



Australian Government
Australian Office of Financial Management

AOFM

AGS Investor Chart Pack – Budget 2023-24

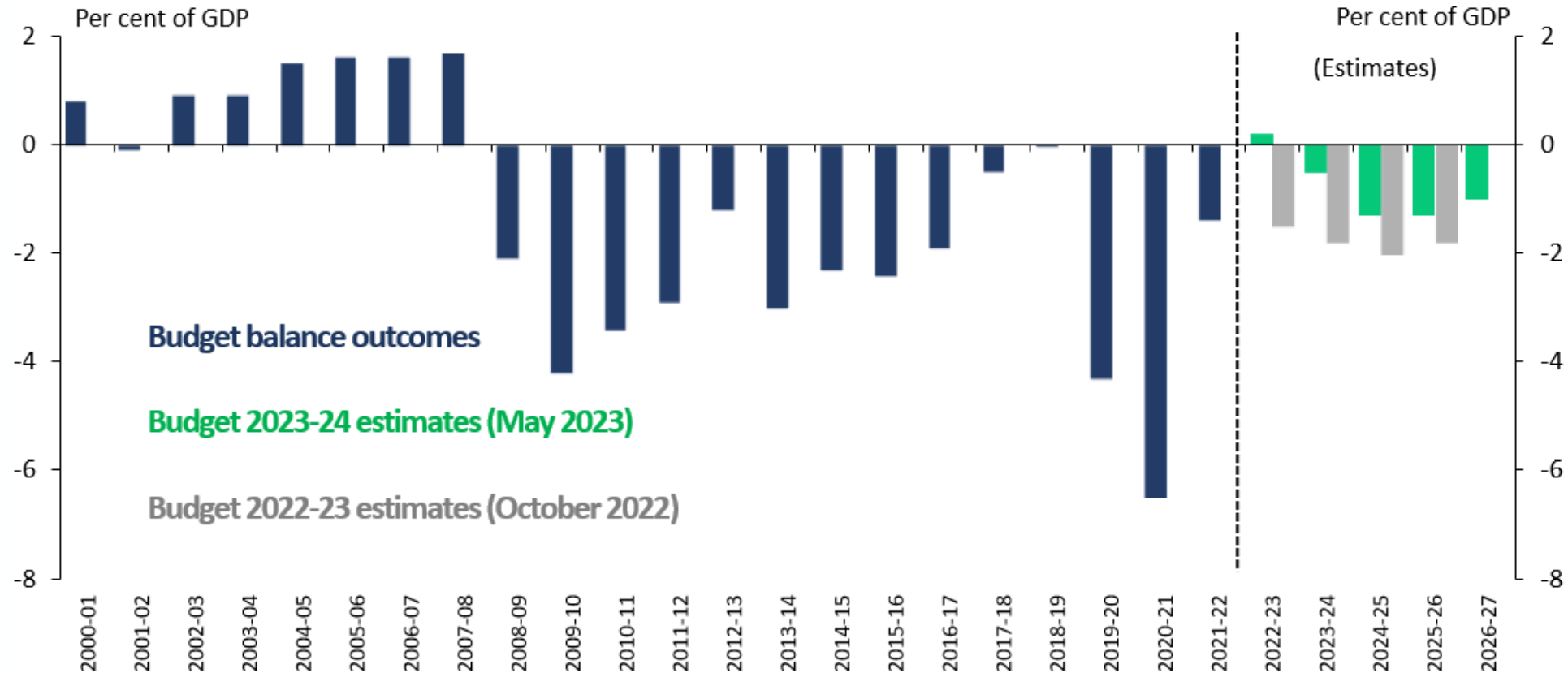
Australian Office of Financial Management

May 2023

Australia's budget balance

Underlying cash balance per cent of GDP

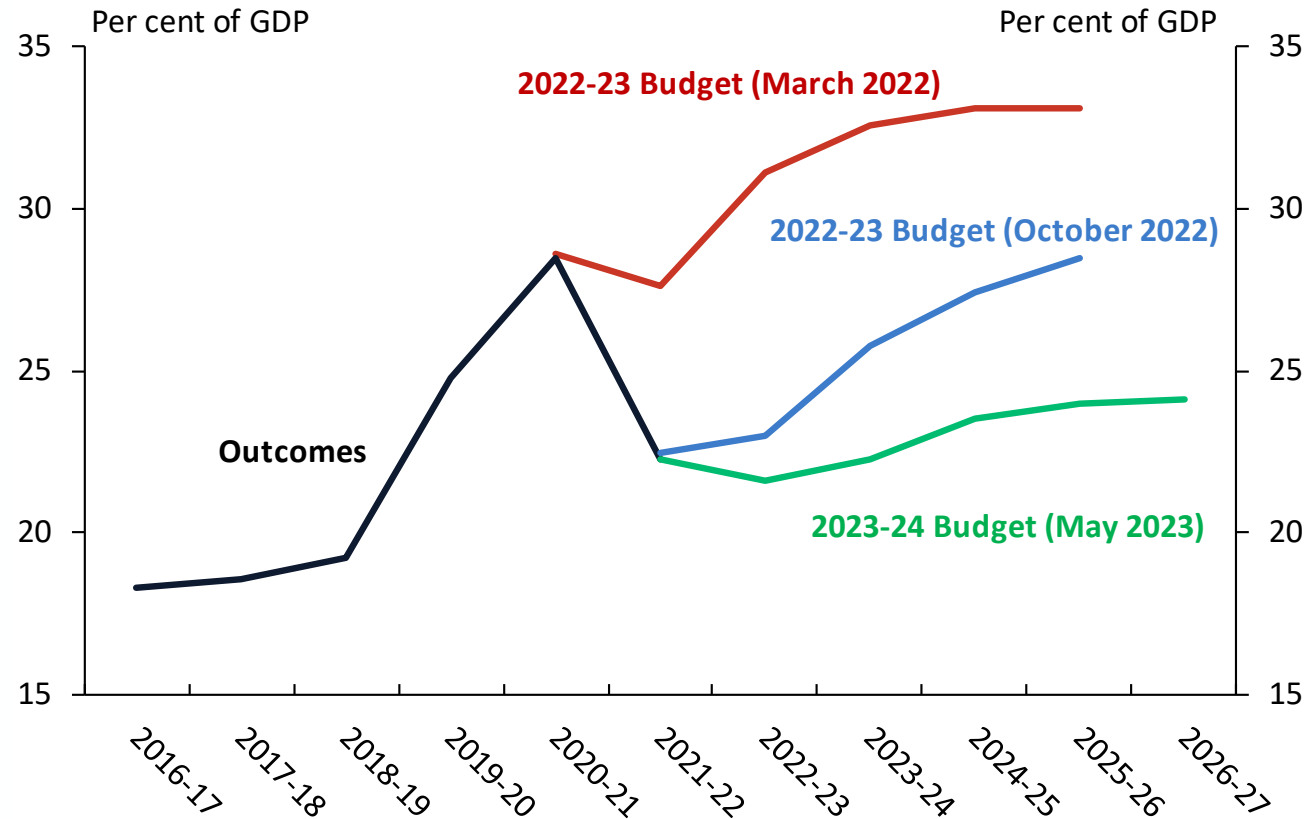
The underlying cash balance (UCB) in 2022-23 is forecast to be a **surplus** of 0.2 per cent of GDP compared to a 1.5 per cent **deficit** forecast at Budget 2022-23 (October). The UCB is estimated to be \$13.9 billion in deficit (0.5 per cent of GDP) in 2023-24. The deficit is expected to increase in 2024-25 and 2025-26 before falling to \$28.5 billion (1.0 per cent of GDP) in 2026-27. It remains lower across all years than forecasted in October.



Source: Treasury – Budget 2023-24

Australia's net debt position

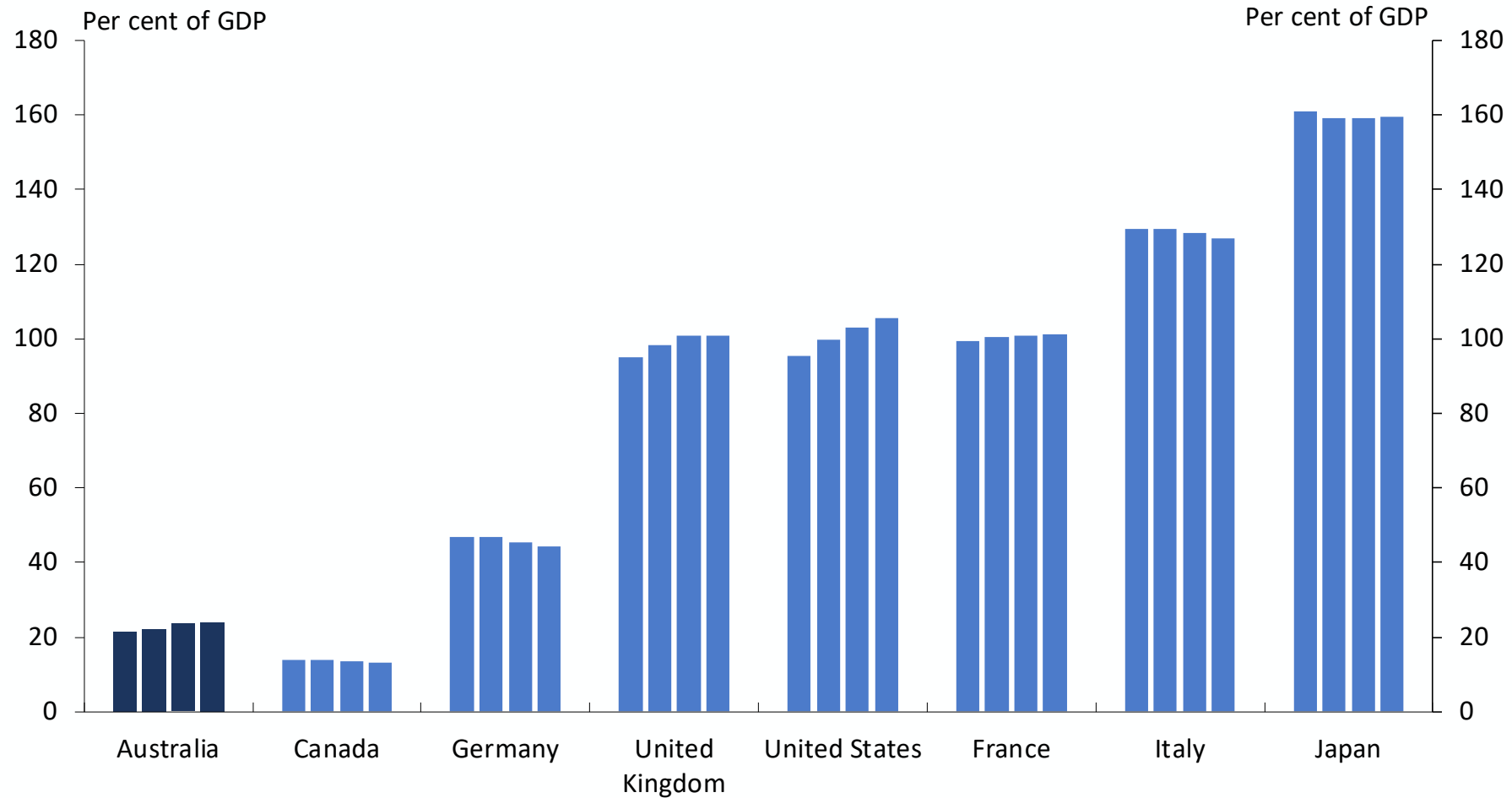
Net debt is estimated to be 22.3 per cent of GDP (\$574.9 billion) in 2023–24; lower than the estimate of 25.8 per cent of GDP (\$634.1 billion) at the October Budget. The improvement since the October Budget primarily reflects the Government's decreased borrowing requirement resulting from improvements in the underlying cash balance, partly offset by an increase in the market value of existing debt.



Source: Treasury – Budget October 2023-24.

Comparison of government net debt

2023 to 2026 (forecast) for G7 and Australia



Note: Australian data are for the Australian Government general government sector for financial years commencing 2023-24. Data for all other countries are for total government and refer to calendar years commencing 2023.

Source: Treasury – Budget 2023-24, IMF Fiscal Monitor April 2023

Australian Government Securities

Three instruments available

Treasury Bonds

Amount Outstanding

\$820 billion

28 lines on issue

Average line size is \$29.3 billion

Maturities range from 2024 to 2051

Gross Issuance 2023-24 (F)

Around \$75 billion

Treasury Indexed Bonds

Amount Outstanding

\$39.0 billion

7 lines on issue

Average line size is \$5.6 billion

Maturities range from 2025 to 2050

Gross Issuance 2023-24 (F)

Around \$2 - \$4 billion

Treasury Notes

Amount Outstanding

\$36.5 billion

9 lines on issue

Average line size is \$4.1billion

Maturities can range up to 12 months

Further information

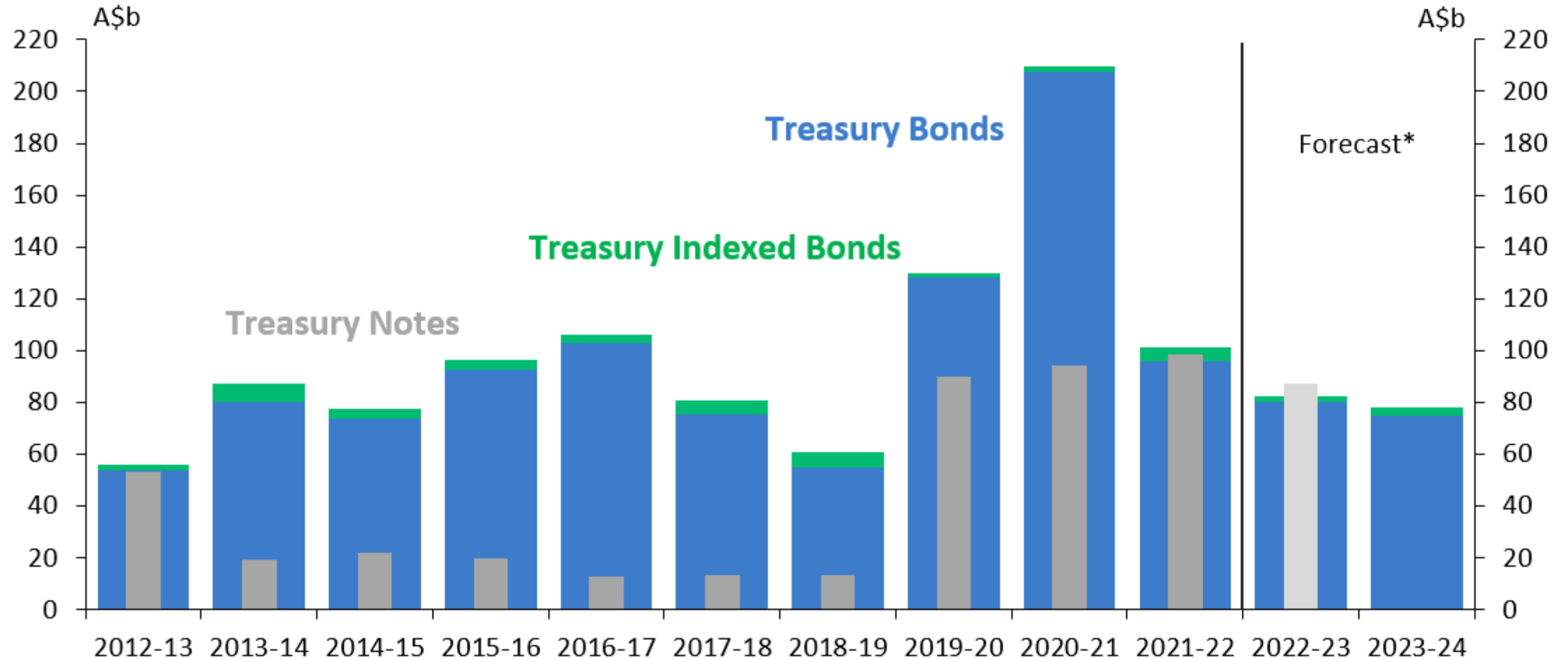
- Issuance of Treasury Bonds for 2022-23 has been revised to around \$80 billion (of which \$74 billion has been completed as of 9 March 2023). Issuance of Treasury Bonds in 2023-24 is expected to be around \$75 billion.
- Issuance of Treasury Indexed Bonds in 2022-23 will be around \$2.2 billion (of which \$1.75 billion has been completed). Issuance of Treasury Bonds in 2023-24 is expected to be around \$2-4 billion.
- The AOFM will remain active in the Treasury Note market with regular issuance for cash management purposes.
- More detailed guidance on issuance plans for the first half of 2023-24 (including any planned new maturities) will be provided on 30 June 2023.

