Lehman Kangaroo kicked out of Aussie indices

Lehman Brothers' A$600 million (US$481.6 million) 2011 Kangaroo bond was removed from the UBS indices in Australia on September 17 following Standard & Poor's downgrading of the issuing entity, Lehman Brothers Treasury, to D. This is the first example of a Kangaroo bond entering default.

According to UBS's index methodology, bonds downgraded to a D rating "will be removed on the day following the notification of default at the (best) observable price in the market on that day....This treatment will take precedence over index rules governing ratings changes."

Before the announcement by UBS, the Lehman Kangaroo bond was removed from Yieldbroker's multi-dealer rate sheet by the close on September 16, having been marked out to a nominal 2,771.7 basis points over swap the day before.

Australian banks reorganise offshore origination teams

All three of the Aussie banks with offshore-based bond originators have made changes to their teams in the last few months. By the start of 2009 nabCapital will be the only one left with a full-time originator based in the US.

In September Mark Anwender left ANZ Banking Group, where he had been stationed in London since moving from ANZ's New York office at the end of July. Tom Irving will continue running the northern hemisphere origination and syndicate business. He will be hiring a replacement to work with him in London.

Meanwhile, Westpac Institutional Bank (WIB) has announced that in November 2008 Becky Giulieri, now a director in New York, will be moving to the bank's London office. She will continue to cover US-based clients as well as drive the bank's strategy of picking up European financial institution coverage. Giulieri will be supported in this effort by Nick Howell, director, debt securities and hybrids at WIB, who joined in July 2008 to spearhead a drive to expand WIB's New Zealand debt business.

Simon Ling, executive director and head of debt and hybrid securities at WIB in Sydney, stresses that the bank is not pulling back from its US client base with this decision: "We think the next six months will continue to be slow for Kangaroo and Kauri issuance, so it makes sense to size our team accordingly."

Giulieri's move comes at the same time as Rob McCormack is moving to Hastings Fund Management in London to work with Steve Rankine, who until recently headed DCM at WIB in Sydney.

Meanwhile, Melissa Gribble, who has headed nabCapital's origination efforts in the US for the past five years, moved back to Australia in September. She is taking on a new role as head of banks, institutional banking, Australia. Samantha Ridler, now head of syndicate at nabCapital in Sydney, will move to New York in early 2009 to replace Gribble. Ana Ivkosic, until recently director, diversified financial institutions at nabCapital, has been appointed director, AUD syndicate.

ANZ upsizes hybrid to A$1 billion plus at tight margin

The convertible preference share offer announced by ANZ Banking Group (ANZ) on August 27 has had its margin set and final size announced, with the bank doubling its earlier volume projections and pricing at the tightest end of its indicative range, 250 basis points over BBSW.

When it launched the deal, ANZ said it was aiming to raise A$500 million (US$401 million). It subsequently increased the figure to A$1 billion, before closing the deal on September 30 at A$1.081 billion.

It was a busy week for ANZ in the hybrid market as it also priced a A$600 million convertible note issue through its New York branch on September 26 – in the form of a private placement. The perpetual, subordinated notes pay a monthly coupon equal to the 30-day bank bill rate plus 200 basis points.

ANZ's domestic deal attracted a predominantly retail investor base but joint lead manager UBS says 10 per cent also sold to institutional investors. ANZ group treasurer, Rick Moscati, comments: "Both retail and institutional investors responded positively to the offer and we are pleased with the outcome of the bookbuild. We believe the increased offer size and the margin represent an excellent result for both ANZ and our investors."

Standard & Poor's rated the CPS A+ while Moody's Investors Services rated the CPS at Aa3. The transaction's general and shareholder offerings closed on September 24 and the offer for broker firms closed on September 29.

Struggling FIs have nearly A$20 billion of Australasian debt

The financial institutions (FIs) closest to the most recent wave of market turmoil have just short of A$10 billion (US$8.01 billion) outstanding in the Kangaroo market with almost A$7 billion also borrowed by HBOS through its Bank of Scotland Australia subsidiary.

