

EUROS BOUNCE BACK

In 2016, for the third time, *KangaNews* asked international supranational, sovereign and agency (SSA) issuers active in Australasian markets to respond to a survey of their global and regional funding views. A record number of issuers – 30 – responded to the survey, providing a unique set of insights into how some of the world’s most significant high-grade credits view funding conditions in mid-2016.

BY HELEN CRAIG AND LAURENCE DAVISON

Perhaps the most notable takeout from the survey data is the extent to which the euro has rebounded as an issuance currency for SSA borrowers. Compared with results from 2015, the euro has been both a more significant contributor to SSA issuers’ funding mix and is viewed in a more optimistic light going forward than was the case 12 months previously.

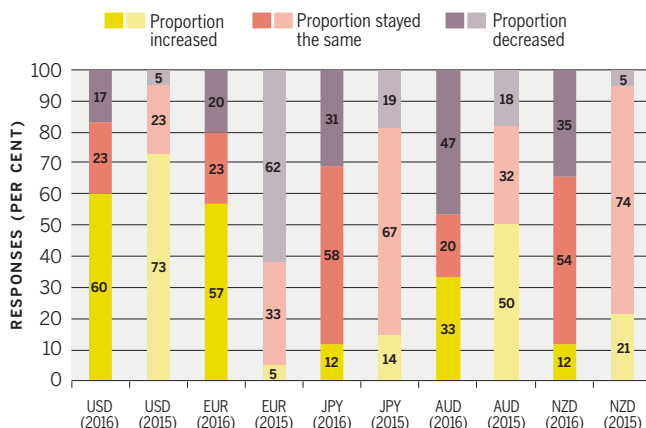
A year ago, an astonishing 95 per cent of SSAs responding to the *KangaNews* survey reported that their proportional usage of euro funding had been flat or negative in the preceding 12-month period – with 62 per cent of survey responses suggesting a reduced use of euro funding. Fast forward to mid-2016, and nearly 60 per cent of issuers say they have increased the euro component of their funding mix in the past 12 months, while just 20 per cent report a further drop (see chart 1).

The US dollar remains the market leader, even so. The currency was the most commonly reported grower in SSAs’ funding mix in both 2015 and 2016, clearly outstripping all the other major international markets.

The protracted trough in global rates markets appears to be, at least, manageable for SSA borrowers so far. In fact, a third of responses to the *KangaNews* survey say negative yields have actually helped demand for SSA paper in recent months – though almost as many say the impact has been negative (see chart 2).

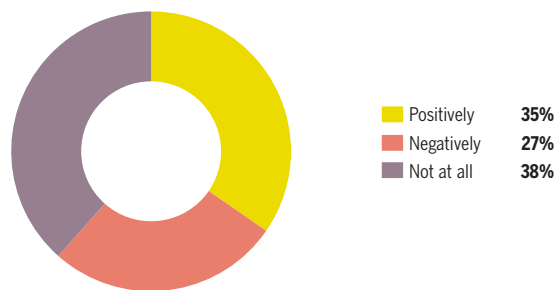
The fact that core markets are still broadly supportive – with the euro renaissance joining an apparently ever-supportive US dollar option – might explain why SSA issuers have not made significant moves to further diversify their range of issuance currencies since mid-2015. Nearly two-thirds say they have issued in no more than five currencies in the past 12 months, and just 10 per cent say they have used more than 10. The overall issuance

CHART 1. OVER THE PAST 12 MONTHS, HOW HAS YOUR ORGANISATION'S ISSUANCE BY CURRENCY CHANGED?



SOURCE: KANGANEWS SEPTEMBER 8 2016

CHART 2. HOW HAVE NEGATIVE YIELDS IN CORE MARKETS AFFECTED DEMAND FOR YOUR ISSUANCE IN THE LAST 12 MONTHS?



