treasury Corporation of Victoria

SECTOR	SUBSOVEREIGN		
CREDIT RATINGS (LONG-TERM AUD)	AAA/Aaa (negative/stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AAA/Aaa (negative/stable)		
RISK WEIGHTING (APRA)	0%		
TERM FUNDING REQUIREMENT (A$BN)	FY18 4.2-4.7	FY17 1.9	FY16 1.9
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About Treasury Corporation of Victoria

Treasury Corporation of Victoria (TCV) is the central financing authority for the state of Victoria, established by an act of the Victorian Parliament. TCV provides tailored loans, deposits, advisory and investment services to the state and state-related entities. TCV is also responsible for maintaining the state's access to liquidity.

Ownership

TCV was established by the *Treasury Corporation of Victoria Act 1992* and commenced operations in 1993. TCV is 100% owned by the government of Victoria (AAA/Aaa).

Guarantee structure

TCV's payment obligations in relation to its borrowings and derivative transactions are guaranteed by the government of Victoria as detailed in the *Treasury Corporation of Victoria Act 1992*. TCV's loans to its participating authorities are themselves guaranteed by the government of Victoria.

Capital quality/support

TCV commenced operations with capital of A$30 million. At 30 June 2017, retained capital and earnings was A$264 million.

Risk policy

TCV's operations expose it to financial and operational risks. Management of these risks is a core element of TCV's organisational objectives. In this respect, the main objective is to provide a robust and consistent risk-management, performance-measurement and capital-management framework that is commensurate with TCV's business mandate, corporate objectives, business plan and risk appetite.

Funding strategy

TCV maintains four key funding programmes. The domestic benchmark-bond programme is the cornerstone of the corporation's funding strategy. TCV supplements this with three other programmes: a US$3 billion EMTN programme, a A$5 billion ECP programme and a A$5 billion domestic promissory-note programme.

The TCV funding strategy will continue to focus on:

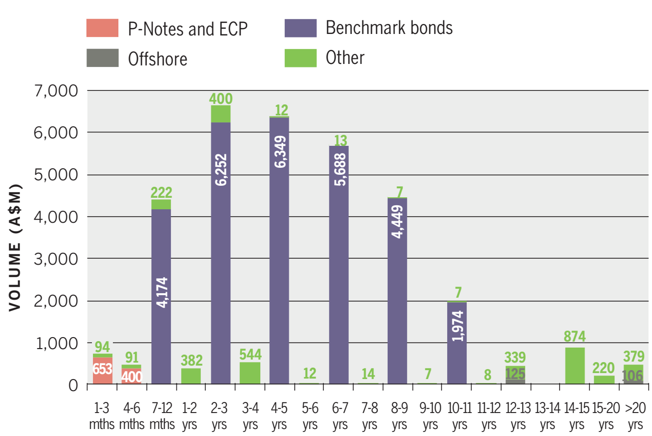
- Building liquid benchmark-bond lines.
- Extending the duration of the TCV bond curve.
- Maximising the diversity of the investor base.

Through 2017/18, TCV will specifically seek to build outstandings in long-term benchmark lines, and look for opportunities to diversify its investor base.

TCV has no plans to issue inflation-linked debt or non-AUD maturities. TCV's short-term borrowing activities will continue to be sourced from the Australian dollar domestic promissory-note programme and the ECP programme. The mix of issuance will be determined by relative pricing and demand conditions.

TCV monitors opportunities to enhance the state's borrowing profile internationally and raise funds at more cost-effective levels. However, it is considered highly unlikely that non-AUD issuance will be achievable in 2018.

TCV DEBT MATURITY PROFILE



SOURCE: TREASURY CORPORATION OF VICTORIA DECEMBER 2017

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ISSUER SPOTLIGHT:

WESTERN AUSTRALIAN TREASURY CORPORATION

John Collins, chief executive at **Western Australian Treasury Corporation** (WATC) in Perth, tells *KangaNews* about recent developments in Australia's most resources-focused state.

