



Australian Government

Australian Office of Financial Management

AOFM

AGS Investor Chart Pack

Budget October 2022-23 Update

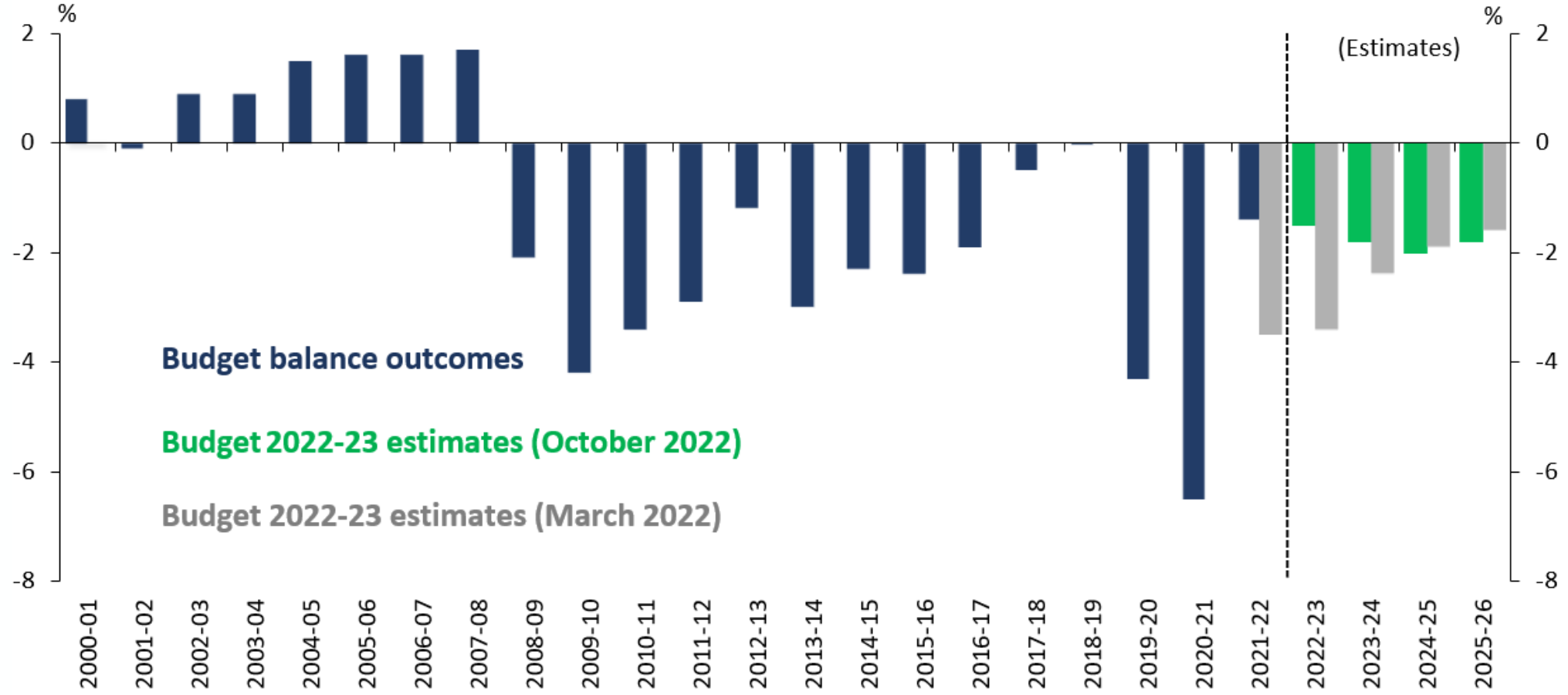
Australian Office of Financial Management

October 2022

Australia's budget balance

Underlying cash balance per cent of GDP

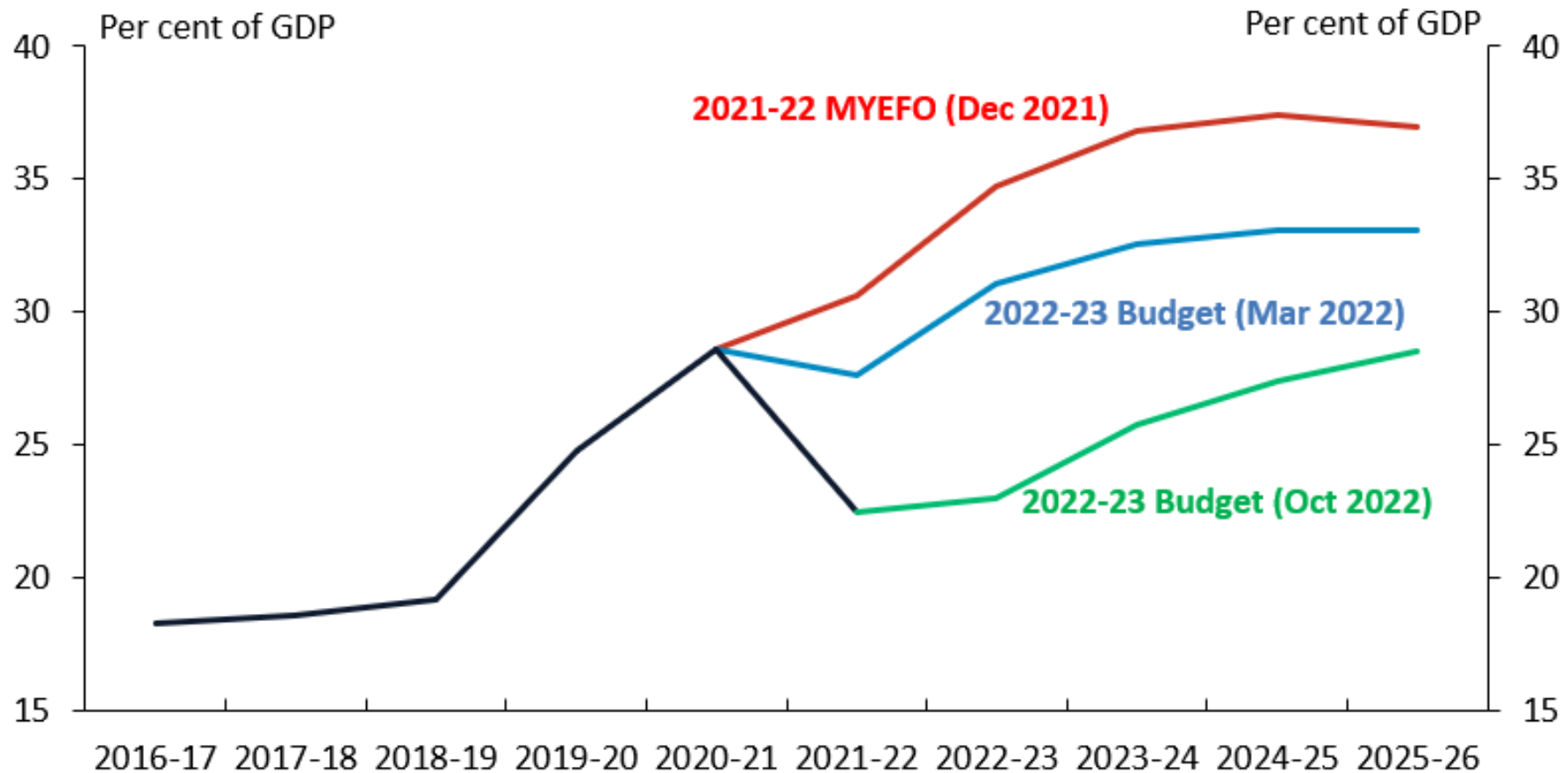
The underlying cash balance (UCB) in 2022-23 is forecast to be a deficit of 1.5 per cent of GDP compared to 3.4 per cent forecast at Budget 2022-23 in March. High Australian dollar commodity prices and strong employment growth have boosted forecast tax receipts. However, the improvement moderates over the forward estimates as commodity prices are expected to decline.



Source: Treasury – Budget October 2022-23

Australia's net debt position

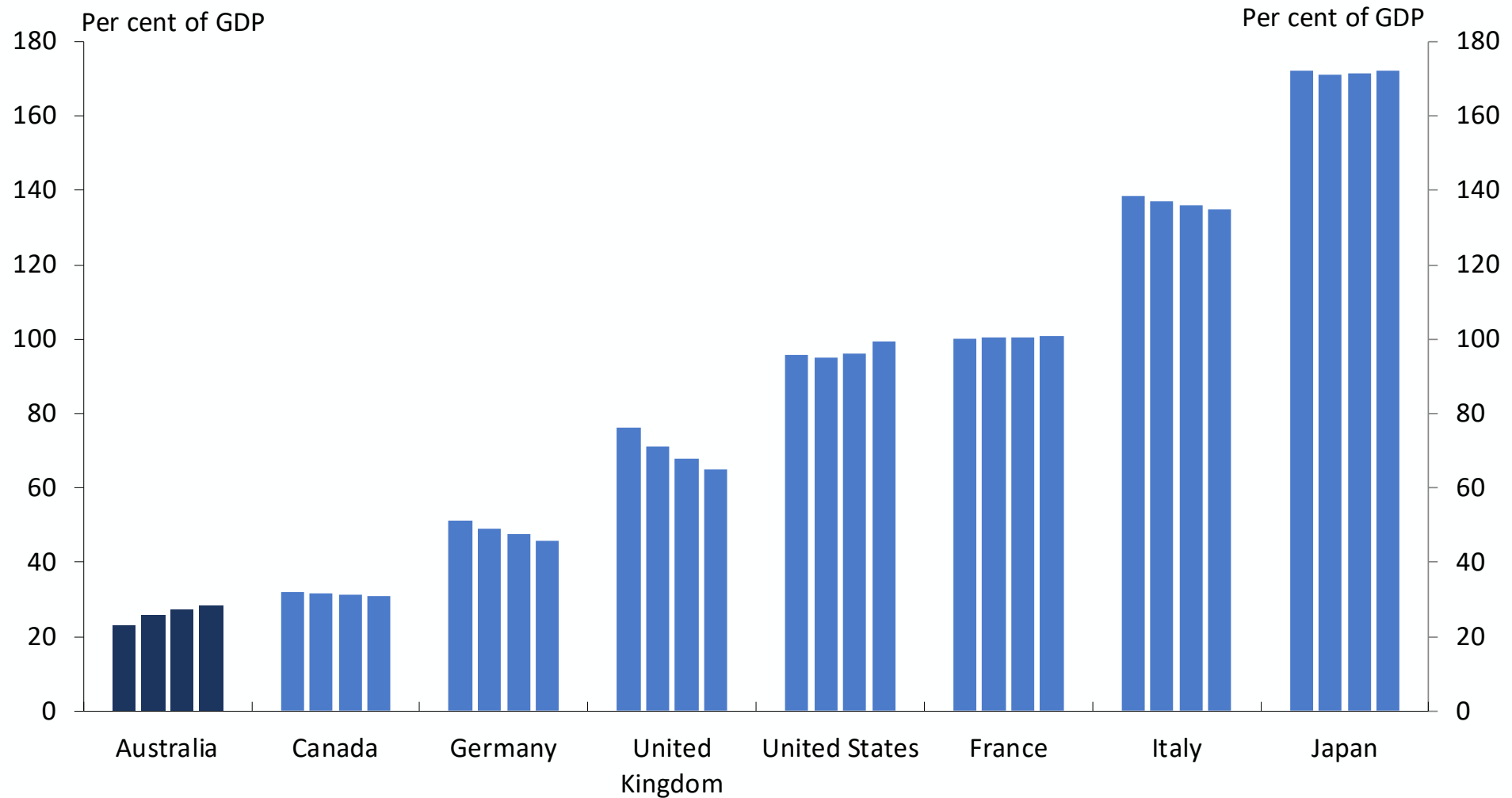
Net debt is forecast to be 23.0 per cent of GDP at end of 2022-23 and is expected increase to 28.5 per cent of GDP at the end of 2025-26, below the 33.1 per cent of GDP estimated in Budget 2022-23 in March.



Source: Treasury – Budget October 2022-23.

Comparison of government net debt

2022 to 2025 (forecast) for G7 and Australia



Note: Australian data are for the Australian Government general government sector for financial years commencing 2022-23. Data for all other countries are for total government and refer to calendar years commencing 2022.

