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bank**

Australian Financial Markets Handbook

April 2025





Australian Financial Markets Handbook

Foreword

Australia's post-pandemic recovery has been incredibly sharp and at one point the unemployment rate reached its lowest level in fifty years at 3.4% in 2022.

As the recovery has matured, the labour market has remained much tighter than pre-pandemic with the unemployment broadly unchanged at 4.0% in 2024, well below the 5.2% rate it was in late 2019.

Combined with a slow return of inflation to target, the RBA has lagged the global post pandemic easing cycle that started in 2024.

The medium-term outlook for the Australian economy remains favourable. Population growth surged following the reopening of borders from late 2021, and is normalising back to still strong levels similar to those that prevailed prior to the pandemic disruption. Both of Australia's very centrist political parties retain a mostly favourable disposition towards immigration and are committed to sustainable public finances, controlled inflation, and liberal foreign investment policies.

Australia has long-established, deep and developed financial markets. The Australian dollar is the world's sixth most actively traded currency and Australian dollar denominated debt is highly-rated, widely held and included in key global bond indices.

National Australia Bank (NAB) is one of Australia's big four banks boasting a proud 160-year history of banking in Australia. Australian financial institutions are highly rated by international ratings agencies. NAB is the leading business and agricultural bank in Australia, a position which allows us to provide additional in-depth insight into the emerging trends and performance of the economy, including from the monthly NAB Business Survey, Australia's pre-eminent business survey.

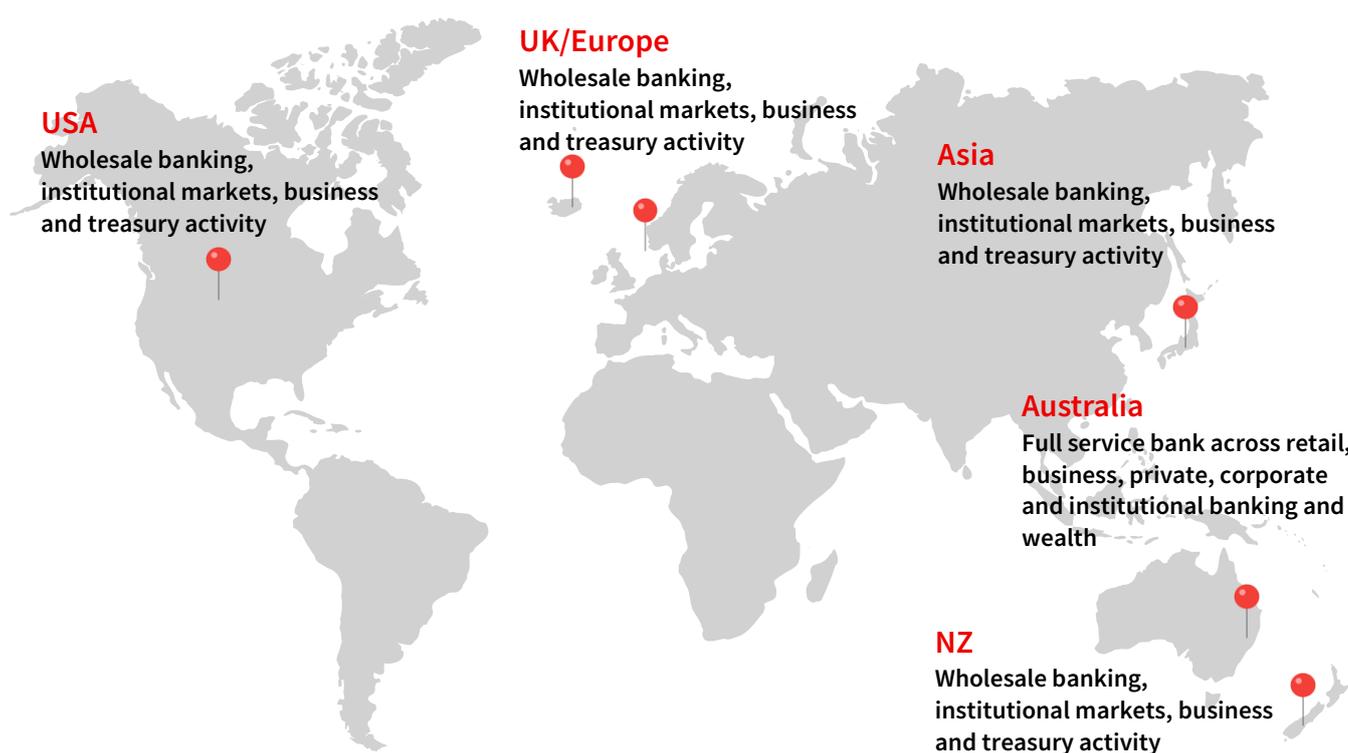
Our Markets team provides local and offshore customers access to both traded and illiquid markets, including fixed income, money markets, credit, derivatives, currencies, commodities, and carbon, as well as research. The Markets business covers every segment of the market, from multinationals and Australian corporate and institutional customers through to small businesses, retail accounts and high net worth Australian individuals looking to manage their businesses and build their investment portfolios. We are a 24-hour global operation with offices in Australia, New Zealand (Bank of New Zealand), the United Kingdom, the United States, France, Japan and Singapore.

We hope this introduction to Australia's economic and political structures, as well as background information on Australia's financial markets, products and dealing conventions, will be useful to familiarise yourself with Australia. Contact numbers for our various businesses and geographic locations are provided at the end of the publication.

April 2025

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Australian Economy

Australia – An Advanced Economy with strong links to Asia

Australia is unusual among the advanced economies in that it has a fast-growing population, close trade ties to Asia, and low levels of government debt (a budget surplus was recorded in 2023 and 2024). It is also unusual in that until the COVID pandemic, Australia had not had a recession since the early 1990s, narrowly avoiding one during the global financial crisis.

Australia's post-pandemic recovery has been incredibly sharp. While the RBA tightened policy in 2022 and 2023, it lifted the cash rate by less than its peers, and held rates steady throughout 2024. Correspondingly, the RBA has eased policy later than peer central banks, starting its easing cycle in February 2025. We expect only a mild easing cycle. The labour market remains tight – the unemployment at 4.0% is still well below the 5.2% rate in 2019. The RBA pegs NAIRU around 4¼-4½%.

A post-pandemic population rebound has placed intense pressure on the housing market – Australia's population grew by 553k people or 2.1% in the year ended June 2024. Increasing housing supply is a major policy focus by all levels of government.

Historically strong population growth helps explain why Australia's economic growth rate has exceeded that of other developed economies. It is expected population growth will ease back to its pre-pandemic growth rates of 1.4-1.5%.

Like most advanced economies, services make up the bulk of GDP, with consumer spending accounting for more than half of output. Like the UK and New Zealand, household balance sheets are dominated by housing, on both the debt and asset side, although there are significant pension assets (superannuation).

Superannuation assets now amount to \$4.1 trillion, with this being the fourth largest retirement savings pool in the world.

Australia experienced its largest and longest commodities boom since the gold rush of the 1850s during 2005-2014. The boom was concentrated in iron ore, coal and LNG. While the investment side of that boom ended in 2014, Australia's terms of trade remains at near record highs.

Sizeable trade surpluses have been the norm since 2018 and in sufficient size to see the current account in surplus or close to balance. Australia is rare among advanced economies in having very close trade ties with Asia. Japan was the largest export market for Australia during most of the post-WW2 period but has been overtaken by China (who accounts for around a third of all exports).

Despite fluctuations in the Australia-China relationship, this has not impacted aggregate trade, though certain agricultural exports and coal have been affected at times. More recently, relations have thawed with most restrictions having been lifted.

Australia's relationship with the US remains strong, and we do not expect the Australia-US relationship to be excessively strained under the Trump administration. Australia has run a persistent trade deficit with the US since 1952. Cultural ties are deep, as are defence ties.

Australia has three levels of government, namely, Commonwealth, state and local with both the Commonwealth and states highly rated by international rating agencies.

The Commonwealth has control of most taxes, while the states undertake most spending on

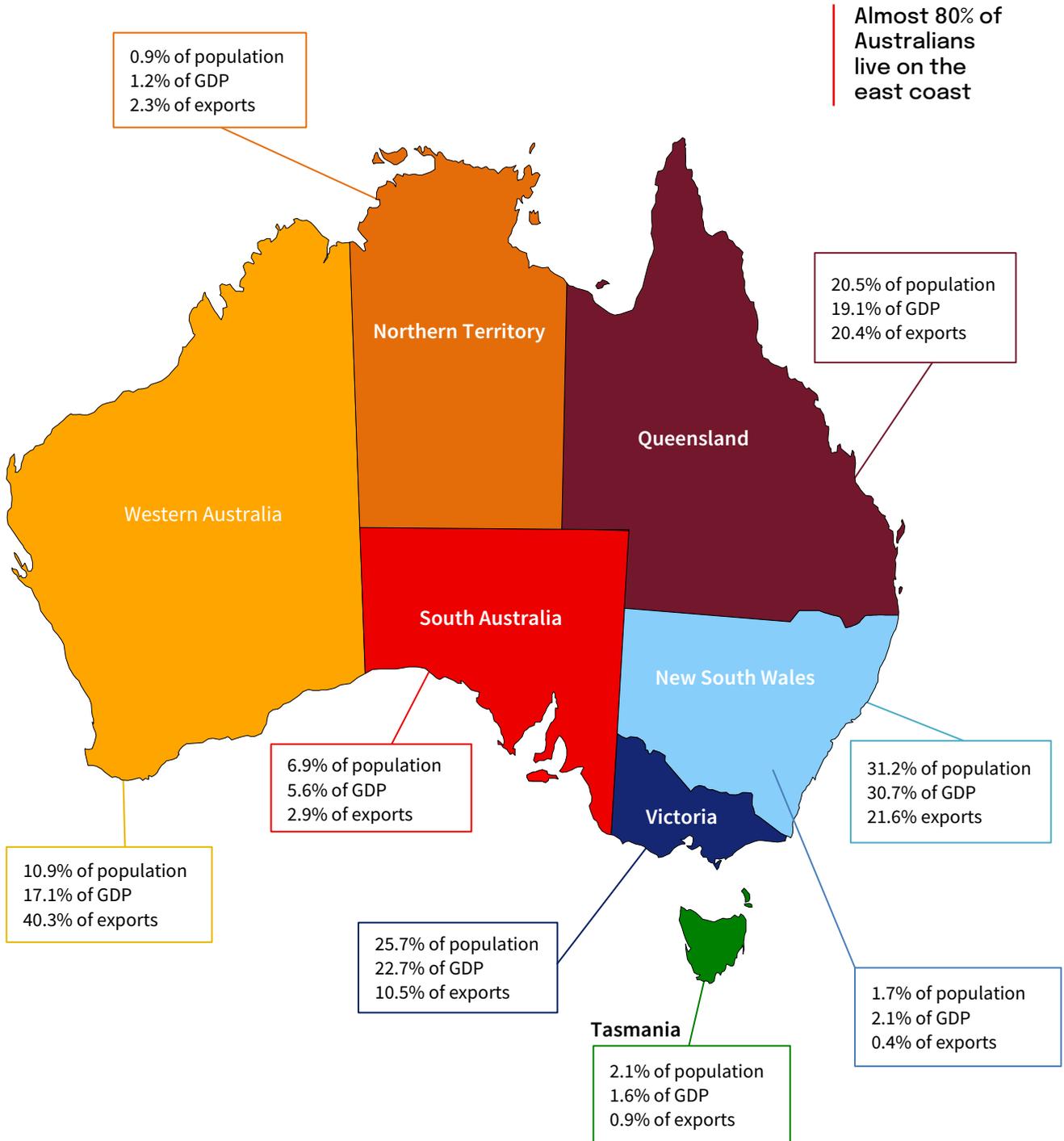
education and health services. The states depend heavily on Commonwealth funding/transfers. The Commonwealth and states each publish an annual budget and a mid-year budget update. Commonwealth legislation usually requires the support of minor parties and independents as neither of the large political parties have a majority in both houses of parliament.

The Reserve Bank of Australia is responsible for monetary policy. The Bank is similar to its international peers. A recent review into the RBA saw a more formal adoption of a dual mandate of full employment and price stability in 2023, as well as clarifying that the RBA is setting policy to achieve the mid-point of the 2-3% inflation target. A new Monetary Policy Board was formed to set interest rates, similar to the BoC and BoE.

Housing activity and house prices form an important part of the transmission mechanism for monetary policy. Changes in the Reserve Bank policy rate are quickly reflected in lending rates given most borrowers borrow at a variable (or floating) interest rate.

Practical independence of the Bank is enshrined in a longstanding agreement between the Bank's Governor and the Treasurer. The Bank only intervenes in the foreign exchange market in exceptional circumstances, and only to support market functioning rather than to influence the level of the AUD. Banks in Australia are regulated by the Australian Prudential Regulation Authority, while the Australian Securities and Investment Commission is responsible for regulating financial services and consumer credit and authorised financial markets.

Population – 27 million (June 2024)

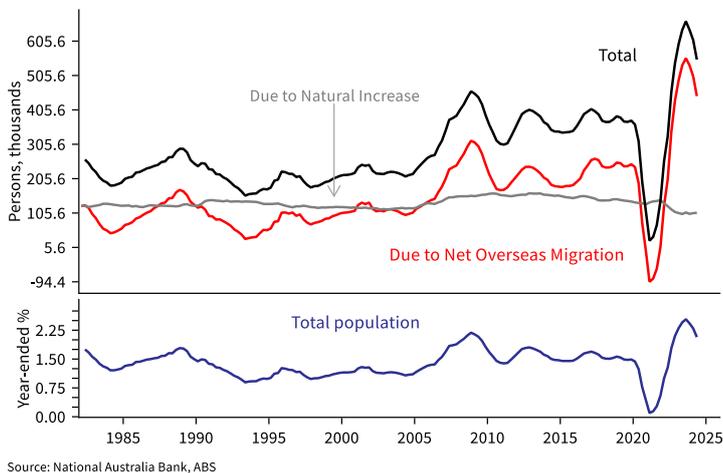


Sources: <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release>;
<https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-state-accounts/latest-release>
 Australian National Accounts: State Accounts, 2023-24 financial year | Australian Bureau of Statistics (abs.gov.au)

Australian Economy

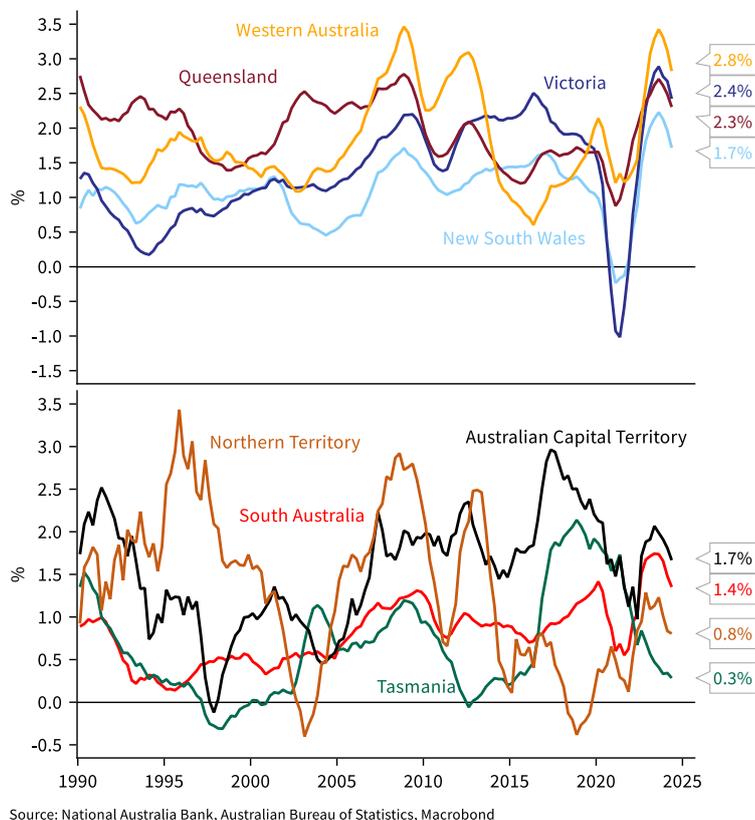
Population Growth

National Population Growth



Overseas migration has driven Australia's very strong population growth over many years. Border restrictions during covid saw a sharp slowing in net migration over the pandemic, but migration has rebounded strongly.

State population growth

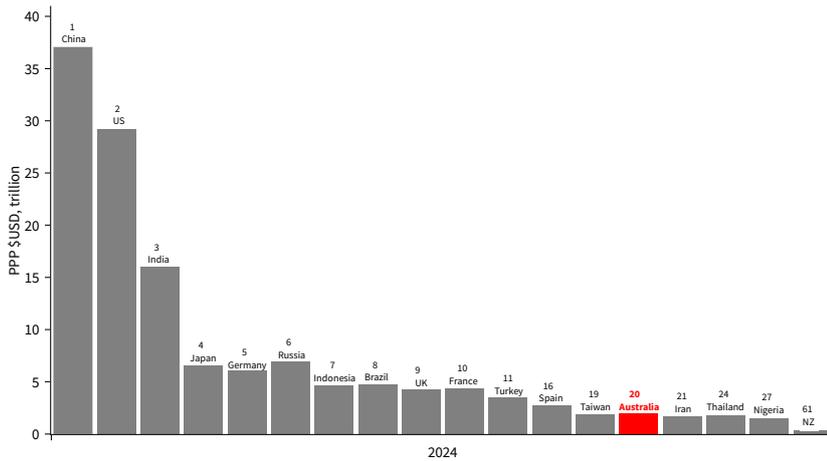


Most migrants settle in New South Wales and Victoria. Western Australia's population growth slowed following the end of the mining boom but has been stronger in recent years. Interstate migration flows were also significantly impacted during the pandemic due to domestic border closures.

Australian Economy

International Comparison

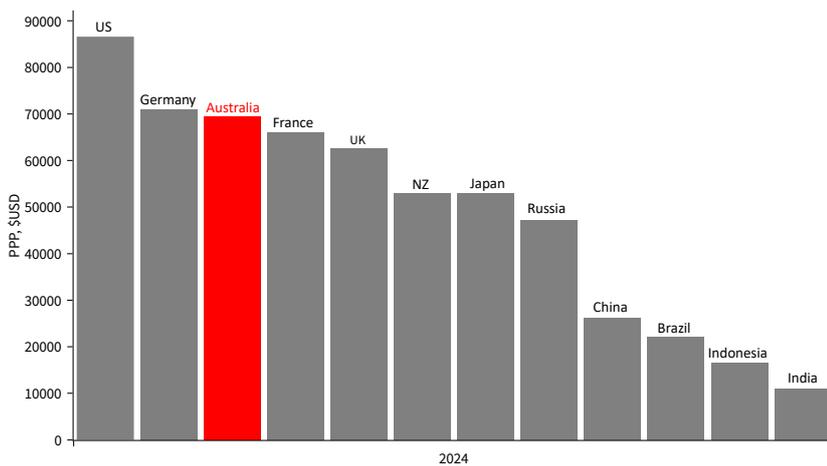
GDP By Country, PPP Basis*



Source: National Australia Bank, International Monetary Fund (IMF), Macrobond

Australia is the 20th largest economy in the world (as at 2024).

GDP Per Capita, PPP Basis*



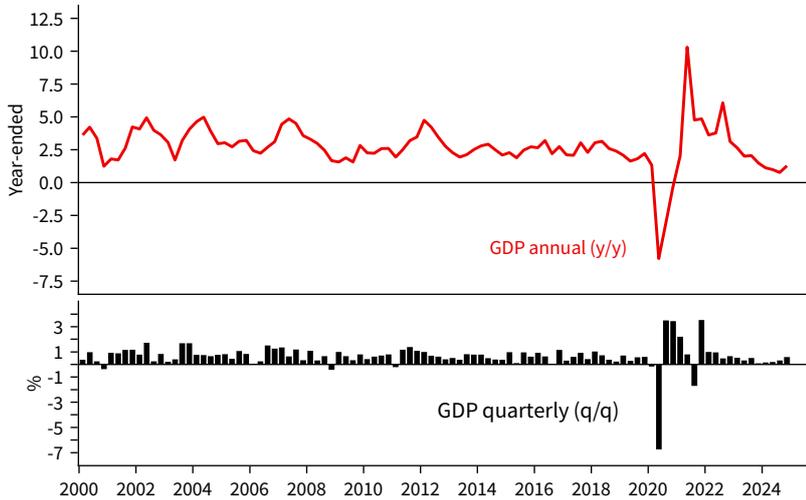
Source: National Australia Bank, International Monetary Fund (IMF), Macrobond

... and is one of the richest advanced economies.

Australian Economy

Growth Cycles

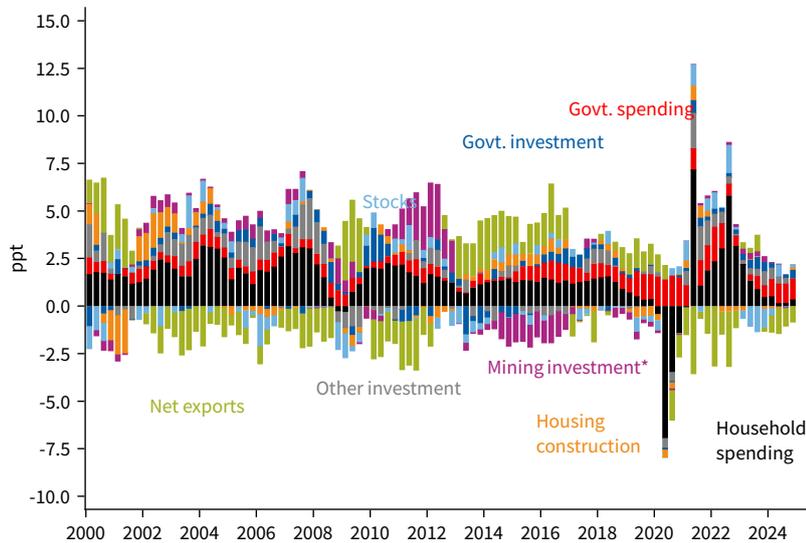
Real GDP growth



Source: National Australia Bank, ABS

Australia last had a recession pre-COVID in the early 1990s. The rebound from the pandemic was very sharp, with growth having slowed recently.