With a new government and an updated borrowing programme for 2017/18, how has debt issuance progressed during the year?

At 1 July 2017, WATC estimated a term-borrowing programme, comprising new money and refinancing, of A$10.2 billion (US$8.1 billion) with A$1 billion of this funded prior to this date. With the release of the budget in September, the borrowing programme was revised upwards to A$11 billion, with A$5.7 billion in new money estimated to be required.

At the end of December 2017, the remaining amount of term debt required for the year is estimated to be just less than A$4 billion. Thus, half-way through the financial year WATC has accomplished about 64 per cent of the full-year's requirement.

We have accommodated this through fixed- and floating-rate-note (FRN) issuance via our 12 panel banks. Net term outstandings have increased by about A$2.4 billion since 30 June 2017, having absorbed maturities and buybacks of approximately A$3.7 billion.

Looking forward, WATC expects to issue into existing lines and introduce a new 2023 FRN and 2028 fixed-rate line before the end of the 2017/18 financial year to complete its programme.

Consideration is also being given to extending the WATC benchmark-bond programme to 2030 or 2032 in consultation with client borrowers. At 31 December 2017, the weighted-average maturity of all debt is estimated at 3.7 years, and debt maturing within 12 months is 19.2 per cent. In both cases this is inclusive of short-term debt. More than 50 per cent of WATC's debt is held by authorised deposit-taking institutions in Australia, with about 20-25 per cent estimated to be held by offshore accounts. Fund managers and offshore entities continue to receive ongoing focus.

WATC continues to monitor markets for funding opportunities. We periodically use ECP, and WATC maintains capability to issue EMTNs in a range of currencies. We investigated the Panda bond market in 2017, and we watch with interest the development of the Sukuk, green and other social-bond markets. However, to date WATC has not issued in these markets because we cannot do so at costs below those of our existing domestic funding options.

How is Western Australia (WA)'s economy faring at the moment?

In 2016/17, WA suffered its first contraction in real GSP for 26 years, at minus 2.7 per cent. This was largely due to the continuing contraction in business investment from the huge construction cycle of large iron-ore and LNG projects, which peaked at about A$80 billion in 2012/13. At A$38 billion in 2016/17, we estimate that WATC is 90 per cent of the way through this contraction.

This is partially offset by a number of smaller infrastructure projects. New hotels, the new stadium, Metronet – Perth's public-transport programme – the refurbishment of suburban shopping malls, and investment in gold and lithium are some of these projects, which total about A$10 billion by some estimates.

Residential construction and housing prices remain soft. However, there have been some employment gains over the past year that are expected to continue.

Efforts to increase output in education, tourism and agriculture continue as a priority. The current WA Treasury estimate for GSP growth in 2017/18 is 2.5 per cent.

WA's mid-year budget review was released in December 2017. What, if any, are the changes from the budget released in September?

Given the short interval between the late budget in September and the mid-year review, there were very few changes of a material nature. The actual deficit for 2016/17 was A$2.5 billion compared with the estimate in the budget of A$3 billion. The projection for 2017/18 has increased to A$2.6 billion from A$2.3 billion, with a surplus of A$926 million forecast for 2020/21.

The general-government sector's operating position improved by A$568 million across the four years to 2020/21. Although projected expenses remained the same for 2017/18, the percentage increase rose to 4.8 per cent from 3.7 per cent because the actual expenses for 2016/17 were below budget estimates.

The government continues to focus on restraining expense growth by consolidating and reducing the size of the public sector, while still delivering on election commitments.