Source: Treasury – Budget October 2022-23, IMF Fiscal Monitor April 2022

Australian Government Securities

Three instruments available

Treasury Bonds

Amount Outstanding

\$829 billion

28 lines on issue

Average line size is \$29.6 billion

Maturities range from 2022 to 2051

Gross Issuance 2022-23 (F)

Around \$95 billion

Treasury Indexed Bonds

Amount Outstanding

\$37.8 billion

7 lines on issue

Average line size is \$5.4 billion

Maturities range from 2025 to 2050

Gross Issuance 2022-23 (F)

Around \$2 - \$2.5 billion

Treasury Notes

Amount Outstanding

\$25 billion

8 lines on issue

Average line size is \$3.1 billion

Maturities can range up to 12 months

Further information

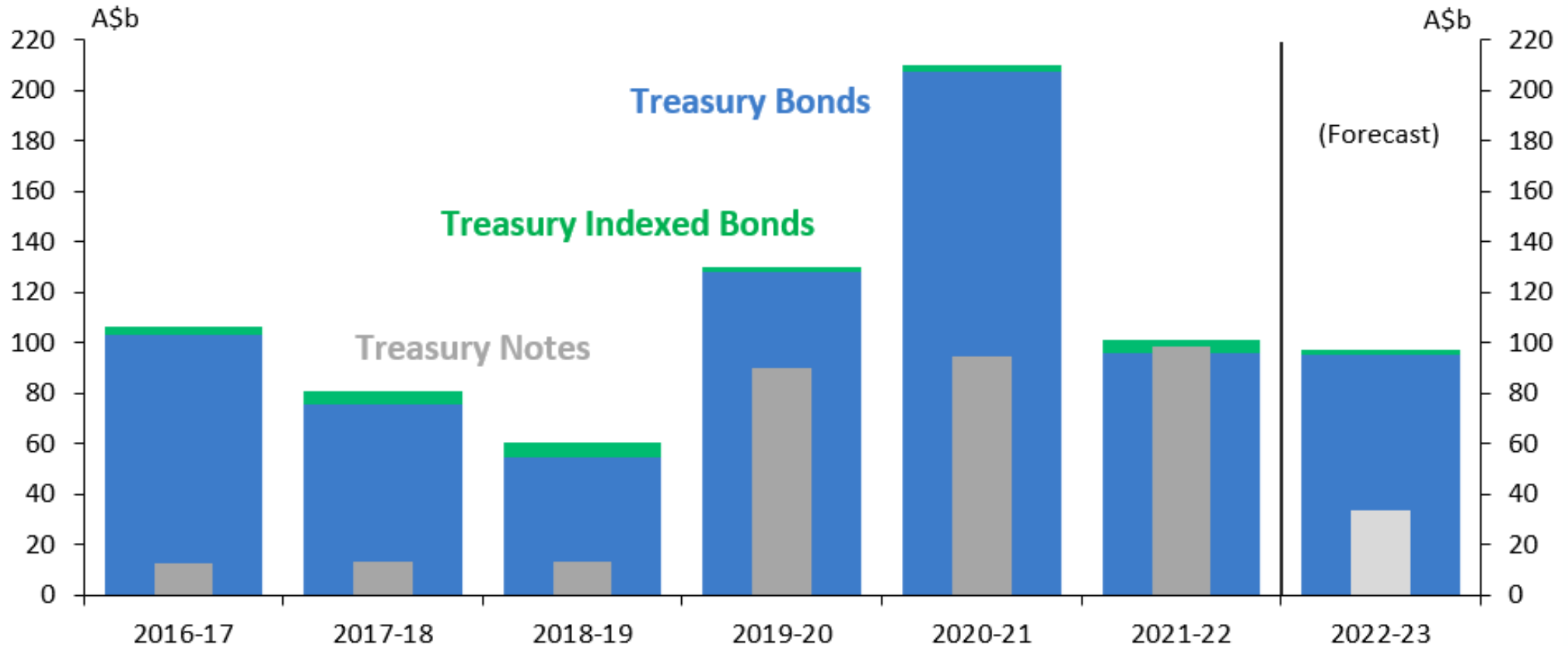
- Issuance of Treasury Bonds for 2022-23 has been revised to around \$95 billion of which \$23.6 billion has been completed (as of 26 October).
- A new May 2034 Treasury Bond is planned to be issued by syndication this calendar year (subject to market conditions).
- Issuance of Treasury Indexed Bonds is planned to be \$2-\$2.5 billion (of which \$550 million has been completed)
- The AOFM will remain active in the Treasury Note market with regular issuance for cash management purposes.
- Further details on issuance plans for the second half of 2022-23 (including any new planned bond lines) will be provided on 6 January 2023

Note: Figures are as at 21 October 2022.

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

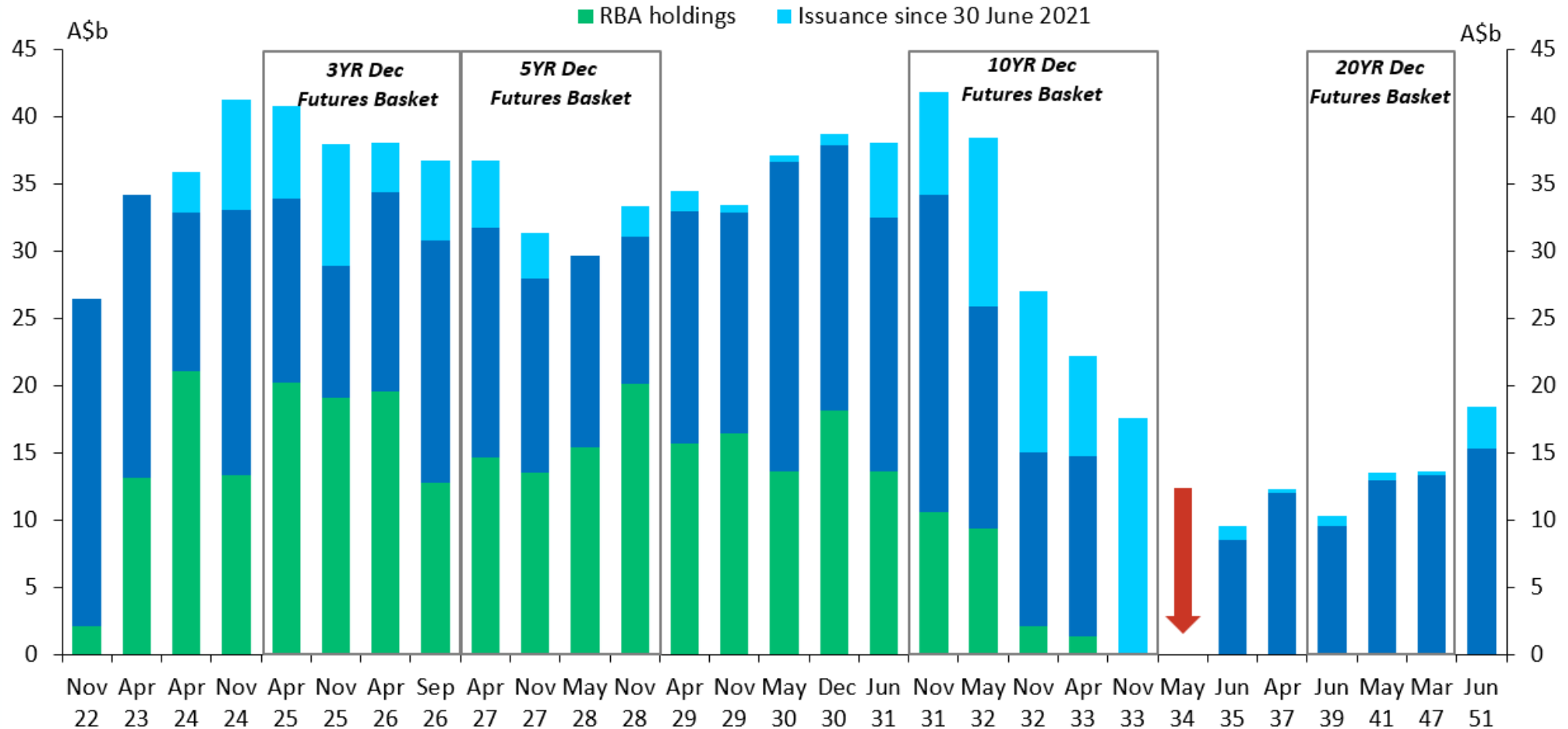


Source: AOFM. Gross Treasury Note issuance in 2022-23 is for the period 1 July 2022 to 21 October 2022.

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

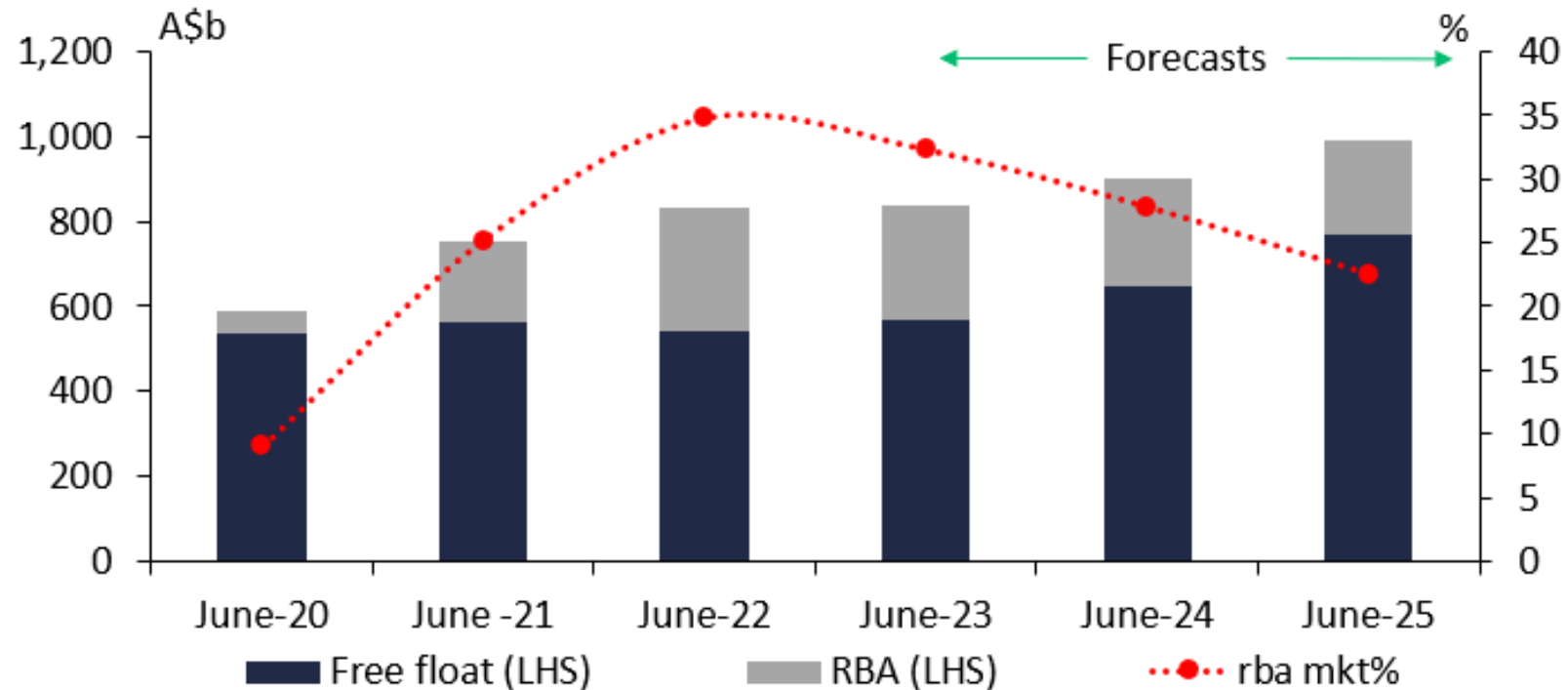
The AOFM will continue to use the most liquid (high-demand) parts of the yield curve to support the bulk of planned issuance, while supporting other parts of the market by responding to demand and issuing in appropriate volumes. A new May 2034 Treasury Bond will be issued by syndication in the second quarter of 2022-23 (subject to market conditions).



Source: AOFM. As at 21 October 2022.

Forecast Treasury Bonds outstanding and RBA holdings

- The RBA's bond purchase program concluded in February 2022. The RBA currently holds around 34 per cent of Treasury Bonds on issue.
- RBA holdings as a proportion of total Treasury Bonds outstanding are expected to decline gradually.

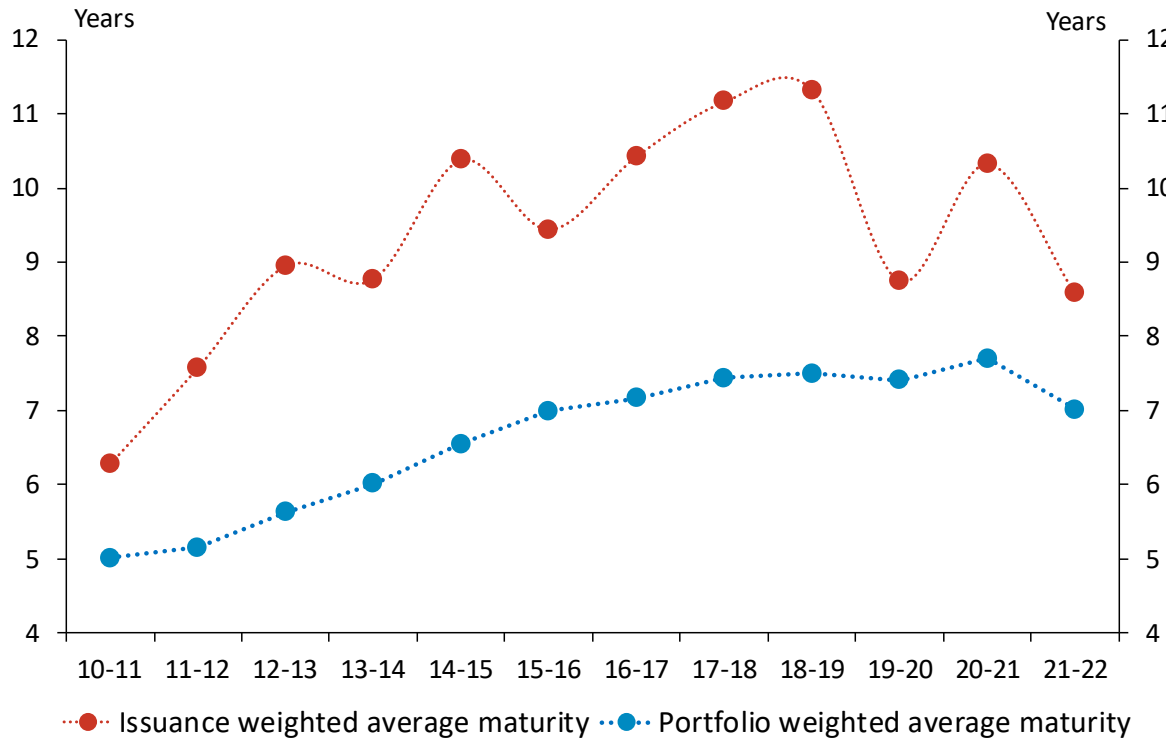


Source: Treasury – Budget October 2022-23, RBA, AOFM.