Note: Figures are as at 12 March 2023.

Amount shown for Treasury Indexed Bonds is based upon the face value of the bonds outstanding unadjusted for changes in the CPI.

Issuance of Australian Government Securities

Gross Issuance

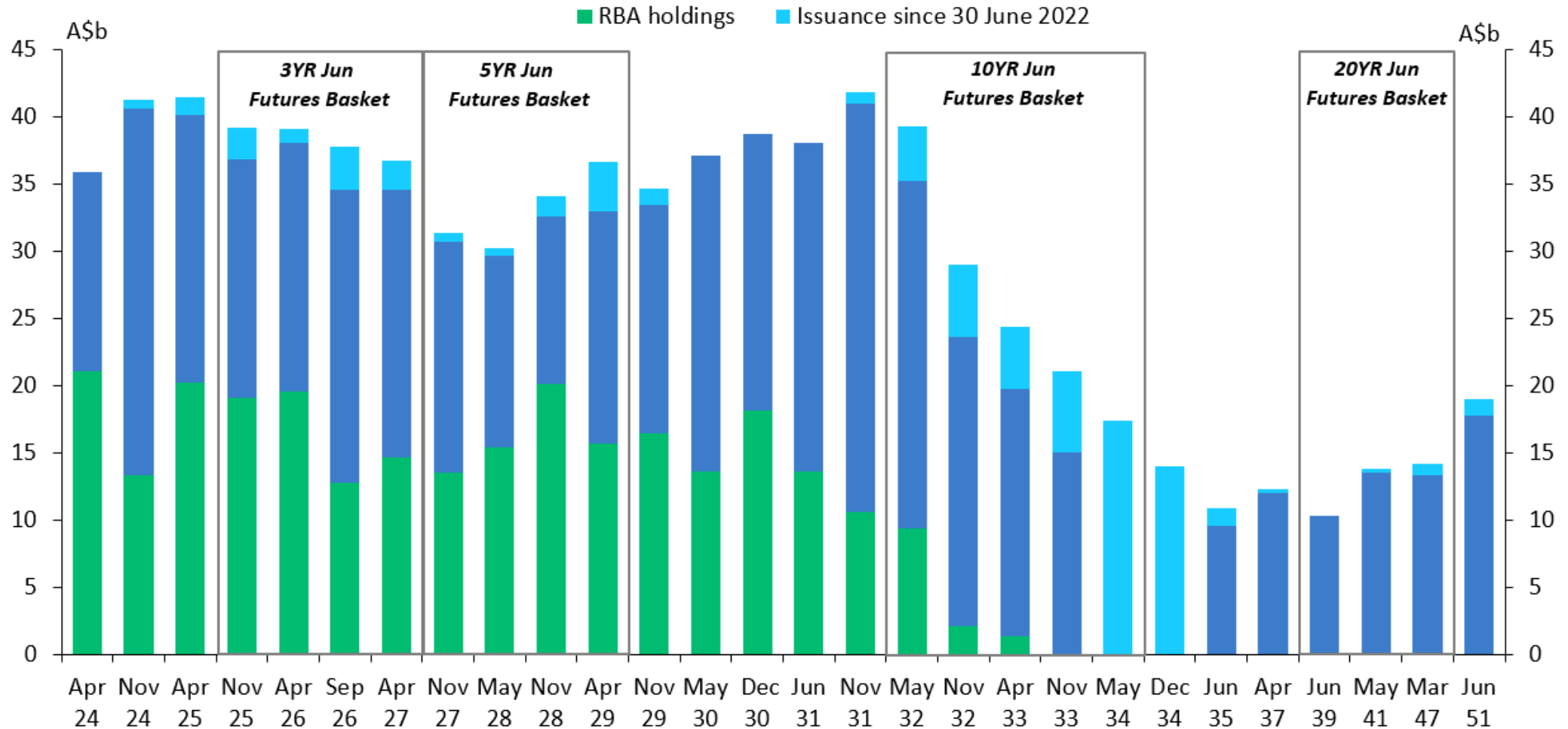


Source: AOFM. Gross Treasury Note issuance in 2022-23 is for the period 1 July 2022 to 12 May 2023.

*Forecast issuance of Treasury Notes is not available. Actual Treasury Note issuance will vary depending on the flows of Government expenditure and receipts.

Treasury Bonds on issue

The AOFM will continue to use the most liquid (high-demand) parts of the yield curve to support the bulk of planned issuance, while supporting other parts of the market by responding to demand and issuing in appropriate volumes. More detailed guidance on issuance plans for the first half of 2023-24 (including any planned new maturities) will be provided on 30 June 2023.

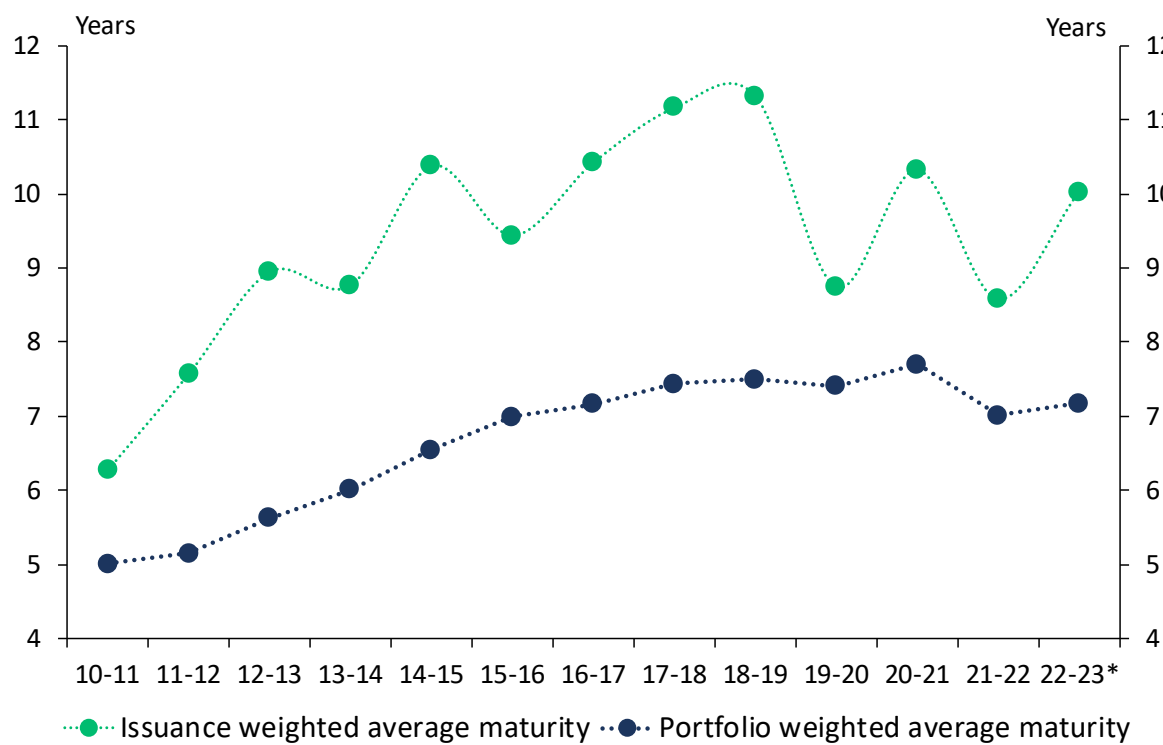


Source: AOFM. As at 12 May 2023.

Treasury Bond curve

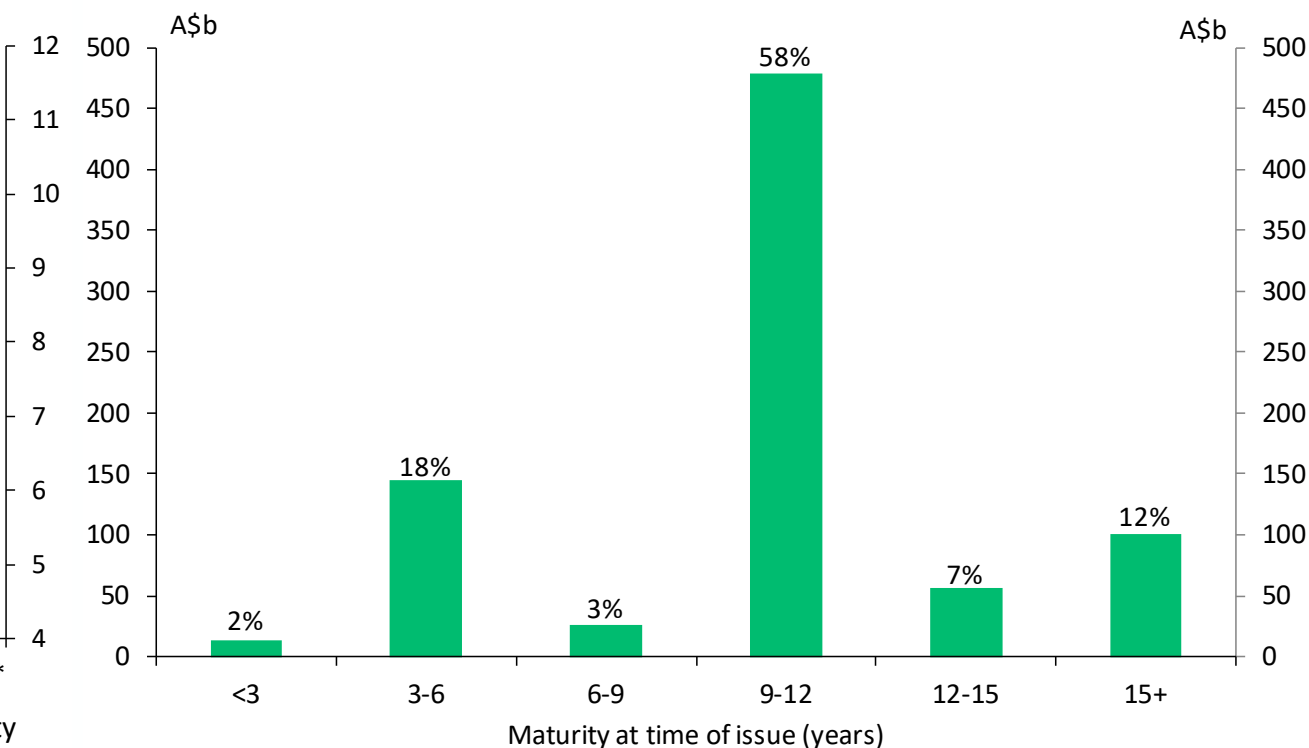
Over the last ten years the AOFM has gradually lengthened the Treasury Bond yield curve to 30 years and increased the average term to maturity of the portfolio. Focus has shifted to maintaining the 30-year benchmark and continuing to support ultra-long maturities through issuance into existing lines. Around 78% of the portfolio was issued at an original maturity of nine years or longer.