Lehman Brothers was a relatively small Kangaroo borrower, with just a single A$600 million line outstanding and no deals in either the Australian domestic or Kauri bond markets. Australia's big four banks have all declared their exposures to the Lehman to the Australian Securities Exchange, with all four avoiding disaster. Commonwealth Bank of Australia may be the worst affected, with liabilities of less than A$150 million – a figure slightly higher than those disclosed by National Australia Bank and ANZ Banking Group – while Westpac Banking Corporation escaped with exposures of less than A$10 million.

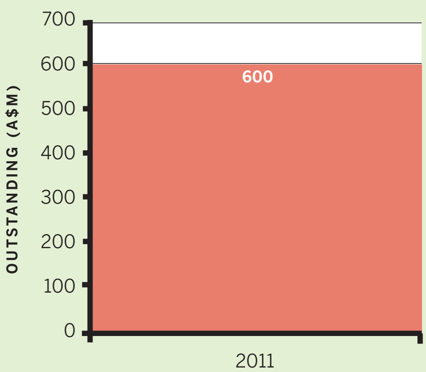
Merrill Lynch has been quite an active borrower in Australasia, with A$3.88 billion outstanding in six Kangaroo lines – making it the fourth-largest FI borrower – as well as two Kauri bonds totalling NZ$275 million (US$185 million). Merrill Lynch's shortest-dated Kangaroo is set to mature on November 5 this year.

Even bigger is Bank of America (BoA), which was downgraded by Standard & Poor's on the back of its takeover of Merrill Lynch. BoA has the third-largest outstanding volume of Kangaroo bonds among FI issuers, with A$3.925 billion in seven lines, and also has a single NZ$325 million Kauri bond in the market.

However, the biggest single Australian market borrower among the most troubled FIs is HBOS. The firm has a single A$600 million Kangaroo outstanding but has been especially active in issuing through its local subsidiary, Bank of Scotland Australia Branch. That entity has A$6.975 billion outstanding and priced its last Australian deal as recently as August 14.

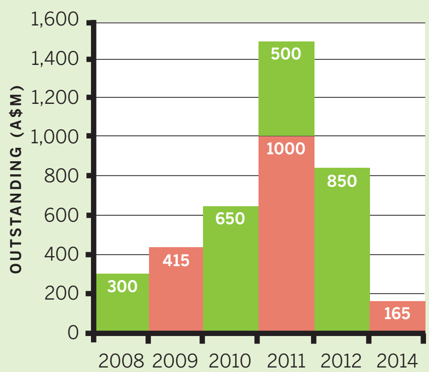
Investors will also be relieved that a Federal Reserve prop-up package for insurer American International Group came to fruition as the firm has two outstanding Kangaroos totalling A$990 million, one of which is set to mature on November 20 2008.

LEHMAN BROTHERS' KANGAROO



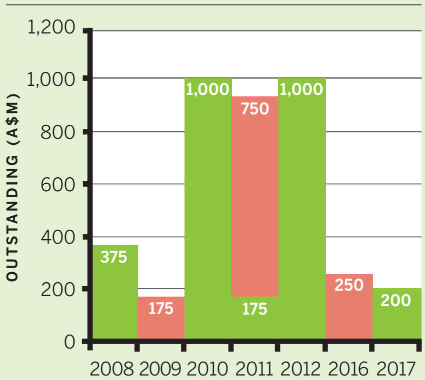
SOURCE: KANGANEWS SEPTEMBER 25 2008

MERRILL LYNCH'S KANGAROOS



SOURCE: KANGANEWS SEPTEMBER 25 2008

BANK OF AMERICA'S KANGAROOS



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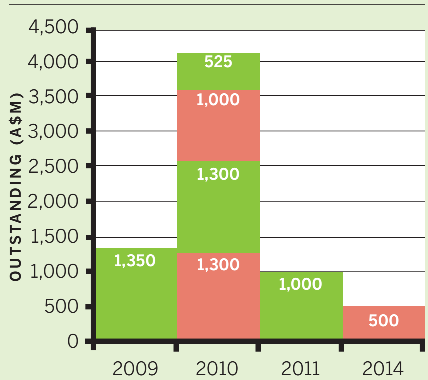
BOS AUSTRALIA'S DOMESTICS