Treasury Bond curve

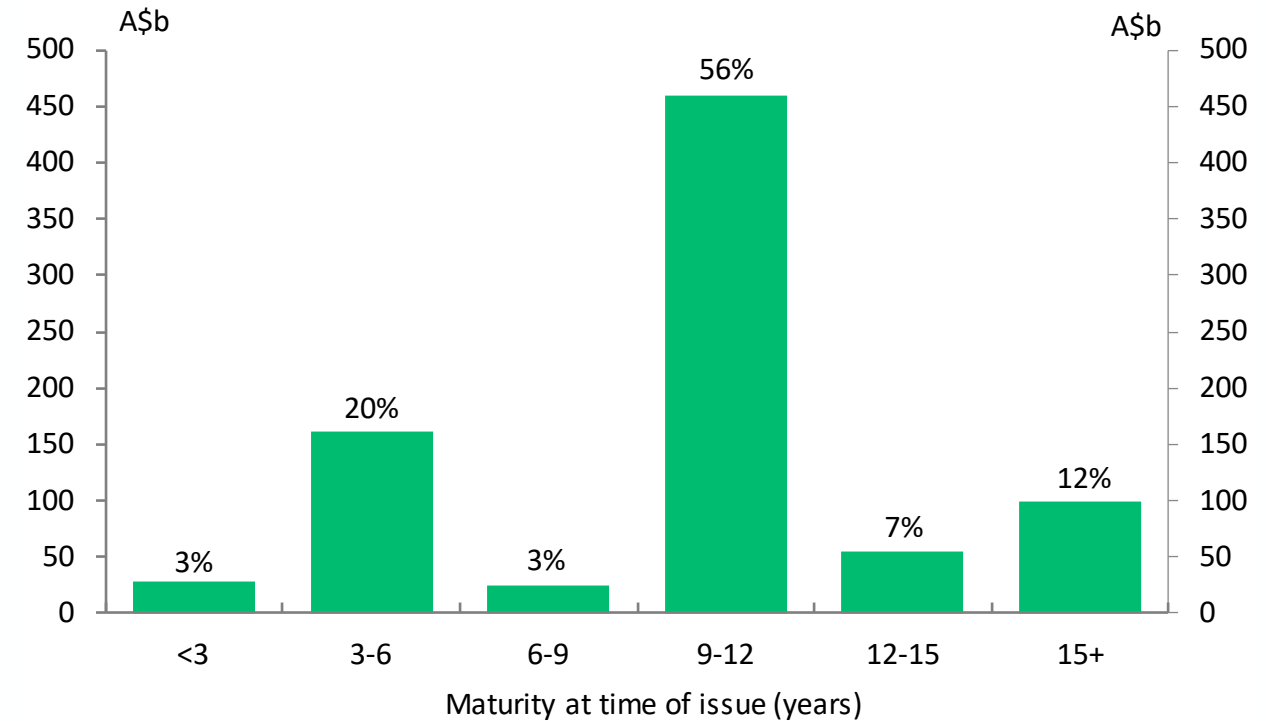
Over the last ten years the AOFM has gradually lengthened the Treasury Bond yield curve to 30 years and increased the average term to maturity of the portfolio. Focus has shifted to maintaining the 30-year benchmark and continuing to support ultra-long maturities through issuance into existing lines. Around 75% 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



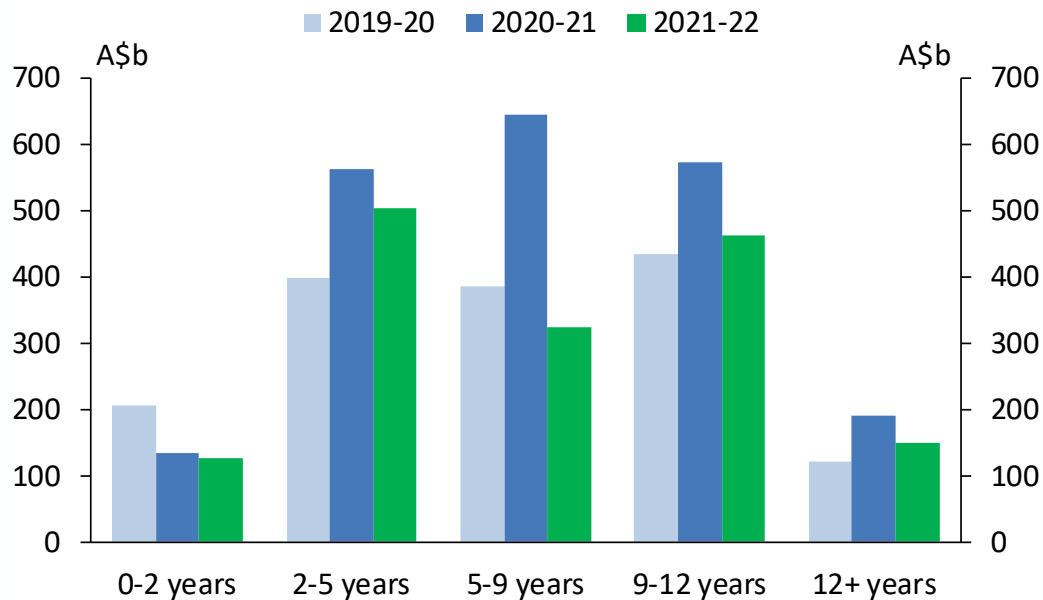
Turnover – Treasury Bonds

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).

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

A\$2.11 trillion (2020-21)

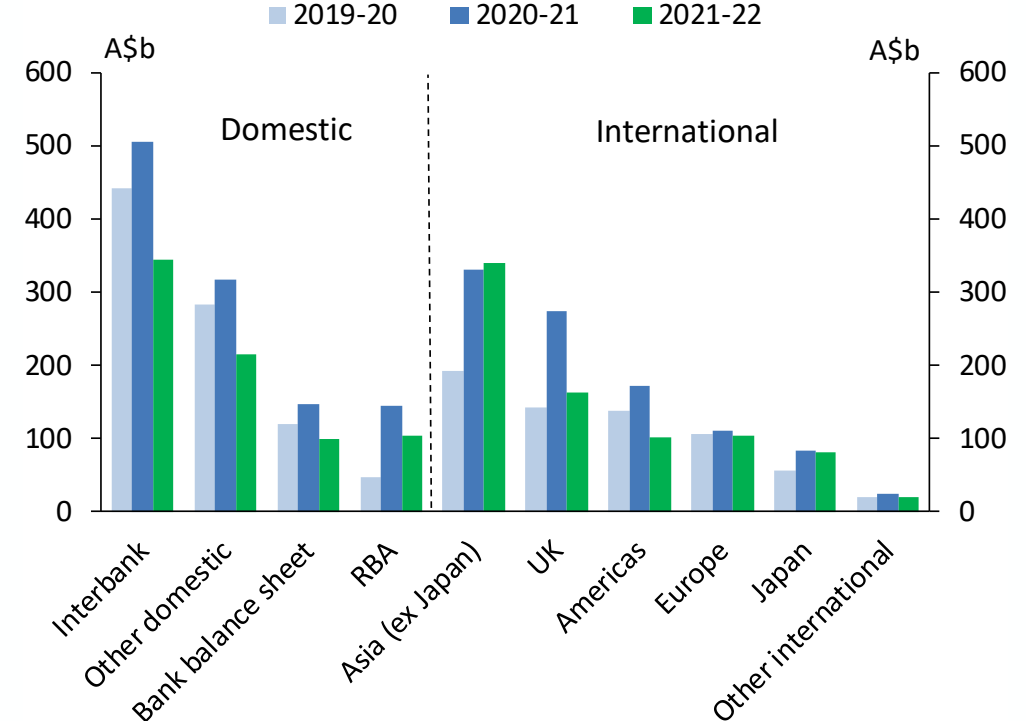
Turnover by category



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

A\$176 billion (2020-21)