Contributions to real GDP Growth



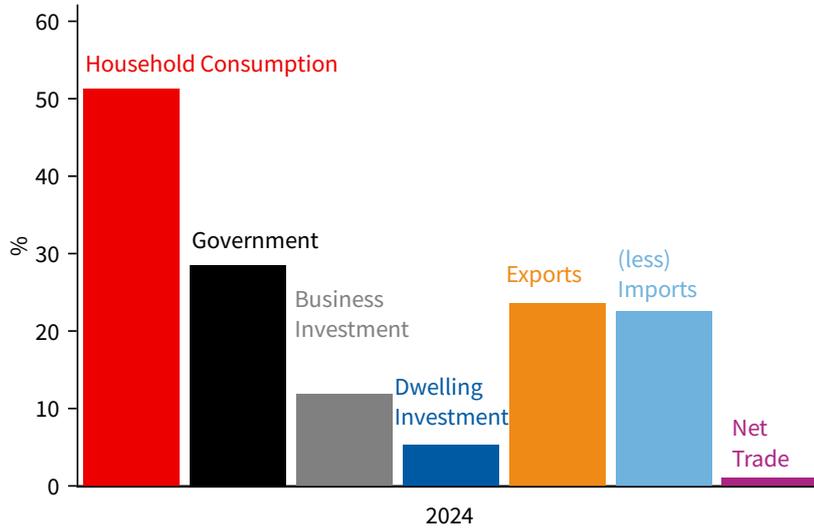
* New Engineering Construction
Source: NAB, IMF

The mining boom had a large positive impact on growth over the 2000s and early 2010s.

Australian Economy

Breakdown of Expenditures

Major components of nominal GDP



Source: National Australia Bank, ABS

Like other advanced economies, household consumption is the largest component of Australian GDP.

Nominal GDP split by expenditure

GDP (Expenditure) 2024	\$bn	% of GDP
Household Consumption	1400	51.3
Dwelling Investment	144	5.3
Business Investment	324	11.9
Government	775	28.5
Exports	645	23.7
Less imports	-614	-22.6
Net Trade	41	1.1
Total GDP	2722	

Source: [ABS 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2024 \(table 3\)](#); National Australia Bank

*Note: Totals do not add to 100% due to ownership transfer costs

Australian Economy

Industry Shares

Industry Shares (2024)		Output Share (%)*	Employment Share (%)
1	Mining	12.6%	1.5%
2	Health care and social assistance	9.6%	16.2%
3	Professional, scientific and technical services	8.6%	8.4%
4	Financial & Insurance Services	8.3%	3.2%
5	Construction	8.3%	8.1%
6	Manufacturing	6.5%	6.1%
7	Public Administration & Safety	6.2%	5.5%
8	Education & Training	5.5%	7.6%
9	Transport, Postal & Warehousing	5.3%	4.6%
10	Retail Trade	4.9%	9.6%
11	Wholesale Trade	4.3%	3.7%
12	Administrative and support services	3.9%	6.3%
13	Rental, Hiring & Real Estate Services	2.9%	1.9%
14	Agriculture, Forestry & Fishing	2.7%	3.0%
15	Accommodation & Other Food Services	2.6%	7.0%
16	Information, Media & Telecommunications	2.5%	1.3%
17	Electricity, Gas, Water & Waste Services	2.4%	0.9%
18	Other services	1.9%	3.6%
19	Arts & Recreation Services	0.9%	1.6%
Total (gross value added excluding ownership of dwellings)		100.0%	100.0%

Source: <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release> (table 6) ; [Labour Account Australia, December 2024 | Australian Bureau of Statistics](#)

*Real gross value-added at basic prices excluding ownership of dwellings and taxes less subsidies on products

Also, like other advanced economies, services account for the bulk of GDP (and employment). Mining is now the largest industry, but employs few people.

Australian Economy

Industry Shares by State

Industry Split of State GDP

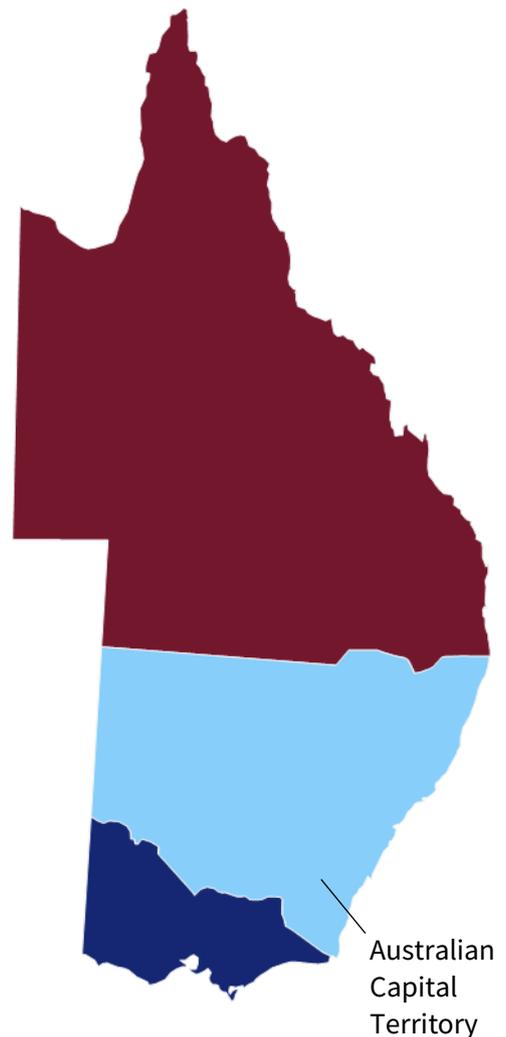
Top five industries in Queensland		%	\$bn
1	Mining	12.0	61.3
2	Health care and social assistance	8.6	43.9
3	Construction	7.3	37.2
4	Professional, scientific and technical services	6.1	31.2
5	Manufacturing	5.5	28.3

Top five industries in New South Wales		%	\$bn
1	Financial and insurance services	9.1	75.0
2	Professional, scientific and technical services	8.8	71.9
3	Health care and social assistance	7.1	58.6
4	Construction	6.9	56.9
5	Manufacturing	5.5	44.9

Top five industries in the ACT		%	\$bn
1	Public administration and safety	30.8	17.1
2	Professional, scientific and technical services	10.0	5.6
3	Health care and social assistance	8.8	4.9
4	Construction	5.8	3.2
5	Education and training	5.4	3.0

Top five industries in Victoria		%	\$bn
1	Health care and social assistance	8.8	53.6
2	Financial and insurance services	8.3	50.2
3	Professional, scientific and technical services	8.1	49.3
4	Construction	7.3	44.3
5	Manufacturing	6.2	37.7

Financial services dominate the economies of the east coast states.



Source: [Australian National Accounts: State Accounts, 2023-24 financial year | Australian Bureau of Statistics](#)

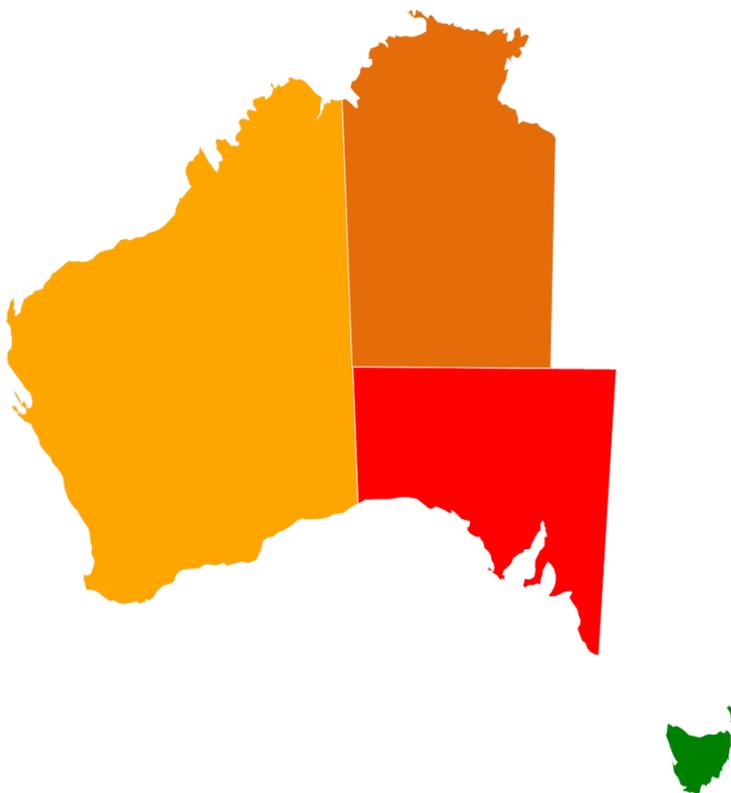
*Share of state real gross value added. Ownership of dwellings excluded from ranking

Australian Economy

Industry Shares by State

Industry split of state GDP (continued)

Mining dominates in Western Australia and is also important in Queensland and the Northern Territory.



Top five industries in Western Australia		%	\$bn
1	Mining	43.1	196.9
2	Construction	5.5	25.2
3	Health care and social assistance	4.9	22.5
4	Professional, scientific and technical services	4.4	19.9
5	Manufacturing	4.4	19.9

Top five industries in Northern Territory		%	\$bn
1	Mining	24.3	8.1
2	Public administration and safety	10.1	3.3
3	Health care and social assistance	8.5	2.8
4	Construction	6.2	2.1
5	Education and training	4.9	1.6

Top five industries in South Australia		%	\$bn
1	Health care and social assistance	11.0	16.4
2	Construction	7.4	11.0
3	Financial and insurance services	6.4	9.5
4	Education and training	5.6	8.3
5	Manufacturing	5.5	8.2

Top five industries in Tasmania		%	\$bn
1	Health care and social assistance	14.6	6.1
2	Agriculture, forestry and fishing	7.4	3.1
3	Construction	7.4	3.1
4	Public administration and safety	6.5	2.7
5	Education and training	6.0	2.5

Source: [Australian National Accounts: State Accounts, 2023-24 financial year | Australian Bureau of Statistics \(abs.gov.au\)](https://abs.gov.au)

*Share of state real gross value added. Ownership of dwellings excluded from ranking

Australian Economy

Trade

Major Export Markets

Major export markets 2023		% of exports	\$bn
1	China	32.6	219.0
2	Japan	13.4	90.0
3	Republic of Korea	6.5	43.9
4	India	5.3	35.4
5	United States	5.0	33.6
6	Taiwan	3.5	23.5
7	Singapore	3.4	22.8
8	New Zealand	2.8	19.0
9	Indonesia	2.3	15.2
10	Vietnam	2.2	14.7
Total Exports to All Countries		\$672.6bn	

China is Australia's number one trading partner, taking nearly one third of all exports.

Source: [Australia's goods and services by top 15 partners 2023 \(dfat.gov.au\)](https://www.dfat.gov.au/publications/australias-goods-and-services-by-top-15-partners-2023)

Note: Top 10 export markets = ~77% of total goods & services exports

Main sources of imports

Major import sources – 2023		% of imports	\$bn
1	China	18.9	108.1
2	United States	11.4	65.1
3	Japan	5.4	30.5
4	Republic of Korea	4.8	27.3
5	Singapore	4.2	24.0
6	Germany	4.0	23.0
7	Thailand	3.8	21.8
8	Malaysia	3.6	20.6
9	United Kingdom	3.1	17.8
10	New Zealand	2.7	15.4
Total Imports from All Countries		\$570.9bn	

Source: [Australia's goods and services by top 15 partners 2023 \(dfat.gov.au\)](https://www.dfat.gov.au/publications/australias-goods-and-services-by-top-15-partners-2023)

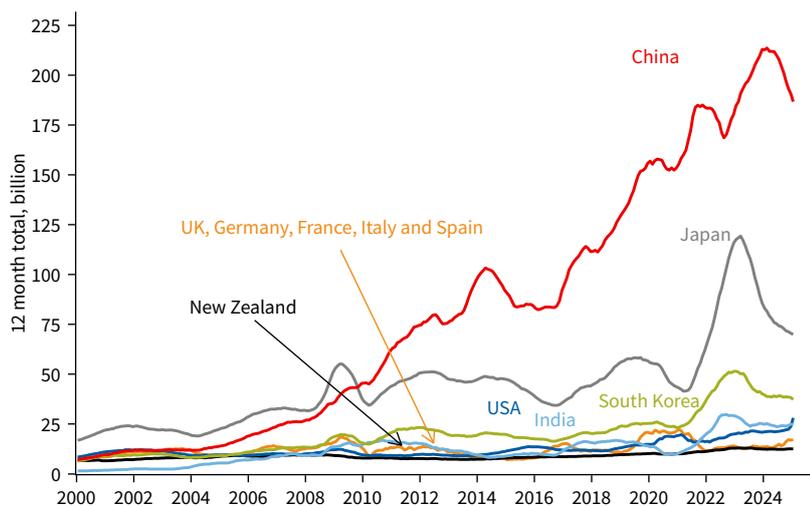
Note: Top 10 import sources = ~62% of total goods & services imports



Australian Economy

Exports by Destination

Major markets for exports of goods



Source: National Australia Bank, ABS

China and Japan are Australia's biggest export markets by a large margin.

Australian Economy

Trade by Commodity

Major Goods Exports

Major exports 2023-24		% of	\$bn
1	Iron ore & concentrates	20.9	137.9
2	Coal	13.9	91.4
3	Natural gas	10.4	68.7
4	Education-related travel services (c)	7.7	51.0
5	Gold	5.0	32.9
6	Personal travel (excl. education-related)	3.3	21.7
7	Beef	1.9	12.4
8	Crude petroleum	1.8	11.6
9	Aluminium ores & conc (incl alumina)	1.6	10.4
10	Wheat	1.5	9.9
Total Exports to All Countries		\$656.4bn	

Source: [Australia's goods and services by top 25 exports 2023-24 \(DFAT\)](#)

Bulk commodities dominate Australia's exports.

Major Goods Imports

Major imports 2023-2024		% of imports	\$bn
1	Personal travel (excl. education-related)	10.4	63.0
2	Refined petroleum	8.6	51.8
3	Passenger motor vehicles	6.2	37.2
4	Professional services	3.6	21.8
5	Goods vehicles	3.1	18.9
6	Telecom equipment & parts	2.8	17.2
7	Freight transport services	2.8	16.8
8	Charges for intellectual property	2.4	14.6
9	Computers	1.9	11.5
10	Passenger transport services (d)	1.5	9.0
Total Imports from All Countries		\$604.6bn	

Source: [Australia's goods and services by top 25 imports 2023-24 \(DFAT\)](#)

Tourism, automotive fuel and passenger vehicles are the largest import categories.

Australian Economy

Major exports to major destinations

Asia has strong demand for Australia's commodities.

Top exports to major export markets 2023-24

China	\$bn	% ¹
1. Iron ore & concentrates	116.4	54.7
2. Natural gas	20.6	9.7
3. Education-related travel	12.1	5.7
4. Coal	10.8	5.1
2. Japan	\$bn	% ¹
1. Coal	28.9	35.9
2. Natural Gas	23.5	29.2
3. Iron ores & concentrates	8.2	10.2
4. Beef	2.0	2.5
3. Republic of Korea	\$bn	% ¹
1. Coal	9.2	21.7
2. Natural gas	7.8	18.4
3. Iron ores & concentrates	7.7	18.2
4. Gold	2.0	4.7
4. United States	\$bn	% ¹
1. Prof., etch & other business services	6.2	16.5
2. IP charges	3.5	9.3
3. Beef	3.3	8.8
5. India	\$bn	% ¹
1. Coal	16.1	47.1
2. Education-related travel	8.9	26.0
3. Gold	2.8	8.2

Source: [Fact sheets for countries, economies and regions | Australian Government Department of Foreign Affairs and Trade \(dfat.gov.au\)](#)

¹Percentage of exports to that country

Australian Economy

Major Export Destinations by Commodity

China is a key buyer of Australia's exports. Iron ore is the largest export commodity (\$138bn in 2023-24).

Export Destinations by Commodity 2023-24

1. Iron ore & concentrates	\$bn	%
1. China	116.3	84.4
2. Japan	8.2	5.9
3. Republic of Korea	7.7	5.6
4. Taiwan	2.2	1.6
2. Coal	\$bn	%
1. Japan	28.9	31.6
2. India	16.1	17.6
3. China	10.8	11.8
4. Republic of Korea	9.1	10.0
3. Natural gas	\$bn	%
1. Japan	23.5	37.6
2. China	20.6	22.6
3. Republic of Korea	7.8	13.3
4. Singapore	6.7	10.8
4. Education-related travel services	\$bn	%
1. China	12.2	23.8
2. India	8.9	17.4
3. Nepal	4.1	8.1
4. Vietnam	2.3	4.5
5. Gold	\$bn	%
1. Hong Kong	11.2	34.1
2. China	5.1	15.5
3. United Kingdom	3.5	10.6
4. Singapore	3.1	9.3

Source: [Trade statistical pivot tables | Australian Government Department of Foreign Affairs and Trade \(dfat.gov.au\)](https://www.dfat.gov.au/international-trade/supplementary-information/financial-year-2023-24-financial-year)
[International Trade: Supplementary Information, Financial Year, 2023-24 financial year | Australian Bureau of Statistics](https://www.abs.gov.au/international-trade/supplementary-information/financial-year-2023-24-financial-year)

¹ Share of total export category to particular economy

Australian Economy

Labour Market

Unemployment rate

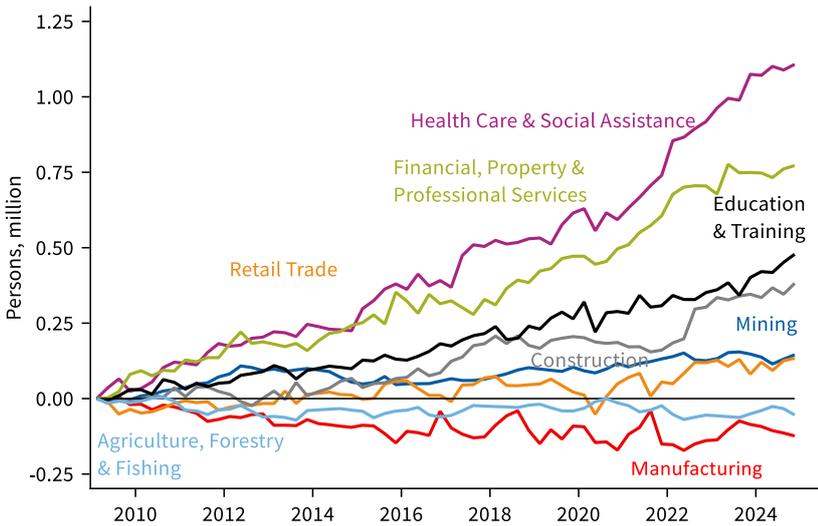


Source: National Australia Bank, ABS

The RBA is looking to retain as much of the gains in the labour market over the pandemic as possible. While the labour market has substantially rebalanced, the unemployment rate remains low relative to history.

Employment growth by major industry

Cumulative Change since Q1 2009

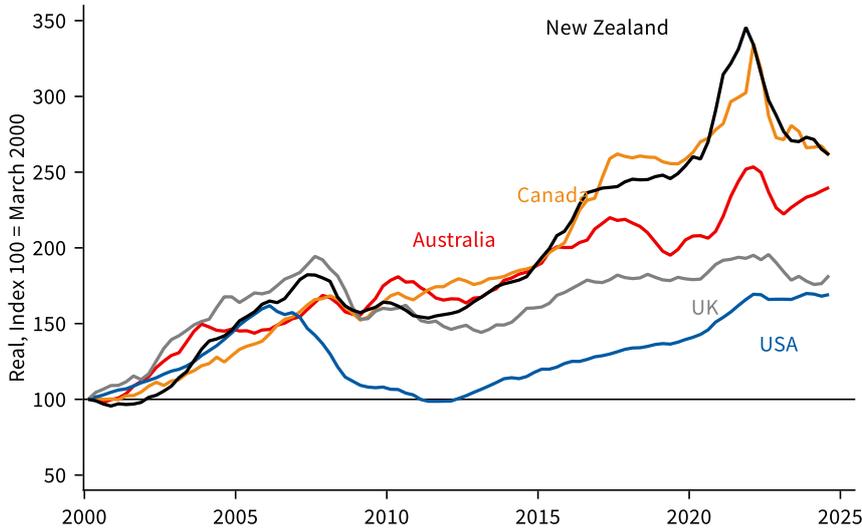


Source: National Australia Bank, ABS

Australian Economy

Housing

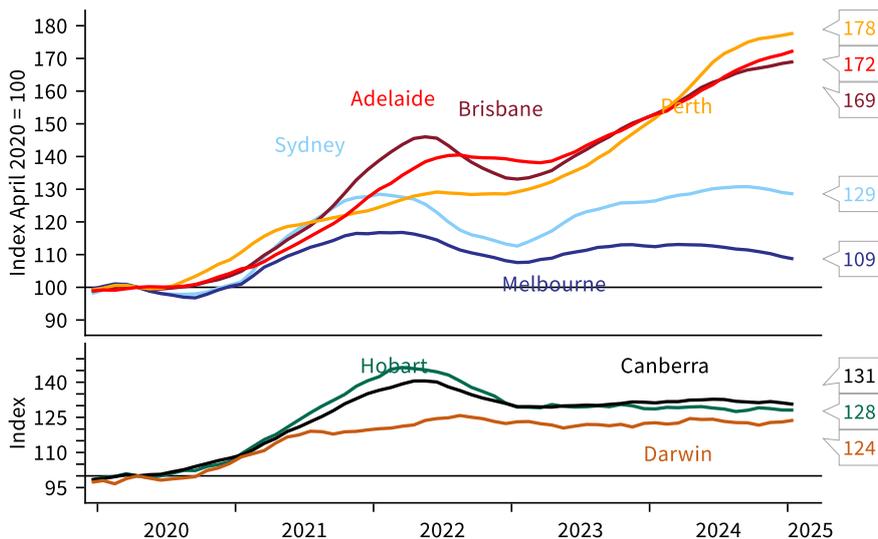
House prices by country



Source: National Australia Bank, ABS

Australia's house prices rose over the pandemic and have risen through 2023 and 2024 despite higher interest rates.