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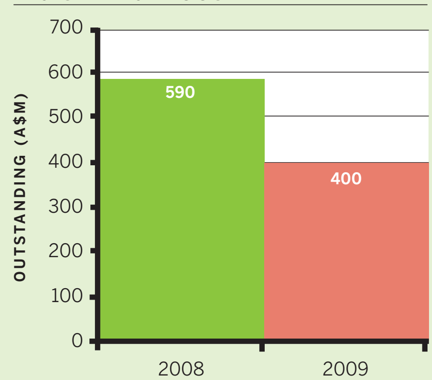
AIG'S KANGAROOS



SOURCE: KANGANEWS SEPTEMBER 25 2008

Challenger prices first non-bank Aussie RMBS since July

The Challenger Millennium Series 2008-1 Trust RMBS deal priced on September 18, riding out heightened market volatility since its opening a week previously and even upsizing slightly, to A$440.8 million (US$354 million) from the initial indicative size of A$400 million. The transaction was led by nabCapital, Royal Bank of Scotland Australia and Barclays Capital.

Pricing on the deal was achieved at 130 basis points over one-month BBSW for the largest tranche, A$422 million of Class A notes rated triple-A by all three main rating agencies. Pricing was not disclosed on the A$13 million AAA/Aa1/AAA-rated Class AB notes or the A$5.8 million AA-/Aa3/AA- Class B tranche.

However, Challenger did reveal that no paper was retained, with the entirety of all three tranches being sold to external accounts. According to Richard Willis, head of risk and treasury at Challenger in Sydney: "Like all recent mortgage-backed deals this one was not as widely distributed as RMBS transactions have been in the past. However, there were a number of investors participating, including both fund manager and balance sheet accounts. This was a public deal rather than a private placement."

Andrew Twyford, general manager securitisation and treasury at Challenger in Melbourne, adds that part of the appeal of the deal was the 5.25 per cent subordination offered – which includes the junior notes as well as a principal reserve as a first line of protection. He says: "We saw this as a enhanced way to provide credit support for our investor base. The level of subordination was sized such that the triple-A tranche gave no credit to lender's mortgage insurance, which is what investors are asking for in the current environment."

Twyford adds that it is difficult to compare the percentage level of subordination with levels prior to the credit market dislocation, mainly because of the higher quality of the assets in the pool in the latest deal. However, he says: "This level of subordination was consistent with other market transactions post the market dislocation."

Willis says it was "particularly pleasing to see interest from investors in taking the lower-rated tranches of the deal" especially given the unusually difficult market conditions prevalent around pricing. Another source familiar with the transaction says there has been some appetite in the market for the kind of risk profile offered by junior tranches, but also says it is too early to speculate on how resilient this demand will be given market volatility.

Challenger's pricing was in line with recent Australian RMBS deals: the most recent transaction, from Suncorp Metway, also priced at 130 basis points over swap on August 29 while Members Equity Bank and Adelaide Bank respectively achieved 120 and 110 basis points over in their July deals.

Challenger is also the first non-bank RMBS issuer in Australia since Columbus Capital priced its A$208 million RMBS transaction on July 17 this year.

MuniFin in and out in a day to double Kauri

Municipality Finance (AAA/Aaa) (MuniFin) doubled the size of its only outstanding Kauri line, the 2011, on September 23. The agency added NZ$100 million (US$68.81 million) to the bond in a transaction led by ANZ that launched and priced in a day to reduce the impact of volatile markets.

The Finnish local government agency continued to offer more yield to investors than other triple-A rated Kauri issuers, pricing its latest deal at 5 basis points below mid-rate swap or 113 basis points over the benchmark 6 per cent 2011 New Zealand government bond.

This compares with 10 basis points under swap for MuniFin's inaugural Kauri transaction, priced on May 28 this year, and 13 basis points below swap for the most recent deal with disclosed pricing from any other agency – Bank Nederlandse Gemeenten's 2017 trade from May 23.