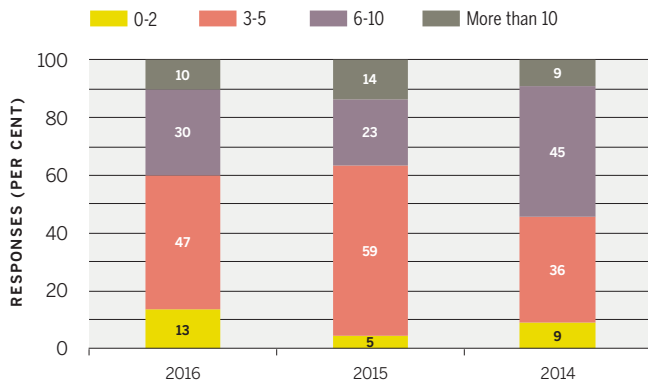
SOURCE: KANGANEWS SEPTEMBER 8 2016

STURDY NORWEGIAN



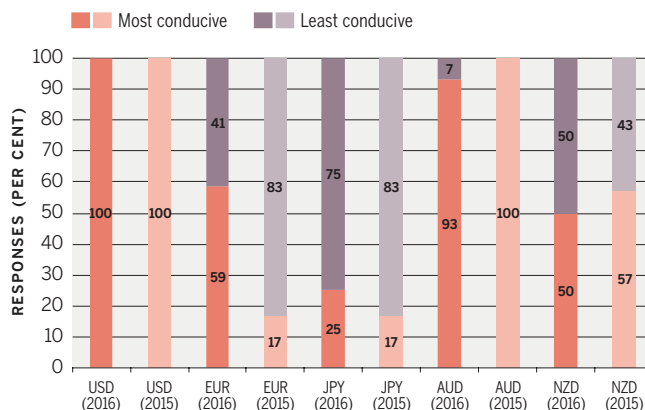
The Lofoten archipelago, located 68° 9' North in the Atlantic Ocean, provides excellent waves for arctic surfing. Norwegians thrive in tough weather conditions. KBN is the funding agency for Norwegian local governments. Whatever way the wind blows, we remain sturdy.

CHART 3. IN HOW MANY GLOBAL DOMESTIC CURRENCY MARKETS (EXCLUDING OFFSHORE CURRENCY MARKETS SUCH AS URIDASHI) HAS YOUR ORGANISATION ISSUED IN THE PAST 12 MONTHS?



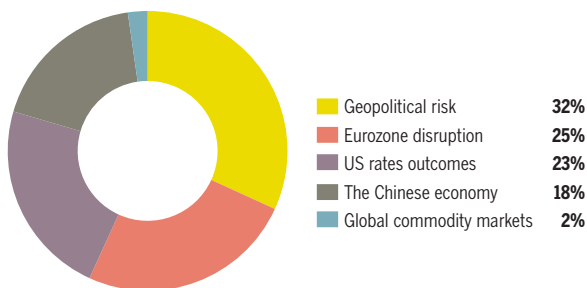
SOURCE: KANGANEWS SEPTEMBER 8 2016

CHART 4. WHICH CURRENCY MARKETS DO YOU EXPECT TO BE THE MOST AND LEAST CONDUCTIVE OVER THE NEXT 12 MONTHS?



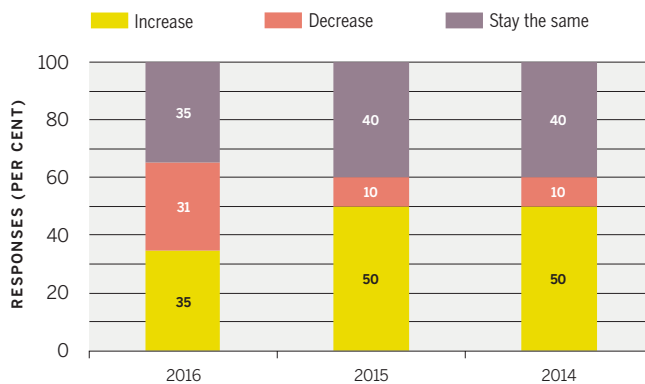
SOURCE: KANGANEWS SEPTEMBER 8 2016

CHART 5. WHAT DO YOU BELIEVE TO BE THE BIGGEST RISK FACTOR IN GLOBAL FUNDING MARKETS OVER THE NEXT 12 MONTHS?