House prices by capital city



Source: National Australia Bank, CoreLogic

Price gains were broad based, but led by regional areas and those capitals less affected by lockdowns.

Australian Economy

Wages and inflation

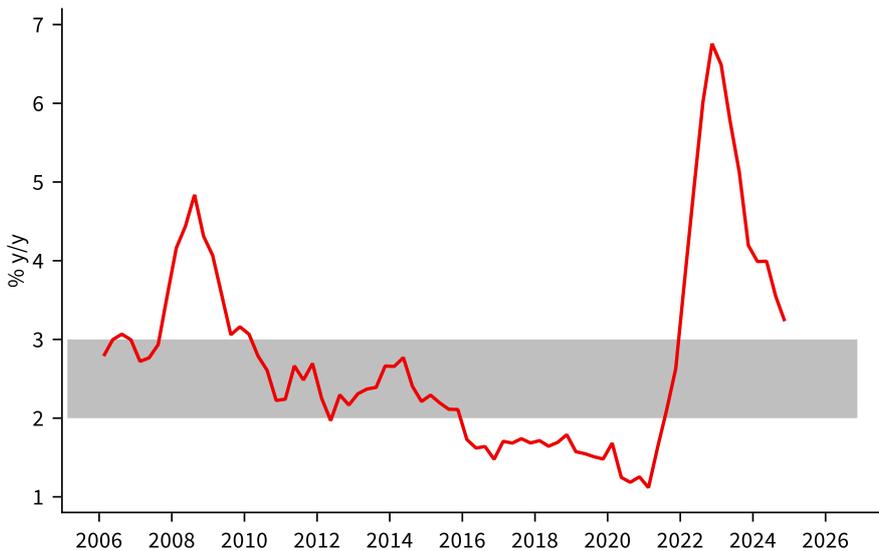
Hourly Base Wage growth



Source: National Australia Bank, ABS

Wages growth has moderated from its peaks but remains above soft pre-pandemic rates.

Underlying inflation



Source: National Australia Bank, Australian Bureau of Statistics

Underlying inflation peaked in 2022 but has fallen back towards the RBA's target.



Reserve Bank of Australia

Australia's Central Bank

The [Reserve Bank of Australia \(RBA\)](#) conducts monetary policy, works to maintain a strong financial system and issues the nation's currency. The RBA formally adopted flexible inflation targeting in 1996.

More recently, a dual mandate of both 'price stability and full employment' was explicitly adopted in December 2023 (following a substantial review into the RBA, completed in March 2023 – see [An RBA fit for the future](#)).

The dual mandate is formalised in both legislation, and in the [Statement on the Conduct of Monetary Policy](#) (which is the agreement between the Treasurer of the day and the RBA Monetary Policy Board):

- Price stability is achieved via the flexible inflation target, which is defined as 'consumer price inflation between 2 and 3 per cent' with an expectation that policy is set such that 'inflation is expected to return to the mid-point of the target'. The appropriate timeframe depends on economic circumstances, and in balancing price stability and full employment objectives.
- Full employment is defined as 'sustained full employment' which is the maximum level of employment consistent with low and stable inflation. In balancing its objectives, when inflation is expected to be significantly away from the midpoint, or when labour market conditions are expected to deviate significantly, the RBA has committed to clearly communicating why and how long it expects it will be before it meets them.

The main tool for monetary policy is the official cash rate. Other tools utilised during the COVID-19 pandemic, and where future use is likely to be reserved for future crisis situations, include: term bank funding; yield curve target; bond purchases/QE; and time-based forward guidance. The RBA recently conducted [reviews](#) into the policies adopted during the pandemic. There is some interest in the RBA's

balance sheet, with current policy being to hold to maturity the RBA's pandemic-era bond purchases.

Monetary policy decisions from March 2025 are being made by a newly formed and separate Monetary Policy Board. Note the RBA also has two other boards – a Governance Board and a Payments System Board.

The Monetary Policy Board consists of the RBA Governor, RBA Deputy Governor, Secretary of the Treasury, and six external members. Decisions are determined by a majority of votes cast, but a decision on whether to publish voting records has yet to be made.

The Governor, Michele Bullock, was appointed for a 7-year term which began in September 2023 and ends in September 2030. The Deputy is Andrew Hauser whose term began in February 2024 and ends in February 2029.

Meetings of the Monetary Policy Board are held approximately every 6 weeks (eight meetings a year) to determine whether any change to monetary policy is required.

The Monetary Policy Board announces its decision at 2.30pm on a Tuesday, following a two-day meeting, and releases a post-meeting statement. The RBA Governor also gives a post-Meeting press conference.

Minutes of the Board meeting are published two weeks after the meeting, while the quarterly Statement on Monetary Policy is released alongside the policy announcement at the February, May, August and November meetings. This includes the Bank staff's economic forecasts.

The RBA Governor and other senior bank staff testify on monetary policy twice a year before the House of Representatives Standing Committee on Economics, usually in February and August. The RBA Governor and senior personnel also deliver speeches throughout the year.



Australian Government Parliament

Australia's parliament comprises the House of Representatives (the lower house), the Senate (the upper house), and the Crown. Australia's major political parties are the left of centre Labor Party, the right of centre Liberal/National Party, and The Greens. More recently there has been a rise in the number of independents.

The Government is formed in the House of Representatives, which comprises 151 members (soon to be 150 following a redistribution). Each member represents one electorate and is elected via preferential voting. Most governments have a majority of seats in the house, although there have been minority governments.

The Senate consists of 76 senators, twelve from each of the six states and two each from the Australian Capital Territory and the Northern Territory. Unlike the House of Representatives, the Senate is elected by proportional representation. It is very rare for the party who forms government to also have a majority in the Senate.

The Crown – King Charles III is the Australian monarch but is represented by the Governor General. While the governor-general is officially appointed by the monarch, the appointment is made on recommendation from the Australian Prime Minister and by convention all recommendations are accepted. The governor-general undertakes constitutional duties such as giving royal assent to legislation passed by parliament.

The parliament does not have fixed election dates, but general elections are usually held every three years given the House of Representatives sits for a maximum of three years. House elections are usually combined with a half-senate election as state senators serve a fixed 6-year term, with half of the senate up for election every three years (the territory senators face re-election at each general election).

The government has some discretion to set the election date within the legislative guidelines. Voting is compulsory.

The last federal election was in May 2022 and the next election is set to be held on or before 17 May 2025.

The government can request the Governor-General dissolve both the house and the entire senate (ie. a double dissolution) and hold an election for every seat if there is a constant legislative deadlock between the two chambers.

Current Parliament:

House of Representatives

Government: Labor Party government (77 members).
Opposition: Coalition-Liberal/National Party (53), The Greens (4), Katter's Australian Party (1), Centre Alliance (1), and independents (13). Vacancies (2).

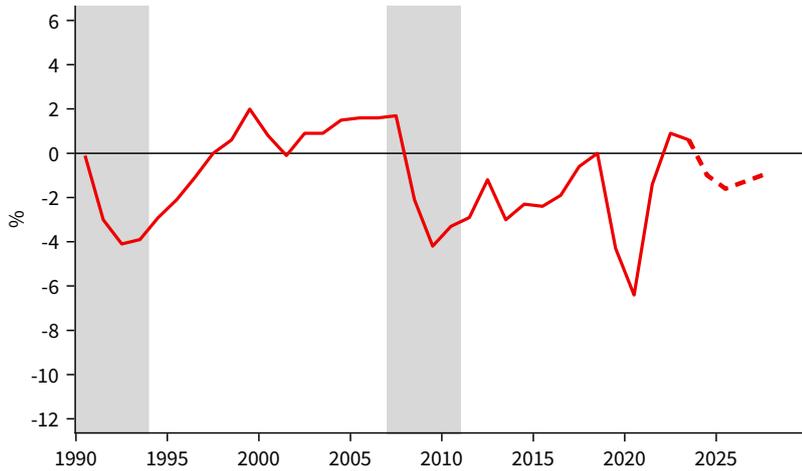
Senate

Government: Labor Party government (25 members).
Opposition: Coalition-Liberal/National Party (30), The Greens (11), One Nation (2), Lambie Network (1) United Australia (1) and independents (6).

Australian Government Budget

Underlying cash balance

Underlying cash balance, share of GDP (2024-25 Budget)

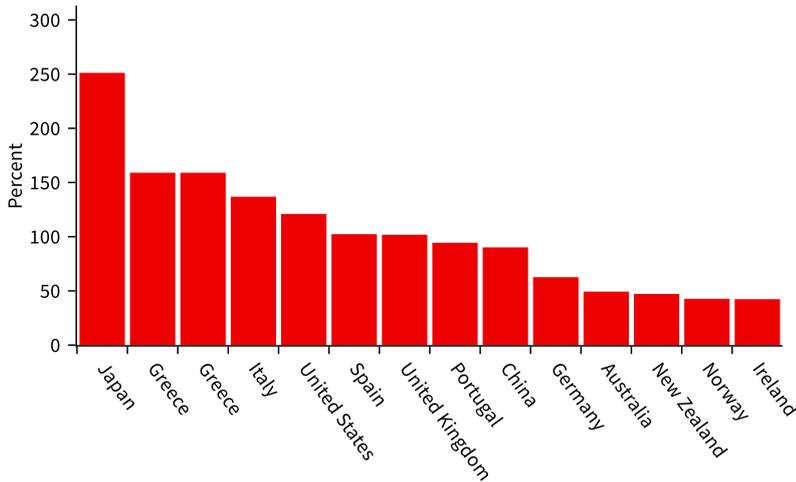


Source: National Australia Bank, Treasury

The Commonwealth Budget swung sharply into deficit due to significant, but temporary government support for the economy during the pandemic. Revenues have recovered quickly with the strong bounce back in the Economy and consecutive budget surpluses were recorded in 2023 and in 2024.

Australian Government Government Debt

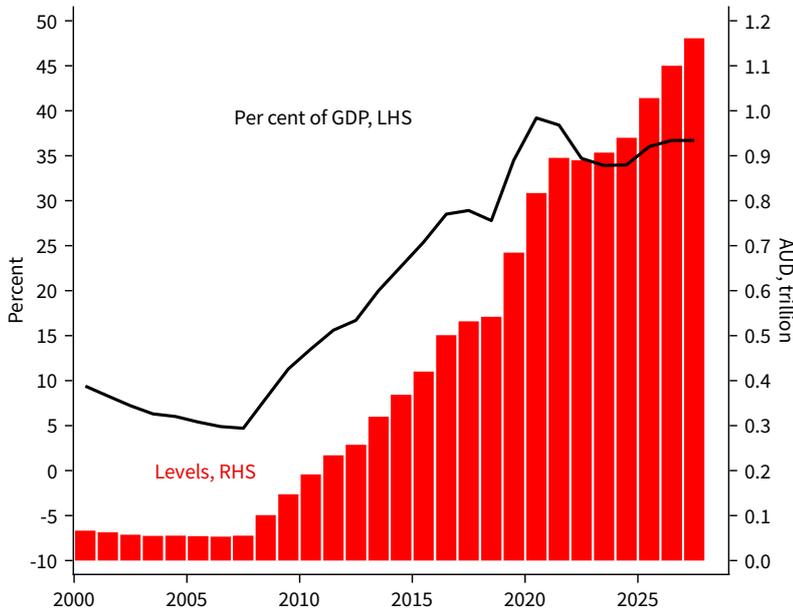
Gross government debt by country (2024)



Source: National Australia Bank, IMF

Australian gross debt is low compared with other advanced economies.

Commonwealth debt securities on issue



Source: National Australia Bank, Treasury

Commonwealth Government debt increased sharply in 2020 but has since fallen as a share of GDP. Commonwealth debt is AAA rated by each of the three international rating agencies, with a stable outlook from S&P and Fitch.

Australian Economic Releases

Including Economic and Market Importance

Key Economic Releases	Market importance	Normal release timing
Quarterly	Where 1 is highest	
GDP	2	First Wednesday in Mar, Jun, Sep and Dec
CPI	1	Wednesday, three to four weeks after the end of the quarter
RBA Quarterly Statement on Monetary	1	Tuesday of the RBA Board meeting in Feb, May, Aug and Nov
Balance of Payments	3	First Tuesday in Mar, Jun, Sep and Dec
Private Capital Expenditure	2	Last Thursday in Feb, May, Aug and Nov
Wage Price Index	1	Wednesday, six weeks after end of quarter
Monthly ABS/RBA releases		
RBA Board Meeting (Monetary Policy)	1	Every 6 weeks
Monthly CPI Indicator	1	Last week of the month
Retail Sales	2	First week of the month
Building Approvals	2	First week of the month
International Trade	3	First week of the month
Employment and Unemployment	1	Third Thursday of the month
RBA Minutes	1	Two weeks after RBA meeting
RBA Credit Growth	3	Last business day of the month
Monthly Private Surveys		
NAB Monthly Business Survey	1	Second Tuesday of the month (11:30am)
AIG Manufacturing PMI	3	First business day of the month (9:30am)
CoreLogic House Prices	2	First business day of the month (10:00am)
MI Inflation	3	First Monday of the month (10:30am)
ANZ Job Advertisements	2	Second Monday after last Saturday of previous month
Westpac Consumer Confidence	2	Second Tuesday of the month (10:30am)
Annual		
Federal Budget	2	Second Tuesday of May (7:30pm)

Australian Financial Markets

Overview

The Fixed Income Market

The Australian fixed income market covers bonds and short-term paper. Bonds include Commonwealth Government Securities, semi-government bonds issued by State Government authorities, bank debt, corporate bonds, asset-backed securities and Australian dollar denominated bonds issued by sovereigns and supranational companies (kangaroo bonds).

Most bonds are nominal but there is also an inflation-linked market. Domestic issuers in the bond market are highly rated.

The money market deals in short-term securities (bills, T-notes, NCDs), while the repo market enhances the liquidity of the bond market.

The Derivatives Market

The derivatives market comprises a range of instruments designed for portfolio management hedging and speculation.

These instruments include futures contracts, interest rate swaps, inflation swaps, credit derivatives and single period swap.

The Foreign Exchange Market

The Australian dollar is the world's sixth most actively traded currency and AUD/USD also the sixth most actively traded currency pair. Sydney is the tenth largest foreign exchange trading centre, according to the latest triennial.

FX Swaps make up the largest segment of the Sydney FX market, followed by spot, forwards and FX options.

Credit Ratings				
as at March 2022	Moody's		Standard & Poor's	
	Rating	Outlook	Rating	Outlook
Sovereign				
Australia	Aaa	stable	AAA	stable
Semi-government bonds				
New South Wales	Aaa	stable	AA+	negative
Victoria	Aa2	stable	AA	stable
Queensland	Aa1	stable	AA+	negative
Western Australia	Aaa	stable	AAA	stable
South Australia	Aa1	stable	AA+	stable
Tasmania	Aa2	negative	AA+	negative
Northern Territory	Aa3	stable	<i>not rated</i>	
Australian Capital Territory	<i>not rated</i>		AA+	negative
Banks				
ANZ Banking Group	Aa2	stable	AA-	stable
Commonwealth Bank	Aa2	stable	AA-	stable
National Australia Bank	Aa2	stable	AA-	stable
Westpac	Aa2	stable	AA-	stable

Source: Moody's, Standard & Poor's

Fixed Income Market

Commonwealth Government Bonds

Overview of the AOFM

The Australian Office of Financial Management (AOFM) is the Commonwealth Government agency that manages the Australian Government’s debt portfolio. It oversees issuing debt securities (Treasury bonds and notes) as well as operating a securities lending facility.

As at February 2025, Australian Government securities on issue totalled AUD950bn (face value). This comprised AUD870bn of Treasury Bonds, AUD41bn of Treasury indexed bonds and AUD40bn of Treasury notes.

The overall financing task of the Government is outlined each year in the Federal Government’s May Budget. An update is provided in the Mid Year Economic and Fiscal Outlook (released in mid December). The AOFM provides detail on the issuance programme in January and July each year.

Issuance structure

When determining the maturity profile of issuance, the AOFM considers market conditions, investor liaison, relative value considerations, the need to increase liquidity and management of the maturity structure to limit refinancing risk. The AOFM has been focused on extending the yield curve in recent years, and a new 2054 maturity bond was priced in late 2023. Issuance has reduced markedly since the initial pandemic response but, with the RBA having purchased 5-10Y bonds for QE during 2021, the average duration of issuance fell to 8.7 years.

Prior to the Covid-19 driven issuance increase the AOFM had been conducting buyback tenders to smooth maturities and concentrate liquidities in the basket bonds. This activity could resume as the borrowing program eases.

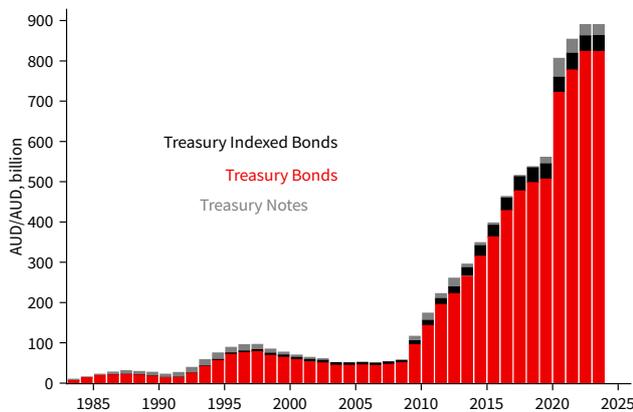
Bonds are issued by competitive tender (accessed via the Yieldbroker DEBTS System) with new bond lines typically issued via syndication. Settlement for bond tenders is via Austraclear and takes place on the first business day after the tender.

Each Friday the AOFM announces tenders (on its website – at www.aofm.gov.au) for the coming week. Currently the AOFM generally conducts two nominal bond tenders a week (mostly on Wednesday and Friday), but in times of heavier issuance will tender up to three times per week. The size of bond tenders varies but is usually around \$800m AUD per line; longer maturity auctions can be smaller.

There are typically one or two tenders a month for the issue of Treasury Indexed Bonds (average tender size of 150m).

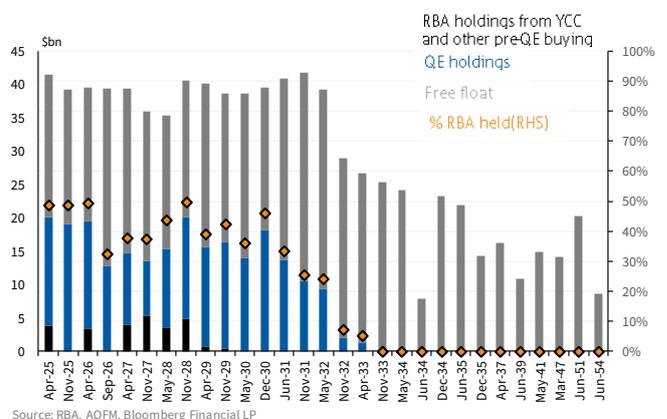
Buybacks are still suspended as of February 2025, but typically occurred on selected Mondays.

Commonwealth bonds outstanding



Source: National Australia Bank, Macrobond

Nominal bonds outstanding by maturity



Source: RBA, AOFM, Bloomberg Financial LP

Fixed Income Market

Commonwealth Government Bonds

Treasury Bonds

Treasury bonds are nominal bonds that pay interest semi-annually. The bonds are exempt from non-resident withholding tax (IWT).

Bonds trade/price ex-coupon seven days prior to the payment date.

ACGB issuance was expected to plateau from 2019-20 onward, but the Covid-19 response instead resulted in a dramatic increase in issuance. Despite the Commonwealth Budget moving into surplus in 2022-23 and 2023-24, reducing net issuance during those years, a budgeted return to deficits means net issuance has increased materially, especially for 2025-26 and beyond.

Ownership statistics have changed significantly in recent years. RBA holdings peaked at 33% of the market in early 2022 after quantitative easing ended. Foreign holdings are below 50%.

Treasury Indexed Bonds

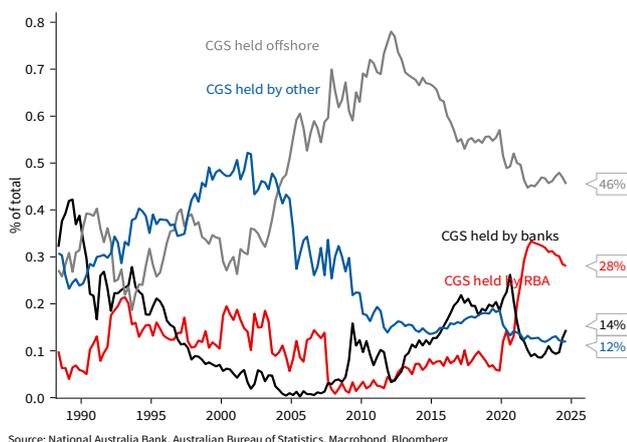
Treasury indexed bonds pay interest quarterly, on the adjusted capital value. At maturity, investors receive the adjusted capital value of the security. These bonds are exempt from IWT.

Treasury Notes

These are short-term discount securities used for within-year budget financing. The volume of Treasury Notes on issue will vary depending on the Government's receipts and expenditures. When needed, the AOFM issues Treasury notes on a Thursday.

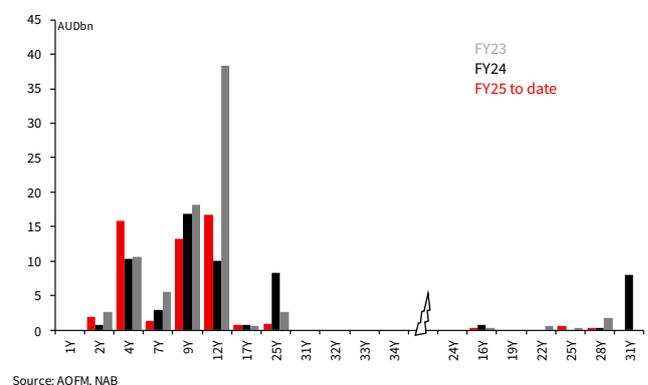
In mid-2019, the AOFM adopted a strategy of more active use of Treasury Notes, and this increased again during the pandemic. Outstandings were as high as AUD65bn in August 2020. The AOFM said it will maintain T-note outstandings of at least \$25bn.