Weighted average maturity



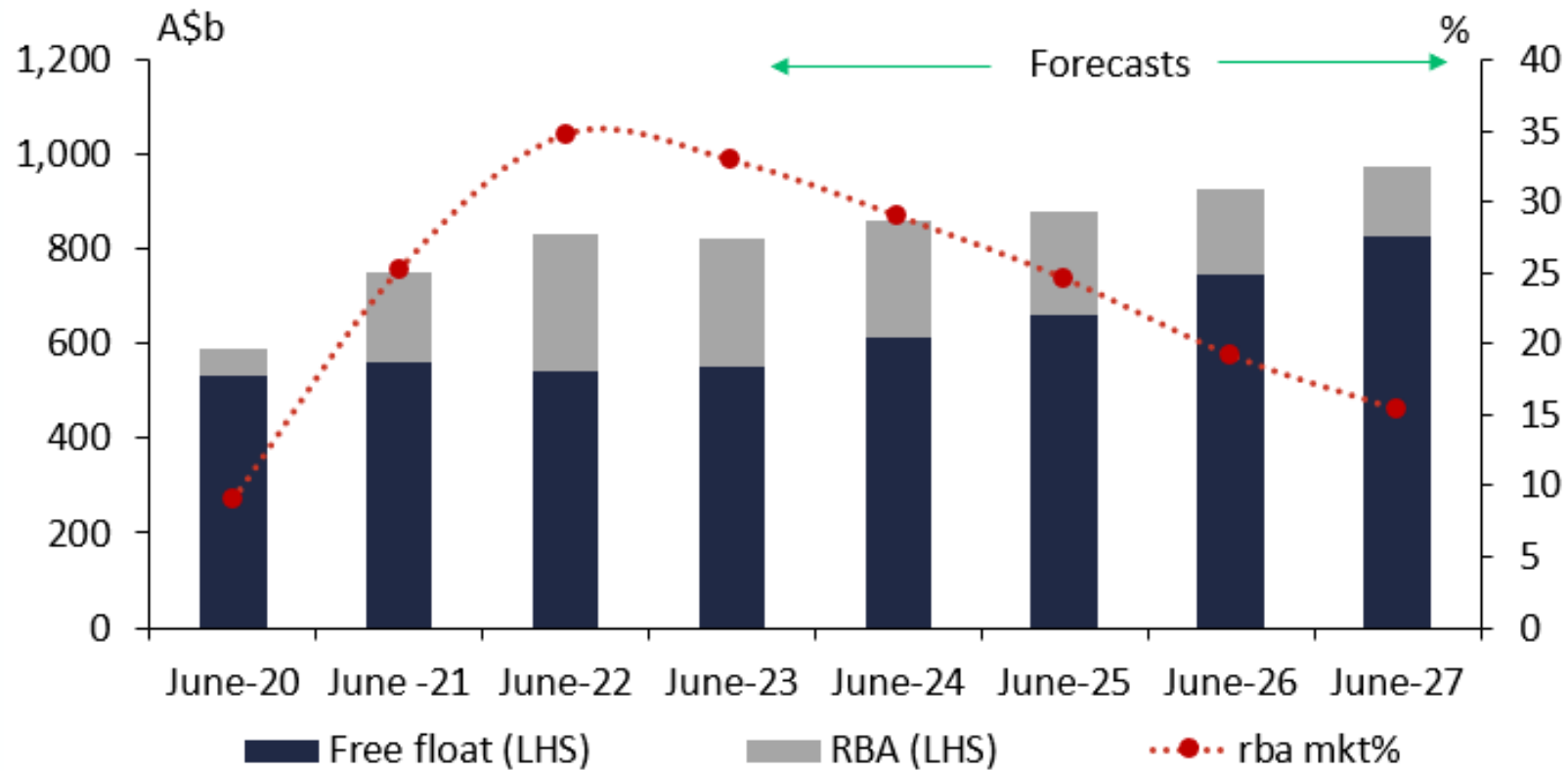
Source: AOFM

Treasury Bond portfolio composition by original term to maturity



Forecast Treasury Bonds outstanding and RBA holdings

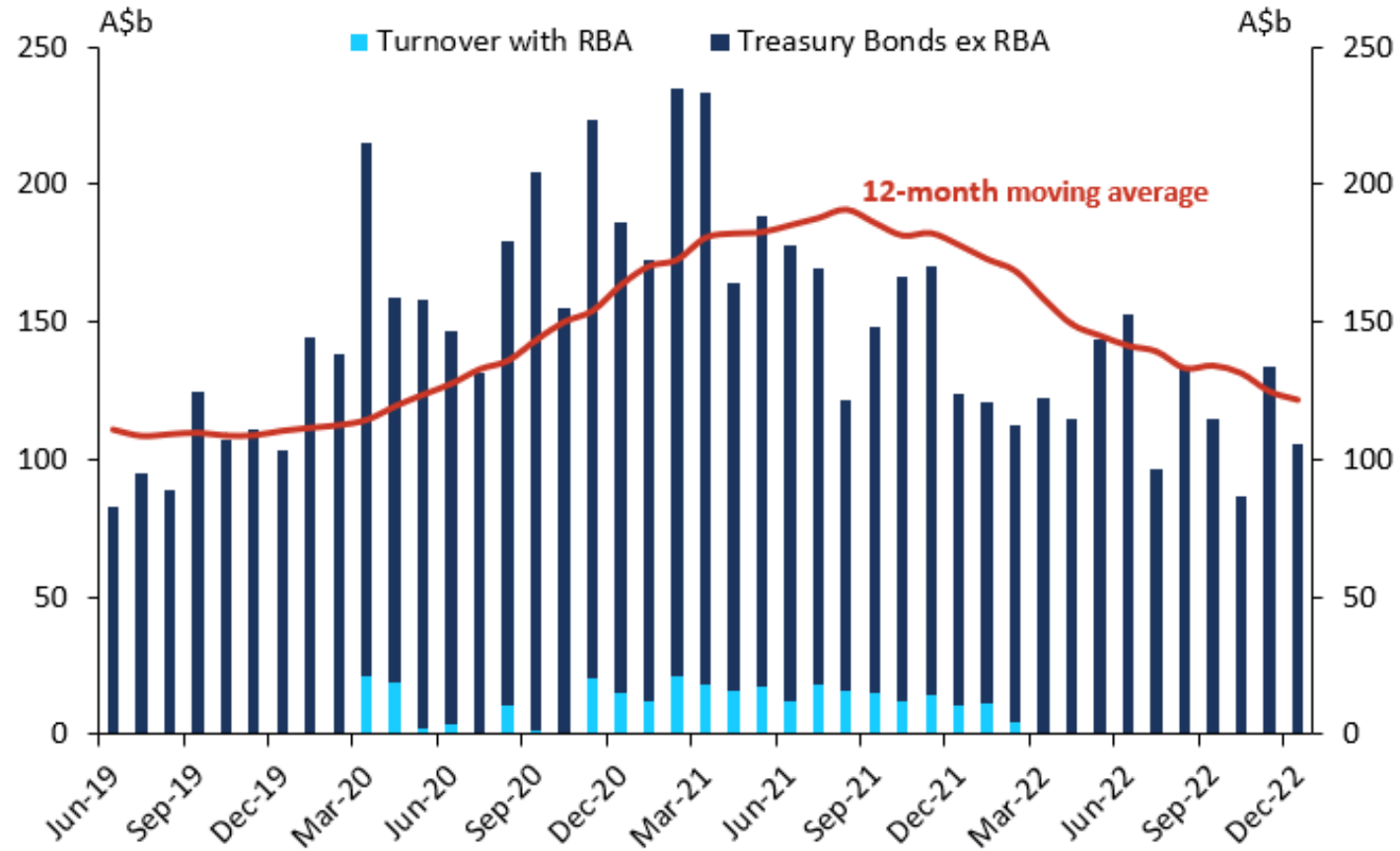
- The RBA's bond purchase program concluded in February 2022. The RBA currently holds around 33 per cent of Treasury Bonds on issue.
- RBA holdings as a proportion of total Treasury Bonds outstanding are expected to decline gradually as the bonds they hold mature.



Source: Treasury – Budget 2023-24, RBA, AOFM.

Treasury Bond secondary market turnover

Liquidity in the AGS market remains supportive – particularly around the 3-year and 10-year futures baskets. Secondary market turnover was lower in 2021-22 than in 2020-21, although it is still around pre-pandemic levels (albeit in a now larger AGB market).



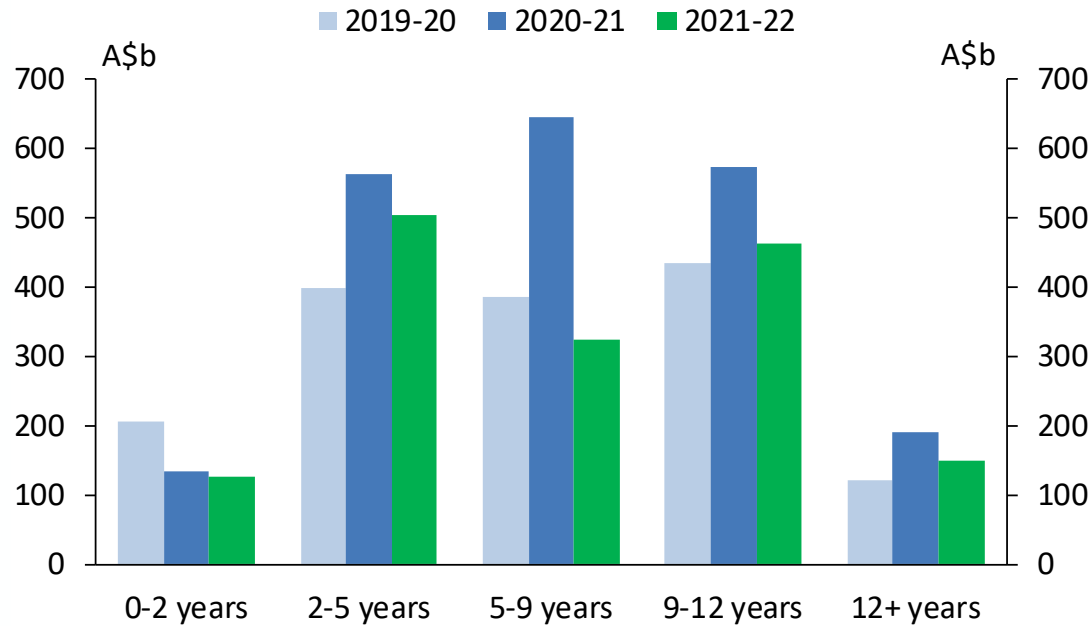
Source: AOFM, RBA

Turnover – Treasury Bonds

Total turnover A\$1.57 trillion (2021-22)

A\$2.11 trillion (2020-21)

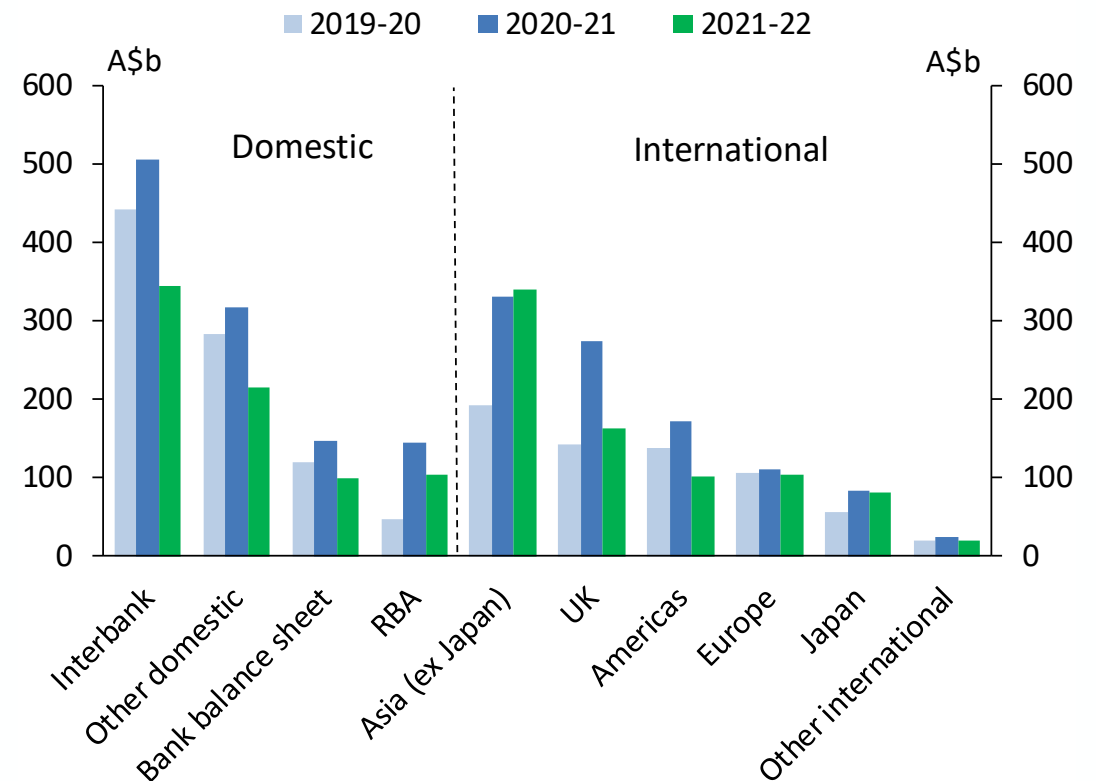
Turnover by tenor



Monthly average A\$131 billion (2021-22)

A\$176 billion (2020-21)

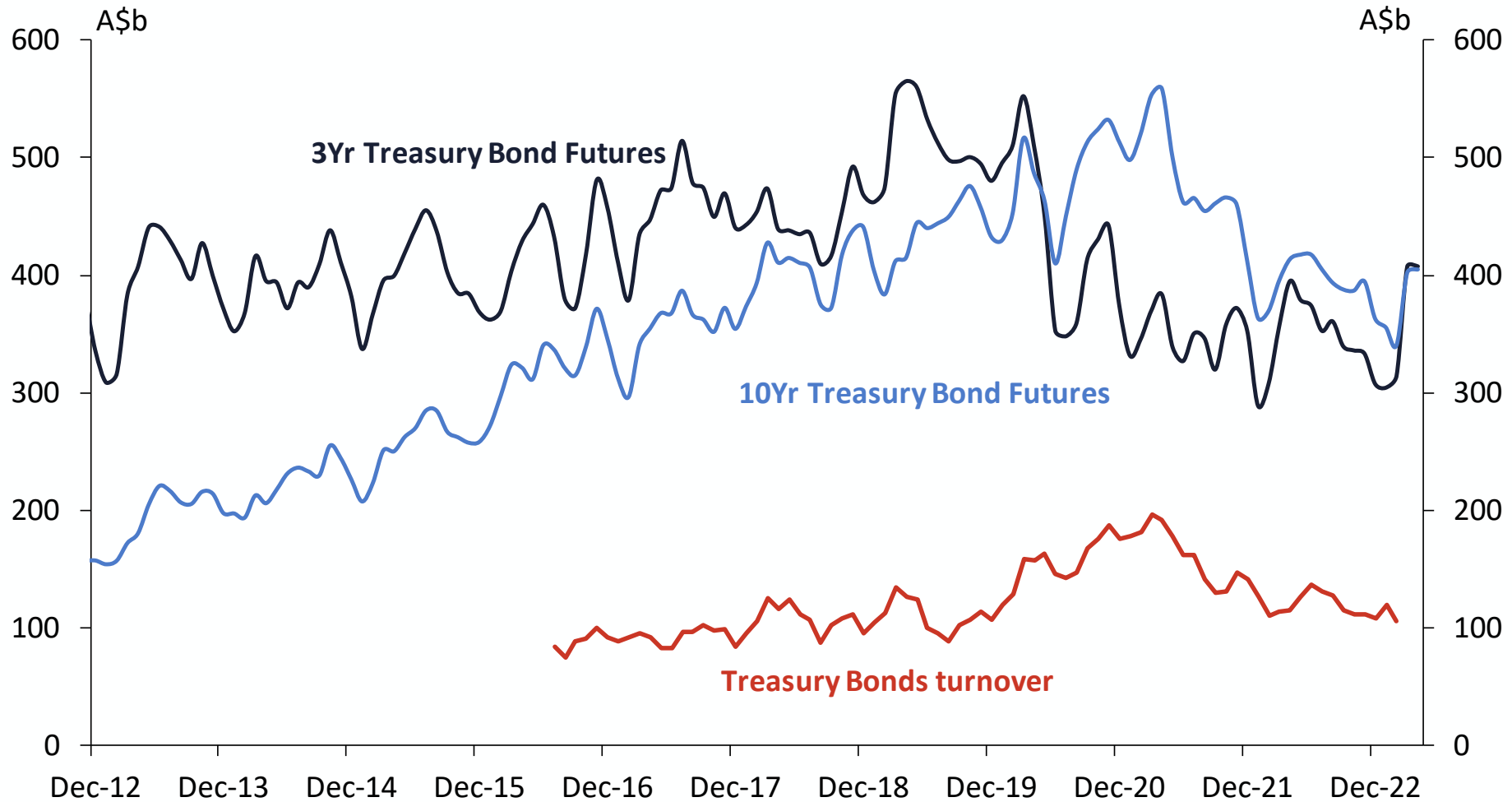
Turnover by category



Source: AOFM. The AOFM relies on data provided by survey respondents and cannot guarantee the accuracy of this data

Treasury Bond futures market activity

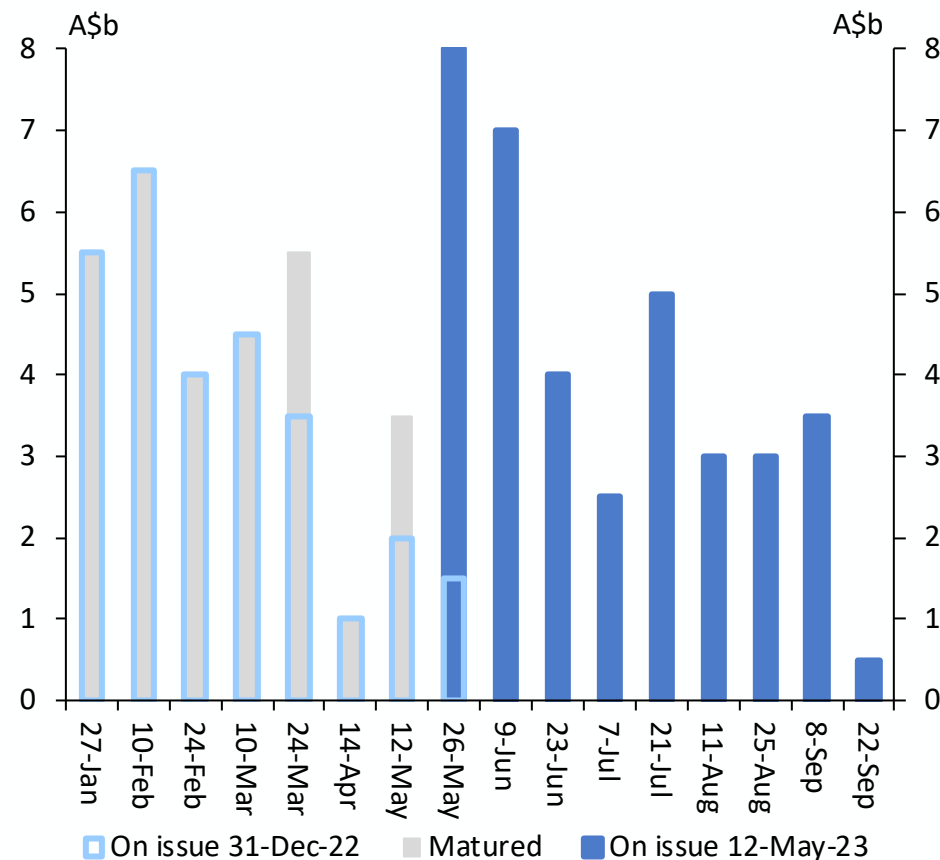
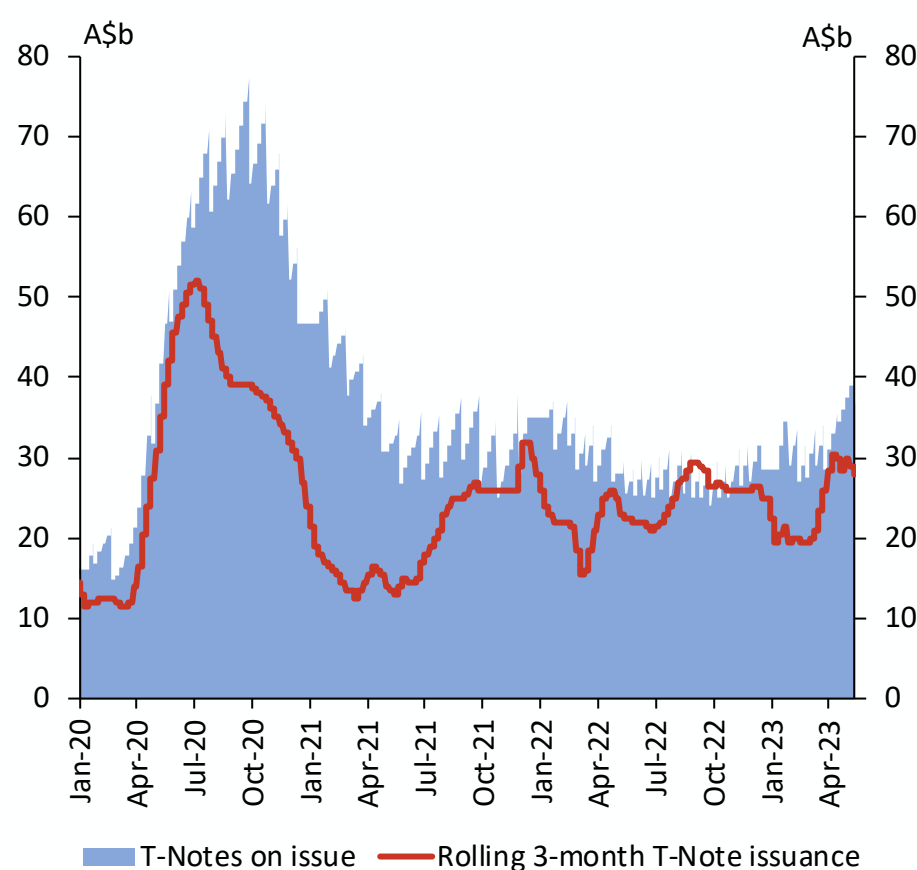
Monthly turnover (3m M.A.)