The context of goods and services tax (GST) discussions is well known and these are ongoing. But neither the budget or mid-year review numbers have any progress built in. WA is projected to receive 34 per cent – or A$2.2 billion – of its contributions into the national GST pool for 2017/18. Other states are projected to receive between 88 per cent and 180 per cent of their contributions. By 2020/21, in the absence of any methodological changes, WA's GST return is expected to rise to 62 per cent, or A$4.7 billion. •

WESTERN AUSTRALIAN TREASURY CORPORATION

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SECTOR	SUBSOVEREIGN		
CREDIT RATINGS (LONG-TERM AUD)	AA+/Aa2 (negative/stable)		
CREDIT RATINGS (LONG-TERM FOREIGN CURRENCY)	AA+/Aa2 (negative/stable)		
RISK WEIGHTING (APRA)	0%		
TERM FUNDING REQUIREMENT (A$BN)	FY18 10.0 (f/c)	FY17 8.4	FY16 9.7
RBA REPO ELIGIBLE	YES		
RBNZ REPO ELIGIBLE	NO		

About Western Australian Treasury Corporation

Western Australian Treasury Corporation (WATC) is the central financial-services provider for the state of Western Australia (WA), working with public-sector clients to help achieve sound financial-risk management consistent with the government's goal of financial and economic responsibility. WATC's activities involve funding and debt management, asset and investment management, financial-advisory and risk-management services, and treasury-management services and systems for more than 150 semi- and local-government authorities in WA, including the state government.

Ownership

WATC is a statutory authority established under the *Western Australian Treasury Corporation Act 1986* as the state's central borrowing authority. In 1998, WATC's role was expanded to include the provision of financial-management services to the WA public sector.

Guarantee structure

Financial liabilities incurred or assumed by WATC are guaranteed by the treasurer on behalf of the state of WA. Any financial liability of the treasurer under the guarantee shall be charged to, and paid out of, the consolidated account of the state which is appropriated to the necessary extent under Section 13(2) of the act.

Risk policy

WATC has a comprehensive risk-management policy framework that governs the management of market, credit, liquidity, foreign-exchange, operational and reputational risks. All material risks are identified and managed in line with WATC's objectives and board-approved policies.

Funding strategy

In meeting the WA public-sector borrowing requirements, WATC maintains access to a range of domestic and offshore funding markets issuing in fixed- and floating-rate-note (FRN) formats. The bulk of WATC's funding is undertaken through its domestic benchmark-bond programme. At 31 December 2017 WATC had A$38.8 billion of domestic fixed-rate benchmark bonds on issue in 10 lines.

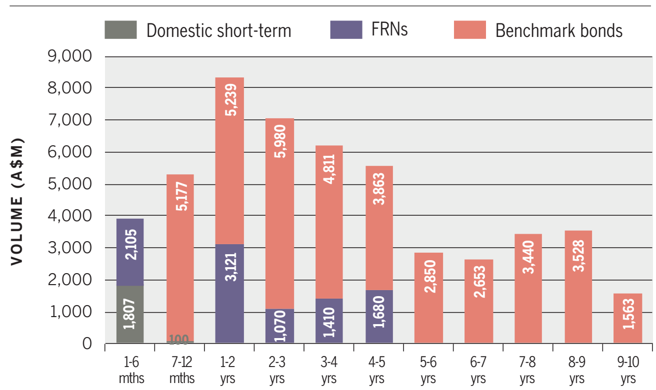
FRN issuance is used to provide longer-term, floating-rate exposure for WATC's clients. At 31 December 2017 there was A$9.4 billion of FRNs on issue in six lines. WATC also issues short-term notes in the domestic market. At 31 December 2017, there was A$1.9 billion of domestic short-term notes (STNs) outstanding.

WATC taps overseas markets on an opportunistic basis through bond issues, private loans and its range of continuous note-issuance facilities. At 31 December 2017, WATC had no amount outstanding under its ECP and EMTN programmes.

Key attributes of WATC's bonds

- All WATC debt is guaranteed by the treasurer on behalf of the state.
- WATC bonds are recognised as zero per cent risk-weighted level-one high-quality liquid assets by the Australian Prudential Regulation Authority and are repo eligible with the Reserve Bank of Australia.
- All benchmark bonds, FRNs and STNs are issued in a manner which meets the requirements for exemption from Australian interest withholding tax.