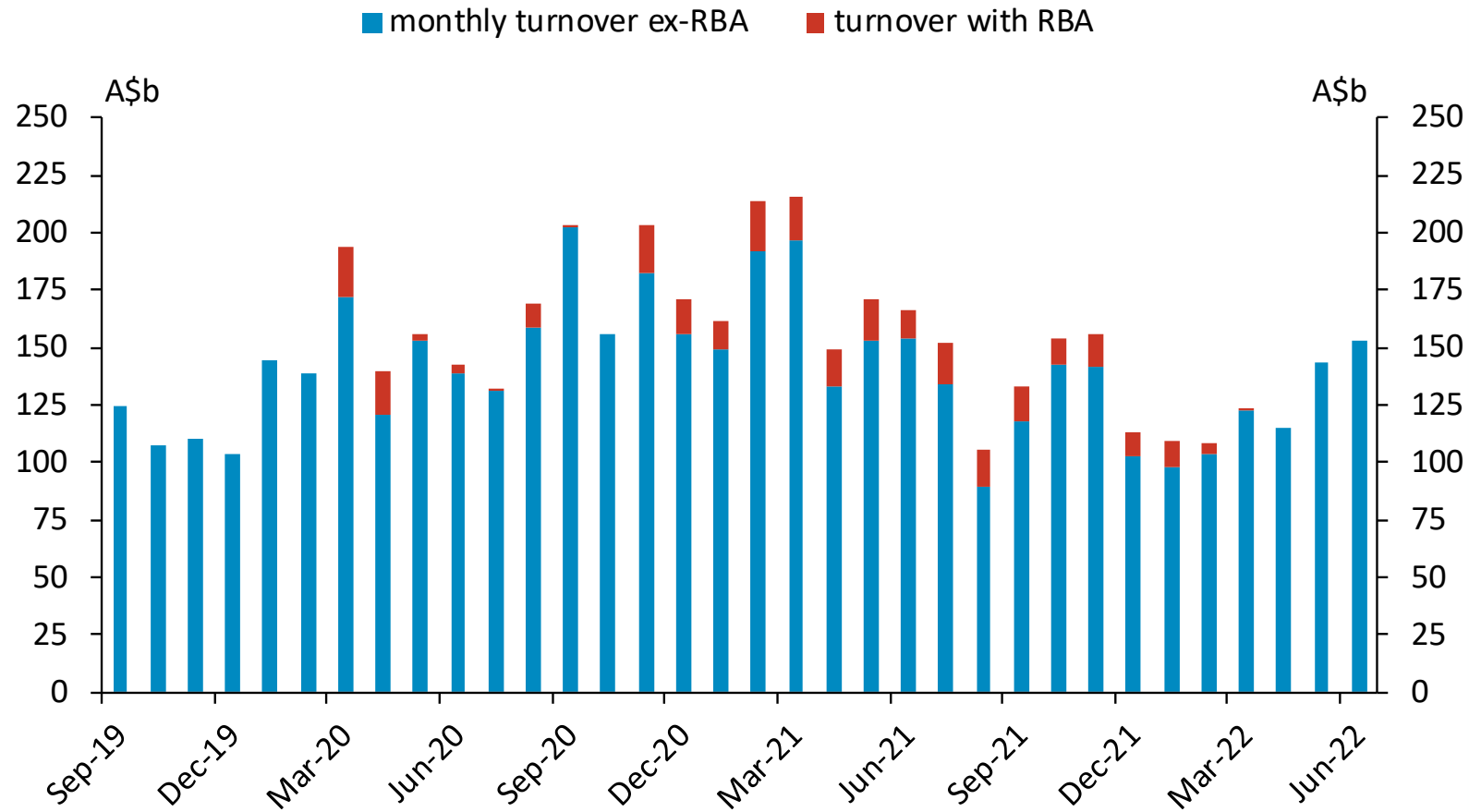
Turnover by tenor



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

Treasury Bond secondary market turnover

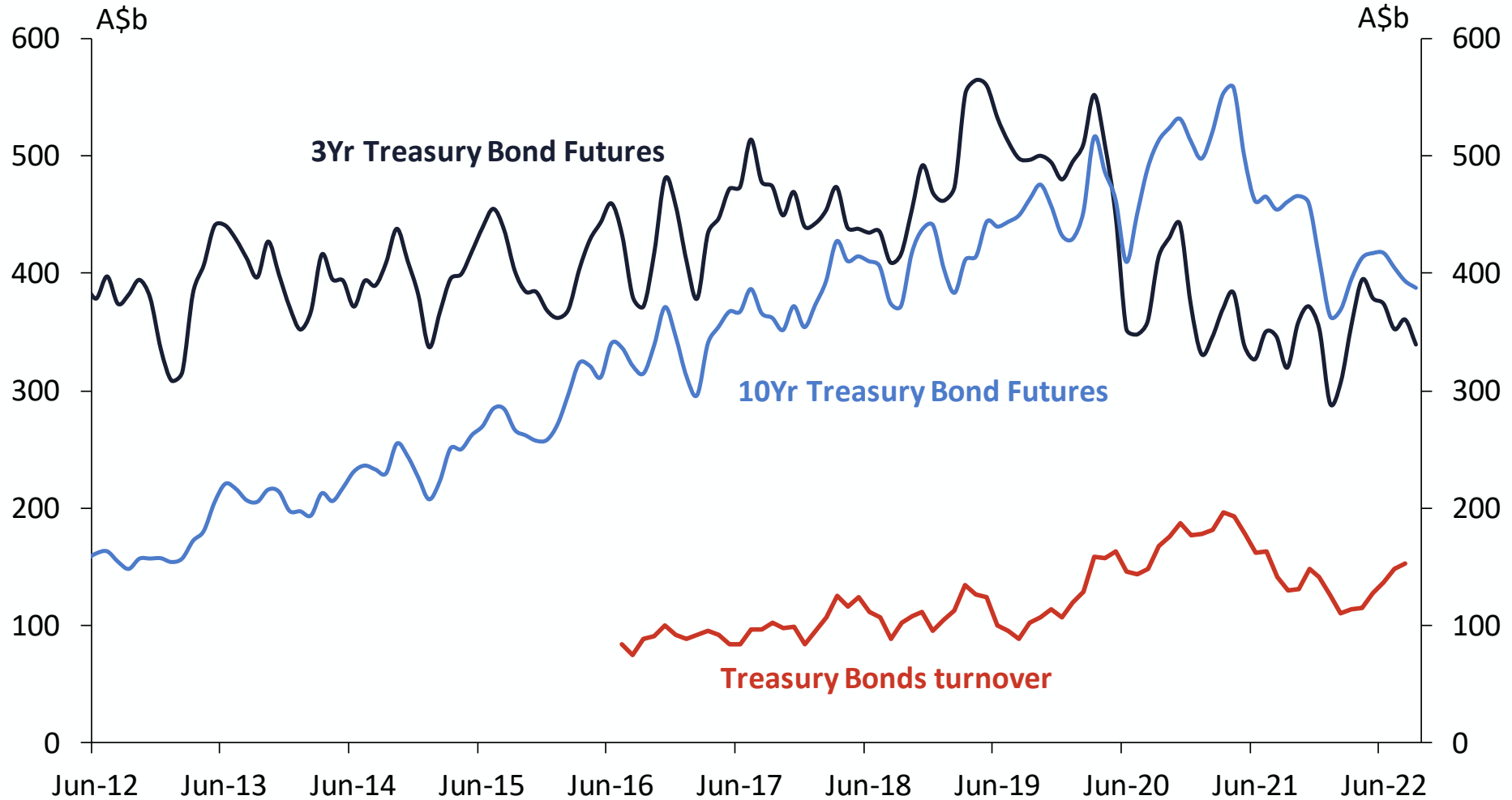
Monthly turnover



Source: AOFM, RBA

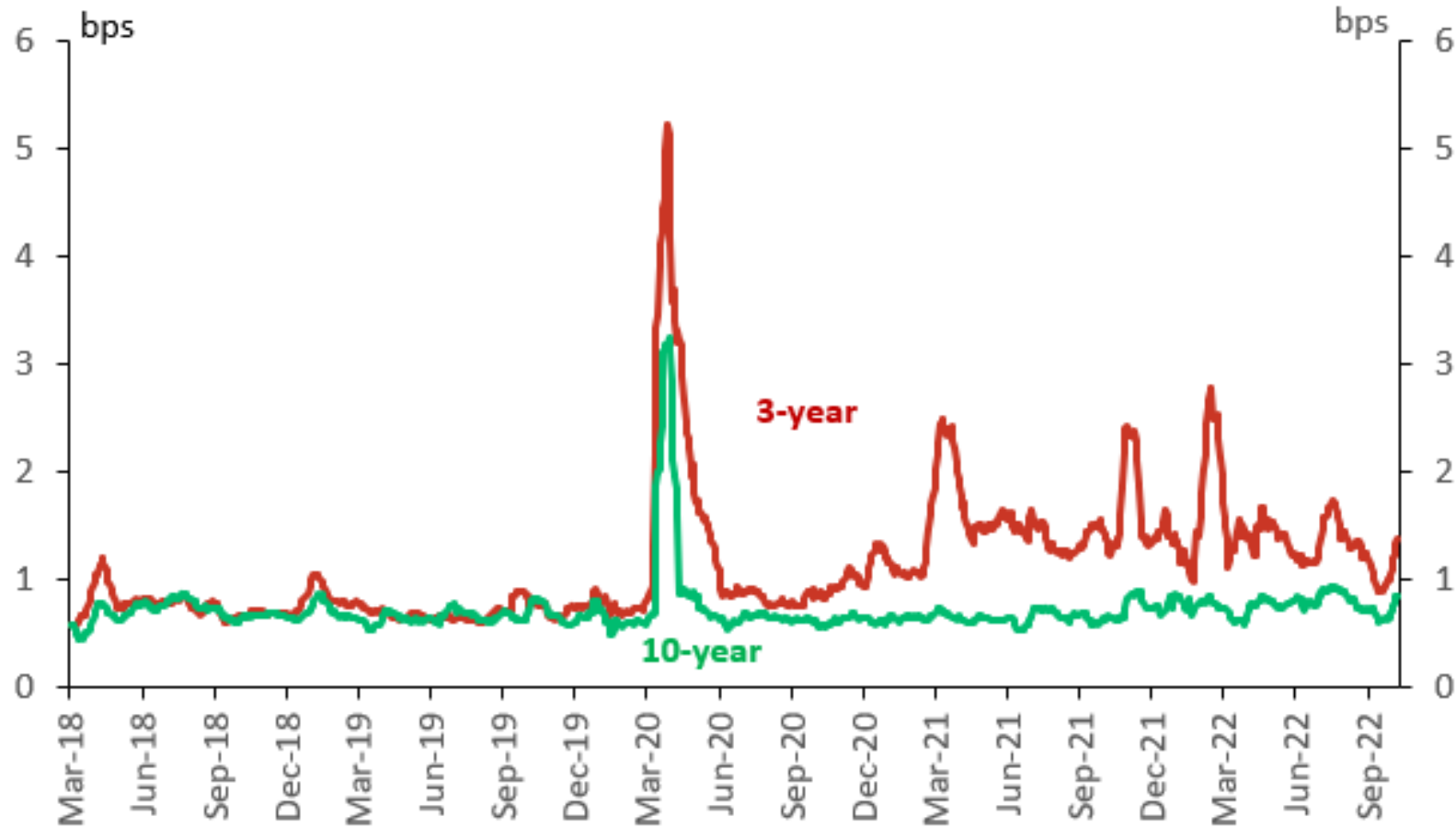
Treasury Bond futures market activity

Monthly turnover (3m M.A.)



Source: ASX, Refinitiv, AOFM

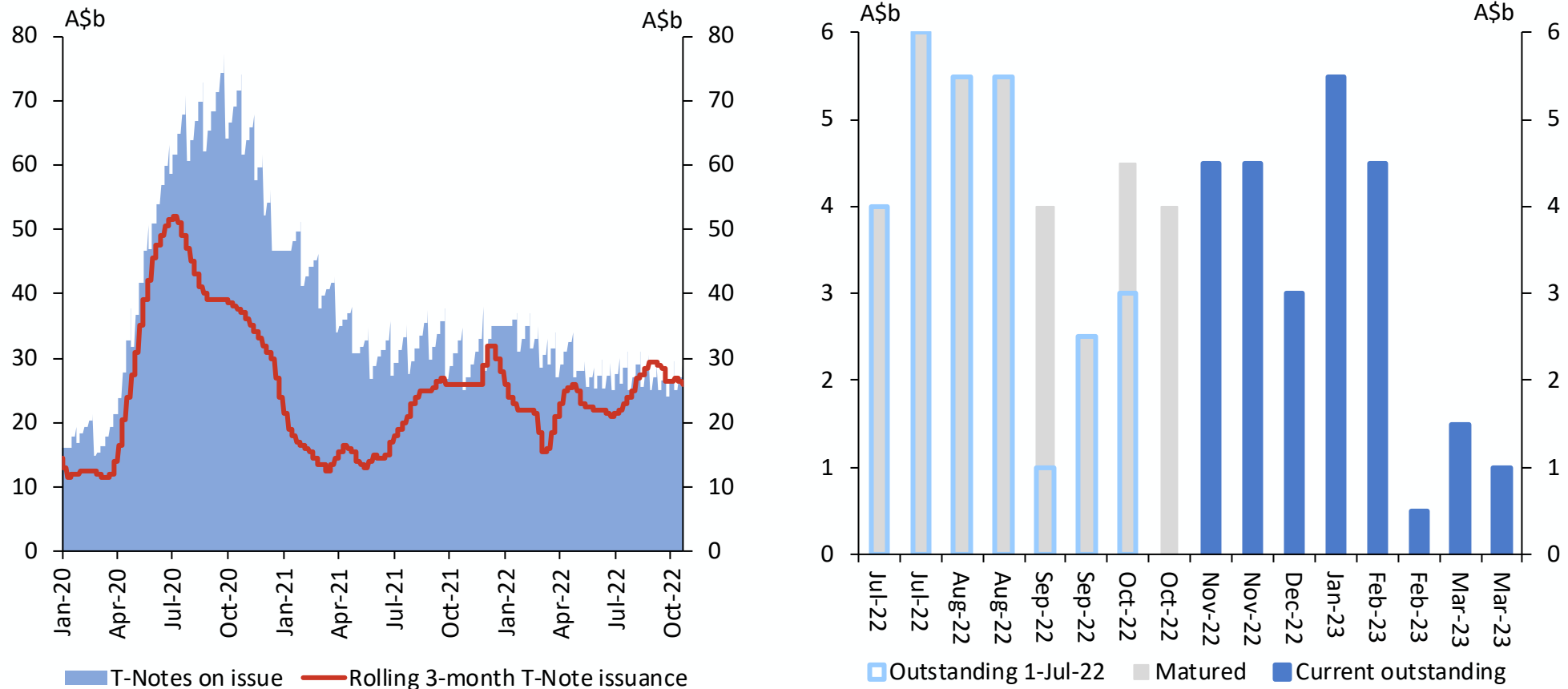
Treasury Bond liquidity – bid-offer spreads



Source: Yieldbroker, UBS, * 15-day moving average

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.

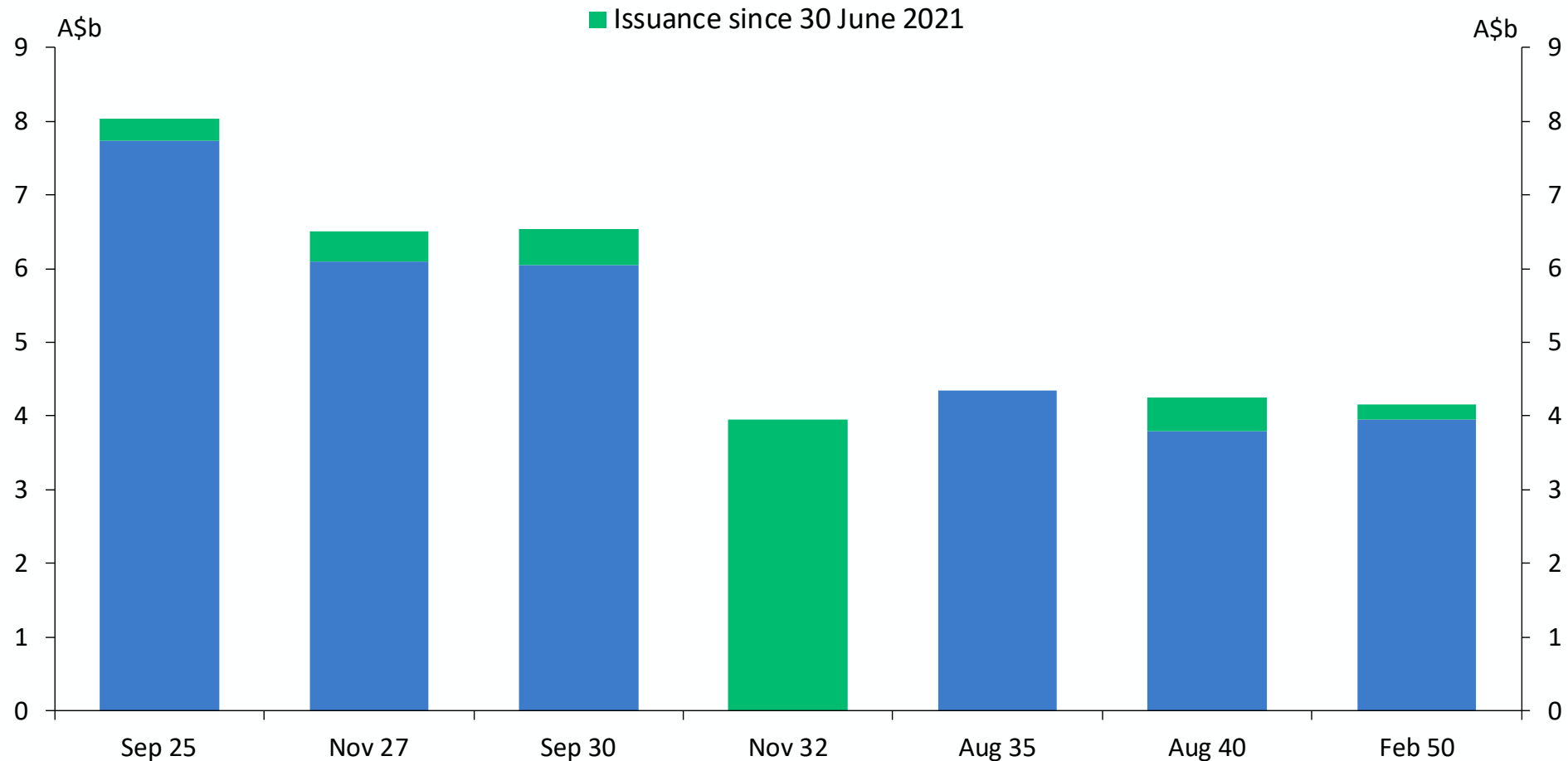


Source: AOFM, as at 21 October 2022.

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 21 October 2022.