Ownership detail



Maturity structure of issuance

Issuance distribution



Fixed Income Market

Commonwealth Government Bonds

Pricing and Conventions

Price makers usually quote in one of three ways, namely on:

- Exchange of futures for physicals (or EFP) basis, where a bond is quoted as a spread to either the 3y or 10y Commonwealth bond futures contract. The trade involves the exchange of a bond for an agreed number of futures contracts;
- Outright basis, where a bond is quoted on a yield basis and there is no exchange of futures contracts;
- Switch basis, where a bond is quoted as a spread to another bond and the trade involves the exchange of the two bonds.

If a bond matures on a weekend or public holiday, bonds are priced according to the next ‘good business day’, which is a weekday where banks are open for business in either Melbourne or Sydney.

There is an active repo market (see page 48 for more detail).

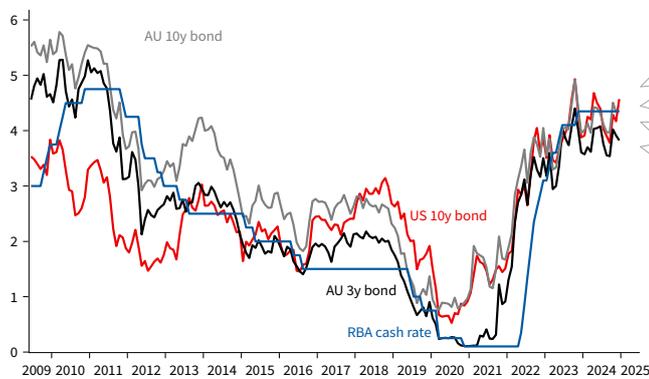
Influences on the Australian bond market

Yields are influenced by expectations for the cash rate, as well as expected inflation trends.

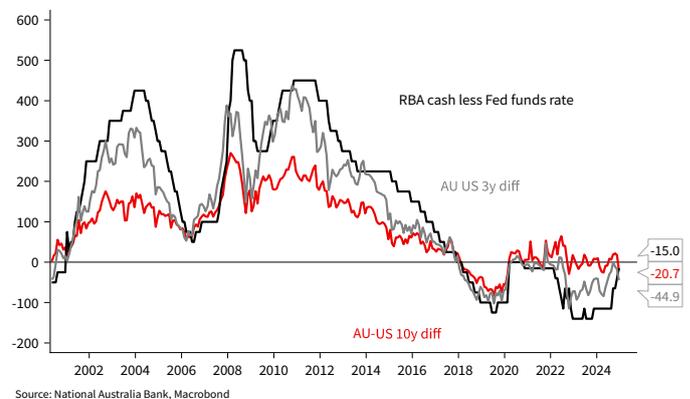
The further out the curve, the greater the influence directional moves in US Treasury bond yields have.

In 2018 Australian bond yields traded below the equivalent US Treasury yield because of a negative cash rate differential. The last time this had occurred was in the late nineties/early 2000s. The RBA’s QE program between November 2020 and February 2022 contributed to tight spreads when policy rates in both countries were effectively at zero. From late 2022 a significant cash rate differential briefly emerged again, although because monetary policy is more synchronized, bond yield spreads have not been as deeply negative as 2018-2019.

Australian bonds and the cash rate



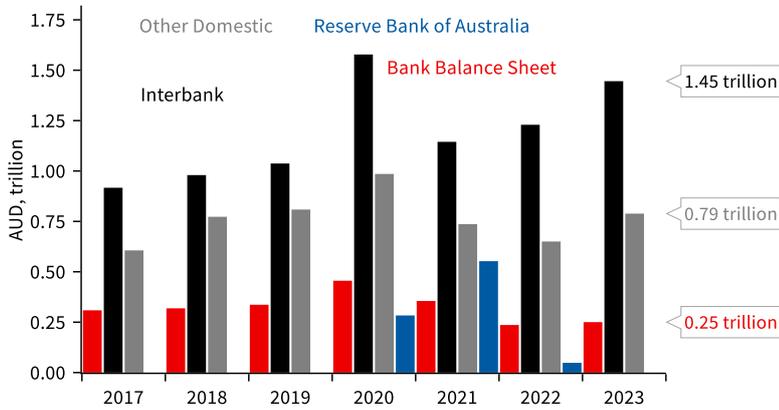
AU-US yield differentials



Fixed Income Market

Commonwealth Government Bonds

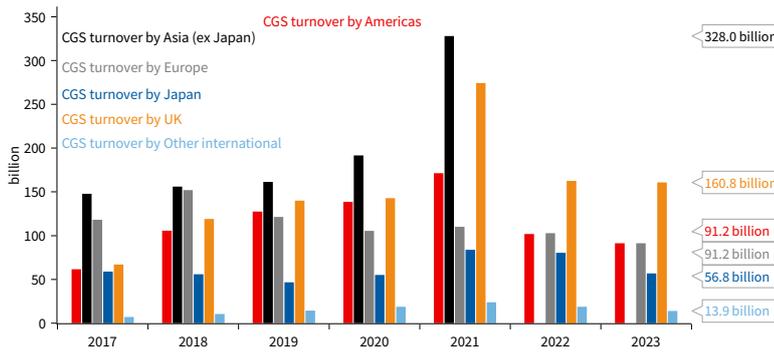
CGS Fiscal Year Secondary Turnover by Participant



Source: National Australia Bank, Australian Office of Financial Management, Macrobond

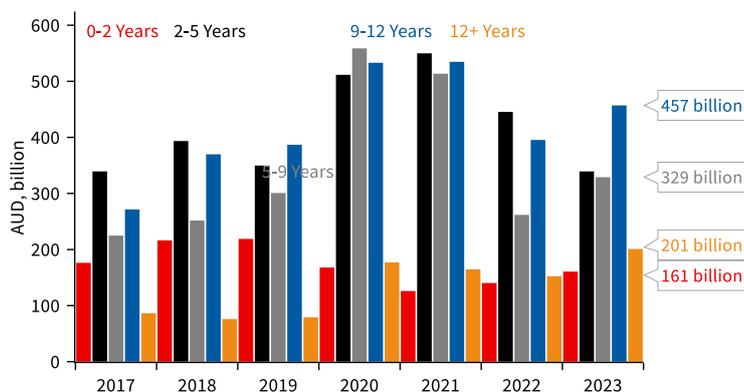
Fiscal year turnover in ACGBs from AOFM survey (dealer panel reported)

CGS Fiscal Year Secondary Turnover by Region



Source: National Australia Bank, Macrobond

CGS Fiscal Year Secondary Turnover by Tenor



Source: National Australia Bank, Australian Office of Financial Management, Macrobond

Fixed Income Market

Commonwealth Government Bonds

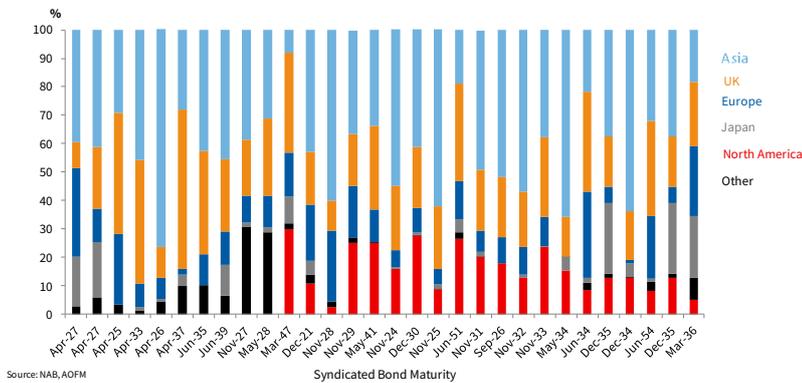
Syndicated detail

The AOFM has tended to issue new bond lines via syndication. Typically, these issues have been established specifically to enter a basket underlying a futures contract. Since June 2016 there have been sixteen new nominal bond lines established – six of them during the 2020 calendar year. However, when the issuance

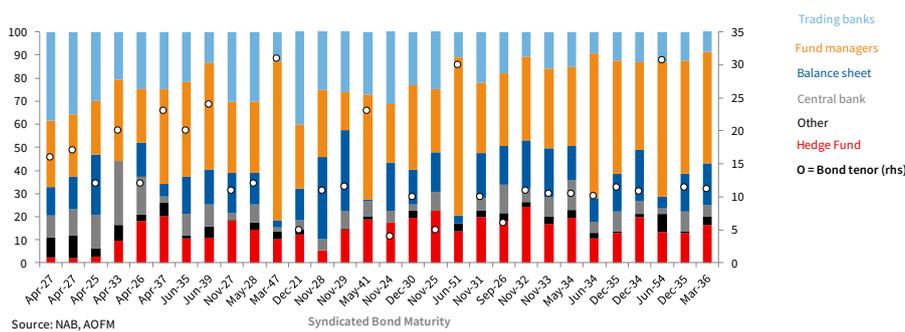
program is smaller, new lines are sometimes established by tender.

The AOFM has occasionally used syndications to tap existing lines, usually at the ultralong end. However, in 2022 the AOFM said that existing lines are more likely to see small regular auctions rather than irregular syndications.

Syndicated detail – by offshore region



Syndicated detail – by investor



Fixed Income Market

Semi Government Bond Market

Overview of semi government authorities

Each state and territory has its own borrowing authority which issues semi-government bonds.

State financing tasks are outlined after the delivery of state budgets (released between May and June each year). These are updated following the mid-year budget reviews, typically in mid December.

There is nearly AUD500bn of fixed coupon semi-government bonds on issue. QTC, TCV and TCorp account for nearly 90% of this. There's an additional AUD60bn of floating rate notes on issue.

In 2009 the Commonwealth introduced an Australian Government Guarantee Scheme (AGG). Queensland and NSW issued explicitly Commonwealth guaranteed bonds under the scheme but all have since matured. Even with the explicit guarantee scheme now withdrawn, implicit Commonwealth support for Semis is seen as exceptionally strong.

Issuance structure

Bonds are issued by tender, as well as tapping existing lines, reverse enquiry and by syndication. Issuers rely on dealer panels which comprise local and overseas banks. NAB is a dealer on all semi-government panels.

Bonds are predominantly AUD denominated but NSW TCorp, QTC and TCV have also issued some non-AUD denominated bonds. The fixed component comprises the majority of outstandings but there are also floating, green and sustainable bond lines.

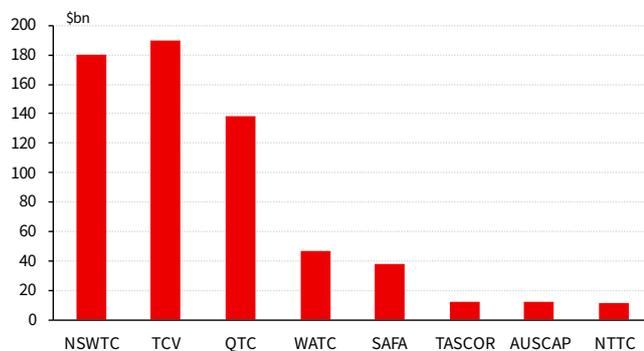
Semi-government bonds issued domestically are exempt from non-resident interest withholding tax.

There is an active repo market in semi-government bonds – see page 49 for more detail.

Semi issuance has increased significantly since the Pandemic – but unlike Commonwealth issuance, it has remained high. In 2018-19 issuance totalled AUD36bn; since 2019-20 it has averaged AUD85bn per fiscal year and is expected to be AUD90bn in 2023-24.

Semi bonds outstanding

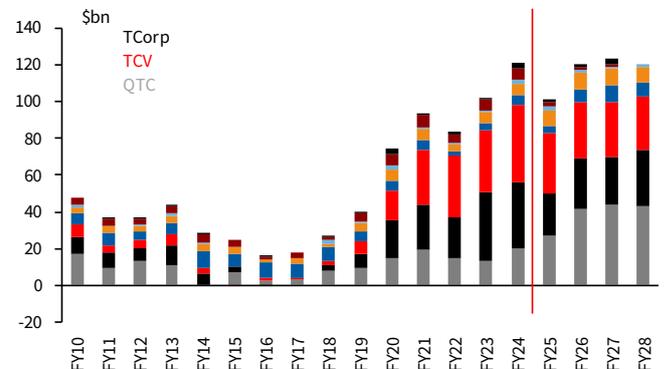
Semi face value on issue



Source: NAB, Bloomberg Financial LP

Semi bond gross issuance per year

Total Semi issuance



Source: NAB, Bloomberg Financial LP, State Borrowing Authorities

Fixed Income Market

Semi Government Bond Market

Green and sustainable bond programs

Green, social and sustainability (GSS) bonds have been a part of Semi funding since 2016.

Approaches to GSS issuance have evolved over the past five years. Originally, purely Green programs were more common but these have now generally expanded to include sustainability or social goals. (Although no State has yet issued a social bond.)

QTC and TCorp have five GSS lines apiece and have pursued the strategy of a GSS curve alongside their benchmark curve. TCV has said that its recent 2035 Sustainable issue will have the same dealer support and issuance size to other benchmark bonds. WATC adopted a similar approach with their debut Green issue in 2023.

In early 2024, SAFA went further and “rectified” all its existing stock as Sustainability bonds, instantly increasing GSS Semi outstandings from AUD25bn to AUD57bn.

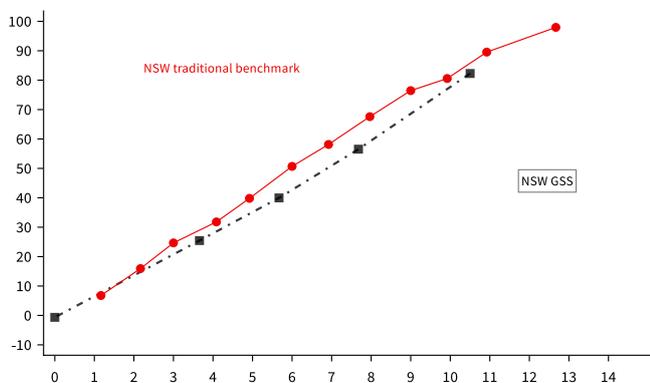
With the G/S/S classifications changing over time, even though recent GSS lines now tend to be somewhat closer in size to traditional benchmarks, the bonds may not be as interchangeable to investors as traditional benchmark lines. Thus relative value to the benchmark curves is not consistent. Most GSS lines trade tighter than non-GSS, but others are wider. Regardless, there is a trend for ‘greenium,’ where it exists, to be smaller in recent times.

GSS Semi Government Bonds

Issuer	Maturity	GSS Flag	Issued	Volume (A\$mn)
QTC	6-Mar-29	Grn	6-Mar-19	1,730
	10-Mar-31	Grn	17-Nov-20	1,500
	2-Mar-32	Grn	16-Sep-21	3,065
	9-Mar-33	Grn	9-Mar-23	3,500
	2-Feb-34	Grn	2-Feb-24	2,750
TCorp	20-Mar-25	Su	21-Nov-19	2,100
	15-Nov-28	Grn	15-Nov-18	1,800
	20-Nov-30	Grn	27-Oct-20	2,850
	22-Nov-32	Su	14-Feb-22	3,490
	20-Sep-35	Su	24-Jan-24	1,700
TCV	17-Sep-35	Su	Sep 2021	2,490
WATC	20-Jul-33	Grn	15-Jun-23	2,010
SAFA	10-Jun-25 (AONIA FRN)	Su	20-Dec-21	708
	15-Jun-27 (AONIA FRN)	Su	15-Dec-22	989
	24-May-28	Su	9-Jul-18	3015
	24-May-29	Su	21-Mar-24	2627
	22-Jun-29 (AONIA FRN)	Su	28-Aug-23	670
	24-May-30	Su	18-Feb-19	2758
	25-May-31	Su	27-Jun-24	2481
	24-May-32	Su	18-Feb-20	2519
	24-May-34	Su	18-Feb-21	2,715
	23-May-36	Su	19-Jul-21	1,727
24-May-38	Su	16-Feb-23	1,405	
24-May-40	Su	3-Sep-20	828	

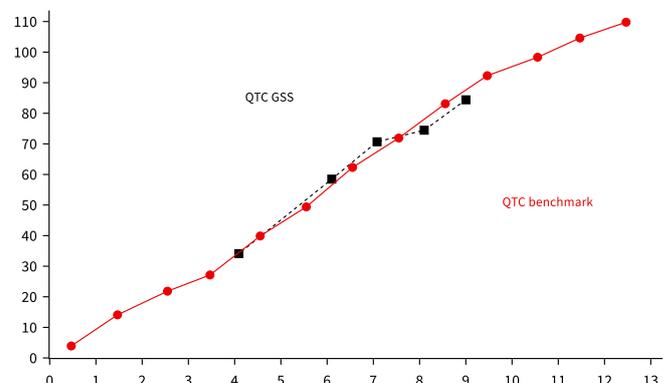
Source: Semi authorities, Bloomberg

Benchmark and GSS Z-spreads - TCorp



Source: National Australia Bank, Bloomberg

Benchmark and GSS Z-spreads - QTC



Source: National Australia Bank, Bloomberg

Fixed Income Market

Semi Government Bond Market

Semi spreads

Investors will typically look at semi-government bonds on either a spread to benchmark (ie. ACGBs) or spread to swap (ie. asset swap margin) basis.

Bank balance sheets (the largest holders of semi-government bonds) tend to look at relative value in semi-governments on an asset swap margin basis.

Offshore investors will often look at semis relative to SSAs.

Historically, Semis have been very sensitive to credit and liquidity events, although the RBA's willingness to enter the market in 2020 to support liquidity may add some support to pricing in the future.

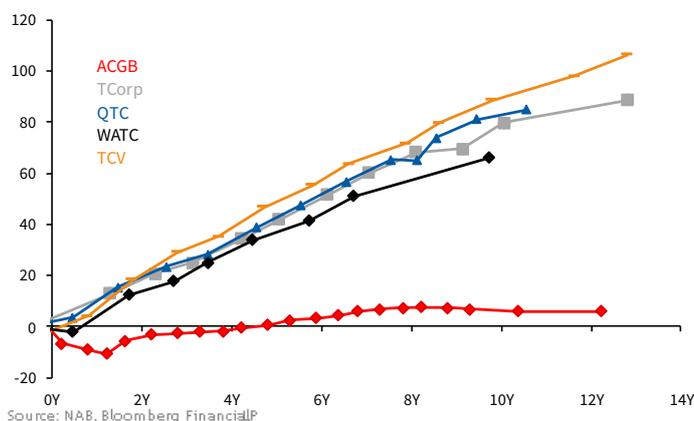
Influence on semi spreads

Semi-government bond yields largely follow directional moves in ACGB yields.

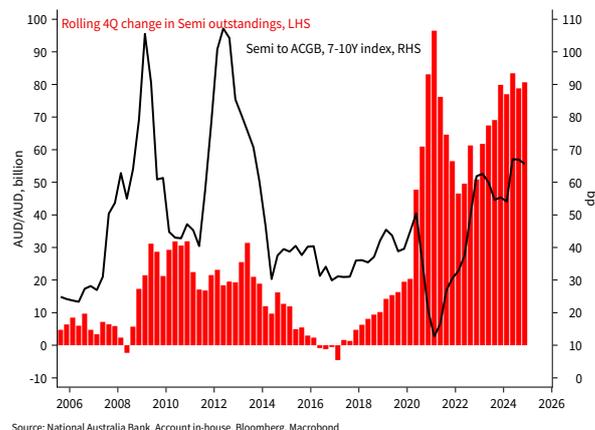
The relative performance, however, will be influenced by both credit ratings and the supply outlook.

1. The credit rating becomes more of an issue the longer the maturity – although with WATC alone amongst the major borrowers in holding a AAA rating from S&P, credit differences are significantly reduced.
2. The supply dynamic between the AOFM and semis may return as a focus as AOFM net issuance increases in FY26 while net semi issuance is on the decline as states seem to be at the peak of their infrastructure spend.

Semi and ACGB swap spreads – as at February 2025



Semi spreads and change in semi outstandings

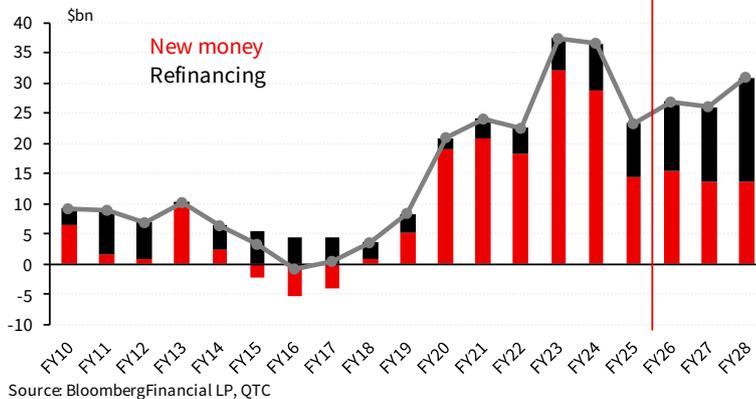


Fixed Income Market

NSW TCorp

Borrowing Programme

TCorp



History

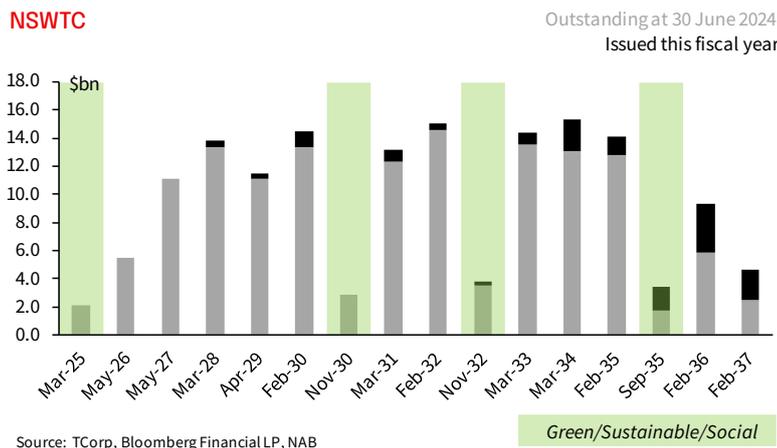
TCorp has had a relatively stable credit rating over time, earning AAA in the early 2000s and retaining it through the GFC.