WATC DEBT MATURITY PROFILE



SOURCE: WESTERN AUSTRALIAN TREASURY CORPORATION DECEMBER 2017

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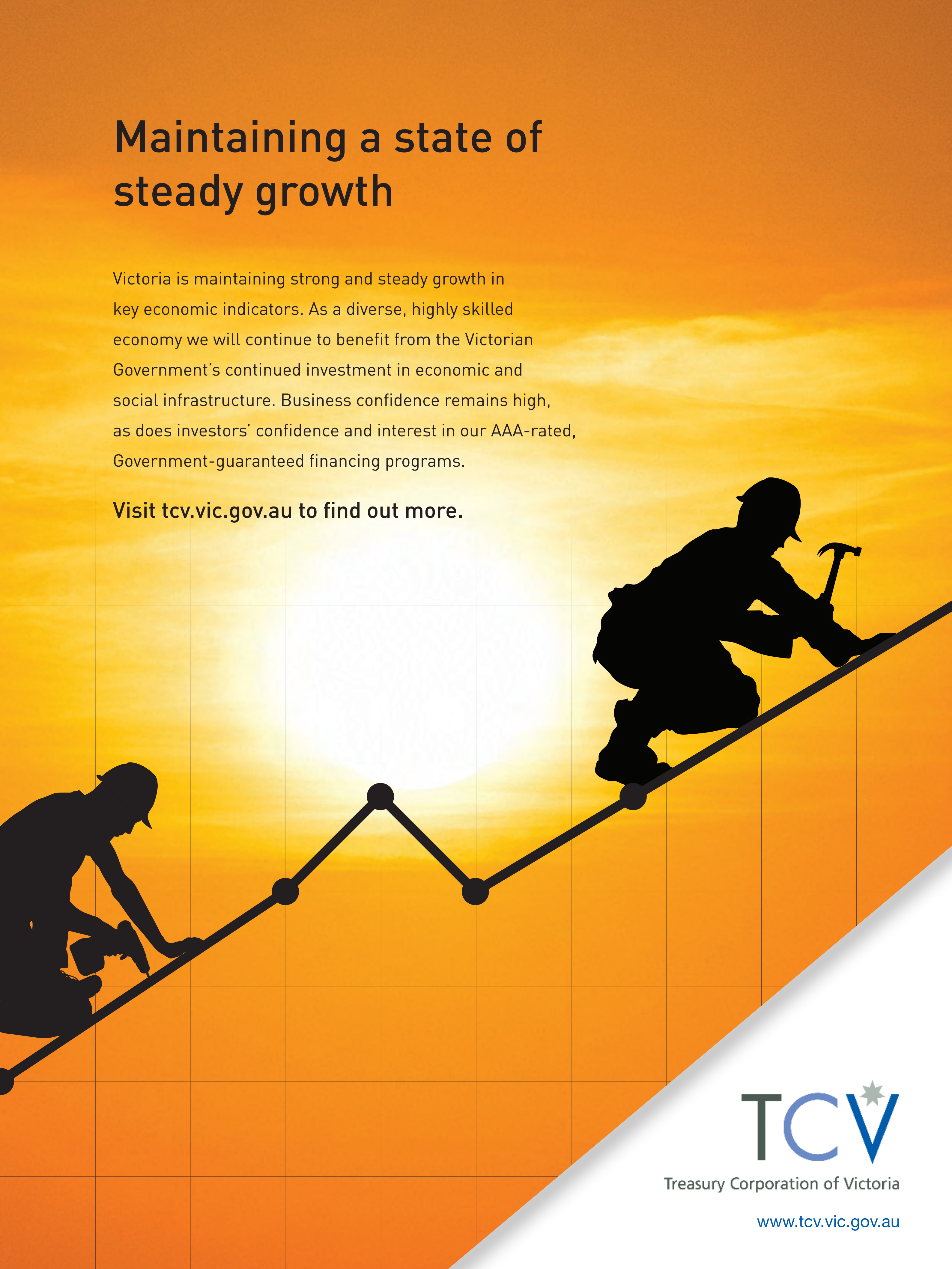
AUSTRALASIAN SOVEREIGN AND SEMI-GOVERNMENT SYNDICATED BOND DEALS