Turnover – Treasury Indexed Bonds

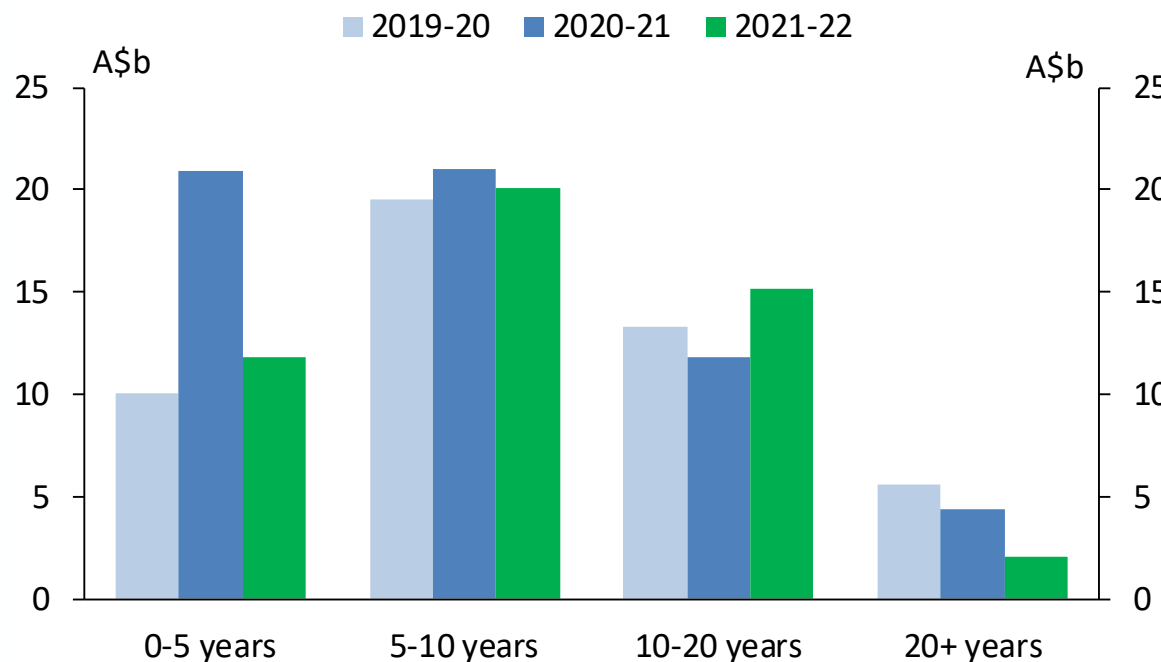
Total turnover A\$49 billion (2021-22)

A\$58 billion (2020-21)

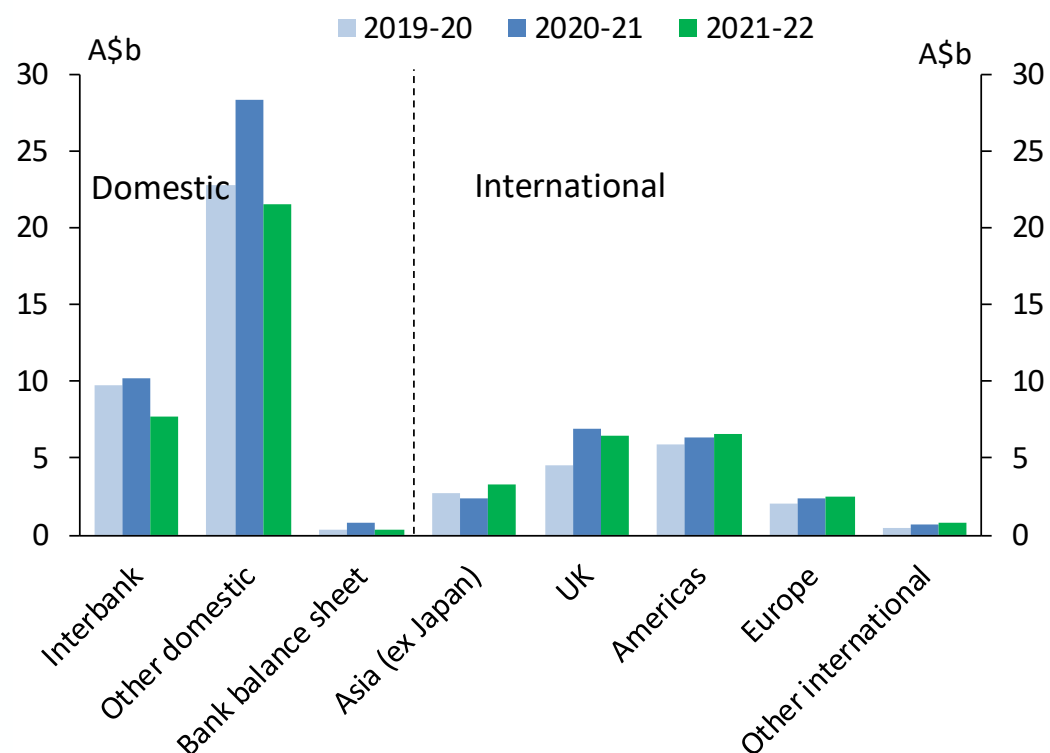
Monthly average A\$4.1 billion (2021-22)

A\$4.8 billion (2020-21)

Turnover by category



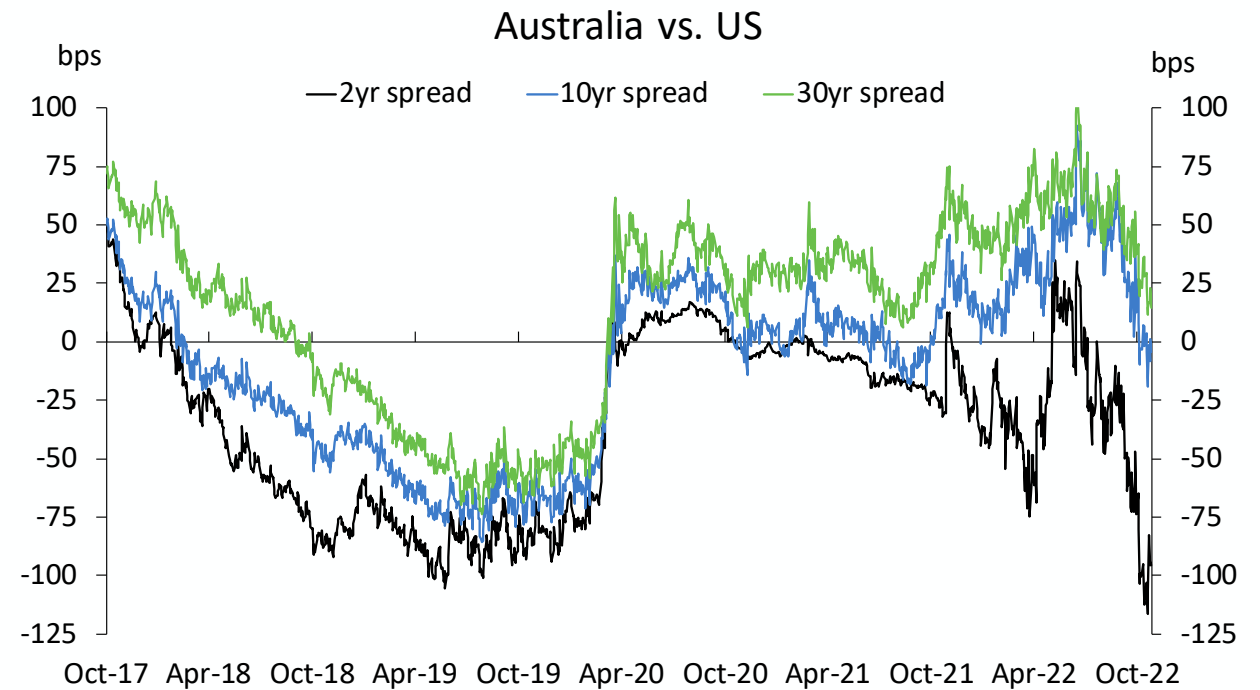
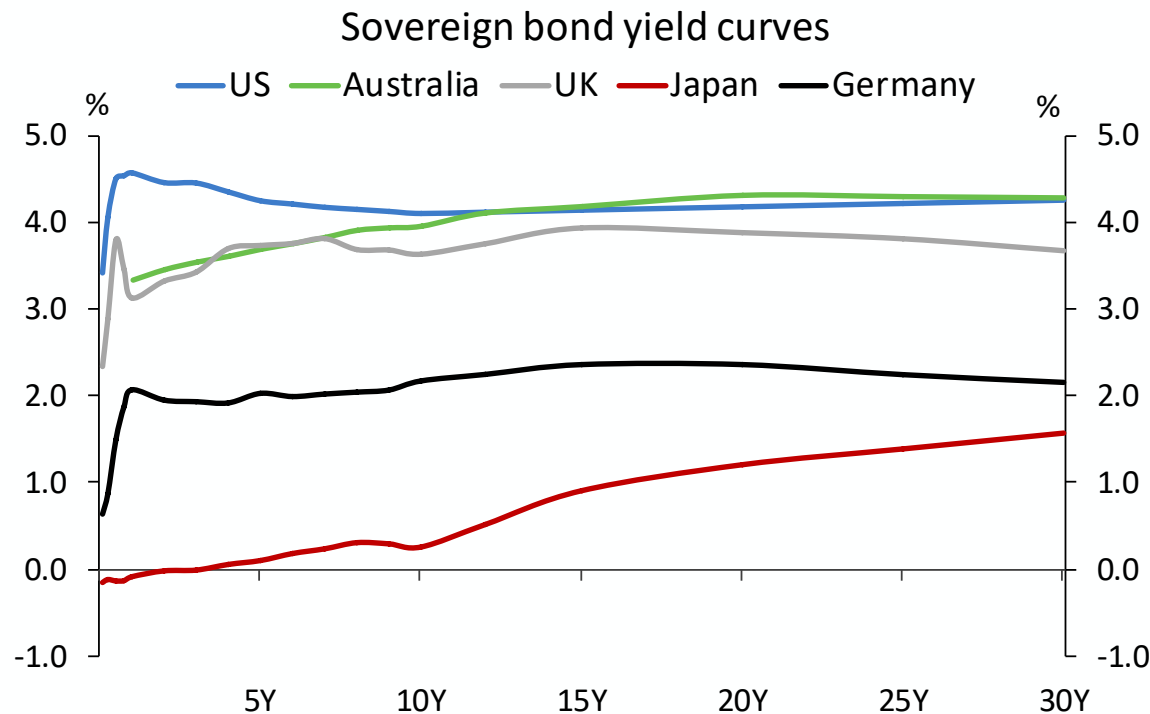
Turnover by tenor