SOURCE: KANGANEWS SEPTEMBER 8 2016

CHART 6. HAVE YOU SEEN GLOBAL DEMAND FOR AUSTRALIAN DOLLARS INCREASE, DECREASE OR STAY ROUGHLY THE SAME OVER THE PAST 12 MONTHS?



SOURCE: KANGANEWS SEPTEMBER 8 2016

currency diversity data is broadly similar to that from 2015, and reflects a somewhat narrower range of issuance than was the case in 2014 (see chart 3).

SSA borrowers expect recent trends largely to continue into the months ahead. Survey respondents universally expect US dollars to remain one of the most conducive issuance currencies for the foreseeable future, while a much larger proportion has confidence in the future attractiveness of euro issuance than was the case in 2015 (see chart 4).

SSAs also continue to view Australian dollars as likely to be a supportive issuance currency in the year ahead – to a somewhat greater degree than the smaller New Zealand dollar market. This may reflect no more than the larger cohort of issuers with established, active Kangaroo programmes relative to the Kauri market’s issuer set.

One area where current events do appear to have had an impact on issuer views is on the risk side. The number-one risk

factor named by SSAs for the coming 12 months is “geopolitical risk” (see chart 5), with some issuers annotating their survey forms to highlight Brexit and the November 2016 US presidential election as specific risk events they believe may have an impact on global capital markets in the months ahead. Eurozone disruption, US rates and the Chinese economy also feature prominently in risk assessments.

AUSTRALASIAN VIEWS

Looking specifically at the Australian and New Zealand arena, the general view of SSAs appears to be of markets benefiting from a good degree of maturity and consistency. For instance, while borrowers generally expect Australian dollar issuance conditions to remain conducive in future they do not report a major surge in demand. In fact, nearly a third of SSAs say Australian dollar demand has actually fallen in the past year (see chart 6).

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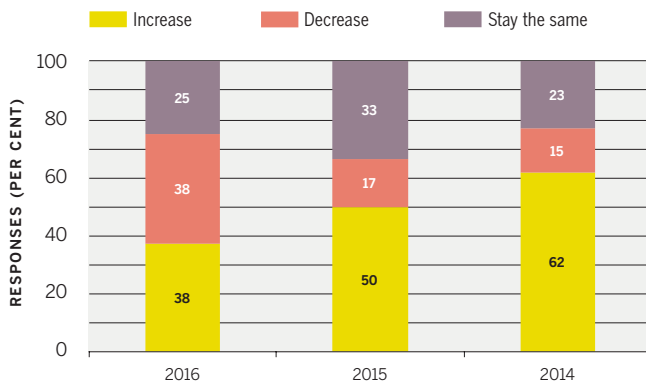
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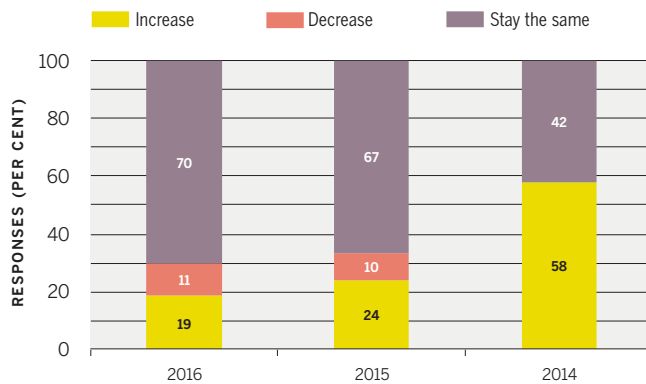


CHART 7. HAVE YOU SEEN GLOBAL DEMAND FOR NEW ZEALAND DOLLARS INCREASE, DECREASE OR STAY ROUGHLY THE SAME OVER THE PAST 12 MONTHS?