Source: ASX, Refinitiv, AOFM

Issuance of Treasury Notes

Regular issuance of Treasury Notes will continue. Weekly issuance volumes will depend on the timing and size of government receipts and outlays and the AOFM's assessment of its cash portfolio requirements. There will be at least \$25 billion of Treasury Notes on issue to maintain investor engagement.

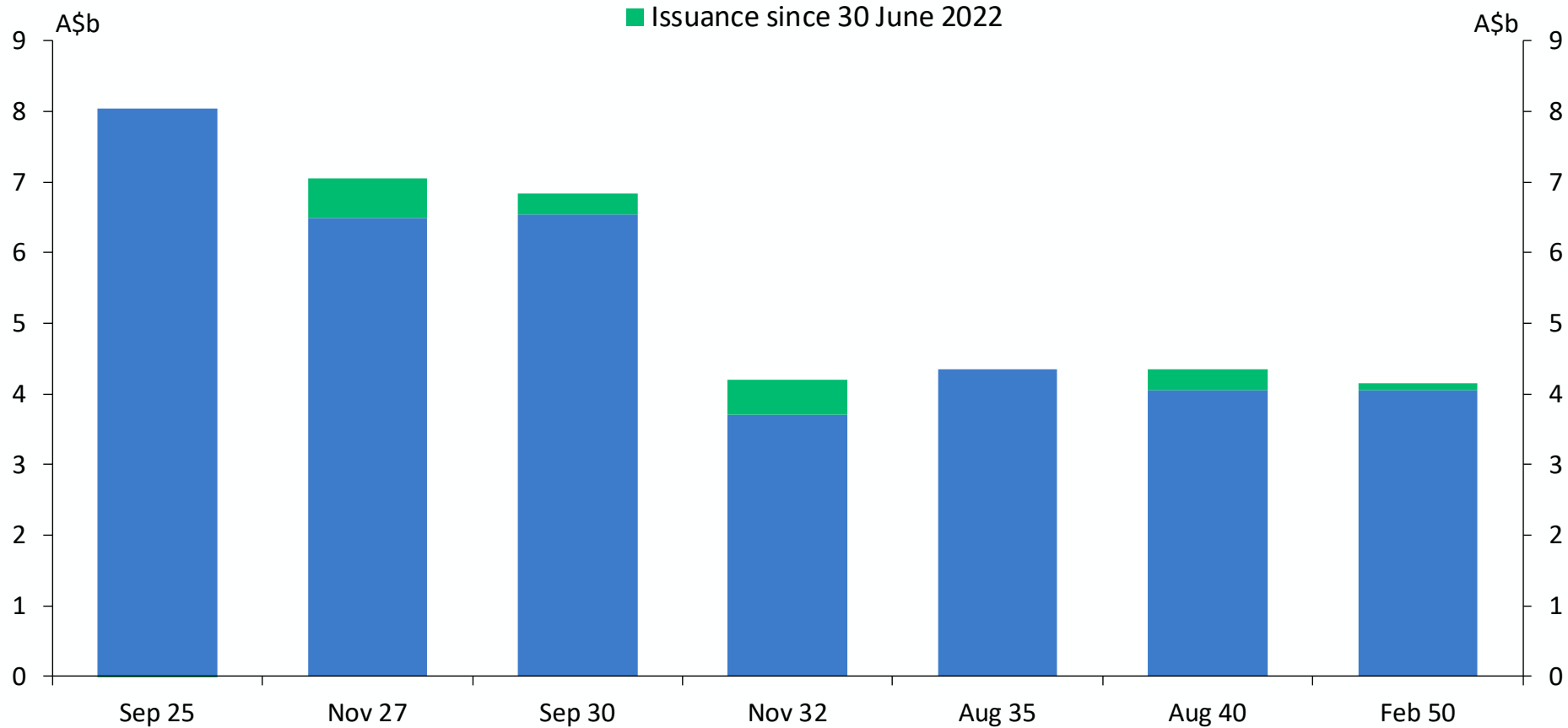


Source: AOFM, as at 12 May 2023.

Treasury Indexed Bonds on issue

Amount shown is the face value unadjusted for changes in the CPI adjusted capital value of the bond

The AOFM recognises the liquidity challenges facing the TIBs market, and will continue to issue to support this market. This means that prevailing market conditions and appropriate tender volumes will remain important determinants of issuance decisions. Regular issuance supply will be maintained.



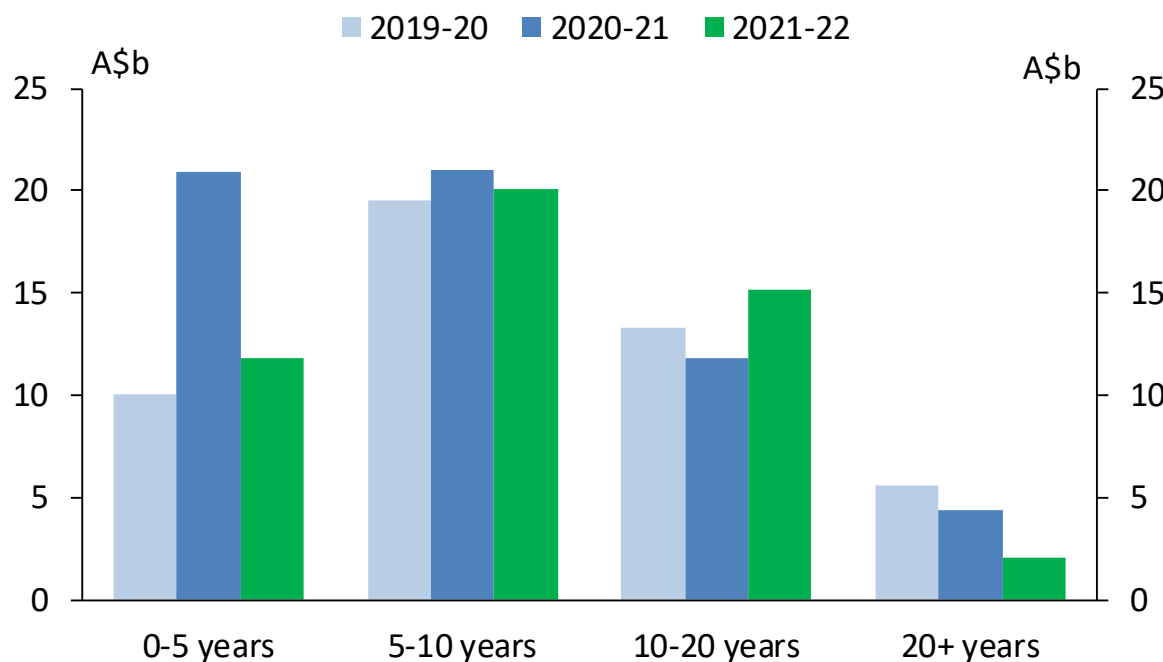
Source: AOFM. As at 12 May 2023.

Turnover – Treasury Indexed Bonds

Total turnover A\$49 billion (2021-22)

A\$58 billion (2020-21)

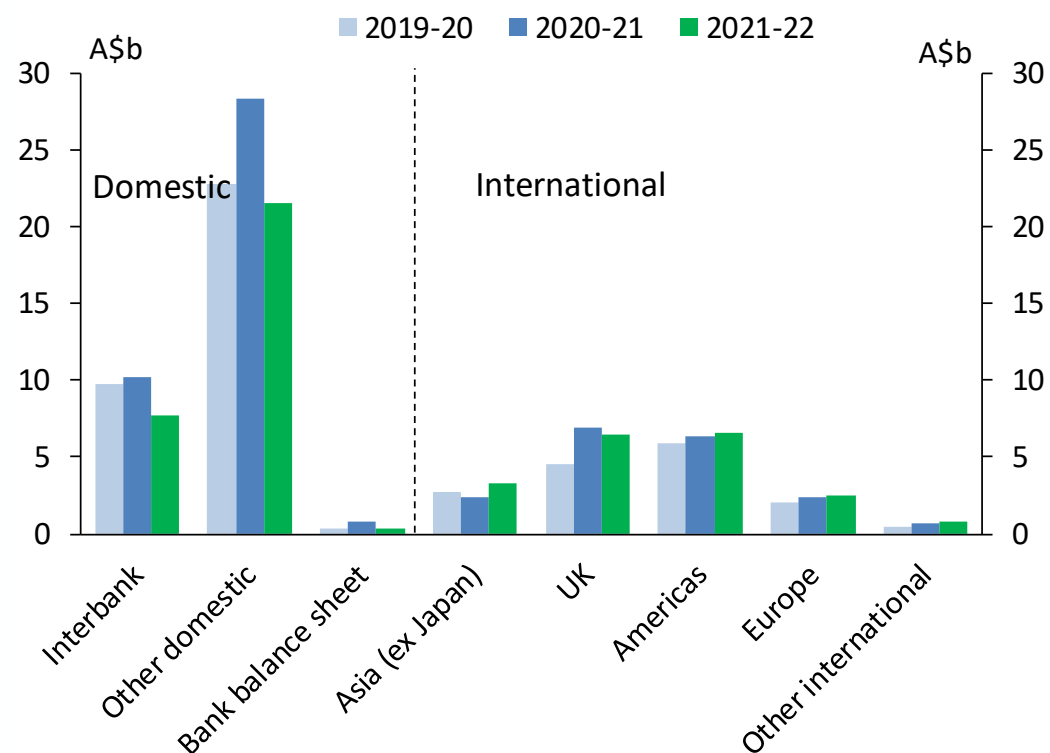
Turnover by tenor



Monthly average A\$4.1 billion (2021-22)

A\$4.8 billion (2020-21)

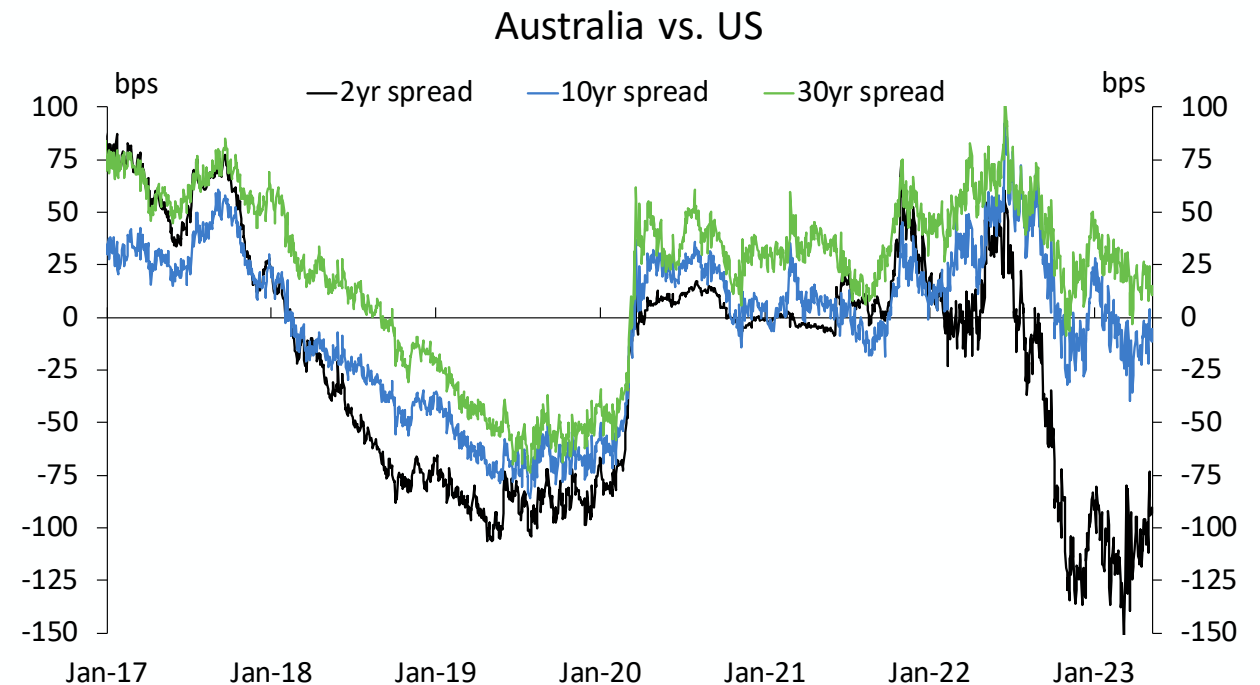
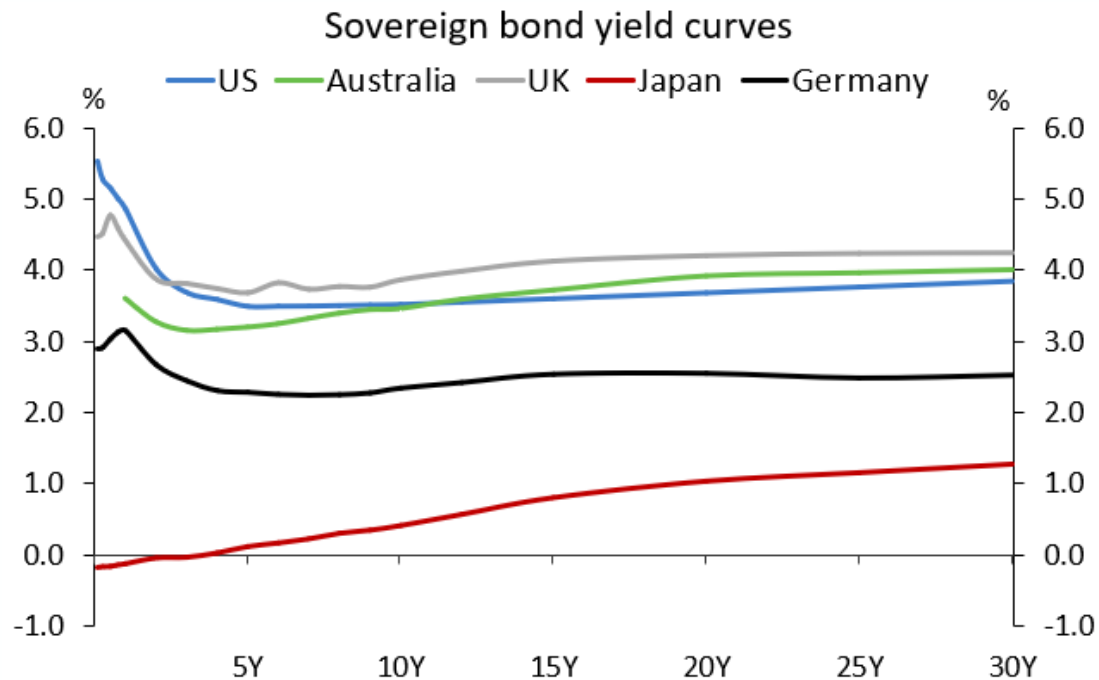
Turnover by category