New South Wales was a leading participant in asset sales and asset recycling programs during the early to mid-2010s, which saw a significant amount of debt retired. Further asset sales significantly reduced TCorp's FY22 funding needs, but there are no other major sales in the pipeline.

S&P downgraded TCorp to AA+ in late 2020 as the coronavirus pandemic weighed on the fiscal outlook. A negative outlook was added by S&P in November 2024, although it still maintains AAA/Aaa ratings from Moody's and Fitch.

Benchmark and GSS bonds outstanding

NSWTC



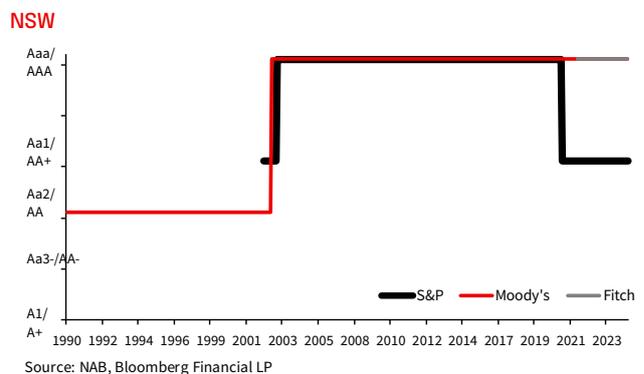
Green/sustainable bonds

TCorp currently has five green/sustainable bond lines spread across maturities from 2025 to 2035 (the Nov-28 Green is a non-benchmark). These bond lines are part of the NSW Sustainability Bond Programme which follows Australia's commitment to the United Nations Sustainable Development Goals (UN SDGs) and sustainability objectives of the NSW Government. Capital flow is directed to eligible environmental and social projects. Bonds are Climate Bonds Standard certified (CBI).

TCorp spreads to ACGB



NSW credit rating history

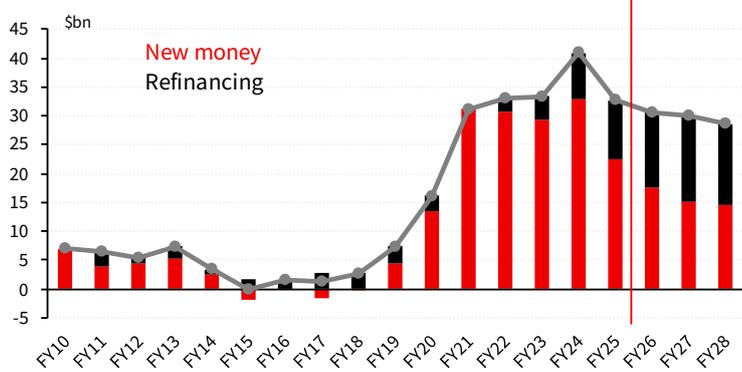


Fixed Income Market

TCV

Borrowing Programme

TCV



Source: BloombergFinancial LP, QTC

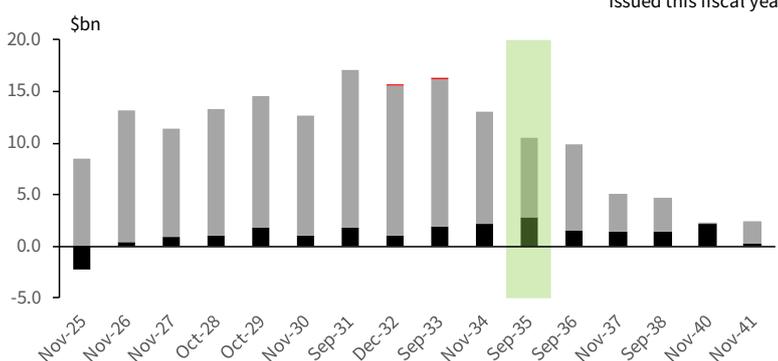
History

Victoria's state finances suffered significantly in the early 1990s recession, resulting in a double-notch downgrade. Asset sales and conservative fiscal management saw a AAA rating earned in the early 2000s.

Asset sales in the early to mid-2010s contributed to debt reduction, but more recently the State has embarked on an aggressive debt-funded infrastructure program. The pandemic was felt more acutely in Victoria because of a much larger second wave. The outsized hit on state finances resulted in a double-downgrade from S&P in late 2020, with the 2021 covid lockdown adding further pressure. Although the recovery has been robust, Victoria's infrastructure spending remains significant.

Benchmark and GSS bonds outstanding

TCV



Source: TCV, Bloomberg Financial LP, NAB

Green/sustainable bonds

TCV currently has one green/sustainable bond, maturing in 2035. TCV's Sustainability Bond Framework is mapped to UN SDGs and finances projects which either contribute to a climate resilient economy or have positive social impacts for Victorian communities.

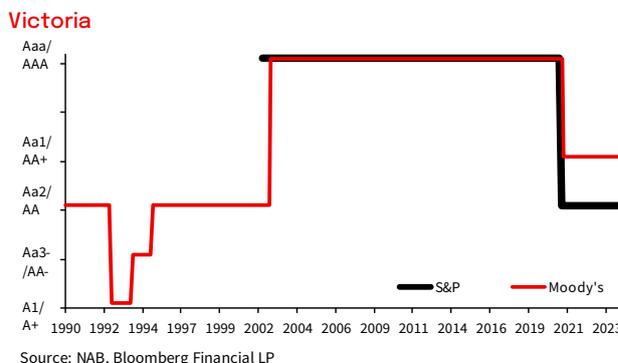
For example, eligible projects vary from investments in transport, low carbon buildings, renewable energy and water. Bonds are verified by Climate Bonds Initiative (CBI).

TCV spreads to ACGB



Source: National Australia Bank, Macrobond

Victoria credit rating history



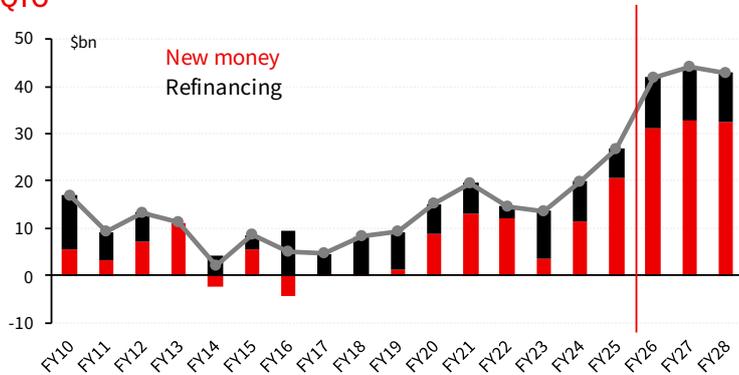
Source: NAB, Bloomberg Financial LP

Fixed Income Market

QTC

Borrowing Programme

QTC



History

Queensland’s credit rating was upgraded to AAA in the early 2000s but was lost in 2009 during the global financial crisis. A significant asset sale program was undertaken around 2009, but the credit rating has remained stable, albeit with a negative outlook by S&P since January 2025.

Queensland is unique in that its defined benefit pension liabilities are full funded.

Green/sustainable bonds

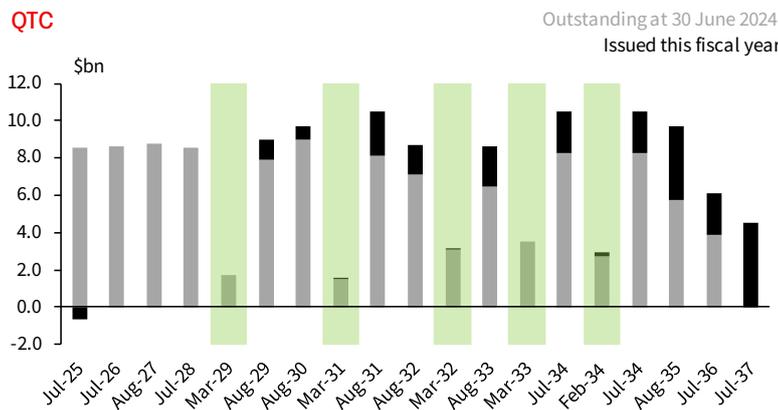
QTC currently has five green/sustainable bond lines with maturities from 2029 to 2034. QTC green bonds support Queensland’s sustainable progress to a climate resilient economy. Funding is used to finance eligible projects that contribute to managing climate change.

Queensland still owns a lot of electricity generation infrastructure so faces a larger burden for renewable energy investment than other states.

Bonds are certified CBI or ICMA Green Bond Principles (ICMA Green Bonds).

Benchmark and GSS bonds outstanding

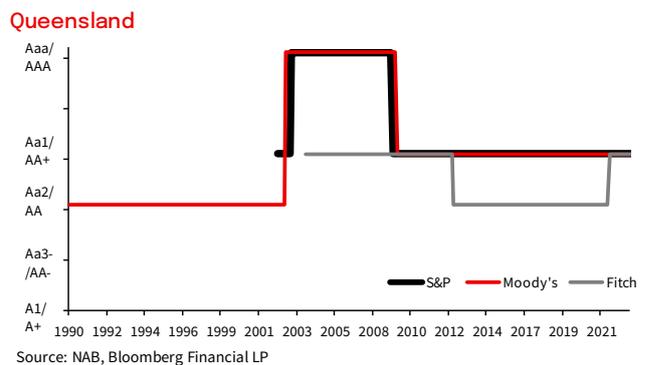
QTC



QTC spreads to ACGB



Queensland credit rating history

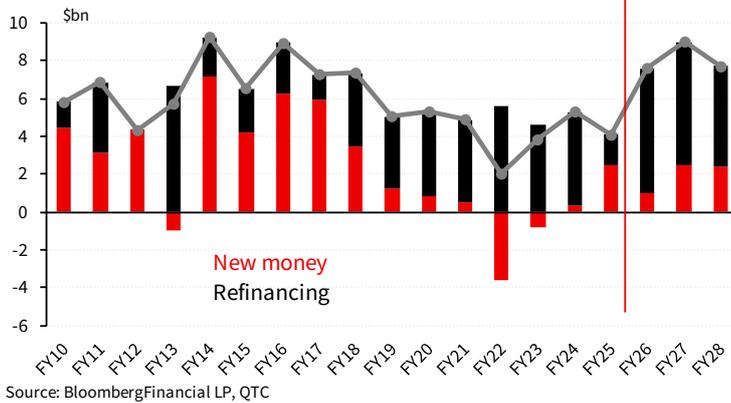


Fixed Income Market

WATC

Borrowing Programme

WATC



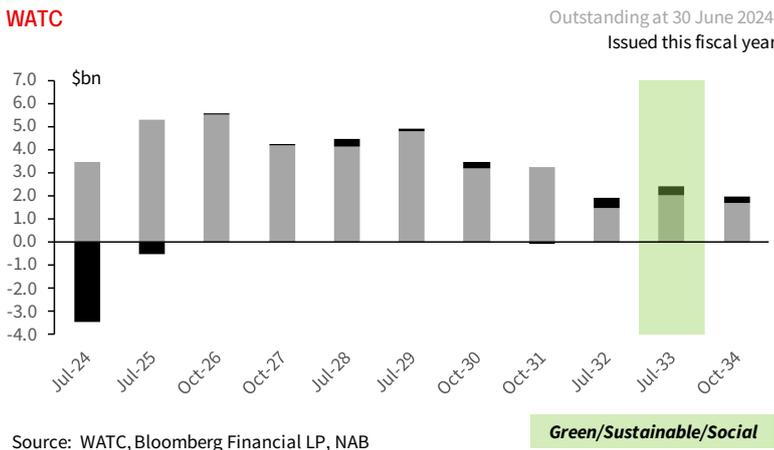
History

Western Australia’s rating was lifted to AAA in the early 2000s and, with the post-GFC commodity boom supporting the State’s finances, held that rating until late 2013 when a slump in commodity prices dragged on State finances.

A 2018 agreement with the Commonwealth to limit downside to WA’s GST apportionment was a significant positive for the State’s finances. This agreement was extended in 2023. Strong gains in royalty revenue (especially from iron ore) mean WA currently has the strongest credit profile of any State. WA was upgraded to AAA by S&P during 2022.

Benchmark and GSS bonds outstanding

WATC



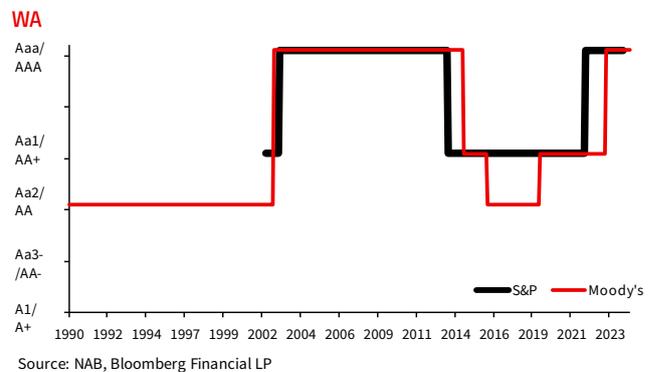
Green/sustainable bonds

After developing a sustainability bond framework in early 2023, WATC issued its first Green bond in June 2023.

WATC spreads to ACGB



Western Australia credit rating history

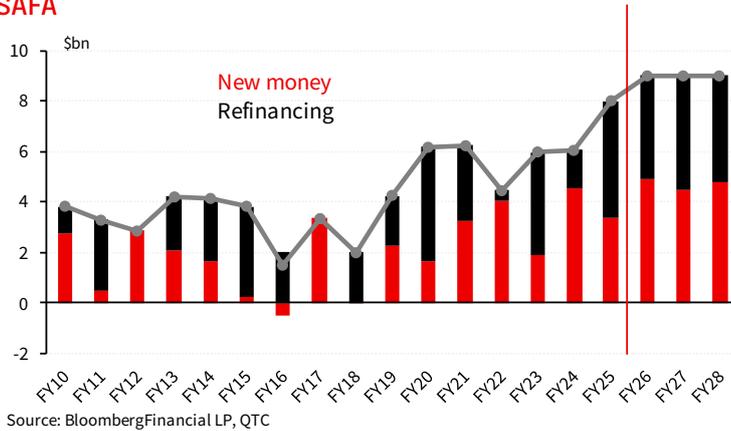


Fixed Income Market

SAFA

Borrowing Programme

SAFA



History

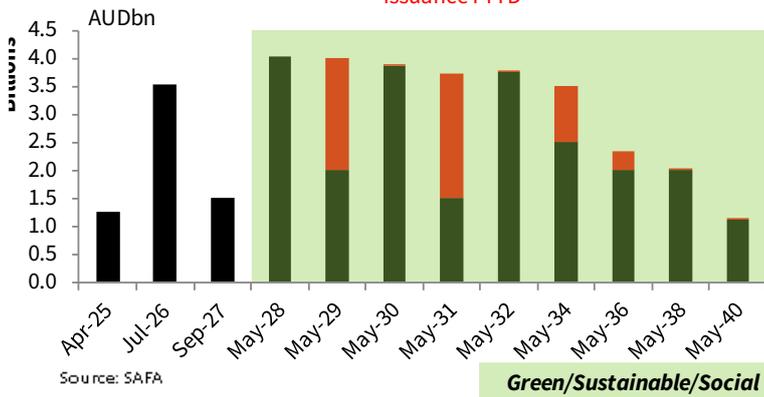
South Australia’s credit rating was lifted to AAA in the mid-2000s, a little later than the other east coast States.

It was downgraded in 2012 as the budget position continued to deteriorate after the global financial crisis, but S&P lifted its rating back to AA+ in 2018 and the rating has remained steady since then, albeit with a negative outlook for some time that was resolved in 2023 to neutral.

Benchmark and GSS bonds outstanding

SAFA benchmarks

Outstandings as at 30-Jun-24
Issuance FYTD



Green/sustainable bonds

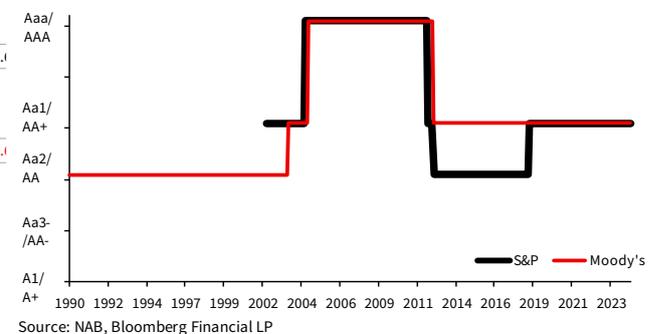
After issuing a new sustainability bond framework in late 2023, most existing SAFA bond lines were “rectified” to become certified sustainability bonds in February 2024. All future SAFA issuance is expected to be classified as sustainability bonds.

SAFA spreads to ACGB



South Australia credit rating history

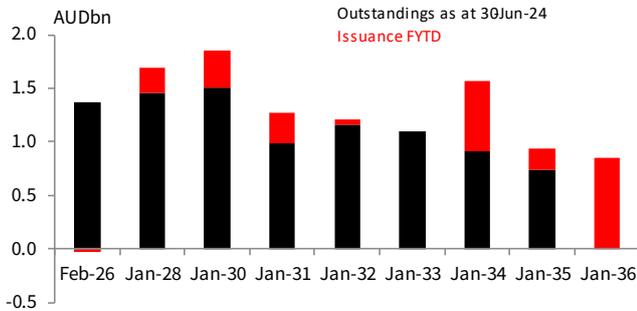
South Australia



Fixed Income Market

TASCORP, NTTC and ATC

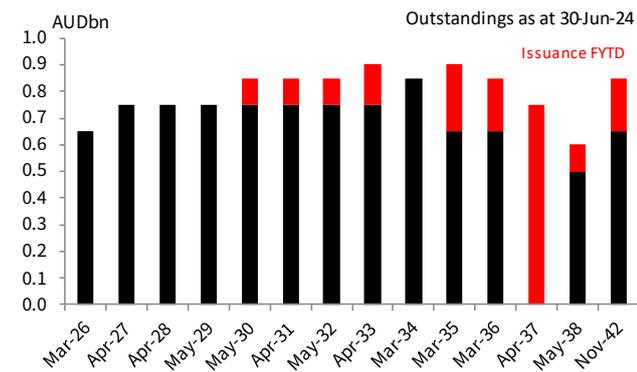
Tascorp



Source: Tascorp

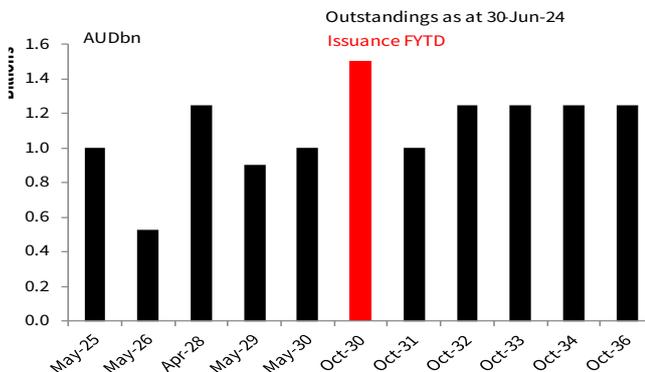
Benchmark bonds
outstandings - total

NTTC



Source: NTTC

ACT



Source: ACT

Fixed Income Market

Inflation Indexed Bonds

Overview

The first inflation indexed bond in Australia was issued in 1983. The Commonwealth began issuing inflation indexed bonds in 1985 and remains the largest issuer.

The Commonwealth periodically suspended issuing index linked bonds through 1988-1993 and 2003-2009.

Features

Australian inflation-linked government bonds and the majority of AUD inflation structures including swaps are indexed to the Weighted Average of Eight Capital Cities: All-Groups Consumer Price Index or “Australian CPI”.

While conventional Australian bonds pay semi-annual coupons, inflation indexed bonds pay coupons on a quarterly basis.

There is a six-month indexation lag which means the next coupon amount is always known before the current coupon date. Seasonality is reduced due to the ABS quarterly CPI prints. Australian linkers will be able to transition to the new monthly CPI without any change to their structure, but will maintain the current long lag time in indexation.

Interest is accrued on an actual/actual basis and the bonds are quoted on a yield basis.

The bonds trade ex-coupon for seven days prior to the payment date.

Like indexed bonds in other markets, they contain an embedded put at maturity that protects against deflation over the life of the bond. However, unlike other markets that offer an inflation floor, capital indexed bonds protect both coupon and principal from deflation over the life of the bond.

The calculation of interest and principal payments for Australian index-linked bonds is significantly different from US, Canadian, Euro and Swedish indexed bonds.

Commonwealth Treasury indexed bonds as at March 2024 (face value)

Coupon and maturity	Outstanding \$Abn
Sep 25 3.0%	8.04
Nov 27 0.75%	7.15
Sep 30 2.50%	7.04
Nov 32 0.25%	4.10
Aug 35 2.0%	4.75
Aug 40 1.25%	4.25
Feb 50 1.0%	4.20

Source: Bloomberg Financial LP

NSW CIBs outstanding as at March 2024

Coupon and maturity	Outstanding \$Abn
Nov 25 2.75%	2.75
Nov 35 2.50%	1.13

Source: Bloomberg Financial LP

Fixed Income Market

Inflation Indexed Bonds

Types of bonds

Capital indexed bond (CIBs) comprise the vast majority of the Australian indexed bond asset class. The structure roughly mirrors that of US TIPS with the exception that Australian CIBs make coupon payments every quarter compared to TIPS which are semi-annual.

An Index Annuity bond (IAB) has principal paid throughout the life of the security and so there is no large principal payment at maturity. The duration of the IAB is much shorter than that of a similar maturity CIB. The index coupon is determined by way of a base annuity multiplied by an indexation factor.

There is an active Repo market in ACGB indexed securities which is supported by the AOFM through the RBA.