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

Australian sovereign bond spreads

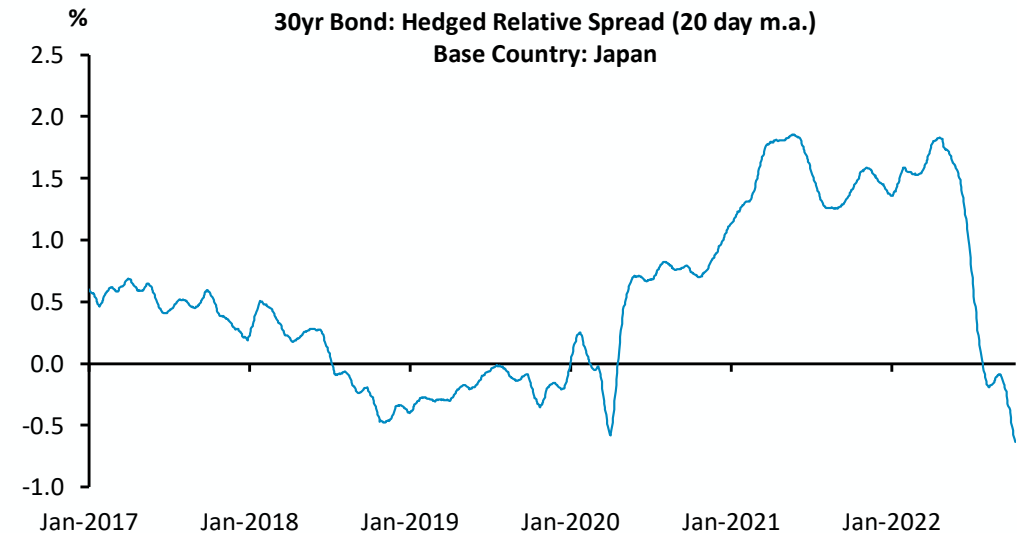
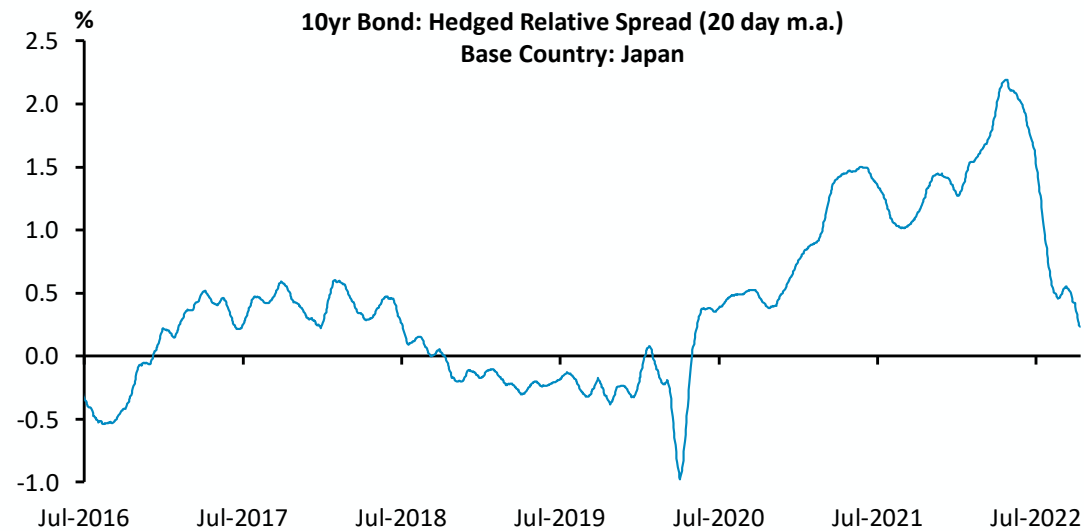
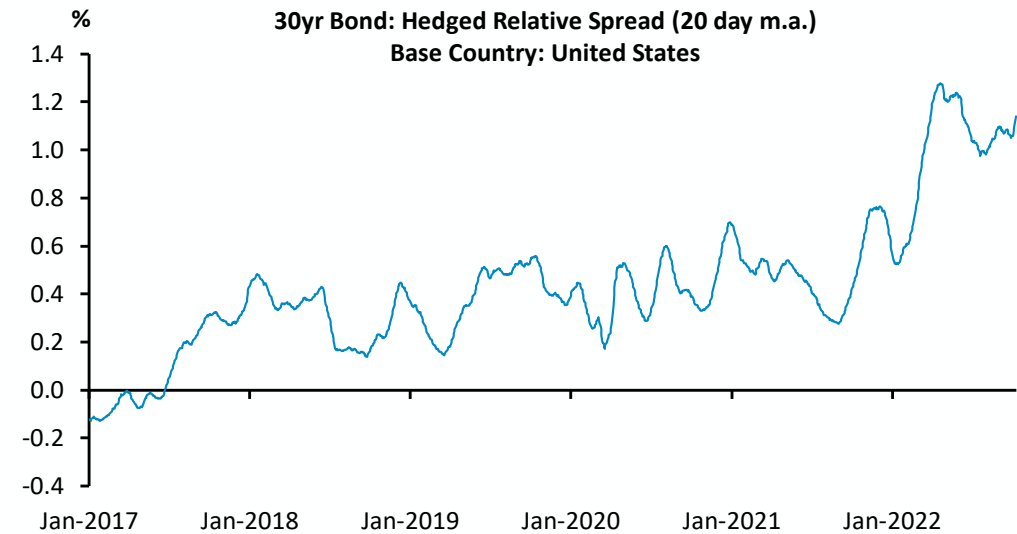
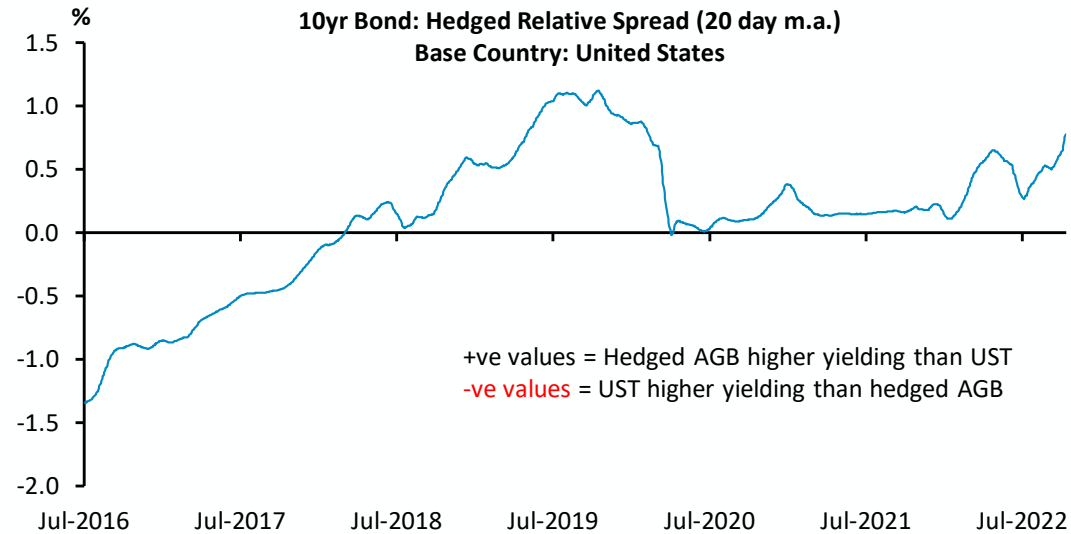
- The AGS market continues to look attractive compared to other core sovereign markets on an outright and hedged basis from an offshore investor perspective.
- The AGS domestic investor base primarily comprises bank balance sheets and fund manager allocations, with the RBA also a significant holder of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



Source: Refinitiv, as at 26 October 2022.

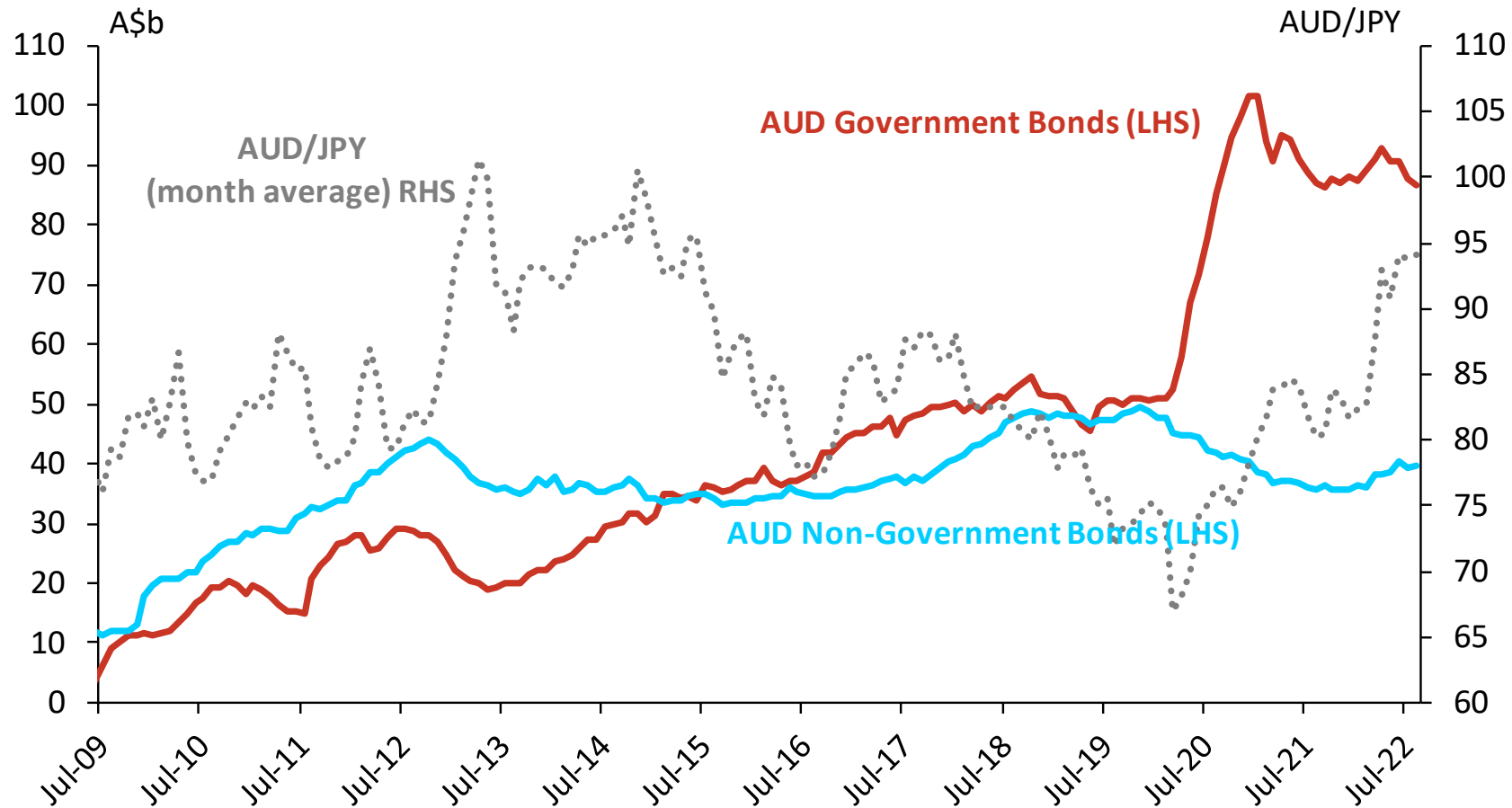
Australian sovereign bond spreads

Hedged via rolling 3m fx forwards



Source: Bloomberg, AOFM. Updated to 14 October 2022

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

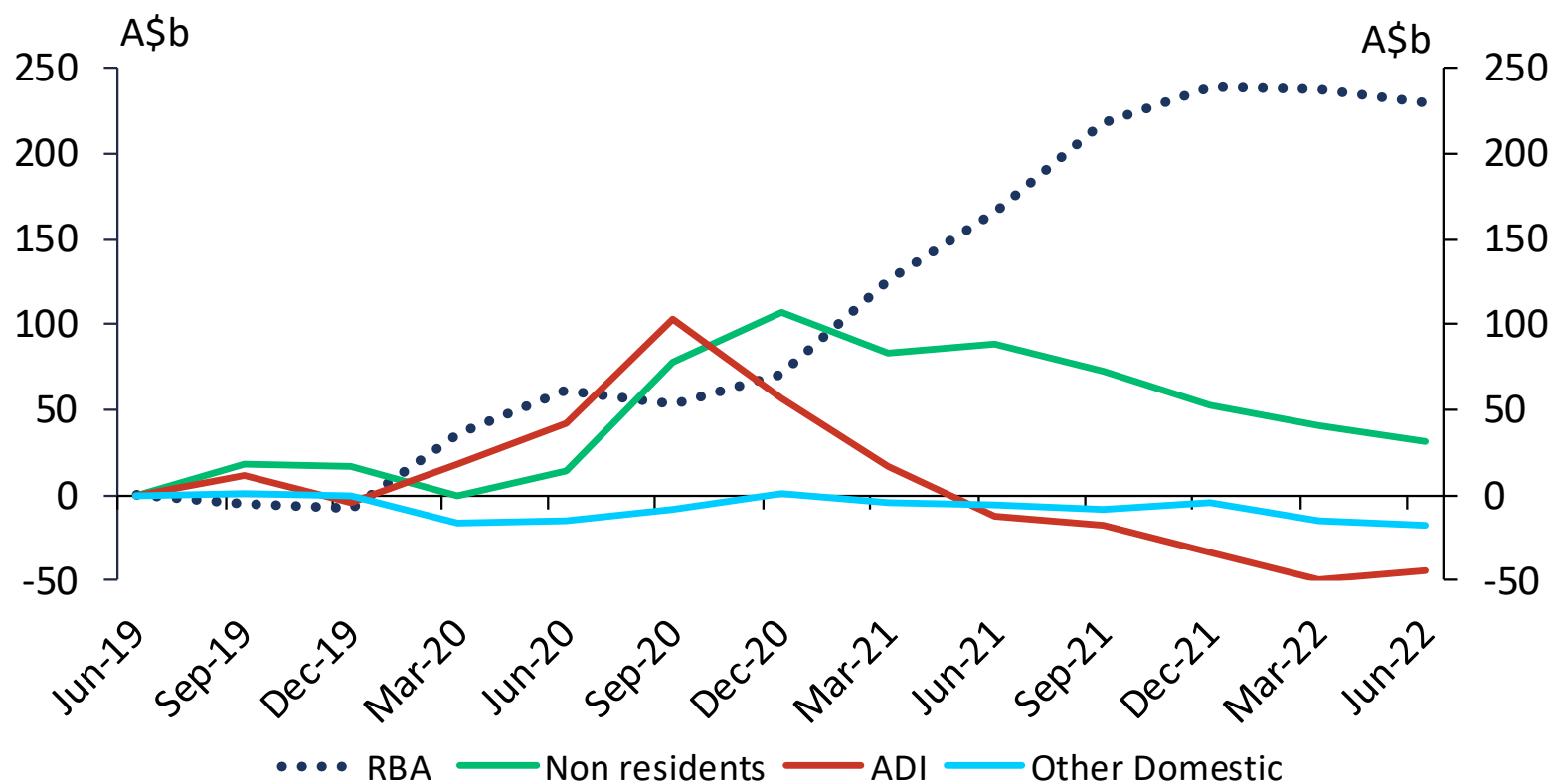


Source: Japan Ministry of Finance, Bloomberg. Data includes both AGS and semi government bonds. Updated to 31 August 2022.