Source: AOFM. The AOFM relies on data provided by survey respondents and cannot guarantee the accuracy of this data

Australian sovereign bond spreads

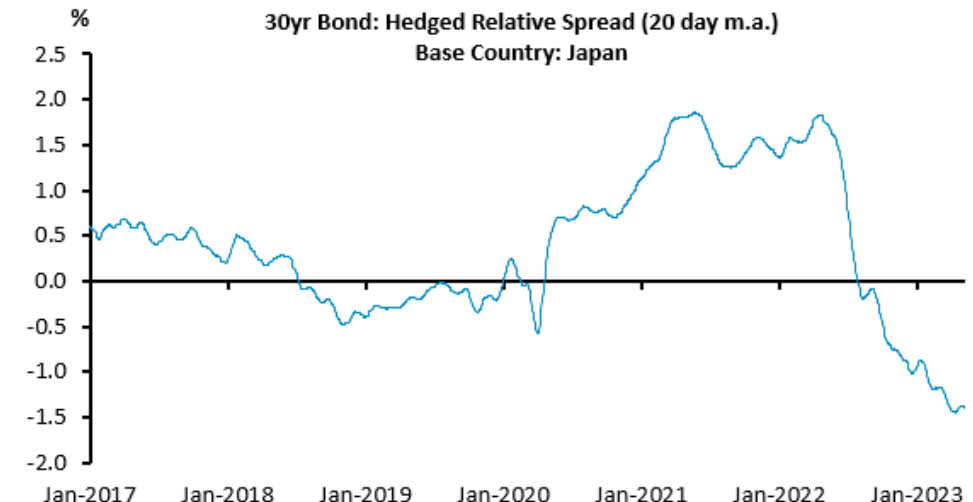
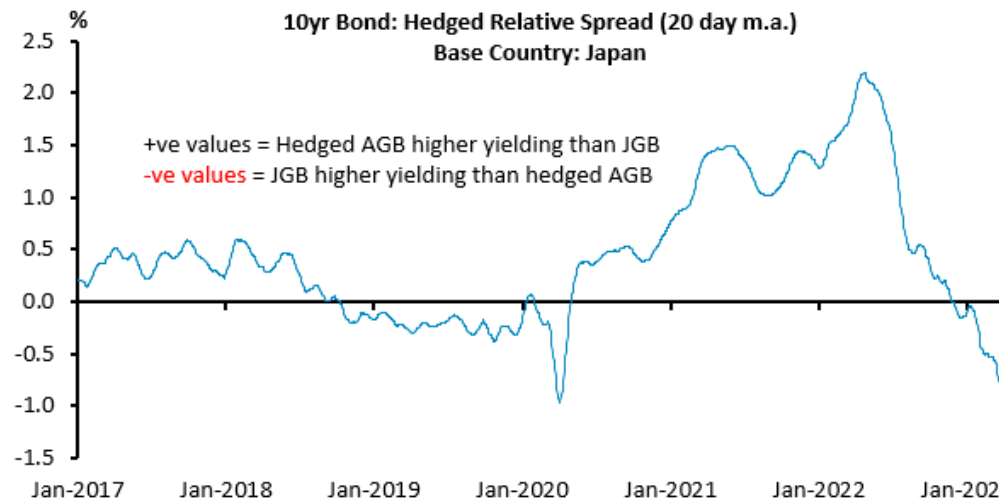
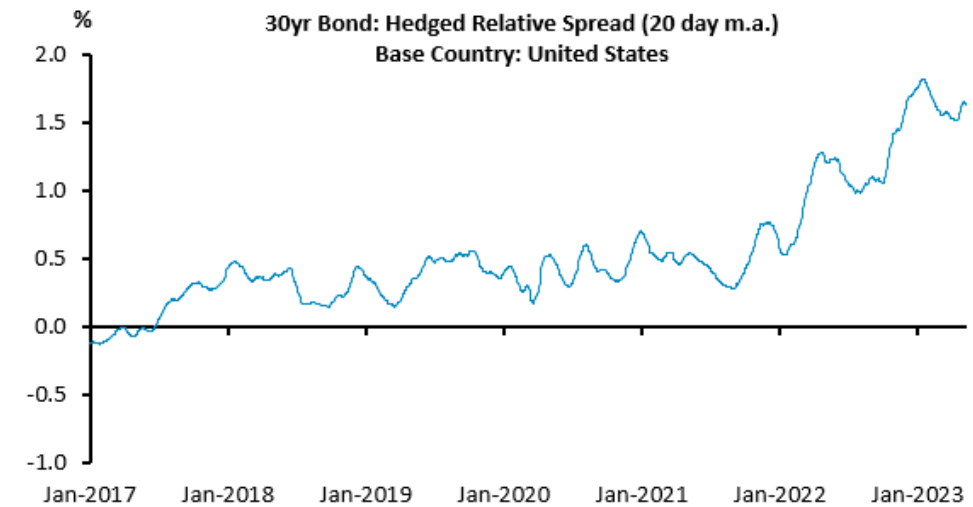
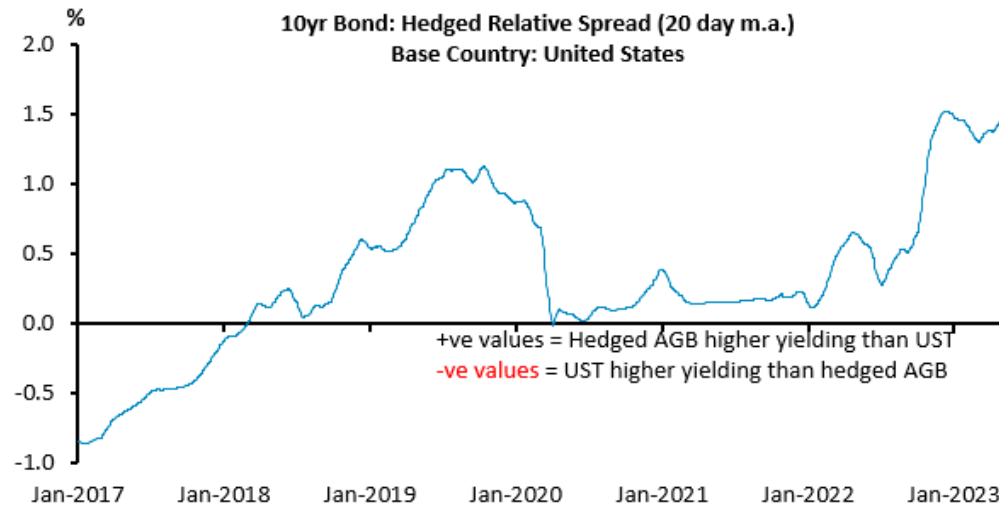
- The AGS market continues to look attractive compared to other core sovereign markets on an outright and hedged basis from an offshore investor perspective.
- The AGS domestic investor base primarily comprises bank balance sheets and fund manager allocations, with the RBA also a significant holder of AGS.



Source: Refinitiv, as at 10 May 2023.

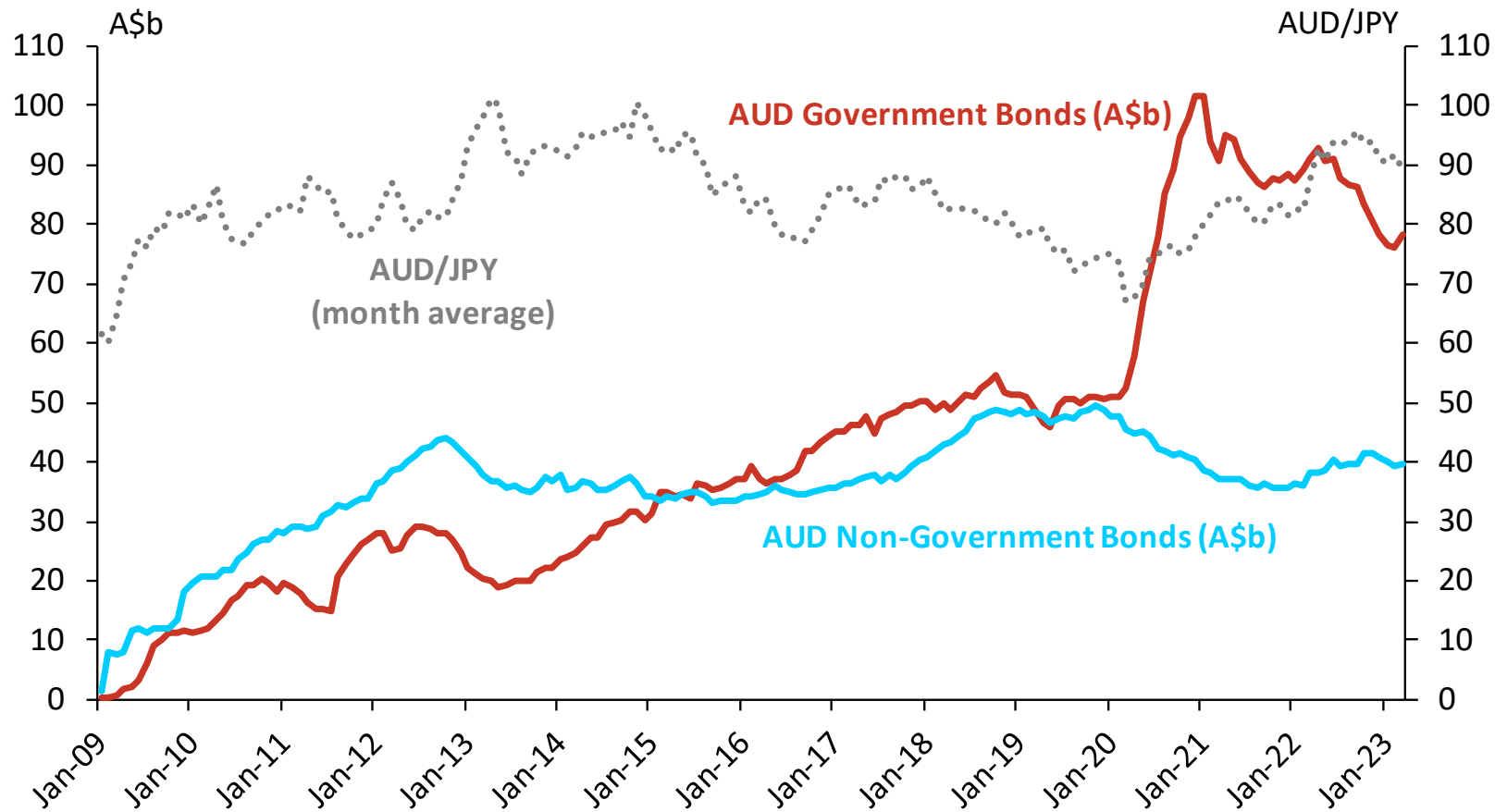
Australian sovereign bond spreads

Hedged via rolling 3m fx forwards



Source: Bloomberg, AOFM. Updated to 9 May 2023

Net capital flow into Australian government bonds by Japanese investors (AUD billion)

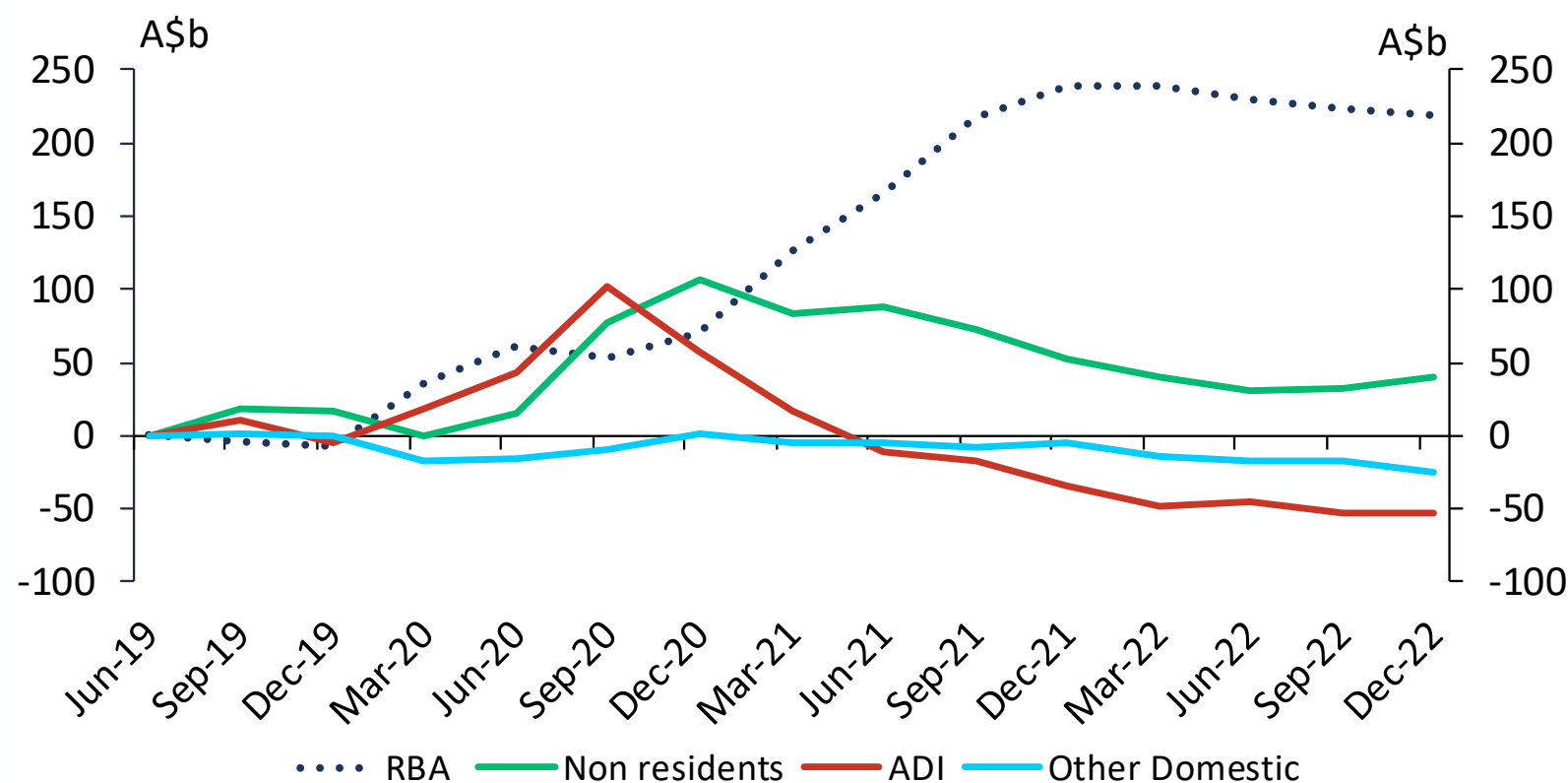


Source: Japan Ministry of Finance, Bloomberg. Data includes both AGS and semi government bonds. Updated to 31 March 2023