AUSTRALASIAN SOVEREIGN/SEMI-GOVERNMENT SYNDICATED BOND DEALS PRICED 1 JAN 2017 – 28 JAN 2018

SETTLEMENT DATE	ISSUER	VOLUME ($M)	MATURITY	COUPON TYPE	COUPON(%) /MARGIN	BOOKRUNNER(S)	ISSUER/ISSUE RATING		
							S&P	MOODY'S	FITCH
27 Jan 17	Australian Office of Financial Management	A$9,300	21 Dec 21	Fixed	2.00	ANZ, Citi, UBS, WIB	AAA	Aaa	AAA
16 Feb 17	Queensland Treasury Corporation	A$750	20 Aug 27	Fixed	2.75	ANZ, Citi, WIB	AA+	Aa1	
20 Feb 17	Queensland Treasury Corporation	A$30	20 Feb 47	Fixed	4.20	ANZ	AA+	Aa1	
22 Feb 17	Northern Territory Treasury Corporation	A$200	21 Oct 24	Fixed	2.75	ANZ, CB		Aa2	
2 Mar 17	Australian Office of Financial Management	A$11,000	21 Nov 28	Fixed	2.75	ANZ, CB, DB, WIB	AAA	Aaa	AAA
3 Mar 17	Western Australian Treasury Corporation	A$500	3 Mar 20	FRN	14/BBSW	CB, NAB	AA+	Aa2	
3 Mar 17	Western Australian Treasury Corporation	A$1,000	3 Mar 22	FRN	23/BBSW	CB, NAB	AA+	Aa2	
7 Mar 17	Australian Office of Financial Management	A$700	21 Aug 40	Fixed	1.25	DB, UBS, WIB	AAA	Aaa	AAA
10 Mar 17	New Zealand Debt Management Office	NZ$1,500	29 Sep 40	Fixed	2.50	ANZ, DB, UBS, WIB	AA+	Aaa	AA+
20 Mar 17	South Australian Government Financing Authority	A$750	20 Sep 27	Fixed	3.00	Citi, CB, DB, TD, UBS	AA	Aa1	
22 Mar 17	Queensland Treasury Corporation	A$750	22 Mar 24	Fixed	3.00	ANZ, BAML, NAB	AA+	Aa1	
27 Mar 17	New South Wales Treasury Corporation	A$1,000	20 May 27	Fixed	3.00	CB, DB, UBS	AAA	Aaa	
13 Apr 17	Western Australian Treasury Corporation	A$1,000	23 Jul 24	Fixed	2.50	ANZ, Citi, UBS	AA+	Aa2	
8 Jun 17	Western Australian Treasury Corporation	A$1,300	21 Oct 26	Fixed	3.00	CB, DB, NAB, WIB	AA+	Aa2	
14 Jun 17	South Australian Government Financing Authority	A$750	20 Sep 27	Fixed	3.00	BAML, HSBC, NAB, WIB	AA	Aa1	
23 Jun 17	Auckland Council	A$80	16 Jun 27	Fixed	2.90	ANZ	AA	Aa2	
13 Jul 17	Queensland Treasury Corporation	A$750	20 Aug 27	Fixed	2.75	DB, UBS, WIB	AA+	Aa1	
21 Jul 17	Australian Office of Financial Management	A$2,300	21 Jun 39	Fixed	3.25	BAML, UBS, WIB	AAA	Aaa	AAA
27 Jul 17	New South Wales Treasury Corporation	A$550	20 Feb 30	Fixed	3.00	ANZ, CB, UBS	AAA	Aaa	
28 Jul 17	Auckland Council	A$50	16 Jun 27	Fixed	2.90	ANZ	AA	Aa2	
29 Aug 17	Northern Territory Treasury Corporation	A$500	21 Nov 22	Fixed	2.50	ANZ, NAB, UBS		Aa2	
31 Aug 17	Australian Office of Financial Management	A$3,000	21 Nov 27	Fixed	0.75	Citi, DB, UBS, WIB	AAA	Aaa	AAA