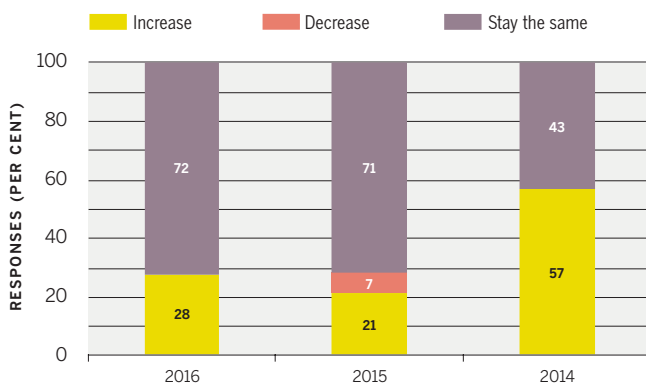
SOURCE: KANGANEWS SEPTEMBER 8 2016

CHART 8. DO YOU EXPECT GLOBAL DEMAND FOR AUSTRALIAN DOLLARS TO INCREASE, DECREASE OR STAY ROUGHLY THE SAME OVER THE NEXT 12 MONTHS?



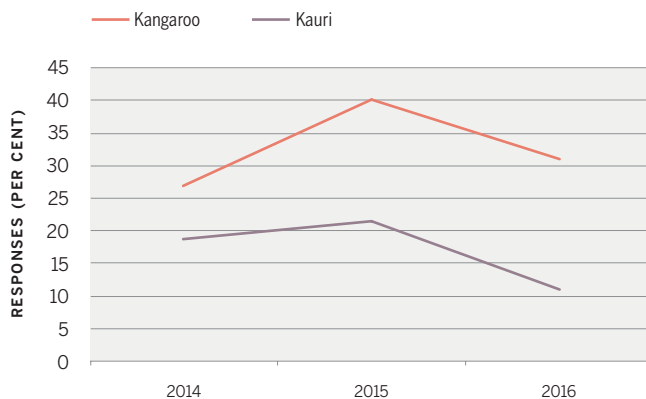
SOURCE: KANGANEWS SEPTEMBER 8 2016

CHART 9. DO YOU EXPECT GLOBAL DEMAND FOR NEW ZEALAND DOLLARS TO INCREASE, DECREASE OR STAY ROUGHLY THE SAME OVER THE NEXT 12 MONTHS?



SOURCE: KANGANEWS SEPTEMBER 8 2016

CHART 10. ACTIVE ISSUERS FINDING THE KANGAROO AND KAURI MARKETS CONSISTENTLY COST EFFECTIVE



SOURCE: KANGANEWS SEPTEMBER 8 2016

The picture is almost identical for the Kauri market, as a similar proportion of issuers note in their survey responses that New Zealand dollar demand eased in the 12 months to mid-2016 (see chart 7). While the demand picture is obviously less rosy for both currencies than it was a year previously, however, a significant proportion – roughly a third – of SSAs still say they have experienced demand growth.

Perhaps as a result, the SSA issuer base as a group is reluctant to forecast a negative year ahead for Australian and New Zealand dollar issuance. While the proportion of issuers expecting to see more Australian dollar demand – 19 per cent – is not especially high, the majority anticipate stability rather than reversal (see chart 8). In fact, expectations around the Australian dollar bid are almost identical to survey results from 2015.

The year-on-year outcome is even more similar when it comes to expectations for Kauri demand. Of the SSAs responding to New Zealand dollar-related questions in the *KangaNews* survey, 72 per cent say they expect stable demand for the currency in the 12 months from mid-2016 – compared with

71 per cent a year previously (see chart 9). The only significant difference this year is that no investors expect to see New Zealand dollar demand drop in the coming period, compared with 7 per cent of Kauri bears in 2015.

There is some suggestion of challenges ahead for Kangaroo and Kauri issuance, though – at least based on recent pricing conditions. The proportion of issuers saying they find the Kangaroo market to be “consistently cost effective” is 31 per cent – down from 40 per cent in 2015 (see chart 10). The vast majority of issuers, however, report that Kangaroo conditions are at least either consistently or “occasionally” cost effective.

As might be expected in a smaller market which has historically tended to present opportunities to a narrower range of issuers, an even smaller proportion of SSAs – just 11 per cent – say they have found the Kauri market to be consistently cost effective in recent months. Although the majority say they see at least occasional cost-effective Kauri issuance opportunities, the most optimistic group has its lowest membership since *KangaNews* first asked the question, in 2014. •

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