Shift in investor holdings of Australian government bonds

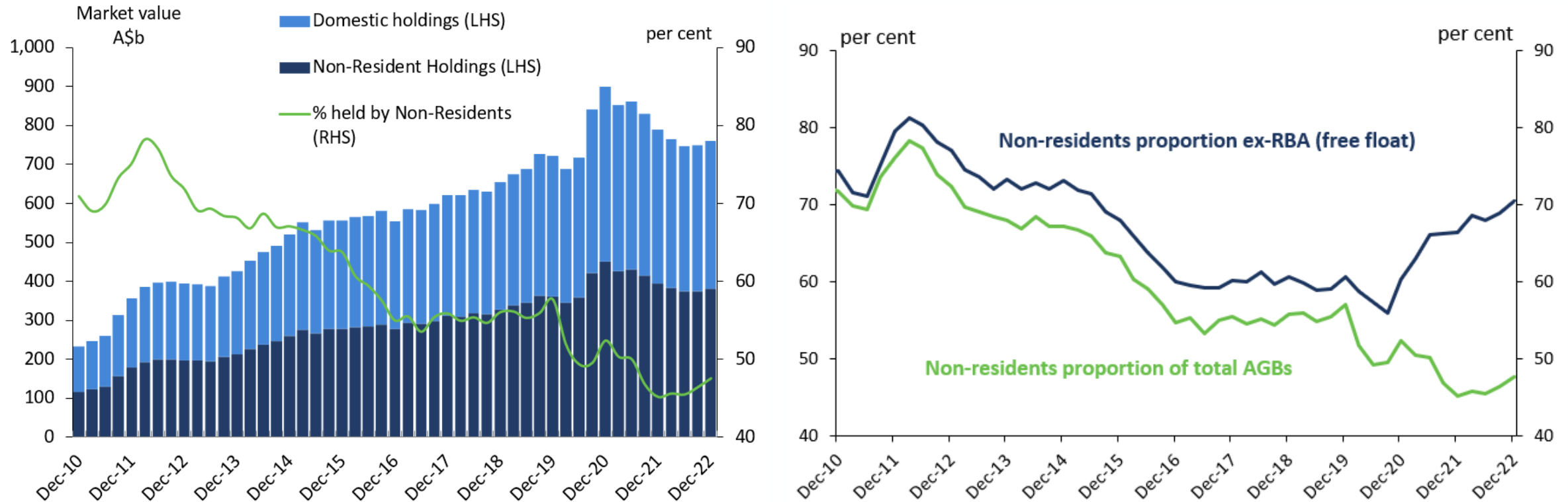
Change in AGB holdings since June 2019

Since the RBA commenced its broad bond purchase program in late 2020, domestic banks (ADIs) reduced Treasury Bond holdings to the greatest extent, either by participating directly in RBA tenders or indirectly via intermediaries. In contrast non-resident holdings have fallen only marginally in outright terms (since late 2020).



Source: ABS, AOFM.

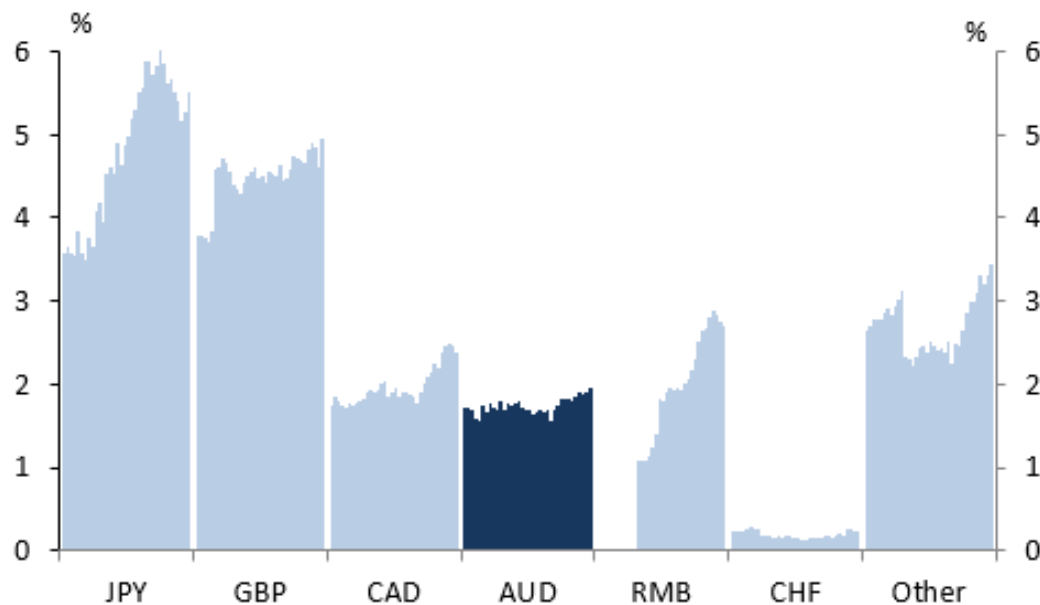
Non-resident holdings of AGBs



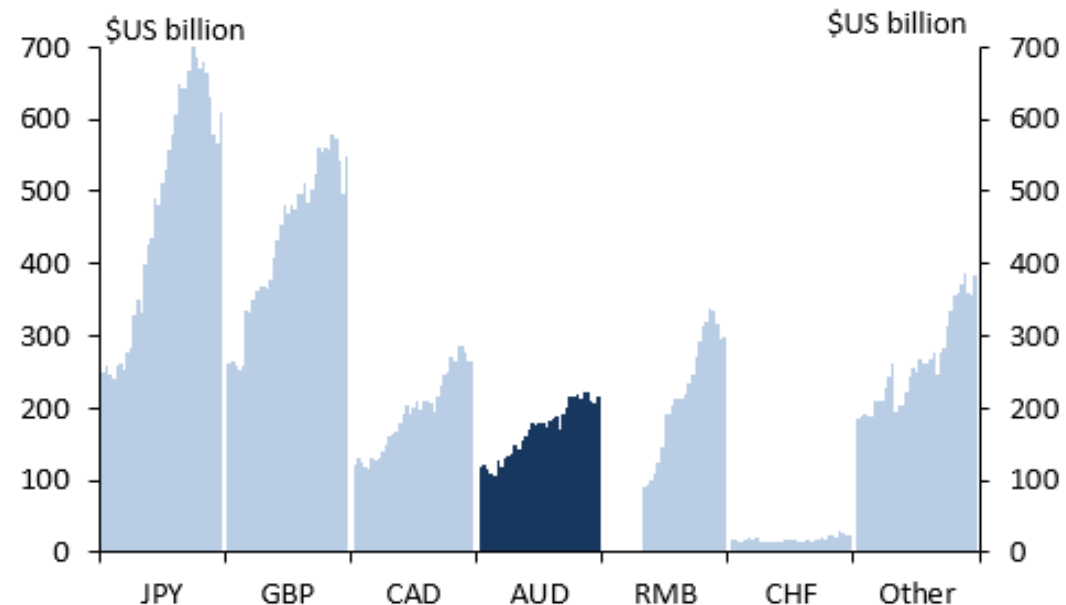
Source: Australian Bureau of Statistics (ABS), RBA, AOFM. AGBs are Treasury Bonds and Treasury Indexed Bonds.

Central Bank FX reserve allocation outside of USD & EUR

Q1 2014 to Q4 2022



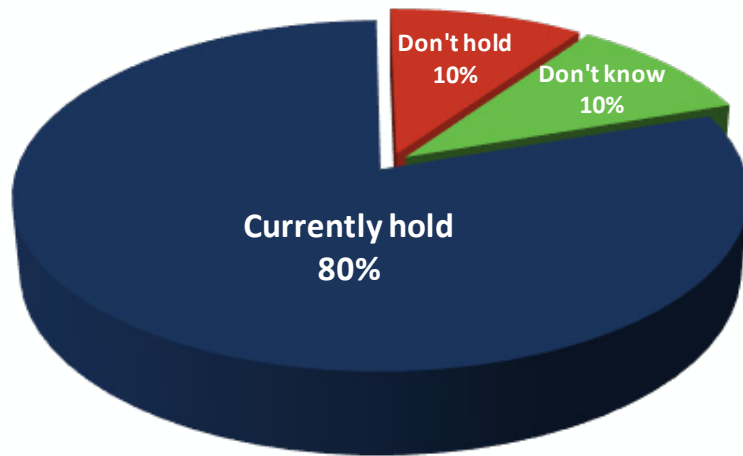
Proportion of allocated reserves



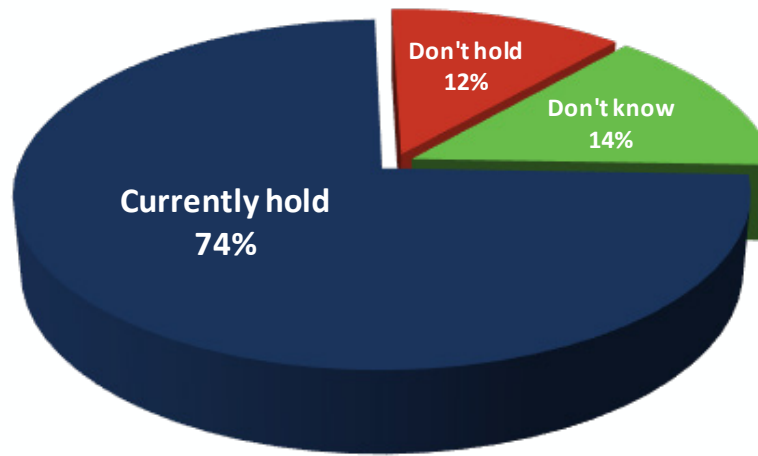
Value of allocation (USD billions)

Source: IMF

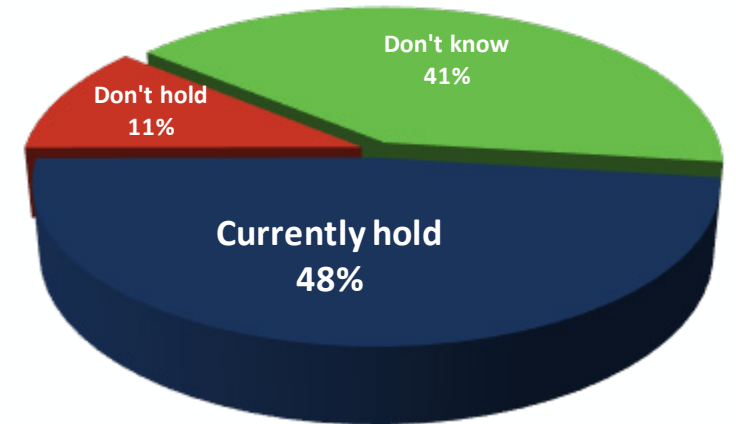
Holdings of AGS amongst Reserve Managers



World's 30 Largest Foreign
Currency Reserve Managers



World's 50 Largest Foreign
Currency Reserve Managers



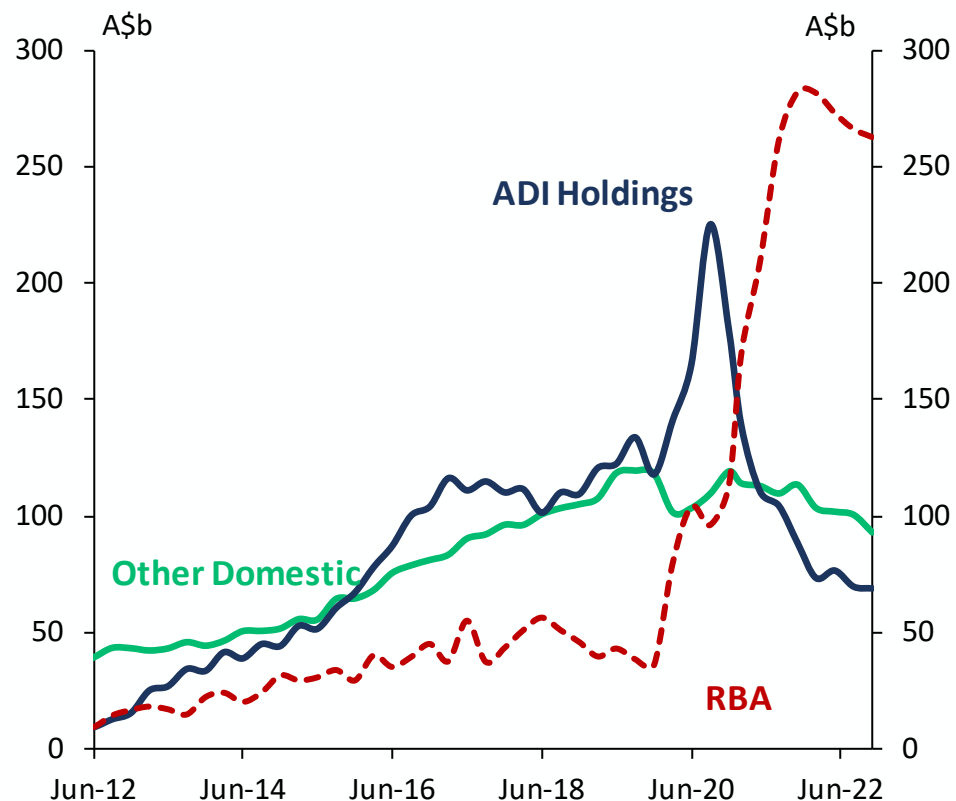
World's 100 Largest Foreign
Currency Reserve Managers

Source: AOFM, IMF

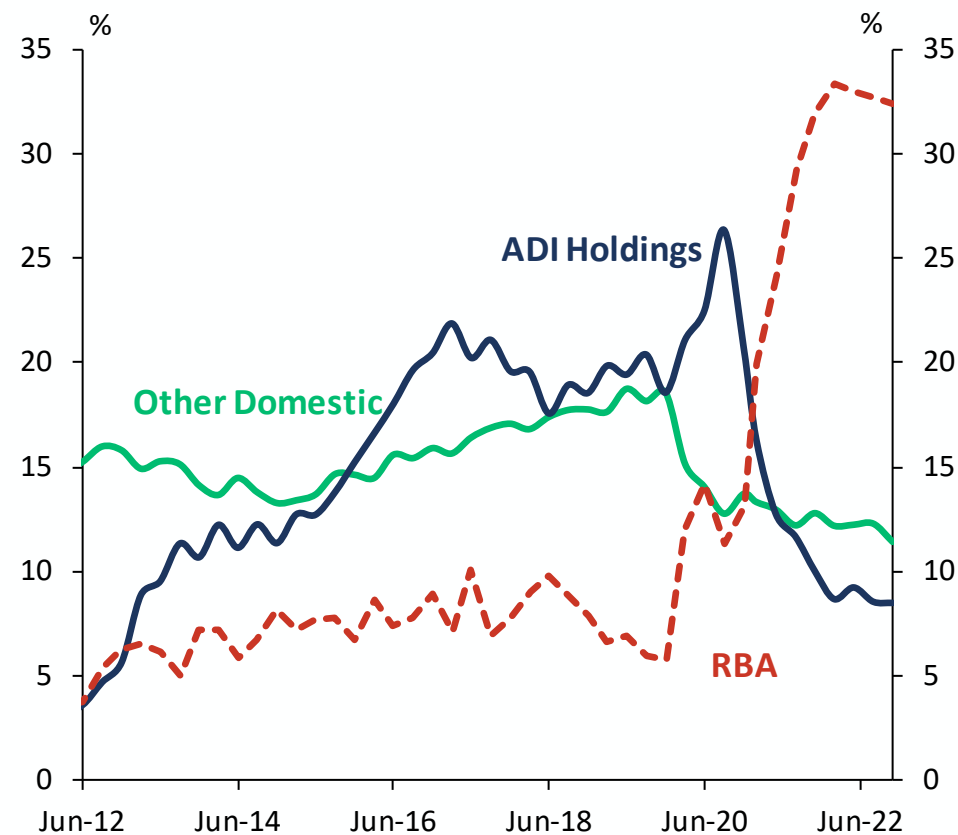
Domestic bank and non-bank holdings of AGBs

June 2012 to December 2022

Value of Holdings



Proportion of AGB Market

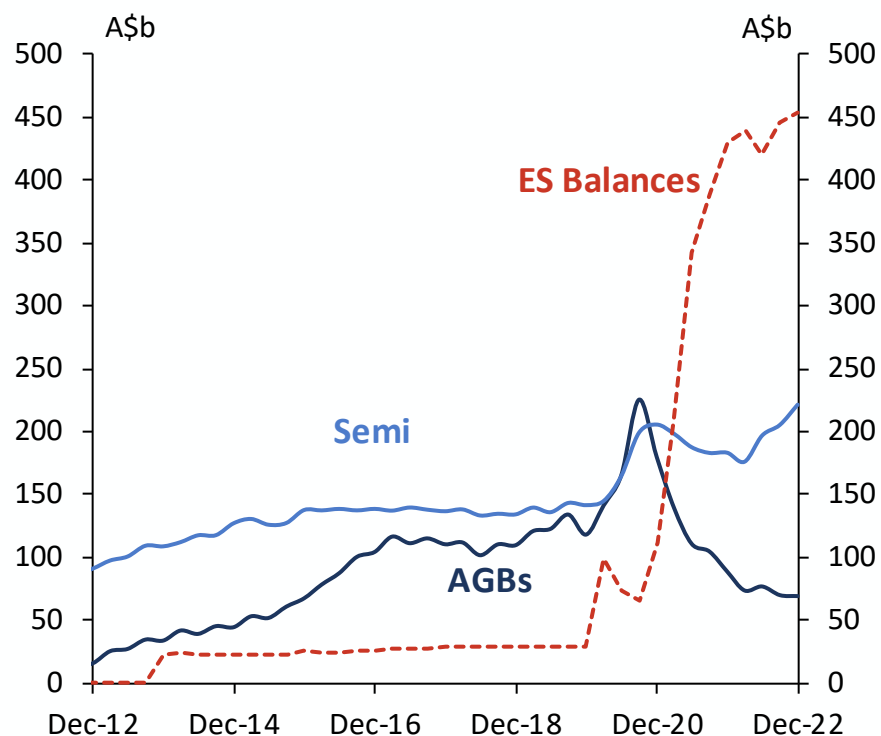


Source: ABS. Holdings are not adjusted for repurchase transactions.
AGBs are Treasury Bonds and Treasury Indexed Bonds.