Shift in investor holdings of Australian government bonds

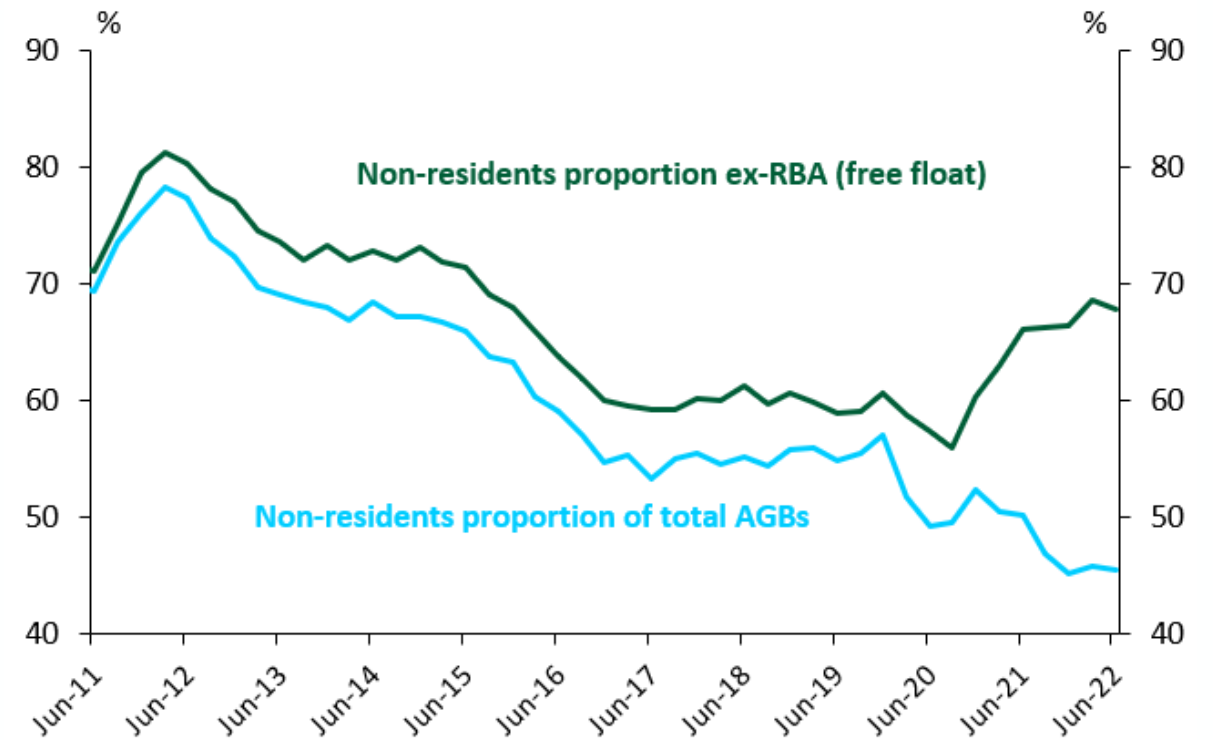
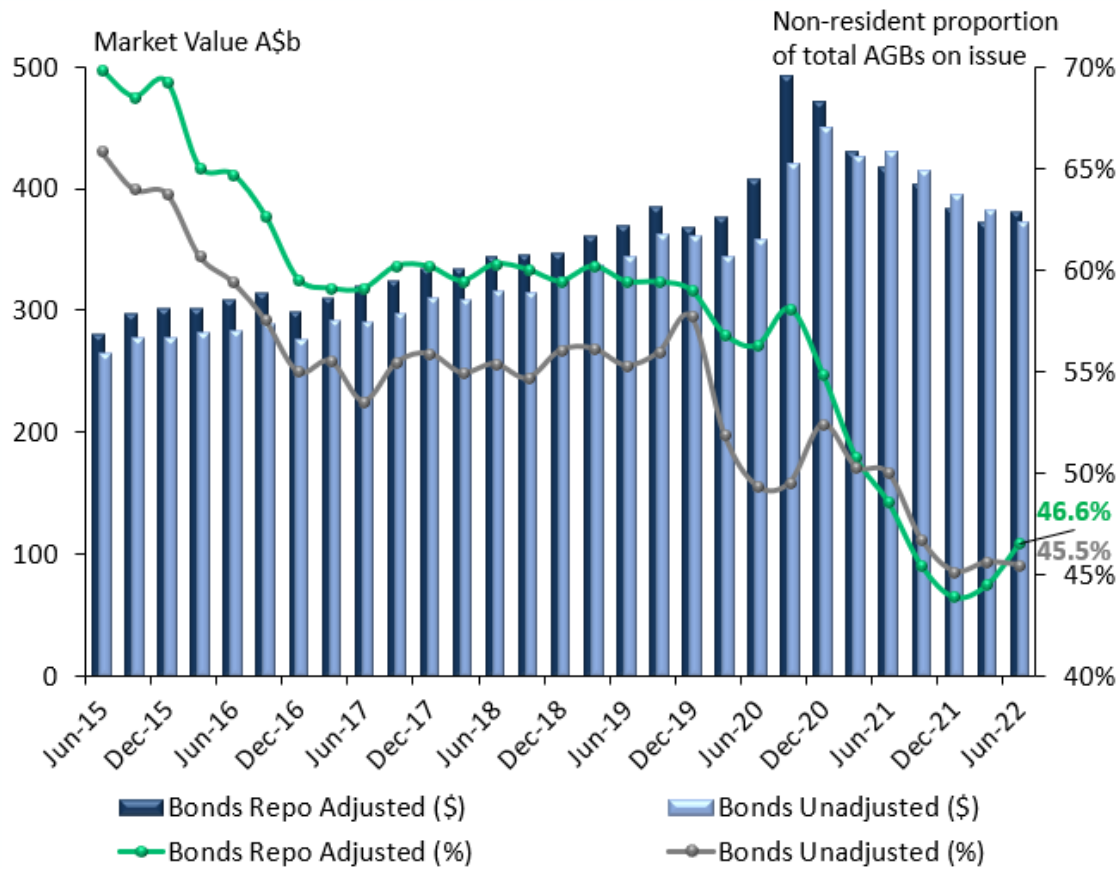
Change in AGB holdings since June 2019

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. Non-resident holdings have declined since late 2020, but are higher than before the pandemic.



Source: ABS, AOFM.

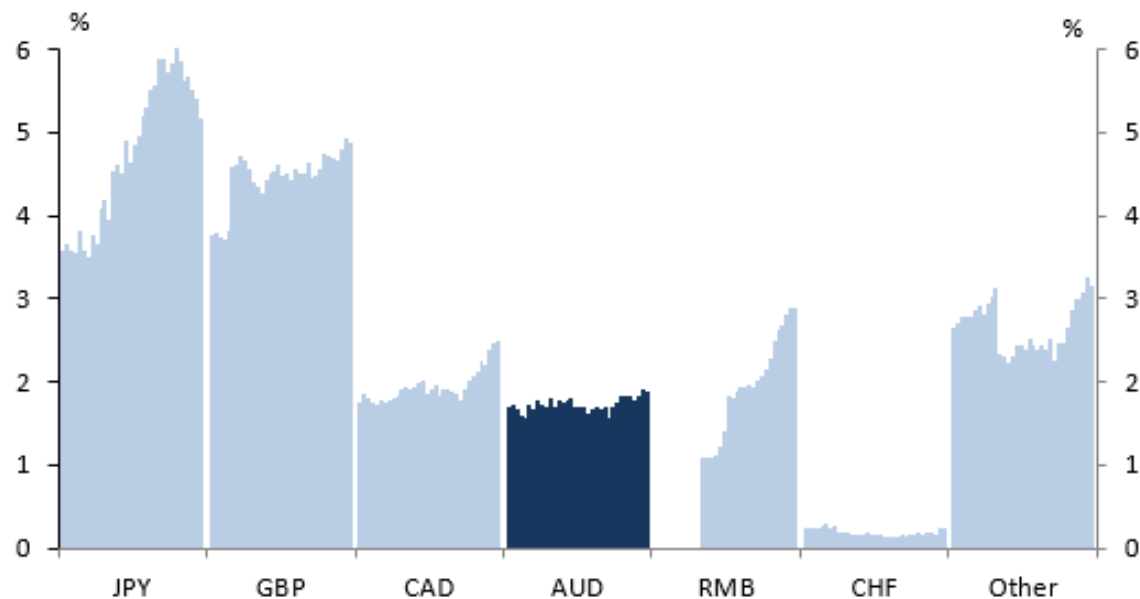
Non-resident holdings of AGBs



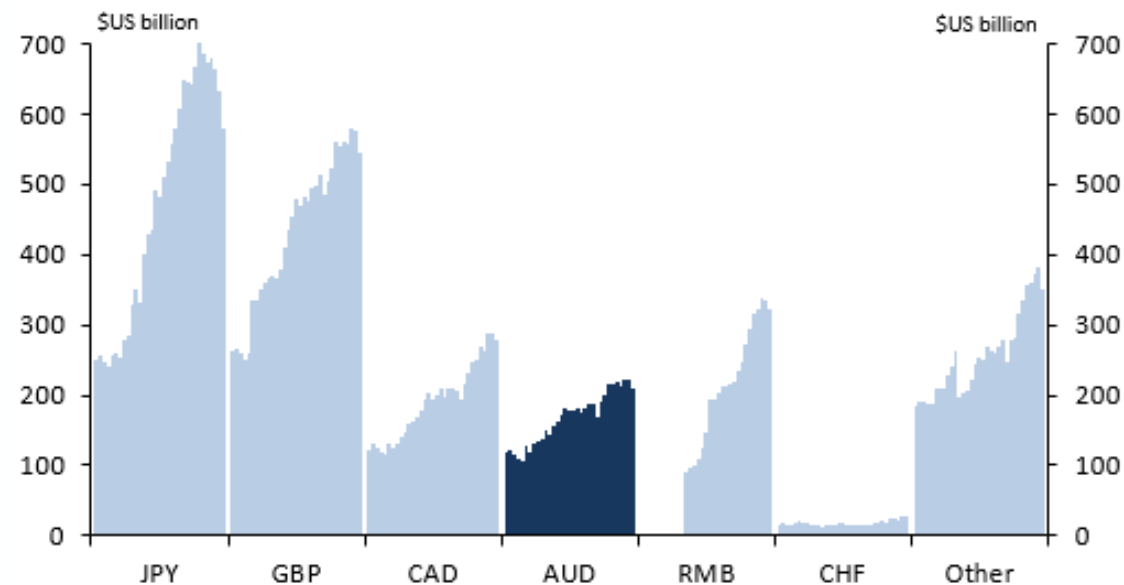
Source: Australian Bureau of Statistics (ABS), RBA, AOFM. AGBs are Treasury Bonds and Treasury Indexed Bonds.

Central bank FX reserve allocation outside of USD & EUR

Q1 2014 to Q2 2022



Proportion of allocated reserves



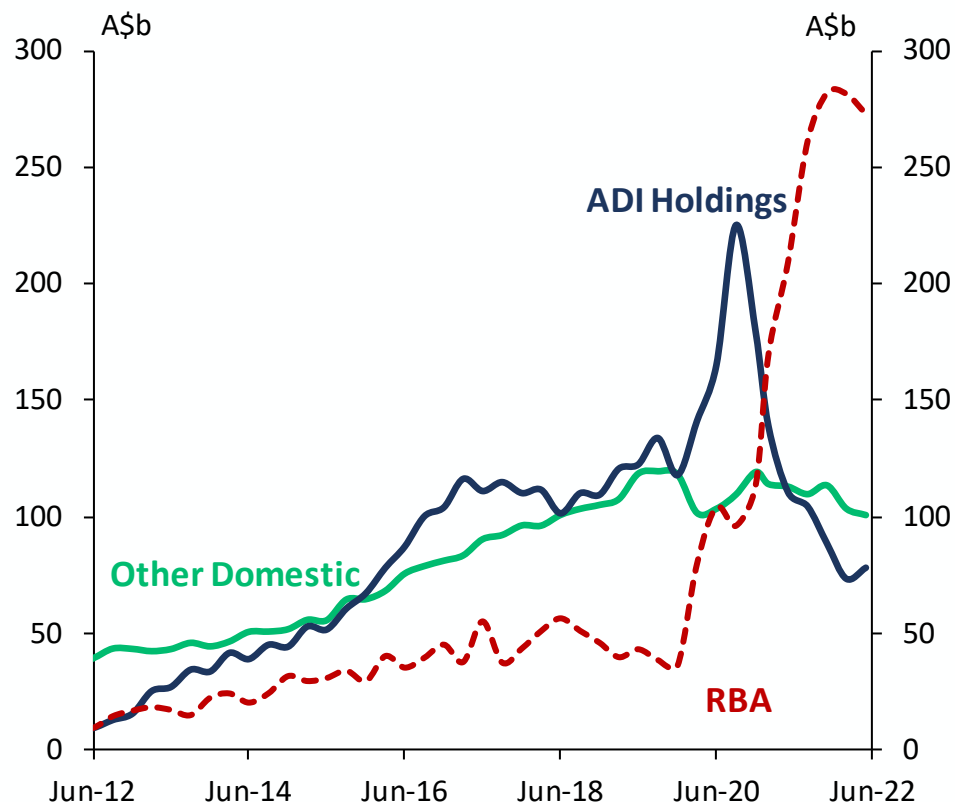
Value of allocation (USD billions)

Source: IMF COFER database

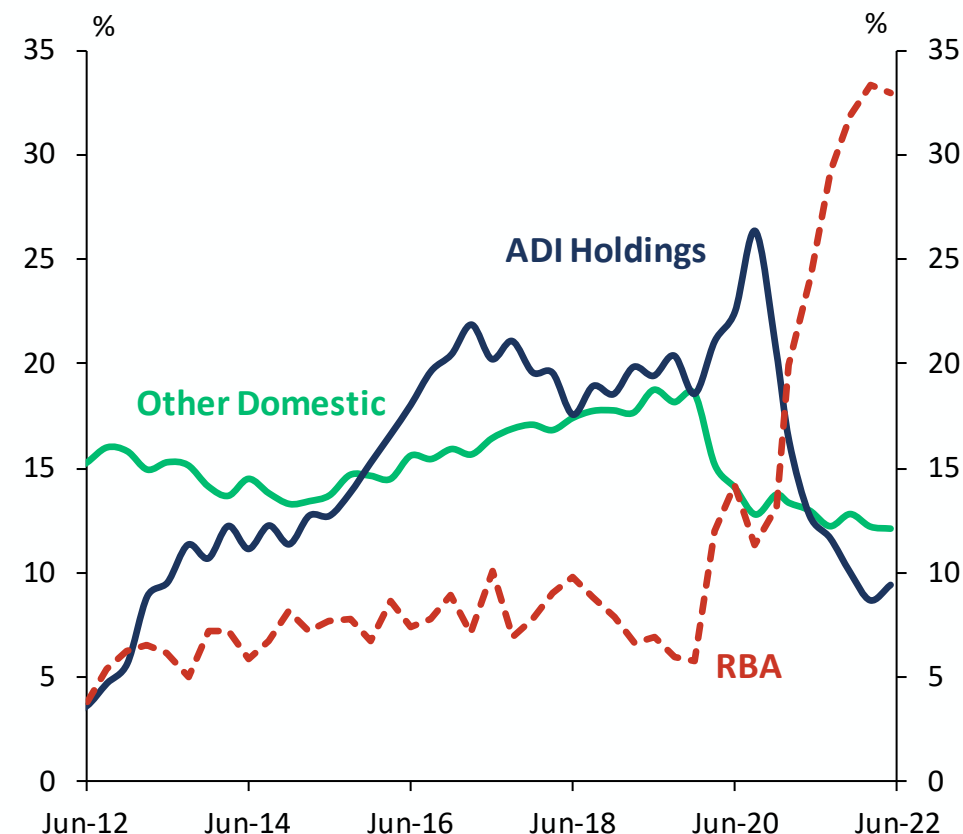
Domestic bank and non-bank holdings of AGBs