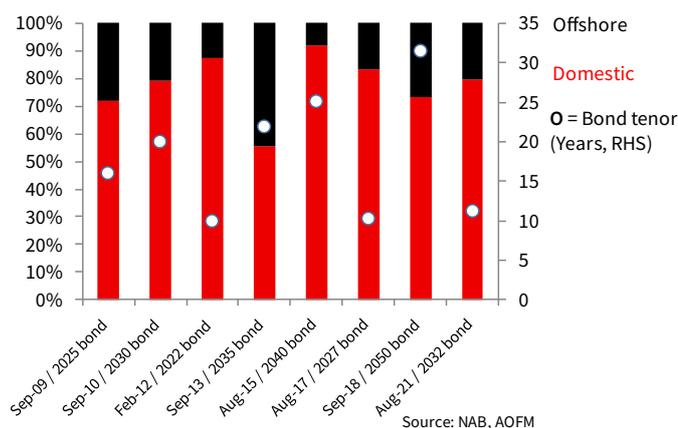
Method of issuance

The AOFM expects to issue around \$3.0 billion Treasury Indexed Bonds (TIB) in 2024-25. There are two tenders conducted in most months, generally excluding months that have a CPI release (i.e., January, April, July and October).

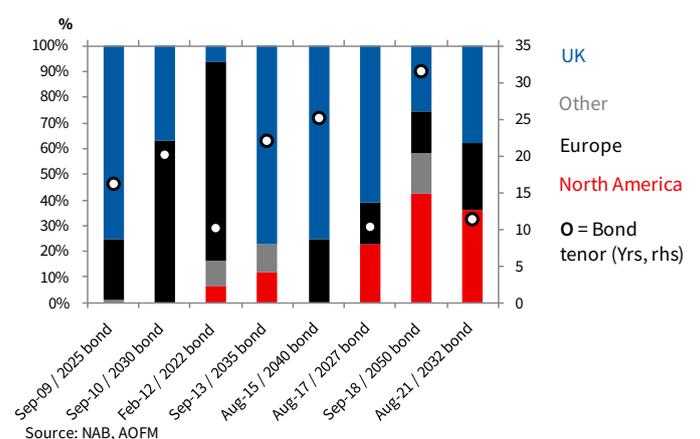
New lines are established periodically and are typically either a curve extension or an infill bond around ten years to maturity. The most recent extension was the Feb-50 (issued in 2018) and the most recent ten year was the Nov-32 (issued in 2021).

Semi governments have had varying levels of inflation linked bond activity in the past, but activity has been very low in recent years. TCorp retains the largest presence.

Syndicated detail: Offshore vs domestic



Syndicated detail of ACGB linkers: Offshore location



Fixed Income Market

Inflation Indexed Bonds

Comparison to international real yield markets

	AU	NZ	UK	US	EU OATI	Japan
Reference Index	CPI ABS 8 City	All Group Consumer Price index	RPI changes to CPI from 2030	US CPI_U	French CPI ex Tobacco	Japan CPI ex fresh food
Indexation Lag	6mth	6mth	8mth or 3mth late issues	3mth	3mth	3mth
Coupon Frequency	Quarterly	Quarterly	Semi	Semi	Annual	Semi
Deflation Floor on Principal	Yes	Yes 2016 No 2025	Split	Yes	Yes	No
Index Releases	Quarterly	Quarterly	Monthly and 15 th	Monthly and 15 th	Monthly and 17 th	Monthly
Publisher	Australian Bureau of Statistics	Statistics New Zealand	ONS	BLS	Eurostat	Ministry of Internal Affairs and Communications
Arithmetic / Geometric	Modified Geometric Laspeyres using acquisitions approach	Modified Geometric Laspeyres using acquisitions approach	RPI Arithmetic Ave CPI Geometric Av	Geometric Mean modified Laspeyres Index	Geometric chain weighted Laspeyres Index	Laspeyres with weighted arithmetic mean and fixed base

Fixed Income Market

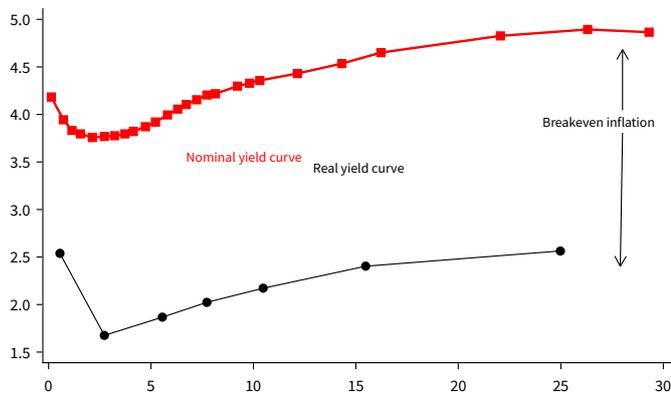
Breakeven Inflation

The breakeven inflation rate is the difference between the nominal yield on a fixed-rate investment and the real yield (fixed spread) on an inflation-linked investment of similar maturity and credit quality – the Inflation expectation. If inflation averages more than the break-even, the inflation-linked investment will outperform the fixed-rate.

Conversely, if inflation averages below the break-even, the fixed-rate bond will outperform the inflation-linked security.

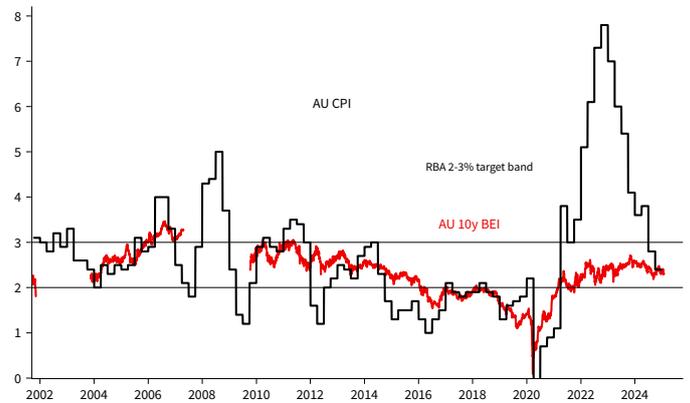
The Reserve Bank of Australia introduced its 2-3% target range for inflation in 1993 and the breakeven inflation rate has spent most of its time trading in this target band. It traded below that range from 2016 to 2020 as headline and core inflation were consistently below 2%, but the post-pandemic inflation acceleration has lifted BEIs substantially.

Breakeven inflation



Source: National Australia Bank, Bloomberg, Account in-house

Inflation vs 10y BEI

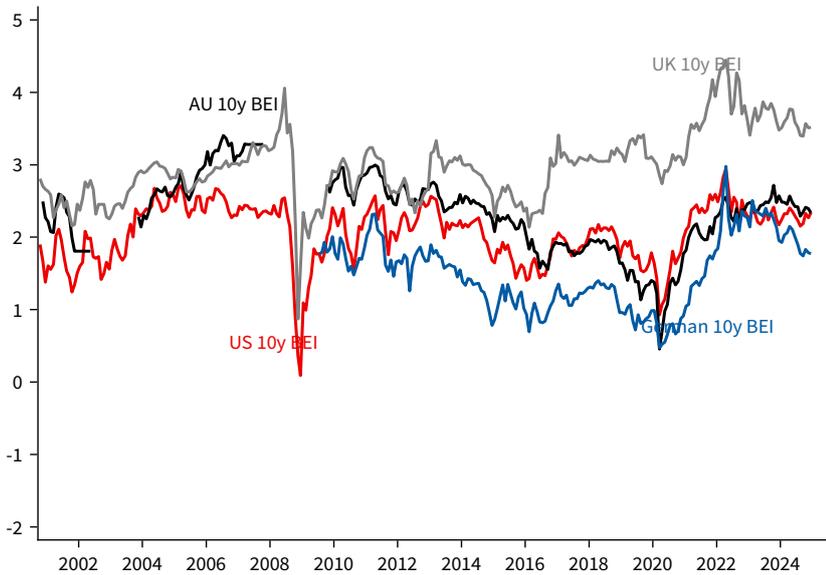


Source: National Australia Bank, Bloomberg

Fixed Income Market

Breakeven Inflation

BEIs

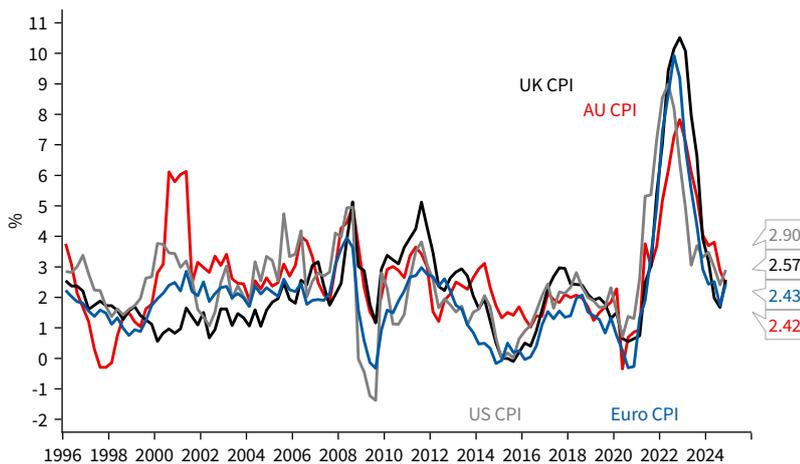


Comparison to international markets

Source: National Australia Bank, Bloomberg

Headline Inflation

Index



Source: National Australia Bank, Australian Bureau of Statistics, U.K. Office for National Statistics (ONS), U.S. Bureau of Labor Statistics (BLS), Eurostat, Macrobond

Fixed Income Market

Money Market

Overview

The money market covers the issuance and trading of short-term financial instruments, often with maturities of 90 days. This includes bank bills, promissory notes, certificates of deposit and Treasury Notes.

The instruments are predominantly used by banks to fund their short-term lending and by the AOFM to meet the Commonwealth Government’s within-year financing needs.

There are currently around AUD200bn of NCDs on issue vs a peak of around AUD345bn in 2008. Major bank issuance accounts for 51% of outstandings (vs 74% in 2016) while non majors account for 49% (vs 26% in 2016).

There are currently around AUD36.5bn of Treasury Notes outstanding, compared to AUD16.7bn in 2009.

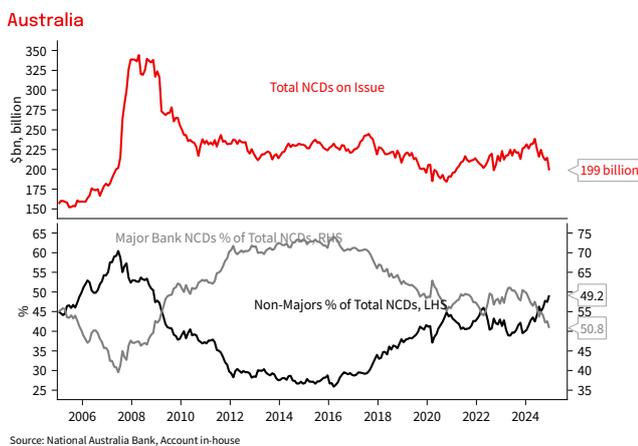
Pricing Conventions and Market Dynamics

BBSW (bank bill swap rate) is the Australian short-term market reference rate and is calculated using live and executable prices in the market for Prime Bank Eligible Securities. The rate set window for BBSW has been expanded from a two-minute window to a one-and-a-half-hour window (8.30am to 10.00 am).

Treasury Notes and bank bills are repo eligible.

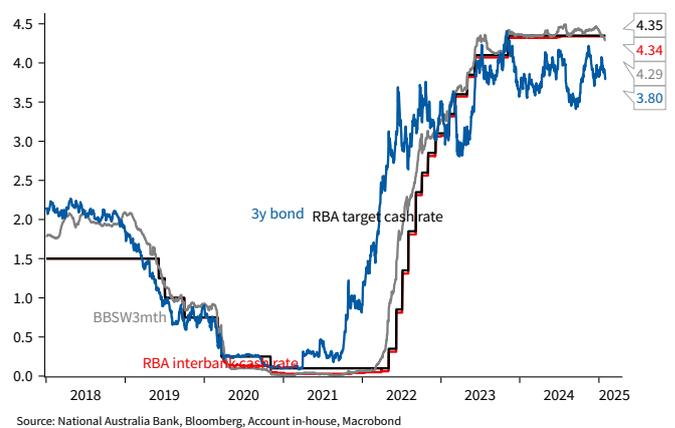
Bank bills typically trade with a margin to the overnight index swap. The massive injection of liquidity during the pandemic tightened this margin dramatically, but it is now beginning to widen as the market anticipates bank needing to return to self-sufficiency of funding as extraordinary support measures expire.

NCDs Outstandings



Source: National Australia Bank, Macrobond

Short end rates



Source: National Australia Bank, Bloomberg

Fixed Income Market

Repo Market

A repo transaction involves the transfer of securities for cash with an agreement to unwind the transaction at a future date for the original consideration plus interest (viewed from a cash lender’s perspective, the trade is a reverse repo). A trade can be stock driven (eg. a market maker wishing to cover a short position against lending cash) or cash driven (eg. a trader wishing to fund a position by borrowing cash under repo).

Repos can be overnight or for a fixed term but in Australia typically most are for terms under 14 days. However, in recent years there has been increased interest in longer term repo financing.

Most repos are contracted against ‘General Collateral 1’ (GC1). This covers Commonwealth and semi-government bonds. Most of the remaining repos are GC2 which covers debt issued by authorised deposit-taking institutions, asset-backed securities, supnationals, foreign agency, government-guaranteed debt and AAA securities such as covered bonds.

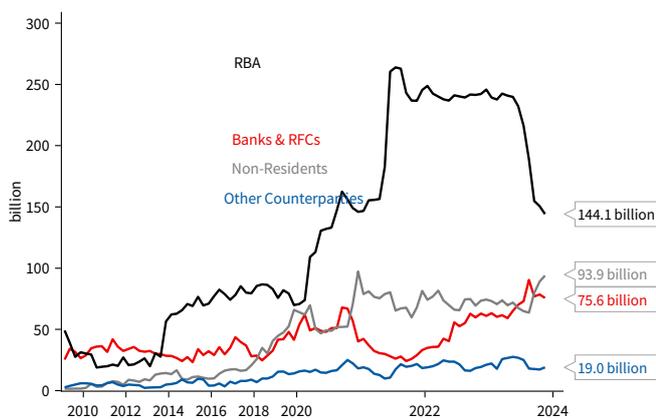
Active participants include banks, security dealers, pension funds, hedge funds and corporate treasuries.

The level of non-resident participation in Australian repos has grown considerably in recent years, primarily as borrowers of cash. Non-resident borrowing has more than doubled since 2015 and now accounts for around 60% of outstanding repo.

The rise in offshore participation in the repo market over recent years is consistent with growth in ACGB supply, increased participation by more active global investors and diminishing yield margins to the US.

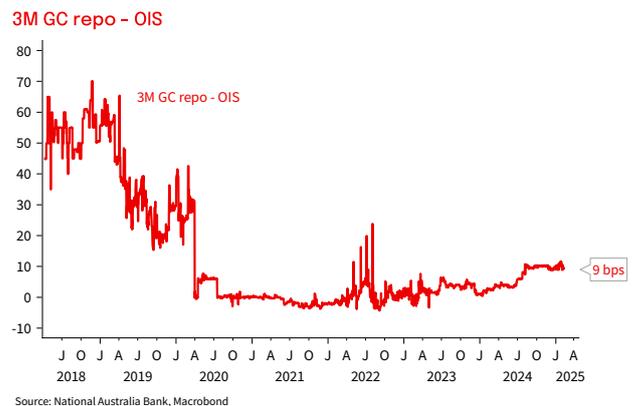
The RBA’s open market operations were historically used to manage the amount of outstanding Exchange Settlement Account (ESA) balances in the banking system to keep the cash rate as close as possible to the target official cash rate announced by the Bank. During the pandemic, however, the RBA moved from a scarce reserves system to a reserves floor system, although OMO repos still continue as a marginal liquidity source for the market. In 2023 RBA OMO repo has transitioned to a floating rate.

Borrowers of Cash



Source: National Australia Bank, Macrobond

Repo-OIS Spread



Source: National Australia Bank, Macrobond



Trading Day

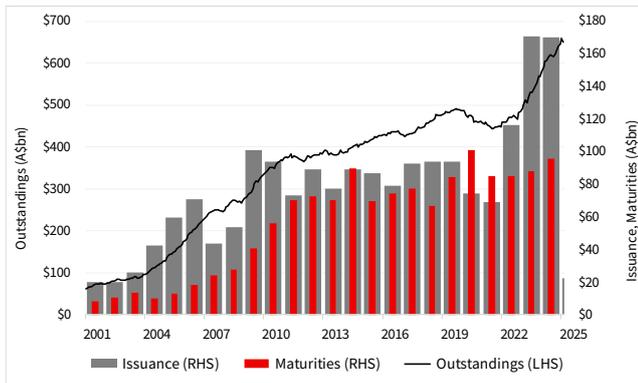
A Trading Day Diary for the Australian Market

Time	Event
7:30	Overnight futures trading session closes
8:30	Day session for futures market opens
8:30 – 10	NCD rate set window
9:30	RBA details its open market operations in the interbank market (includes the estimated cash shortfall/surplus in the market and the RBA’s proposed transactions in domestic securities)
9:30	RBA Governor’s Parliamentary testimony on monetary policy (usually February and November)
10:45 – 11	Commonwealth bond tenders – since early 2024 it has typically been once a week on a Wednesday
11:30	ABS and RBA official economic indicators; RBA Minutes
Midday	90 day bill futures contract expires on second Thursday in March, June, September, December. 3y, 5y, 10y and 20y government bond futures contract expires on the fifteenth day of the contract month (or the next business day where the fifteenth is not a business day)
14:30	RBA rate decision is released (eight times during the year, released on a Tuesday) and RBA Statement of Monetary Policy (four times during the year)
16:30	Day session for futures closes
17:10	Night session for futures begins
19:30	The Commonwealth Government publishes its annual Budget on the second Tuesday in May

Fixed Income Market

Corporate Bond Market

Australian Corporate Bond Market - Issuance and Outstandings



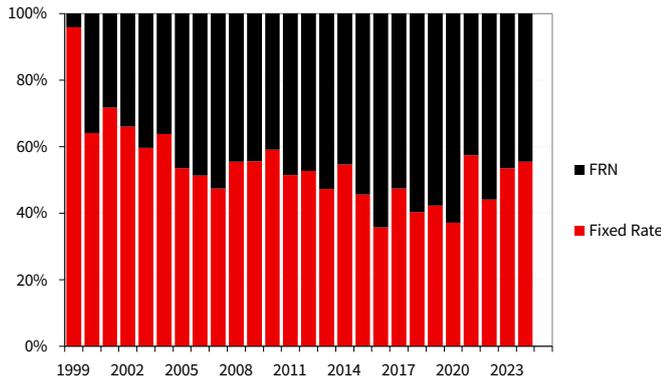
Overview

The Australian corporate debt capital market has grown steadily for the past two decades, excluding the early phase of the COVID pandemic period. Issuance from domestic and offshore ('Kangaroo') domiciled corporates, supranational organisations and agencies (but not including government, semi government or asset backed securities) set a new record high in 2023 of A\$170bn and that level was effectively matched again in 2024, elevating market outstandings to over \$650bn.

Over the last three years and prior to COVID, issuance has typically comprised approximately 60-70% from domestic entities (including domestic subsidiaries of offshore parent companies) and 30-40% from offshore domiciled ('Kangaroo') issuers.

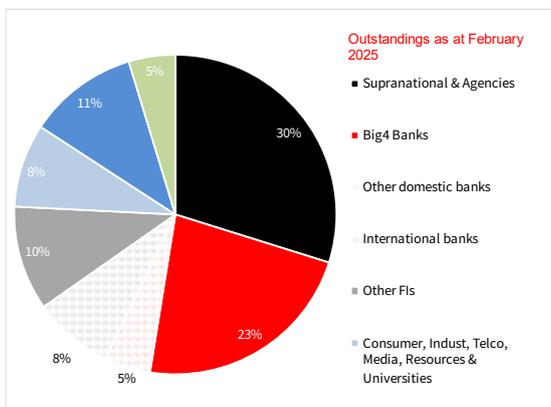
The proportion of fixed vs floating rate issuance varies. While the proportion of fixed rate issuance was trending down through most of the corporate bond market's development, the past five years has seen that longer term trend broken. Supranational & Agency issuance is generally in the fixed rate format while the banking sector contributes the bulk of floating rate note (FRN) issuance.

FRNs vs Fixed Rate Issuance



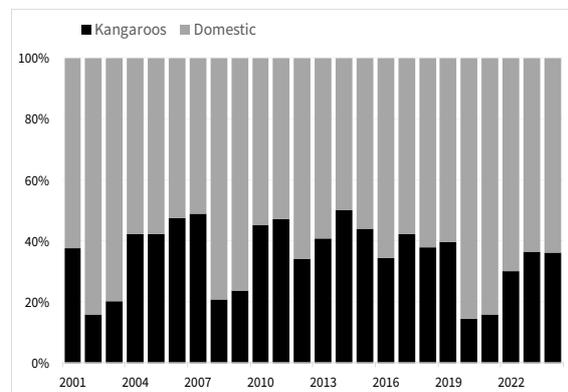
Source: Bloomberg; NAB Credit Research

Australian Corporate Bond Market Outstandings



Source: Bloomberg, NAB Credit Research

Kangaroo and Domestic Issuance



Source: Bloomberg, NAB Credit Research

Fixed Income Market

Corporate Bond Market

In the aftermath of the pandemic, deposits increased rapidly and now contribute over 70% of banks' funding (from less than 67%). Typically, offshore markets provide around three-quarters of the banks' long term debt funding and well over half of short-term funding.

The US 144A/RegS and the EMTN markets have typically provided the bulk of the offshore issuance, though over the past decade the Global and Other markets have captured a growing share.

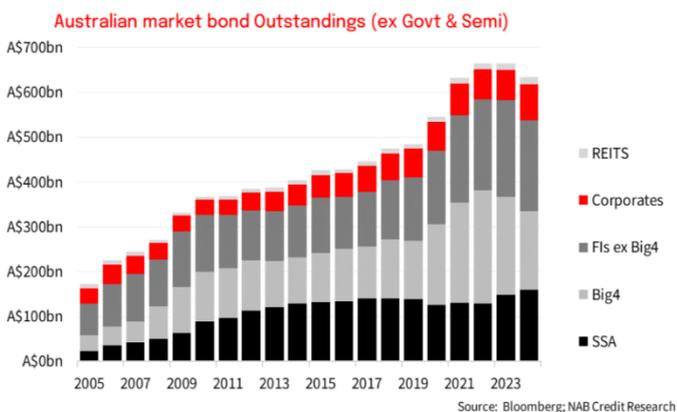
Since the GFC, the Australian Big4 banks' credit fundamentals and ratings have been amongst the strongest of any non-government supported banks globally. The high and resilient credit ratings have seen the Big4 banks remain popular with offshore investors.