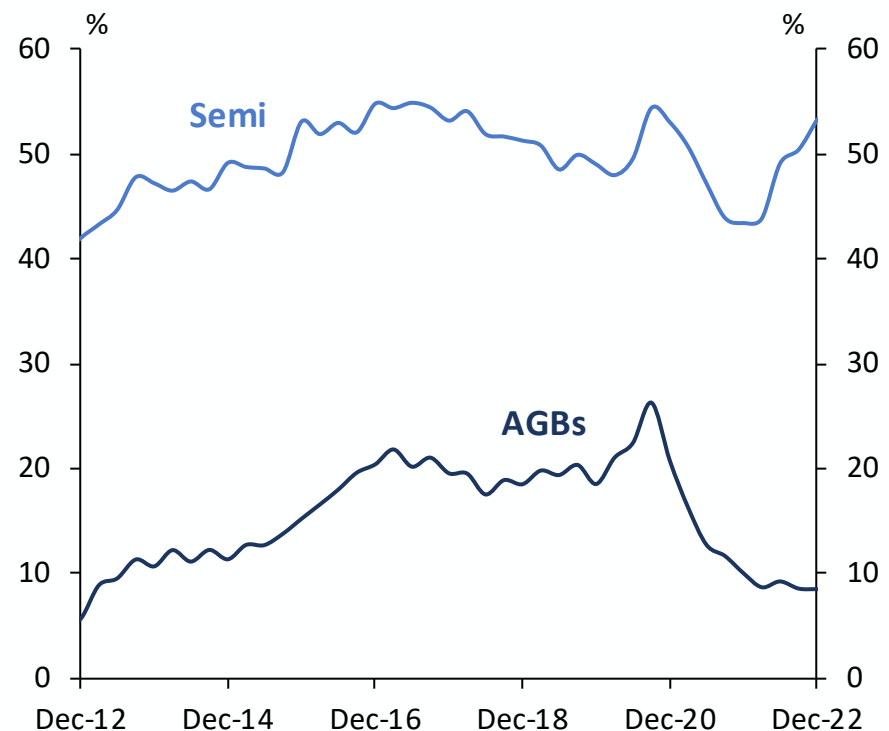
Domestic bank holdings of AGBs and semi-government bonds

December 2012 to December 2022

Value of Holdings (market value)



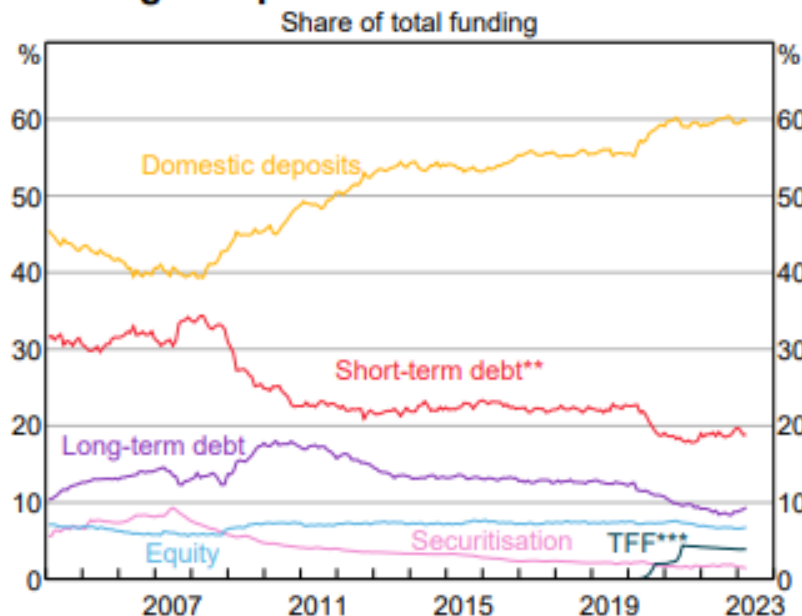
Proportion of Respective Market



Source: ABS. AGBs are Treasury Bonds and Treasury Indexed Bonds. ES Balances are exchange settlement balances held with the RBA.

Outlook for domestic bank holdings of HQLA

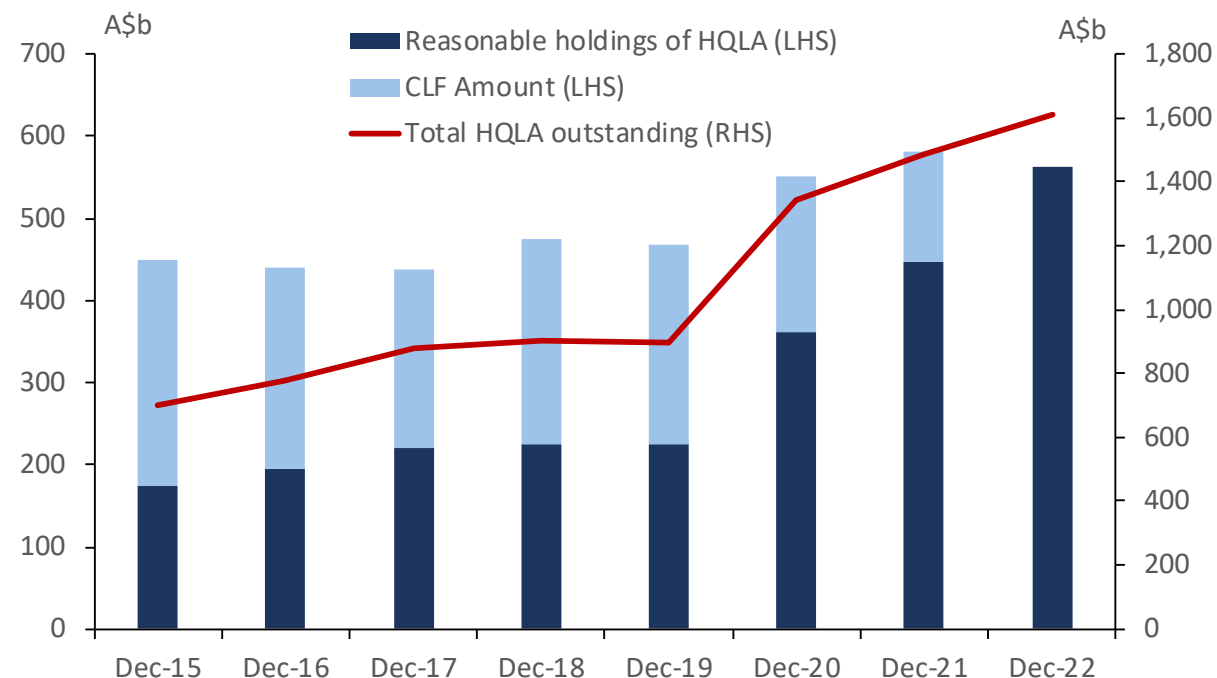
Funding Composition of Banks in Australia*



* Adjusted for movements in foreign exchange rates; tenor of debt is estimated on a residual maturity basis.
 ** Includes deposits and intragroup funding from non-residents.
 *** Term Funding Facility.

Sources: ABS; APRA; Bloomberg; RBA; Refinitiv; Standard & Poor's

HQLA Securities and the Committed Liquidity Facility



Source: RBA. High quality liquid assets (HQLA) comprise AGS, semi-government bonds and ES balances with the RBA

Outlook for domestic bank holdings of HQLA

Expected decline in RBA exchange settlement balances



Source: RBA. High quality liquid assets (HQLA) comprise AGS, semi-government bonds and ES balances with the RBA

Australian government bonds

<i>Treasury Bonds:</i>	<i>Volume Outstanding (AUD)</i>	<i>Yield (%)</i>	<i>Modified Duration</i>
2.75% 21 April 2024	35,900,000,000	3.50	0.93
0.25% 21 November 2024	41,300,000,000	3.33	1.50
3.25% 21 April 2025	41,500,000,000	3.21	1.87
0.25% 21 November 2025	39,200,000,000	3.08	2.48
4.25% 21 April 2026	39,100,000,000	3.08	2.76
0.50% 21 September 2026	37,800,000,000	3.08	3.29
4.75% 21 April 2027	36,699,566,000	3.09	3.60
2.75% 21 November 2027	31,400,000,000	3.11	4.17
2.25% 21 May 2028	30,200,000,000	3.13	4.66
2.75% 21 November 2028	34,100,000,000	3.16	5.02
3.25% 21 April 2029	36,599,803,000	3.19	5.37
2.75% 21 November 2029	34,700,000,000	3.23	5.85
2.50% 21 May 2030	37,100,000,000	3.27	6.30
1.00% 21 December 2030	38,700,000,000	3.32	7.18
1.50% 21 June 2031	38,100,000,000	3.34	7.46
1.00% 21 November 2031	41,800,000,000	3.37	7.98
1.25% 21 May 2032	39,300,000,000	3.39	8.32
1.75% 21 November 2032	29,000,000,000	3.41	8.53
3.00% 21 November 2033	24,400,000,000	3.41	8.08
4.50% 21 April 2033	21,100,000,000	3.44	8.80
3.75% 21 May 2034	17,400,000,000	3.45	8.87
3.50% 21 December 2034	14,000,000,000	3.49	9.37
2.75% 21 June 2035	10,850,000,000	3.54	10.02
3.75% 21 April 2037	12,300,000,000	3.67	10.81
3.25% 21 June 2039	10,300,000,000	3.79	12.17
2.75% 21 May 2041	13,800,000,000	3.90	13.54
3.00% 21 March 2047	14,200,000,000	3.97	16.25
1.75% 21 June 2051	19,000,000,000	3.98	19.91
<i>Total:</i>	819,849,369,000	<i>Portfolio:</i>	5.9
<i>Treasury Indexed Bonds:</i>	<i>Volume Outstanding (AUD)</i>	<i>Yield (%)</i>	<i>Modified Duration</i>
3.00% 20 September 2025	8,042,584,000	-0.06	2.28
0.75% 21 November 2027	7,050,000,000	0.57	4.54
2.50% 20 September 2030	6,842,713,000	0.93	6.75
0.25% 21 November 2032	4,200,000,000	1.16	9.38
2.00% 21 August 2035	4,350,000,000	1.29	10.92
1.25% 21 August 2040	4,350,000,000	1.52	15.44
1.00% 21 February 2050	4,150,000,000	1.65	23.11
<i>Total:</i>	38,985,297,000	<i>Portfolio:</i>	8.3

Source: AOFM, Refinitiv. As at 12 May 2023.

Australian Government Securities are exempt from non-resident Interest Withholding Tax.

Market Makers – Treasury Bonds

These institutions (listed alphabetically) have indicated that they make markets in Treasury Bonds.
The level of activity can vary between institutions.



Barrenjoey^o



Goldman
Sachs



J.P.Morgan



Morgan Stanley



Further information

Website: www.aofm.gov.au

Address: Australian Office of Financial Management
Treasury Building, Level 3, Newlands Street
Parkes ACT 2600 Australia

Enquiries: InvestorRelations@aofm.gov.au

Access to benchmark yields

<https://www.rba.gov.au/statistics/tables/>

Market data and live yields

Bloomberg:

"AOFM Go" (*Homepage*)

"ACGB Govt Go" (*TBs and TIBs*)

"ACTB Govt Go" (*TNs*)

Refinitiv:

"AOFMINDEX" (*Homepage*)

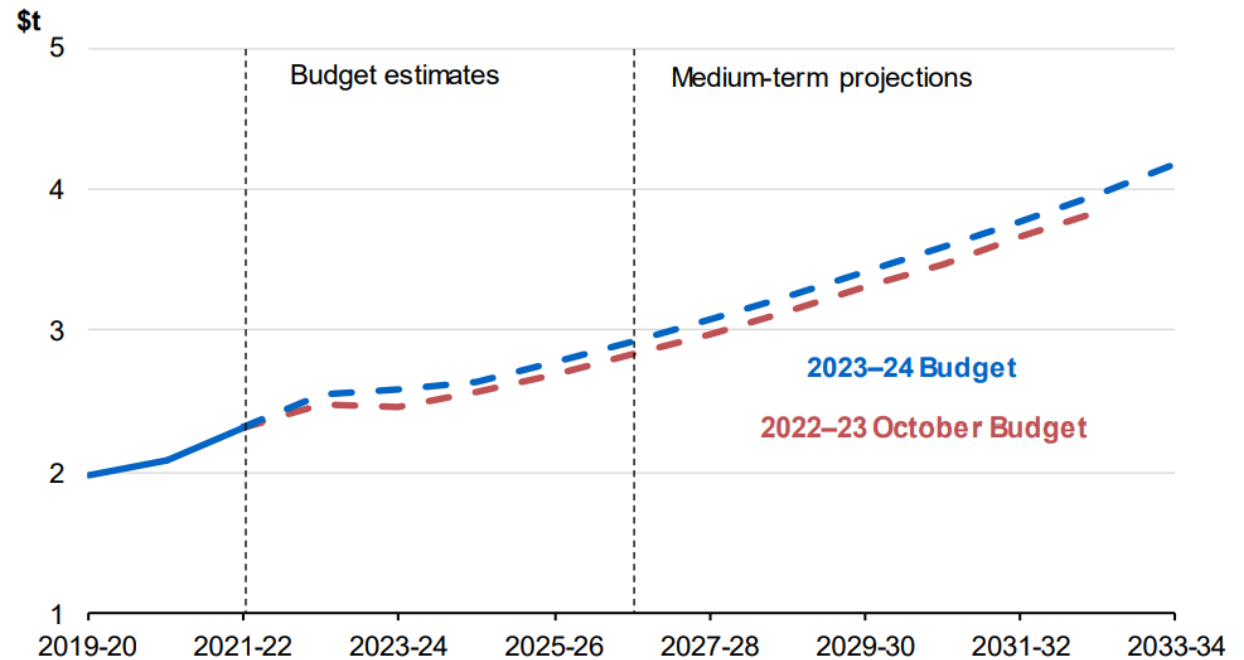
"Yieldbroker" (*AGS yields*)