22 Sep 17	South Australian Government Financing Authority	A$500	22 Sep 22	Fixed	1.50	ANZ, CB, NAB, WIB	AA	Aa1	
27 Sep 17	Western Australian Treasury Corporation	A$1,400	21 Oct 26	Fixed	3.00	ANZ, CB, NAB, UBS	AA+	Aa2	
18 Oct 17	Queensland Treasury Corporation	A$1,750	21 Aug 30	Fixed	3.50	ANZ, Citi, DB, WIB	AA+	Aa1	
23 Oct 17	New South Wales Treasury Corporation	A$1,100	20 Apr 29	Fixed	3.00	ANZ, DB, UBS, WIB	AAA	Aaa	
24 Oct 17	Australian Office of Financial Management	A$2,100	21 Mar 47	Fixed	3.00	Citi, DB, TD	AAA	Aaa	AAA
31 Oct 17	Northern Territory Treasury Corporation	A$500	21 Apr 28	Fixed	3.50	ANZ, UBS, WIB		Aa2	
3 Nov 17	Queensland Treasury Corporation	A$135	20 Feb 47	Fixed	4.20	ANZ	AA+	Aa1	
6 Nov 17	Queensland Treasury Corporation	A$15	20 Feb 47	Fixed	4.20	ANZ	AA+	Aa1	
6 Nov 17	Treasury Corporation of Victoria	A$100	6 Nov 47	Fixed	4.00	CB	AAA	Aaa	
10 Nov 17	Northern Territory Treasury Corporation	A$155	21 Nov 42	Fixed	4.10	ANZ, UBS, WIB		Aa2	
20 Nov 17	New South Wales Treasury Corporation	A$120	20 Nov 37	Fixed	3.50	UBS	AAA	Aaa	
15 Dec 17	South Australian Government Financing Authority	A$750	20 Jul 26	Fixed	3.00	HSBC, RBC, UBS	AA	Aa1	
19 Dec 17	Queensland Treasury Corporation	A$50	20 Feb 47	Fixed	4.20	ANZ	AA+	Aa1	
19 Dec 17	Queensland Treasury Corporation	A$20	20 Feb 47	Fixed	4.20	ANZ	AA+	Aa1	
16 Jan 18	Tasmanian Public Finance Corporation	A$400	24 Jan 28	Fixed	3.25	ANZ, CB, DB	AA+	Aa2	
17 Jan 18	Australian Office of Financial Management	A$9,600	21 Nov 29	Fixed	2.75	Citi, CB, DB, UBS	AAA	Aaa	AAA
29 Jan 18	South Australian Government Financing Authority	A$750	15 Aug 24	Fixed	2.25	Citi, JPM, TD	AA	Aa1	
30 Jan 18	Treasury Corporation of Victoria	A$800	20 Oct 28	Fixed	3.00	BAML, DB, NAB, UBS	AAA	Aaa	
30 Jan 18	Treasury Corporation of Victoria	A$500	20 Dec 32	Fixed	4.25	BAML, DB, NAB, UBS	AAA	Aaa	

SOURCE: KANGANEWS 28 JANUARY 2018


Maintaining a state of steady growth
Victoria is maintaining strong and steady growth in key economic indicators. As a diverse, highly skilled economy we will continue to benefit from the Victorian Government's continued investment in economic and social infrastructure. Business confidence remains high, as does investors' confidence and interest in our AAA-rated, Government-guaranteed financing programs.
Visit tcv.vic.gov.au to find out more.
TCV
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