As a result, the 'home-market' pricing premium/spread discount that Australian banks' bonds once attracted in the domestic market has narrowed, to the point where offshore market pricing – on a fully currency swapped back basis – is more generally comparable to domestic pricing (albeit sometimes with a timing lag). In the US, the major Australian banks shorter and medium term (0-3yrs) spreads currently price well inside their Australian market comparatives on a full swapped-back basis.

As the proportion of banks' deposit funding has remained high in the aftermath of the COVID pandemic, the proportion of term debt funding has reduced. That, together with the major Australian banks position amongst the world's highest rated non-GSE banks has supported banks' bond spread levels.

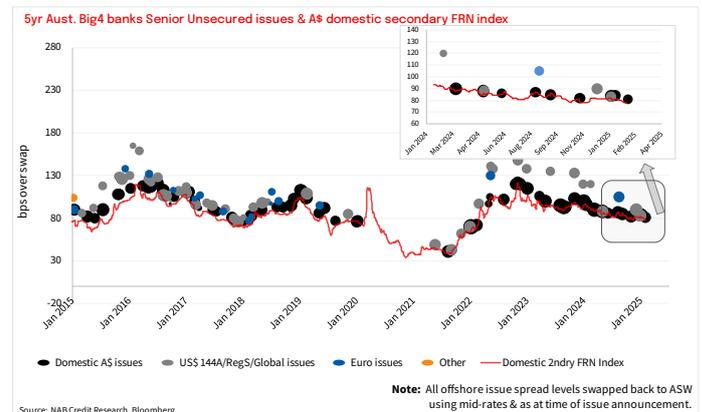
Bank bonds are a major part of the corporate bond market

Australian market bond Outstandings (by sector)



Source: Bloomberg, NAB Credit Research

Big4 Bank 5yr Primary Issuance & Domestic Secondary spreads



Source: NAB Credit Research, Bloomberg

Fixed Income Market

Corporate Bond Market

Australian non-financial corporates make up a relatively small proportion of the domestic market, with annual issuance from these sectors generally less than 15% of total Debt Capital Market issuance (supranational, agency, financial and non-financial) in any year.

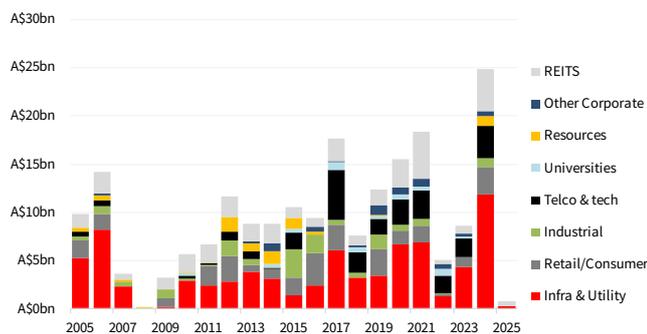
Nevertheless, the REIT, Telecommunications, Utility and Infrastructure sectors are regular issuers into the domestic market.

While Australian non-financial corporates make up only a relatively small percentage of total domestic market outstandings, non-financial corporates are active issuers into offshore markets. While the domestic market's capacity to offer longer terms and greater size has improved markedly over the past decade, larger offshore markets are still perceived to be more attractive for those non-financial corporates seeking jumbo-sized and/or longer term (10yr+) deals.

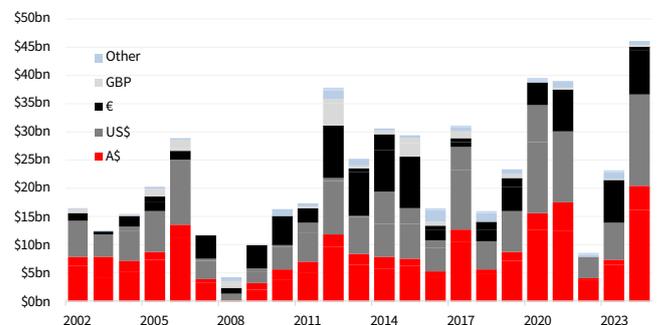
Additionally, with a US\$ 'functional currency', larger Mining and Oil & Gas companies typically issue US\$-denominated debt and target the US 144A/RegS and Global markets. Smaller and lower-rated mining and oil & gas companies are also accommodated by the US markets' appetite for higher yielding paper.

Non-Financial Corporate Bonds

Australian non-FI Corporate & REIT Issuance (by sector, all currencies A\$bn equivalent)



Australian non-FI Corporate & REIT Issuance (by currency)



Sources: NAB Credit Research; Bloomberg

Corporate Bond Market

Though comprising a relatively small portion of overall issuance, non-financial corporates nevertheless have well represented pricing curves. The majority of issuance is from Australian-domiciled issuers, with offshore issuers and local subsidiaries of offshore-based parents comprising a smaller, albeit growing, proportion. That group of offshore non-FI corporates includes Verizon, AT&T, Vodafone, Annheuser-Busch and McDonalds amongst others.

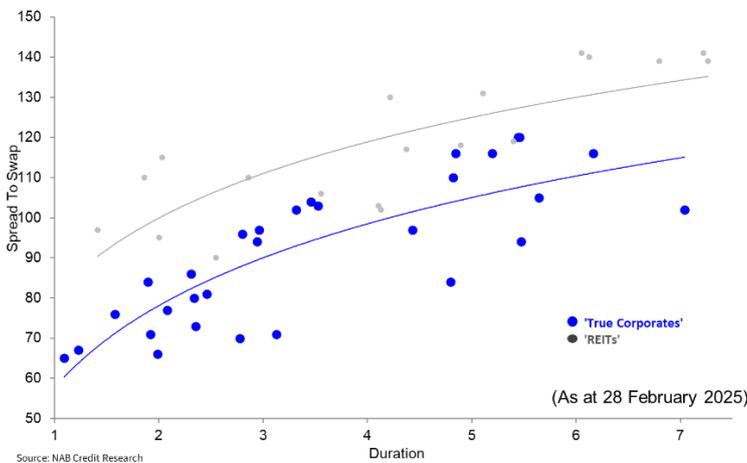
Within the single-A rating category, the bonds of Telstra, Fonterra, Optus and Wesfarmers have traditionally attracted strong support from investors and price accordingly. Other regular issues within the single-A rating category include those from within the utility and infrastructure sectors, including regulated power utilities.

The REIT sector also has a well represented curve of single-A category rated bonds. These bonds tend to yield somewhat above the ‘true corporate’ (ie. non-financial) issuers’ bonds and that differential has recently tightened, recovering from previous post-pandemic underperformance.

There is also a well represented BBB rating category, populated from a wide range of issuers across the retail, utility, entertainment, airport, infrastructure, construction and other sectors.

Non-Financial Corporate Bonds

Single A Rated non-FI Corporates & REITs



Source: NAB Credit Research

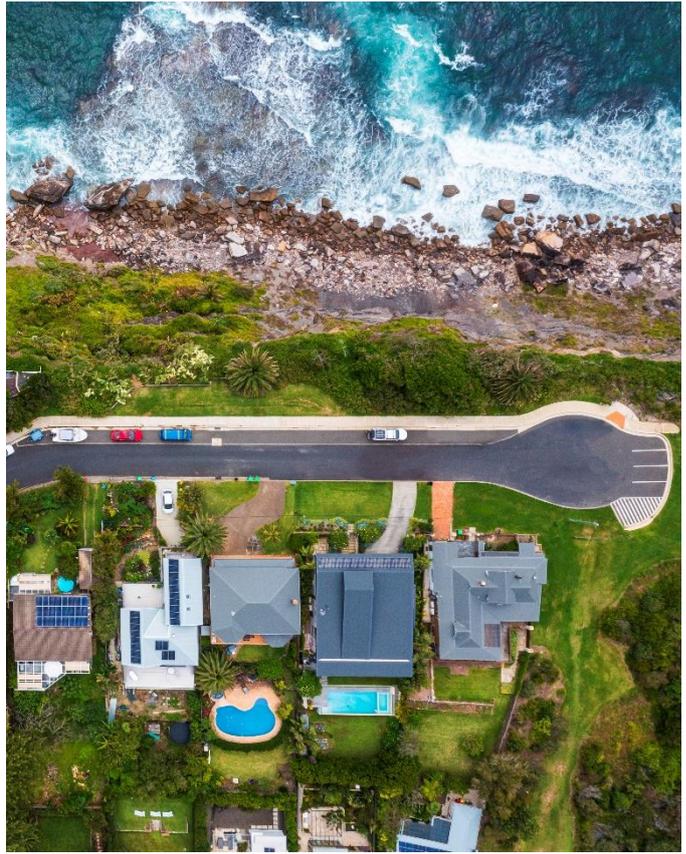
Fixed Income Market

Corporate Bond Market

The majority of corporate bond sectors have registered solid performances over the past decade reflecting in large part what has been a strong and supportive economic environment. Most sectors are now trading around year-to-date lows and have returned to near pre-pandemic levels.

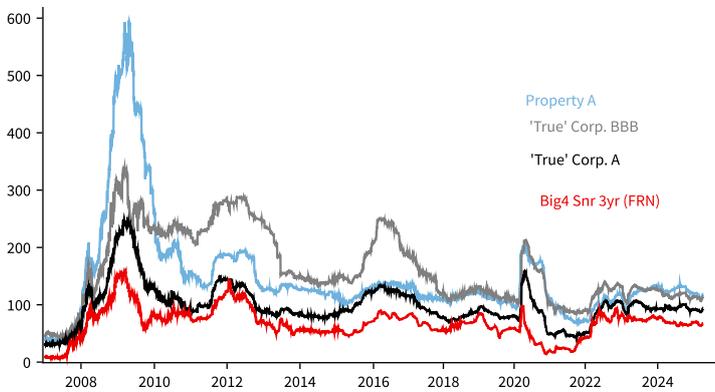
The REITs performances have been impacted by concerns over property valuations together with other structural changes principally impacting the Office sub-sector however the sector is now recovering from that post-pandemic underperformance.

Major bank paper has now largely recovered from mild underperformance since 2022 due to the completion of the banks' large issuance programme in 2023 and 2024 which included refinancings of large volumes of Term Funding Facility (TFF) maturities.



Selected Secondary Indices (3yr duration)

Australian Credit Spreads (3yr, bps over ASW/swap)



Source: NAB Credit Research

Fixed Income Market

Supranational/Agency Bonds

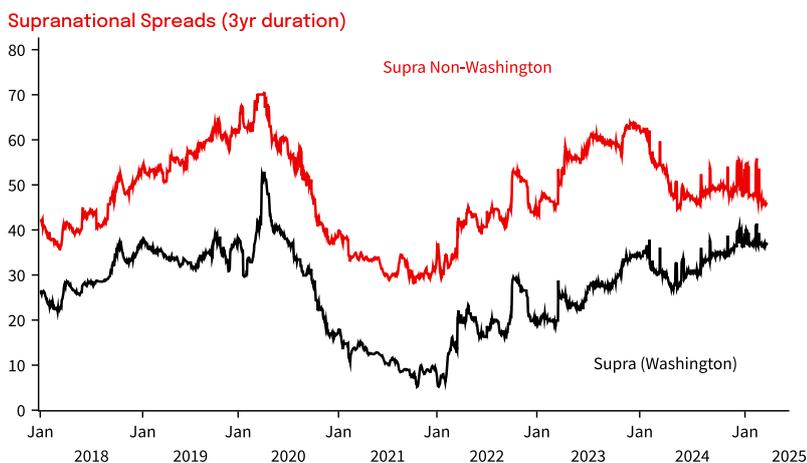
The Supranational and Agency sectors are important components of the Australian debt capital market. Supranational and Agency issuers issuing debt in \$A ('kangaroo bonds') have typically provided around 10% of the market's total issuance over the past decade.

Pricing on the Supranational curve reflects two fairly distinct populations – the tighter population consisting of the World Bank and other 'Washington' supranationals and the wider group, the European supranationals (eg. Eurofima, European Investment Bank).

The Agency sector also sees a distinct tighter priced premium group, composed mostly of German-based Agencies (eg. Kreditanstalt Für Wiederaufbau – or 'KfW' - and Landwirtschaftliche Rentenbank) and a diverse group of other Agencies which generally price wider (e.g., Province of Quebec, Export-Import Bank of Korea, etc.).



Supranational Spreads (3yr duration)



Source: NAB Credit Research

Source: NAB Credit Research

Fixed Income Market

Securitisation/Asset backed

The Australian housing market continues to grow rapidly and was estimated to be worth approximately A\$11 trillion at the end of September 2024. This growth has been driven by a strong home ownership culture with approximately 66% of the population owning their own home, and 30% of all homeowners having a residential mortgage ¹.

This backdrop has led to the development of a well-functioning RMBS market, which continues to deliver strong returns. Performance has been driven by conservative underwriting, strong regulatory oversight, low unemployment and appreciating property prices. The credit ratings of Australian RMBS transactions have been extremely stable with no senior tranches undergoing downgrade.

Lenders within the Australian mortgage market consist of the major banks who are Authorised Deposit-taking Institutions (ADI) as well as other domestic banks, credit unions and building societies, who are also classified as ADIs. The rest of the market consists of Non-Bank Financial Institutions (NBFI). Lenders within the ABS market are predominantly captive financiers and noncaptive financiers.

Australian RMBS and ABS have a number of structural features that are a result of the combination of the underlying collateral as well as investor and regulatory requirements. Notes issued in the public market are mostly from special purpose vehicles backed by static standalone pools. Master trust and transactions with defined revolving periods are also progressively being issued into the public market – particularly for consumer-backed ABS transactions. Notes are generally floating rate pass-through securities with deals initially being repaid on a sequential basis before converting to pro-rata once certain tests have been met.

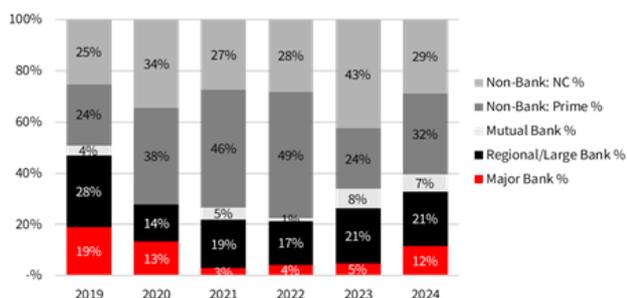
2024 witnessed a record year for primary issuance with A\$80bn of A\$ Securitisation supply.

The major banks, who have diverse funding sources, issued approximately \$7 billion of RMBS, while the NBFIs issued approximately \$56 billion, fairly evenly split between prime and non-conforming assets. Despite a marked increase in issuance and average transaction size, spreads remained resilient and even tightened over the year. This was driven by a broadening investor base, funds having large amounts of cash to deploy, strong performance of the underlying collateral with low levels of losses and the relative value of RMBS versus bank senior paper.

The Australian ABS market also saw sustained growth in 2024 with approximately \$17bn of issuance. The market consists predominantly of Auto and Equipment Financing (77% of outstanding issuance) with smaller exposures to unsecured Personal Loans (21%) and SME Loans (2%). Similar to the RMBS market, spreads within the ABS market remained resilient or tightened over the year, with senior auto spreads tightening from 137bps to 120bps. 2025 has opened with the issuance of the Plenti Auto ABS 2025-1 transaction, which has achieved tight pricing of 110bp on the senior notes, along with excess demand from investors leading to very high coverage ratios.

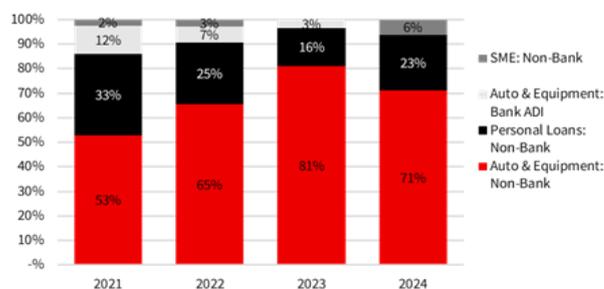
Increased issuance within the sector has been driven by structural shifts within the auto sector, which led to the divestiture by Westpac and Macquarie of their auto loan businesses to NBFIs who require wholesale funding. Increased mortgage competition during the pandemic era meant NBFIs found it harder to originate prime mortgages and therefore pivoted towards other products that are less catered to by banks, such as auto loan and asset finance businesses and a high level of car ownership in Australia (91% of households own at least 1 vehicle), leading to the provision of a large number of auto loans. Further growth in the ABS sector, in terms of issuers and transactions, is expected in 2025 as the sector continues to absorb the demand from the exit of bank players.

Australian Historical RMBS Issuance



Source: NAB internal

Australian-Historical ABS Issuance



Source: NAB internal

Derivatives Market

Swaps

Interest Rate Swaps

Interest rates swaps are used by portfolio managers, risk managers and speculators.

The simplest form are vanilla swaps which involve the exchange of fixed rate interest payments for floating rate interest payments. The floating leg has payments based on the bank bill swap rate (or BBSW).

Swaps are quoted on either an outright or exchange for physical (EFP) basis against the relevant bond futures contract.

Turnover in swaps has been gradually increasing. The majority of flow in swaps occurs out to 5 years.

The very back of the curve (ie. 20y plus) is dominated by highly structured deals – eg. infrastructure, power reverse dual swap.

Like the government bond curve, the swap curve is a very important benchmark for pricing other securities.

Overnight index swap (OIS)

OIS is a fixed for floating interest rate swap, where the floating component is linked to the Reserve Bank’s official cash rate.

Turnover in this market has more than doubled since 2009-10. It is predominantly used by speculative players and banks.

OIS is seen to provide a clean read on markets’ expectations for the RBA’s official cash rate.

Single Period Swap

A single period swap (SPS) is a specific form of interest rate swap, but the agreement is for only one period (as opposed to a fixed vs floating arrangement over multiple periods in a vanilla swap). A SPS offers flexibility in forward starting dates. This swap is similar to a Forward Rate Agreement (FRA), but interest is paid in arrears and settled at the end of the period.

Influences on the swap curve

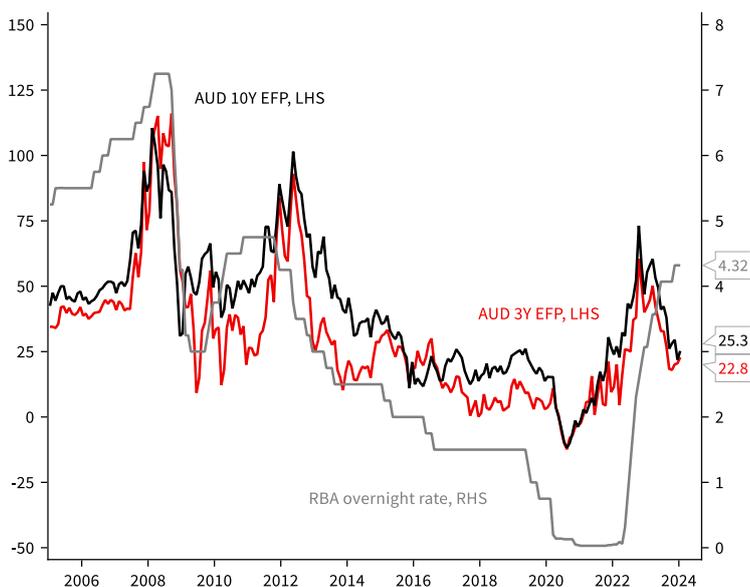
The main influences on the swap curve are:

- i) the direction of the cash rate – there is more corporate pay flow when the cash rate is rising and potentially more mortgage related hedging;
- ii) kangaroo issuance – which creates receive side interest;
- iii) semi-government issuance – this sometimes creates asset swap activity; and
- iv) risk appetite – in risk off periods swaps tend to under-perform the sovereign curve.

The swap curve has historically traded above the sovereign curve out to maturities of about fifteen years.

Swap-bond spreads have, on average, narrowed since 2015. Introduction of central clearing has to some degree mitigated the credit risk in the swap curve, making it less of a bank proxy. This has enabled the swap curve to trade closer to the sovereign curve. A large widening in swap spreads occurred during 2022 amidst the illiquidity and bearishness of the post-pandemic rate hikes, but by late 2023 spreads had narrowed back almost to the pre-pandemic range and by late 2024 were negative.

AU swap spreads



Source: National Australia Bank, Bloomberg



Derivatives Market

Options

Participants in the options market include banks, fund managers and hedge funds/CTAs.

The Australian interest rate options market is becoming more liquid as more clients use the market for risk management but also as a tool to trade macro direction views.

Options can be packaged together to form structured products and payoffs. These can sometimes be more attractive than putting on a view on the outright market.

Derivatives Market

Interest Rate Futures

Interest rate futures are traded on the Australian Securities Exchange (ASX) and are the benchmark derivative products for trading and managing interest rate risk. The most commonly used contracts are:

- 30-day interbank cash rate futures – related to the RBA’s target cash rate.
- 90-day bank accepted bill futures – related to 90-day bank bills.
- 3-year Treasury Bond futures
- 10-year Treasury Bond futures
- 5-year Treasury Bond futures
- 20-year Treasury Bond futures

Contract months on the bond futures and bill futures are March, June, September and December. Contracts expire on the fifteenth day of the contract month (or the next business day where the fifteenth day is not a business day). Trading ceases at noon (EST). The 90-day bill futures expiry is on the second Thursday in March, June, September and December.

Australian bond futures are cash settled against a defined basket of bonds.

At expiry the price of the futures basket will match the average value of the physical bonds which underlie the contract. Within the contract period, however, there may be a mismatch, which essentially reflects demand/supply issues of the individual bonds.

In terms of the settlement method, for each bond in the bond basket the ASX will take the best bid and best offer available in the market by reference to live market prices taken from bond trading venues as determined by the Exchange. The average of the best bid and best offer for each bond is calculated at 9.45am, 10.30am and 11.15am. An indicative session price, calculated as an arithmetic mean, is published after each session. The Expiry settlement price is the average of the best bids and offers from all sessions rounded to the nearest tradable increment and subtracted from 100. The expiry settlement price is published by 12pm on the Last Trading Day.