Economic outlook

Economic parameter forecasts

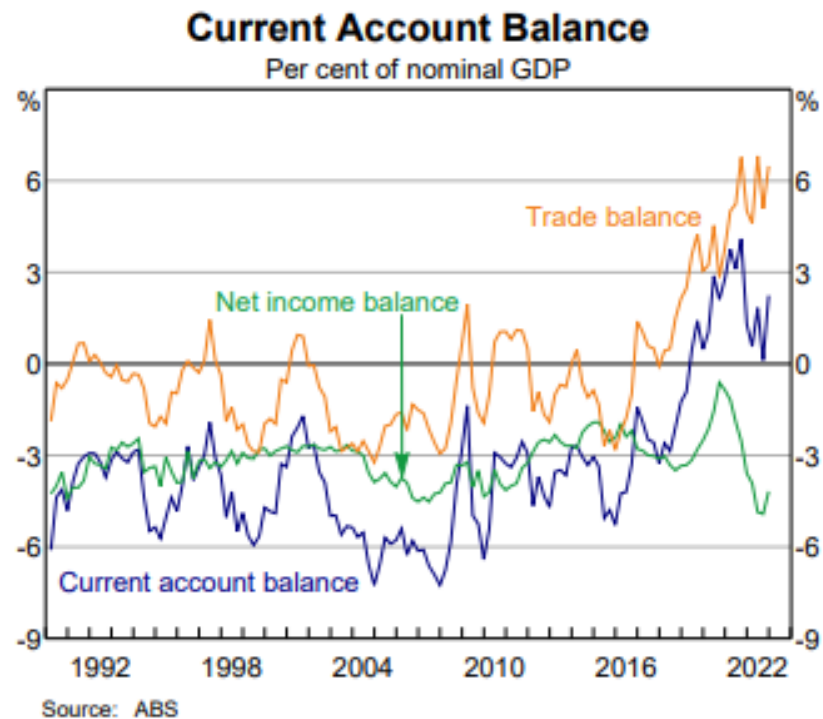
	Outcome	Forecasts					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	
Real GDP (% change)	3.7	3.25	1.5	2.25	2.75	2.75	
Employment (% change)	3.6	2.5	1	1	1.75	1.75	
Unemployment rate (%)	3.8	3.5	4.25	4.5	4.5	4.25	
Consumer price index (% change)	6.1	6	3.25	2.75	2.5	2.5	
Wage price index (% change)	2.6	3.75	4	3.25	3.25	3.5	
Nominal GDP (% change)	11	10.25	1.25	2.5	5.25	5.25	
Gross debt (% of GDP)	38.8	34.9	35.8	36.3	36.5	36.5	
Net Debt (% of GDP)	22.3	21.6	22.3	23.5	24.0	24.1	

Projected nominal GDP

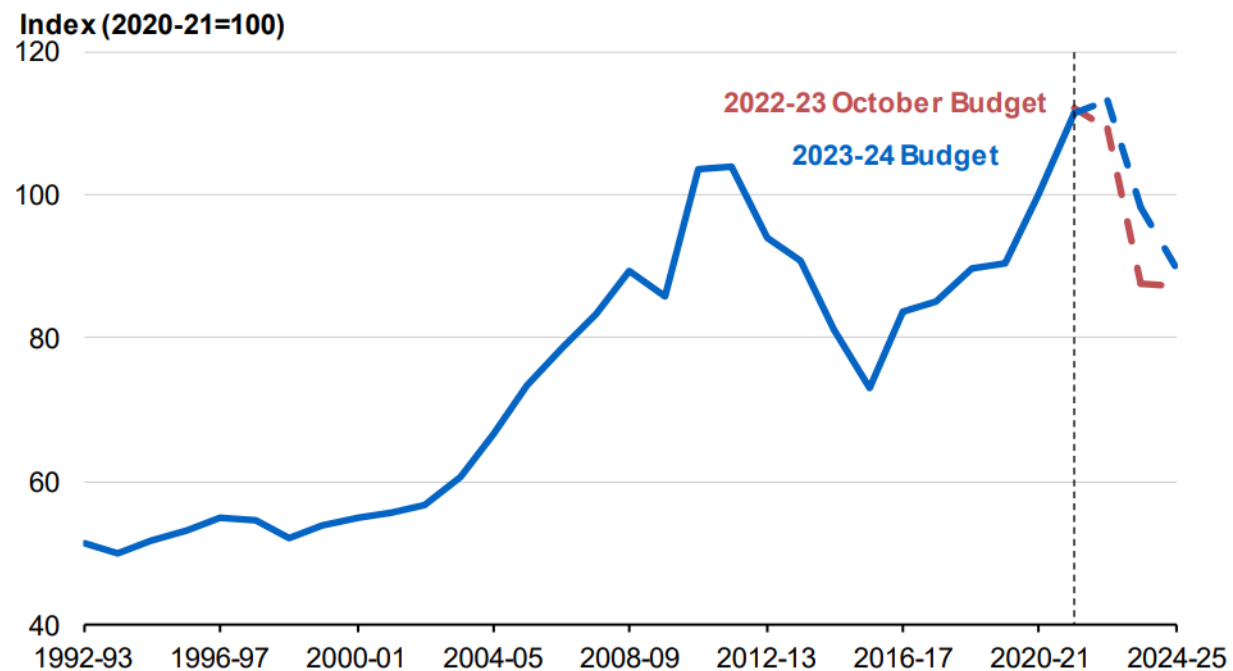


Source: Australian Bureau of Statistics, Treasury Budget 2023-24

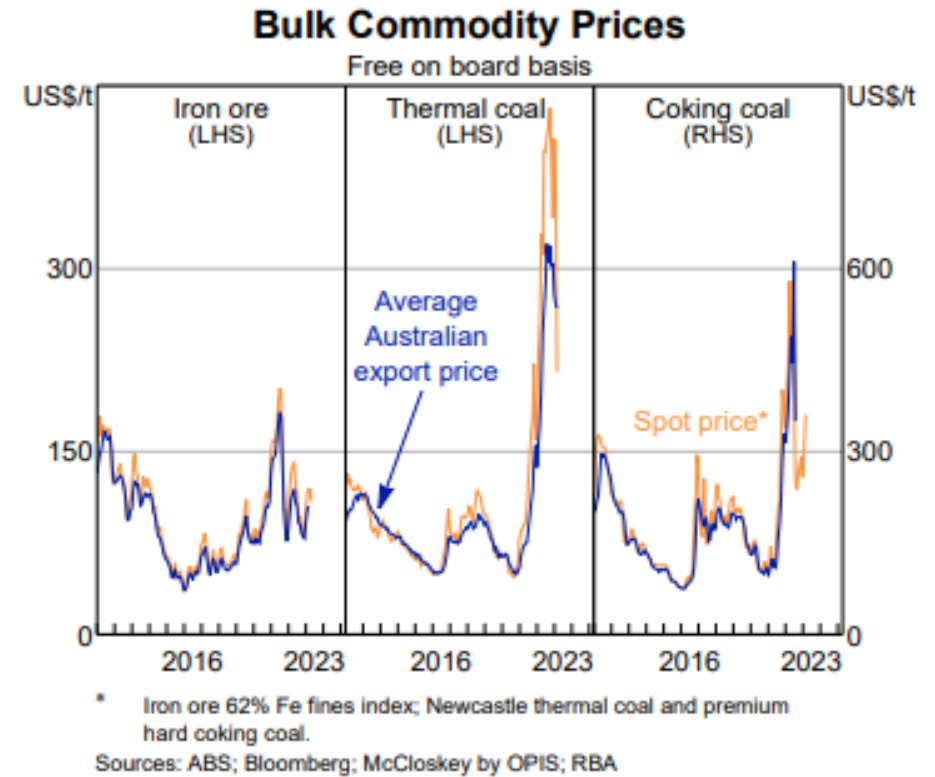
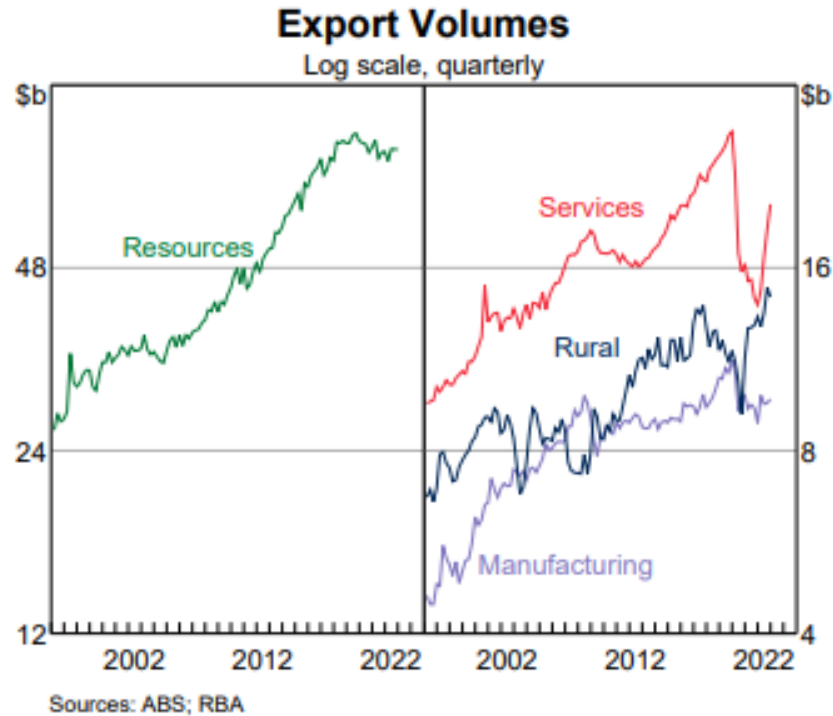
Economic outlook



Terms of trade



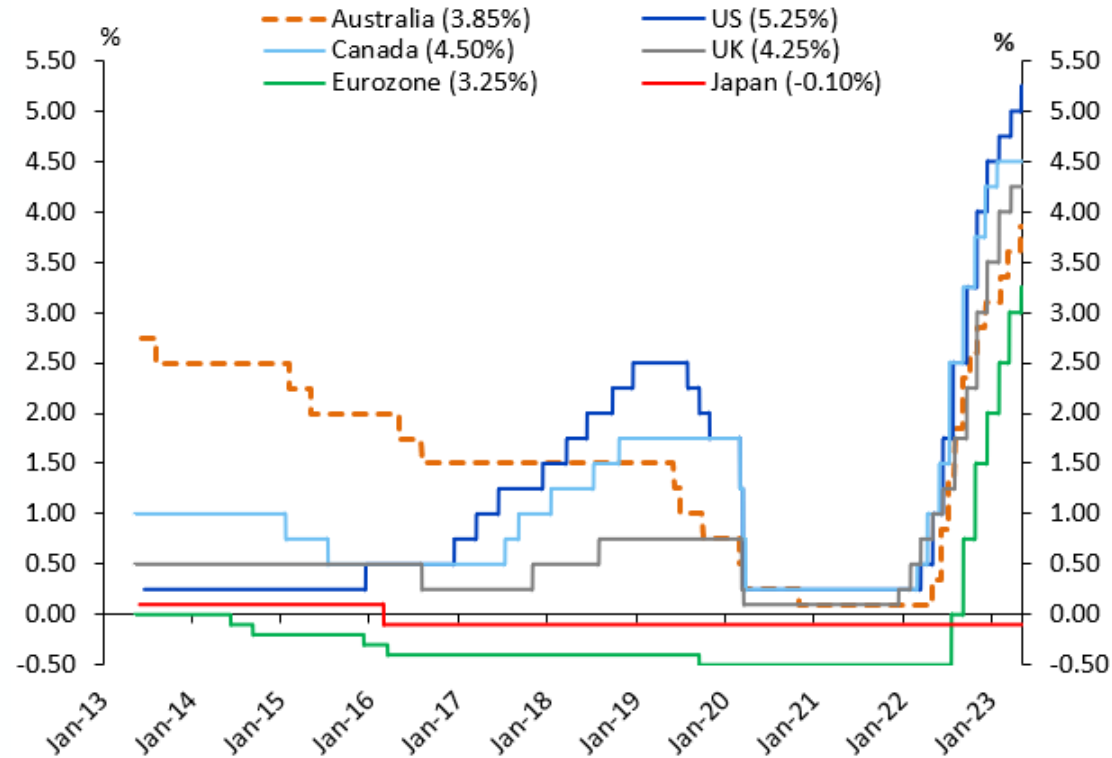
Economic outlook



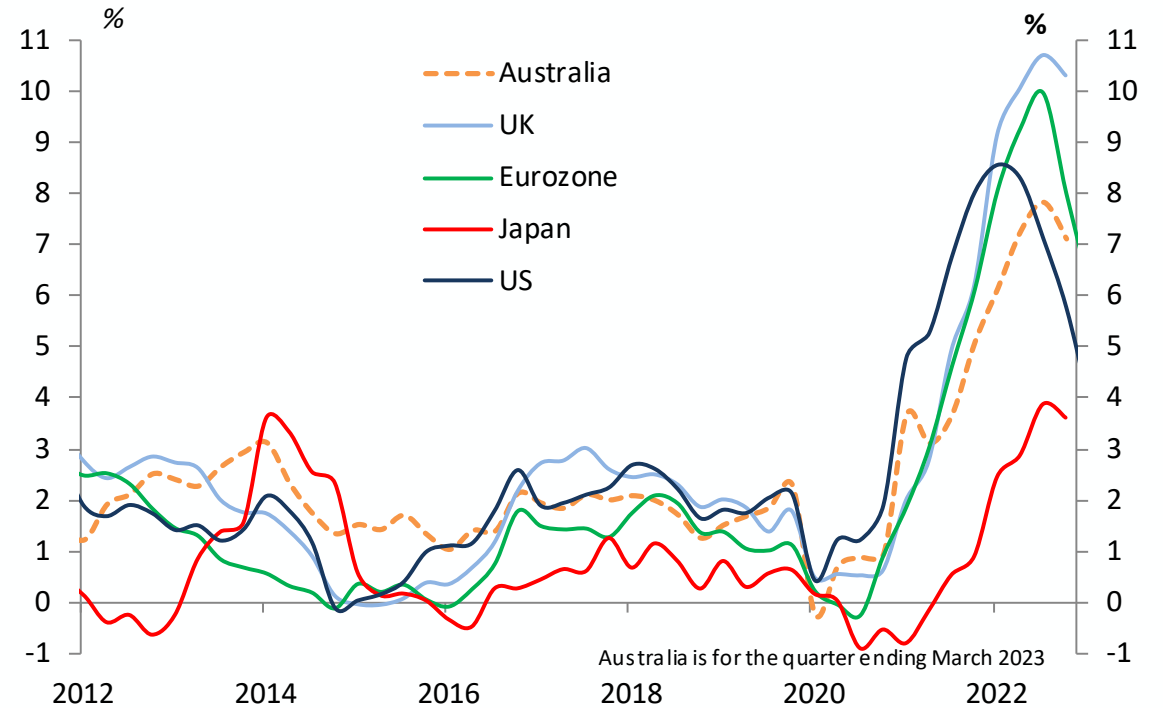
Source: RBA. Key commodities are assumed to decline from elevated levels over four quarters to the end of the March quarter of 2024: the iron ore spot price is assumed to decline from a March quarter 2023 average of US\$117 to **US\$60/tonne**; the metallurgical coal spot price declines from US\$342 to **US\$140/tonne**; the thermal coal spot price declines from US\$260 to **US\$70/tonne**; and the LNG spot price declines from US\$16 to **US\$10/mmBtu**. All bulk prices are in free-on-board (FOB) terms.

Economic outlook

Central bank policy rates



CPI global comparisons



Source: Refinitiv

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