Both the Kauri and Kangaroo markets were quiet in September, in part because of movements in the basis making it hard for offshore issuers to meet targets. However, Dean Spicer, Wellington-based head of DCM New Zealand at ANZ, says a window of opportunity opened for the MuniFin transaction. "Shorter-dated NZD-EUR basis remains conducive to Kauri issuance compared with the longer tenors," he explains.

In terms of prospects for further deal flow, Spicer says there are signs of interest among New Zealand investors although he does not wish to comment on specific areas of demand. He says: "MuniFin's deal was domestically placed and we remain hopeful that there will be further demand in the remainder of this year – we have seen a pick up in interest in Kauris in the secondary market and that may help provide some opportunities."

St.George to stay out of term market after A$1 billion RMBS

St.George Bank (A+/Aa2/A+) (St.George) says it does not expect to return to the term funding markets in the near term after selling A$1 billion (US$801 million) of RMBS securities under its Crusade securitisation programme in a private placement on September 1.

The bank has funded A$4.6 billion for its next financial year – which began in September – having finished 2007/08 funding three months early, in June. This means St.George has pre-funded 40 per cent of its requirement for 2009.

Managing director and CEO Paul Fegan says: "We do not see the need to raise any substantial new term funding in the near future." He continues: "Since October 1 2007, St.George has raised a total of A$12.6 billion of committed term funding. In addition, we continue to see strong growth in retail deposit balances."

It has been suggested that St.George is benefiting from an anticipated credit rating boost when its merger with Westpac Banking Corporation is completed later this year. One investor comments: "When you look at St.George you do of course consider the likely impact of the Westpac deal, but on the other hand you can't take the completion for granted. Market conditions suggest not many investors will feel comfortable playing merger arbitrage."

The Crusade Trust No. 1 2008 transaction is split into two tranches. The A$1 billion senior tranche – which the issuer expects to receive a triple-A rating from Standard & Poor's – was privately placed, with St.George declining to provide pricing details other than to say it was "competitive with comparable sources of funding available to Australian banks". There is also a A$51.3 million subordinated tranche which St.George retains.

Westpac New Zealand launches, then postpones, 2013

Westpac New Zealand (AA/Aa2) (Westpac) launched a new five-year self-led domestic transaction on September 8 but was forced to postpone the deal nine days later, citing the ongoing uncertainty in global markets.

The issue had been set to close on September 19 and price three days later. In a statement, the bank said it decided to postpone the deal "despite excellent demand", blaming "global market volatility and uncertainty". The statement adds, however, that the transaction "is still an issue Westpac wants to do and we will revisit the offer when market conditions stabilise."

Westpac had been confident of capturing a combined retail and institutional investor base for the fixed rate deal, which was launched with a minimum size of NZ$50 million (US$33.6 million) – with room to upsize – and indicative pricing of 130 basis points over swap.

Retail demand holding as ASB upsizes 2014s

ASB Bank (AA/Aa2) (ASB) priced NZ$270 million (US$181.5 million) of six-year bonds on September 9, having increased the deal's volume from NZ$50 million since its September 1 launch.

The self-led deal priced at 130 basis points over swap, and although Richard Howse, director, debt capital markets at ASB in Auckland, did not wish to comment on the specifics of distribution, he says the deal benefited from a "strong retail book". In terms of timing, Howse says the transaction was able to capture buyers keen to lock in long-term rates ahead of Reserve Bank of New Zealand's official cash rate announcement on September 11, especially as there is only a limited supply of 2014-dated bank paper in the local market.

Bank transactions continue to be popular in New Zealand, with most of the paper understood to be finding a retail home either through the primary or secondary market. One institutional investor comments: "There some money to be made in buying domestic bank deals and selling them down to retail investors over the following few months."

He continues: "Retail takeup is still good although even advisers to the retail client base would like to be able to buy something else for diversification purposes. But the fact is there has not been much else in the market – we are all buyers by default even if we don't by any means see the deals as a great bargain, which is certainly the case for institutional investors."