To see the bonds that make up the current contract and what will be in the next contract refer to the ASX website ([Bond derivatives \(asx.com.au\)](https://www.asx.com.au/bond-derivatives)).

Derivatives Market

Interest Rate Futures

Benefits and Trading

The benefits of trading 3y and 10y bond futures are:

- Strong price transparency
- Immediate execution and confirmation
- Reduction of counterparty risk – trades on the ASX are supported by a clearing guarantee
- 24-hour trading which provides investors with maximum flexibility and minimum risk in placing a trade in two different time zones.
- Deep liquidity

To monitor fair value in Bloomberg, type:

1. XMA Comdty FVD for 10y futures contract
2. VTA Comdty FVD for 5y futures contract
3. YMA Comdty FVD for 3y futures contract
4. LTYA Comdty FVD for 20y futures contract

Turnover

The 3y and 10y contracts are ranked amongst the twenty most traded long-term interest rate contracts in the world. The Commonwealth Government of Australia has committed to maintain liquidity in the ACGB market to support the 3y and 10y bond futures market.

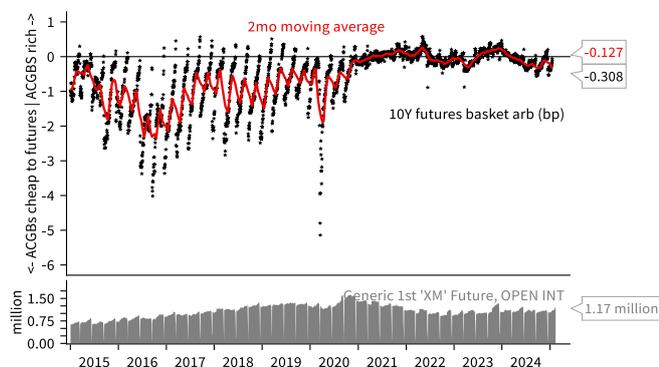
Basket Arbitrage

At some points, divergence between the futures contract and the prices for the underlying bonds has become more pronounced. This has seen the futures basket arbitrage trade become more popular. Initially the divergence was driven by the significant increase in issuance of Government bonds, and in 2018 higher repo rates impacted the 3y basket.

RBA bond purchases then richened the baskets significantly in 2020-21, and they have remained relatively expensive compared to pre-2020 levels.

Futures Basket Arbitrage

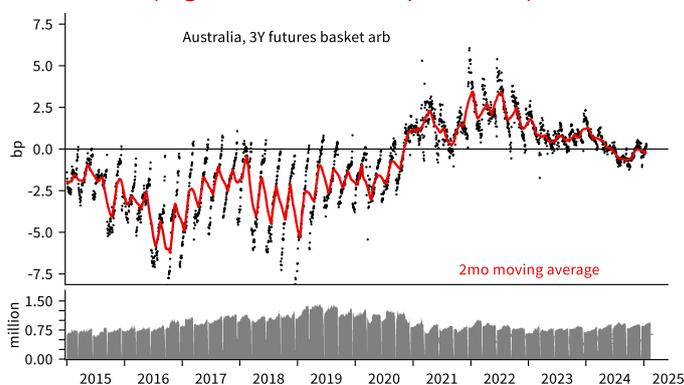
10Y futures arb (negative is baskets cheap to futures)



Source: National Australia Bank, Account in-house, Bloomberg, Macrobond

Source: NAB, Bloomberg Financial LP

3Y futures arb (negative is baskets cheap to futures)



Source: National Australia Bank, Account in-house, Bloomberg, Macrobond

Source: NAB, Bloomberg Financial LP

Foreign Exchange Market

AUD

The AUD is the world’s sixth most actively traded currency, after the USD, EUR, JPY, GBP and CNY (AUD overtaken by CNY between 2019 and 2022). AUD/USD was the sixth most actively traded currency pair according to the 2022 BIS survey of FX turnover (next survey due in Q4 2025).

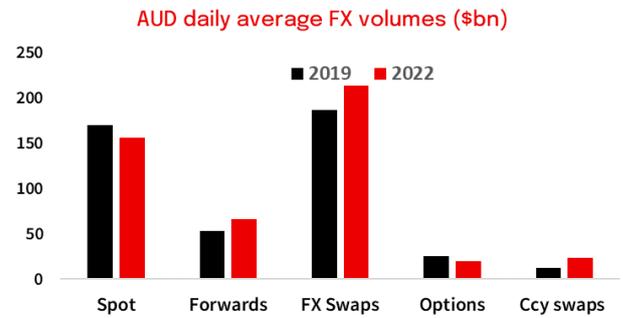
Daily average turnover, according to the RBA as of October 2024, was AUD\$119bn across all FX instruments (spot, forwards, swaps and options). This was down from the (record) \$125bn reported for October 2023.

FX Swaps comprise the largest portion of FX trading in Australia (more than 50% of the total), of which approximately 50% is conducted by overseas banks, as a primary funding source.

Average daily spot foreign exchange volume in October 2024 was AUD\$26.7bn, similar to October 2023’s \$27.0bn, both below the record peak of AUD\$38bn in October 2020.

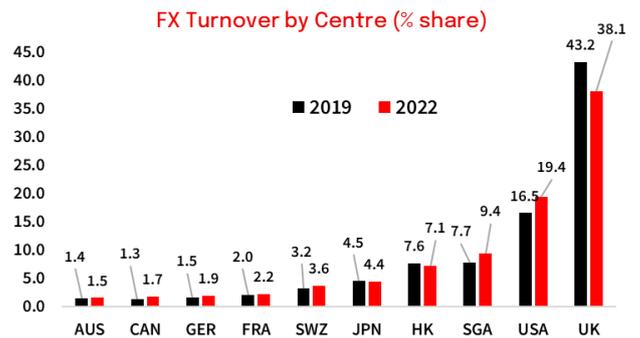
Sydney is the world’s tenth largest foreign exchange centre measured by average daily turnover across all FX instruments (spot, forwards, swaps and options).

Average daily turnover in AUD



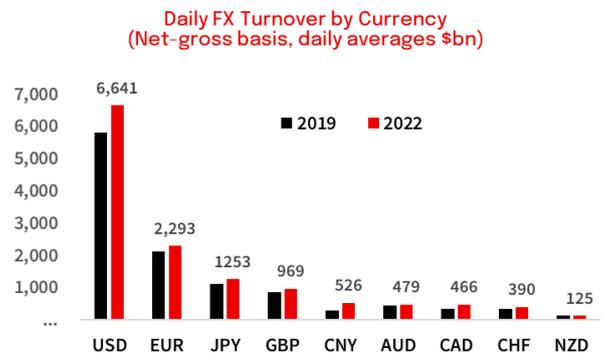
Source: BIS

Global FX Turnover by centre



Source: BIS 2022 FX Survey

Global turnover of OTC FX by currency



Source: BIS 2022 FX Survey

Foreign Exchange Market

AUD Floated in 1983

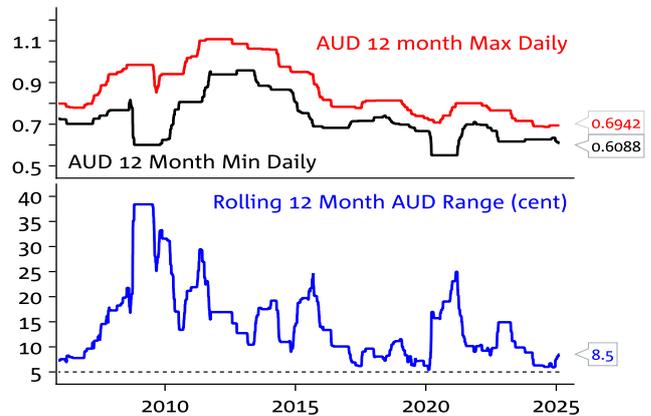
AUD/USD and AUD/JPY

The AUD was floated in 1983. Since then, the average AUD/USD rate has been ~0.76, with a range from 0.48 (June 2001) to 1.11 (September 2011).

The average AUD/JPY rate has been ~¥149, with a range from ¥220 (February 1984) to ¥55 (October 2008).

In the last 35-years, abstracting from the dramatic 1982-1986 JPY appreciation, the average AUD/JPY rate has been ¥85, with a range from ¥123 (August 1990) to ¥55 (October 2008).

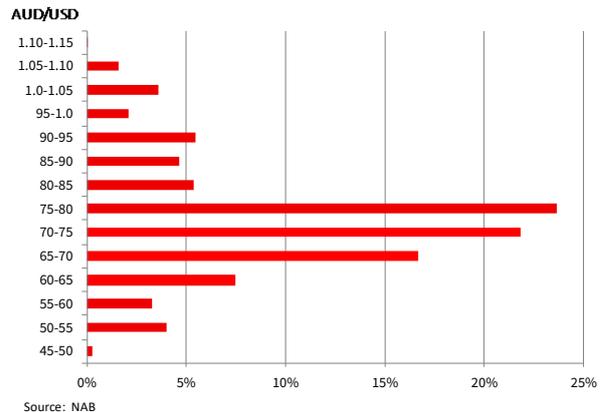
AUD/USD rolling 12-month ranges



Source: National Australia Bank, Macrobond

AUD/USD - Time spent in each 5 cent 'bucket'

% of time in each bucket since float (1983)



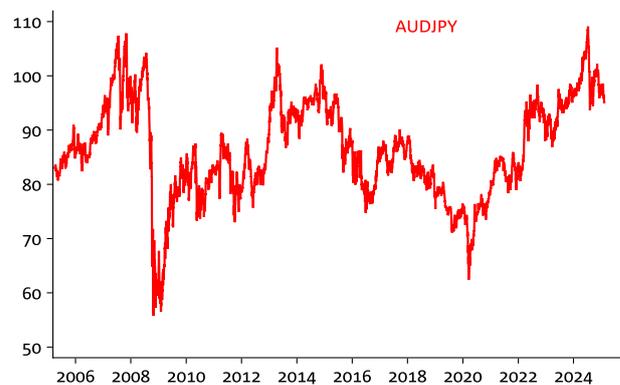
Source: NAB

AUD/USD



Source: National Australia Bank, Macrobond

AUD/JPY



Source: National Australia Bank, Macrobond

Foreign Exchange Market

Australian Dollar

AUD drivers

Historically, the key fundamental drivers of the AUD have been commodity prices, interest rate differentials and risk sentiment.

Positive risk sentiment is associated with AUD strength, and vice versa. AUD/JPY has historically been particularly sensitive to swings in risk sentiment. It is also highly sensitive to the RMB and Emerging Markets in general given the strong trade links between Australia and China/broader Asia and the use of AUD as a ‘proxy hedge’ in relation to EM FX risks.

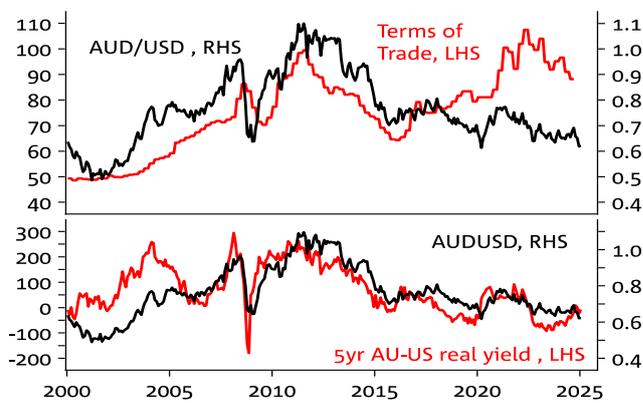
NAB maintains both Short Term (STFV) and Medium Term (‘Horatio’) Fair Value model for AUD/USD, both comprising interest rate factors, commodity prices and different measures of risk sentiment, together with some other variables.

AUD/USD came under acute downward pressure in March 2020 during the early stages of the covid-19 pandemic (low of 0.55) driven by a collapse in risk sentiment and key commodity prices, before staging a big recovery driven by recoveries in the same two factors.

Since mid-2021, AUD/USD has proved to be more volatile relative to NAB’s model valuation estimates, something NAB’s FX Strategists attribute at least in part to episodes of commodity price strength being driven more by supply rather than demand factors. AUD has tended to respond positively/negatively to commodity price gains/losses only when the latter are associated with strong/weak global growth/demand. In the past three years, global growth has been below its long-term trend – so too has the AUD – and risks remaining so in 2025 depending on how trade policy under the Trump 2.0 administration evolves and how policy makers outside the United States respond.

NAB’s use of fair value models for AUD show the relationship between the level of AUD and important variables (e.g. interest rates, commodity prices, risk sentiment) that historically have shown to have significant influence on the behaviour of the currency. They are designed to aid our understanding of the impact each of these variables have in driving changes in the currency. Significant divergence between the actual and the model value may indicate that factors other than the model variables are currently influencing the value of the currency, which has been very apparent in recent quarters. Indeed, the AUD/USD exchange rate has of late displayed a much tighter relationship with an array of Emerging Market financial variables than it has with our more traditional fair value models, as per the bottom chart.

Key commodity prices and interest rate differentials



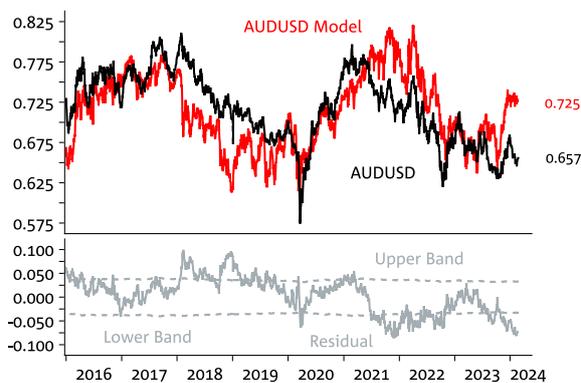
Source: National Australia Bank, Macrobond

RBA Key Commodity Price Index Weights*

		weight
1	Iron Ore	28.1
2	Metallurgical Coal	14.2
3	LNG	17.9
4	Thermal Coal	12.3
5	Gold	5.2
6	Wheat	3.1
7	Base Metals	2.9

Source: RBA (as of 1 April 2024)

AUD/USD ‘EM-only’ fair value model



Source: National Australia Bank, Macrobond

Useful Web Sites

Australian Government

Australian Bureau of Statistics

www.abs.gov.au

Australian Office of Financial Management

www.aofm.gov.au

Australian Prudential Regulation Authority

www.apra.gov.au

The Treasury

www.treasury.gov.au

Department of Foreign Affairs and Trade

www.dfat.gov.au

Reserve Bank of Australia

www.rba.gov.au

Australian Bureau of Agricultural and Resource Economics
(ABARES)

www.agriculture.gov.au/abares

Department of Industry, Innovation and Science

www.industry.gov.au

Bureau of Meteorology

www.bom.gov.au

State Governments

NSW Treasury

www.treasury.nsw.gov.au

Department of Treasury and Finance Victoria

www.dtf.vic.gov.au

Queensland Treasury

www.treasury.qld.gov.au

Department of Treasury Western Australia

www.dtf.wa.gov.au

Department of Treasury and Finance South Australia

www.treasury.sa.gov.au

Department of Treasury and Finance Tasmania

www.treasury.tas.gov.au

Department of Treasury and Finance NT

www.treasury.nt.gov.au

ACT Treasury

<https://apps.treasury.act.gov.au>

Semi Government Issuers

NSW Treasury Corporation

www.tcorp.nsw.gov.au

Treasury Corporation of Victoria

www.tcv.vic.gov.au

Queensland Treasury Corporation

www.qtc.com

Western Australian Treasury Corporation

www.watc.gov.au

South Australian Government Financing Authority

www.safa.sa.gov.au

Northern Territory Treasury Corporation

www.treasury.nt.gov.au

Tasmanian Public Finance Corporation

www.tascorp.com.au

Other

Australian Financial Markets Association

www.afma.com.au

Australian Securities Exchange

www.asx.com.au

Australian Newspapers

The Australian Financial Review

www.afr.com.au

The Australian

www.theaustralian.com.au

The Sydney Morning Herald

www.smh.com.au

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NAB Markets Research Publications

Publication Name	Description	Frequency
Economics		
Macro Thematic	Thematic analysis of economic, currency and interest rate developments for Australia	Ad Hoc
Economy Watch – Australia	Economic coverage of Australian Data and events. Includes RBA, ABS Data Releases, Vaccination Updates, Snap responses to key points, data releases and changes to monetary and fiscal policy, as it happens.	Weekly
Economy Watch – China	Updates on the Chinese and Indian economies by Group Economics International team.	Ad Hoc
Economy Watch – Forecasts	NAB's official Australian and Global forecast updates. Released a day after the Monthly NAB business survey; outlook and forecasts for the Australian Economy	Monthly
Markets Today	Covers the overnight movements in economics, currencies and interest rates as well as our economists' and strategists' views for the day ahead.	Daily
Monetary Policy Update	A monthly restatement or update on NAB's monetary policy outlook for Australia	Monthly
What to Watch	A summary of key date releases around the globe for the week ahead, sent COB Fri AEST.	Weekly
The Morning Call	Early Morning market podcast with Phil Dobbie and NAB economists/strategists.	Daily

Group Economics		
NAB Australian Wellbeing Survey	Subjective assessment of Australian's perceptions of their own wellbeing. Plays an important role in supplementing traditional economic measures of national wellbeing	Quarterly
NAB Business Survey & NAB Quarterly Business Survey	The NAB Business Survey is Australia's leading business survey.	Monthly/ Quarterly
NAB Consumer Anxiety Survey	Subjective assessment on consumer spending/savings plans. It has been launched in conjunction with the NAB Quarterly Australian Wellbeing Index with the aim of assessing perceptions of wellbeing and consumer stress.	Quarterly
NAB Economic Data Insights	Covers macroeconomic trends in consumption and economic activity based on NAB internal data trends	Monthly
NAB Online Retail Sales Index	Monthly update on trends in online retail spending.	Monthly
NAB Residential and Commercial Property Surveys	Separate survey reports on the residential and commercial property markets.	Quarterly
NAB SME Business Survey	A quarterly survey covering conditions in small, medium and emerging businesses (SMEs) across all parts of the non-farm business sector in Australia.	Quarterly

FX Strategy		
AUD Annotated Chart and Model update	Annotated Chart and narrative describing movements in the AUD in the past month, alongside providing an update on movements in the AUD relative to various NAB short term fair value currency models.	Monthly
AUD Corporate FX Update	Similar to the crosses update report but for a Wholesale client base only, including general advice on hedging for Australian importers and exporters.	Monthly
AUD/USD & AUD Crosses Update	Monthly report reviewing our forecasts for AUD/USD and AUD cross rates.	Monthly
FX Forecast Updates	An update of our views on the major currencies and a comprehensive discussion of our thoughts on the AUD and NZD. Perceived change of forecast AUD to NZ.	Ad Hoc
FX Strategy – Comment/Thematic	Updates on our FX forecasts and topical issues in foreign exchange markets.	Ad Hoc
FX Views in a tweet	Short-hand summaries of our short and medium-term views on major currencies.	Weekly
Global FX Strategist	An update of our views on the major currencies and a comprehensive discussion of our thoughts on the AUD and NZD. No change in forecasts.	Fortnightly
Hedge Optimisation Ratio Monitor (Horatio Monitor)	An update on our AUD/USD medium term valuation model and its FX hedging strategy signal for an Australian based superannuation fund with a US equity portfolio	Ad Hoc

Fixed Income Strategy		
Rates Today with RV Pack	An overview of overnight movements in rates markets and outlook covering key themes and/or updated views. Includes relative value analysis in Australian bond, semi-government and swap markets and the NZ government bond and swap markets.	Daily
RV Weekly	Weekly relative value analysis in Australian bond, semi-government and swap markets.	Weekly
Rates Strategist	This report focuses on providing key views and trade recommendation in Australian Interest Rates Markets. It is designed for the Fixed Income Investor. No change in forecasts.	Monthly
Rates Forecast Updates	This report focuses on providing key views and trade recommendation in Australian and New Zealand Interest Rates Markets. It is designed for the Fixed Income Investor. Change of forecasts	Ad Hoc
Rates Strategy – Comment	These reports are ad hoc and cover key themes developing within the Australian rates market but also Treasuries where applicable.	Ad Hoc
Rates Strategy – Trade Idea/Update	Timely reports, typically one page on new trades that we are watching or have opened and updates.	Ad Hoc
Semi/ACGB Monthly	This is a monthly backwards looking update on issuance for ACGBs and Semis. Commentary is focused on supply and demand dynamics and providing extra colour on notable transactions.	Monthly
Rates Annotated Chart	Annotated chart and narrative describing movements in the Aus and the US 10-yr bond yields as well as commentary on key movements in the rates market in the past month	Monthly
State Budget Update	Summary post State Budget and issuance updates.	Biannually

Credit Research		
Credit at a Glance	Factual updates on announcements relevant to the corporate credit bond markets	Ad Hoc
Credit Bulletins	Company specific analysis and commentary on financial reporting and other significant events affecting credit quality.	Ad Hoc
Credit Today & Bond Rate Sheet	Commentary on developments in the domestic and international corporate credit markets. The NAB Bond Rate Sheet is attached to the Credit Today publication and includes pricing and associated bond specific data.	Daily
Credit Weekly	Summary of the week's credit events and spread movements for Australian & International credit markets, recent new domestic issues performance & sector-specific bond performances.	Weekly
United Kingdom / Europe		
Economy Watch - UK	Ad hoc commentary on UK economic/market matters, including Central Bank Watch BOE note.	Ad Hoc
Economy Watch - Europe	Ad hoc commentary on Eurozone economic/market matters, including Central Bank Watch ECB note.	Ad Hoc
United States		
Economy Watch – US	Ad hoc commentary on fundamental US Economic related events.	Ad Hoc
Additional Publications		
Navigating Net Zero Business Survey	The survey covers questions on Australia's transition to a low carbon economy.	Annual
Cross Asset Outlook Report	This is a semi-annual report which covers macro-economics, foreign exchange and the Fixed income market (rates and credit). This publication is sent annually to a combination of lists.	Semi Annual

Important Notices

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