June 2012 to June 2022

Value of Holdings



Proportion of AGB Market

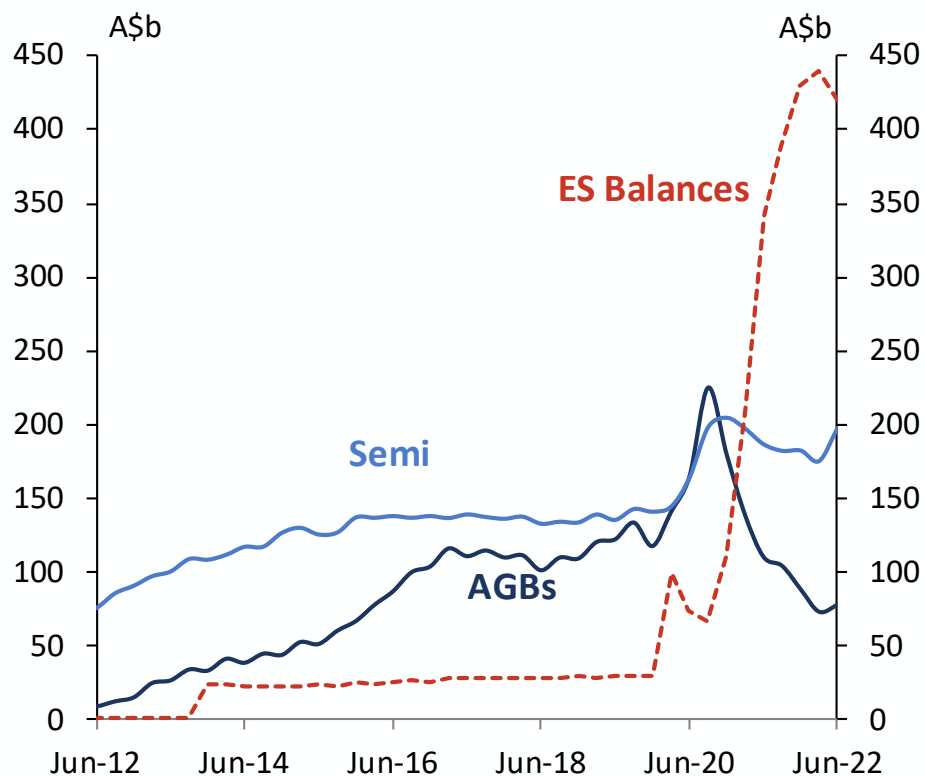


Source: ABS. Holdings are not adjusted for repurchase transactions.
AGBs are Treasury Bonds and Treasury Indexed Bonds.

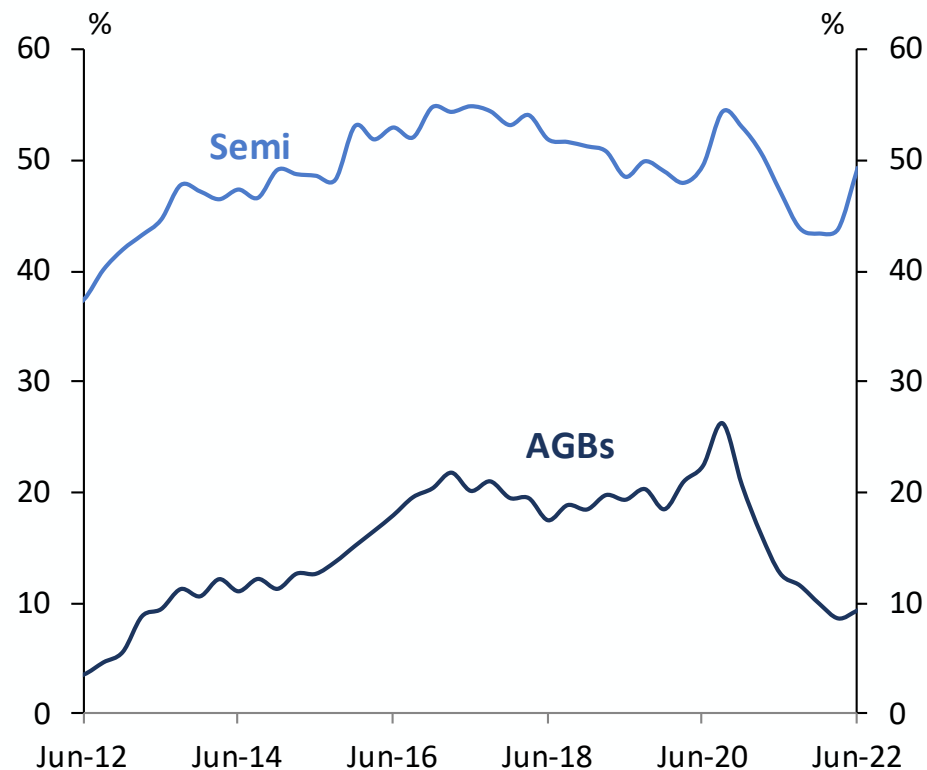
Domestic bank holdings of AGBs and semi-government bonds

June 2012 to June 2022

Value of Holdings (market value)



Proportion of Respective Market

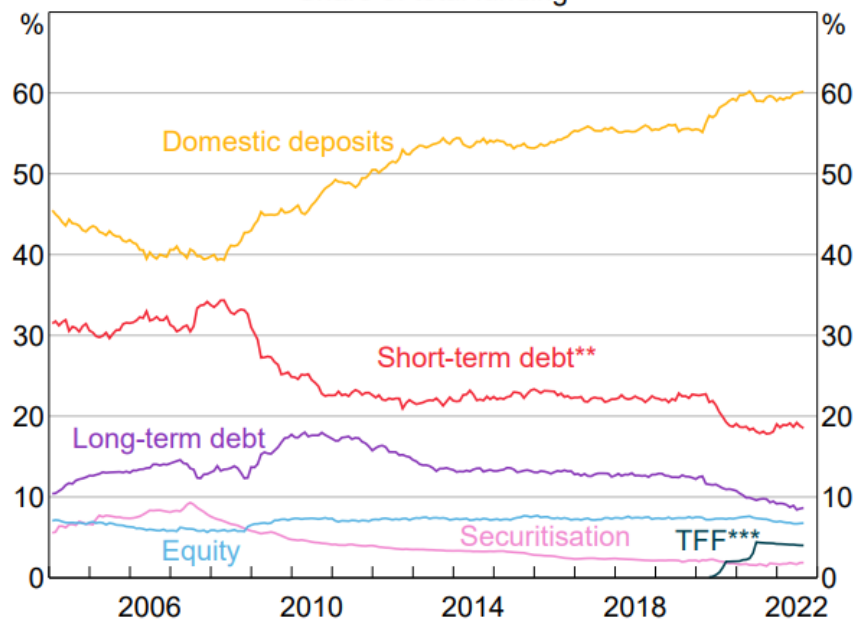


Source: ABS. AGBs are Treasury Bonds and Treasury Indexed Bonds.

Outlook for domestic bank holdings of HQLA

Funding Composition of Banks in Australia*

Share of total funding



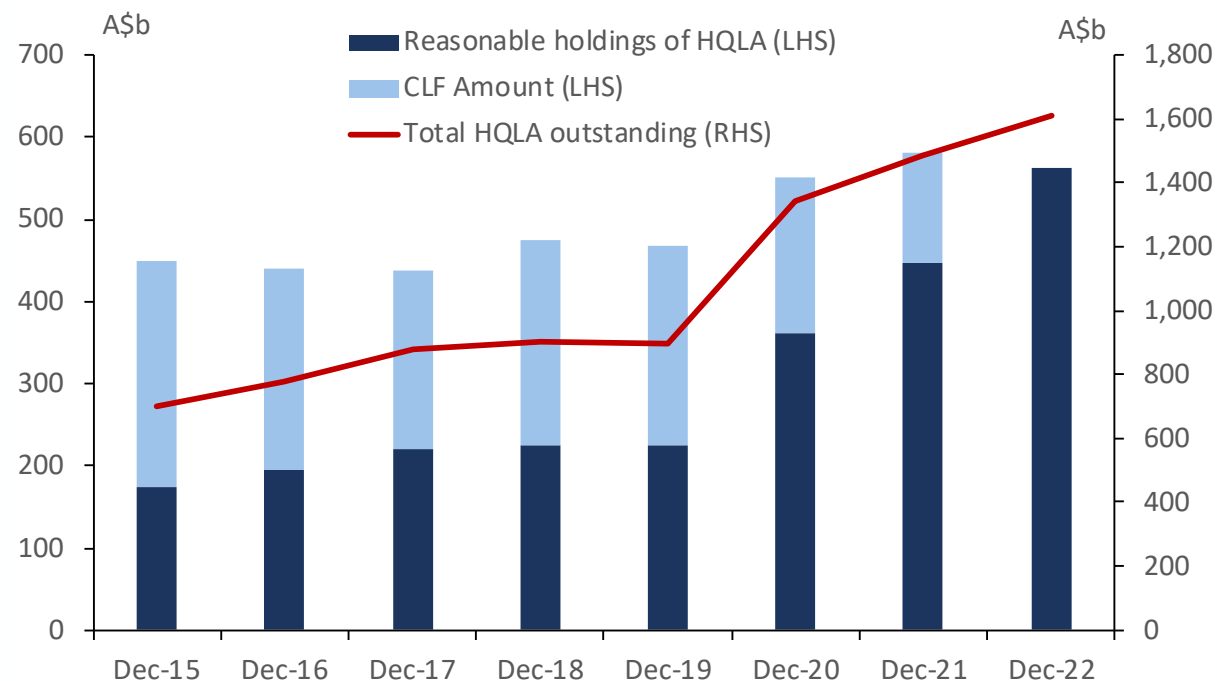
* Adjusted for movements in foreign exchange rates; tenor of debt is estimated on a residual maturity basis.

** 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

Expected decline in RBA exchange settlement balances



Source: RBA.

Australian government bonds

<i>Treasury Bonds:</i>	<i>Volume Outstanding (AUD)</i>	<i>Yield (%)</i>	<i>Modified Duration</i>
2.25% 21 November 2022	26,500,000,000	2.77	0.08
5.50% 21 April 2023	34,199,708,000	3.23	0.49
2.75% 21 April 2024	35,900,000,000	3.47	1.46
0.25% 21 November 2024	41,300,000,000	3.65	2.04
3.25% 21 April 2025	40,800,000,000	3.68	2.38
0.25% 21 November 2025	38,000,000,000	3.76	3.02
4.25% 21 April 2026	38,100,000,000	3.79	3.23
0.50% 21 September 2026	36,700,000,000	3.84	3.81
4.75% 21 April 2027	36,699,566,000	3.87	4.04
2.75% 21 November 2027	31,400,000,000	3.93	4.63
2.25% 21 May 2028	29,700,000,000	3.97	5.11
2.75% 21 November 2028	33,300,000,000	4.01	5.45
3.25% 21 April 2029	34,499,803,000	4.04	5.79
2.75% 21 November 2029	33,400,000,000	4.08	6.26
2.50% 21 May 2030	37,100,000,000	4.12	6.70
1.00% 21 December 2030	38,700,000,000	4.16	7.63
1.50% 21 June 2031	38,100,000,000	4.18	7.88
1.00% 21 November 2031	41,800,000,000	4.20	8.42
1.25% 21 May 2032	38,400,000,000	4.21	8.74
1.75% 21 November 2032	27,000,000,000	4.22	8.91
3.00% 21 November 2033	22,200,000,000	4.22	8.36
4.50% 21 April 2033	17,600,000,000	4.26	9.10
2.75% 21 June 2035	9,550,000,000	4.36	10.27
3.75% 21 April 2037	12,300,000,000	4.44	10.97
3.25% 21 June 2039	10,300,000,000	4.51	12.27
2.75% 21 May 2041	13,500,000,000	4.55	13.60
3.00% 21 March 2047	13,600,000,000	4.54	16.11
1.75% 21 June 2051	18,400,000,000	4.51	19.68
<i>Total:</i>	829,049,077,000	<i>Portfolio:</i>	5.6
<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	0.72	2.79
0.75% 21 November 2027	6,500,000,000	1.45	4.97
2.50% 20 September 2030	6,542,713,000	1.72	7.19
0.25% 21 November 2032	3,950,000,000	1.87	9.89
2.00% 21 August 2035	4,350,000,000	1.97	11.27
1.25% 21 August 2040	4,250,000,000	2.08	15.75
1.00% 21 February 2050	4,150,000,000	2.13	23.20
<i>Total:</i>	37,785,297,000	<i>Portfolio:</i>	8.5

Source: AOFM, Refinitiv. As at 21 October 2022.

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[®]



Goldman
Sachs



J.P.Morgan



Morgan Stanley



Further information

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Readily available access to quoted yields:

www.rba.gov.au

Bloomberg:

"AOFM Go" (*Homepage*)

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

"ACTB Govt Go" (*TNs*)

Thomson Reuters:

"AOFMINDEX" (*Homepage*)

"0#AUTSY=YBAU" (*TBs*)

"0#AUILB=YBAU" or "0#AUTSYIL=" (*TIBs*)

"0#AUTNOTES=YBAU" (*TNs*)

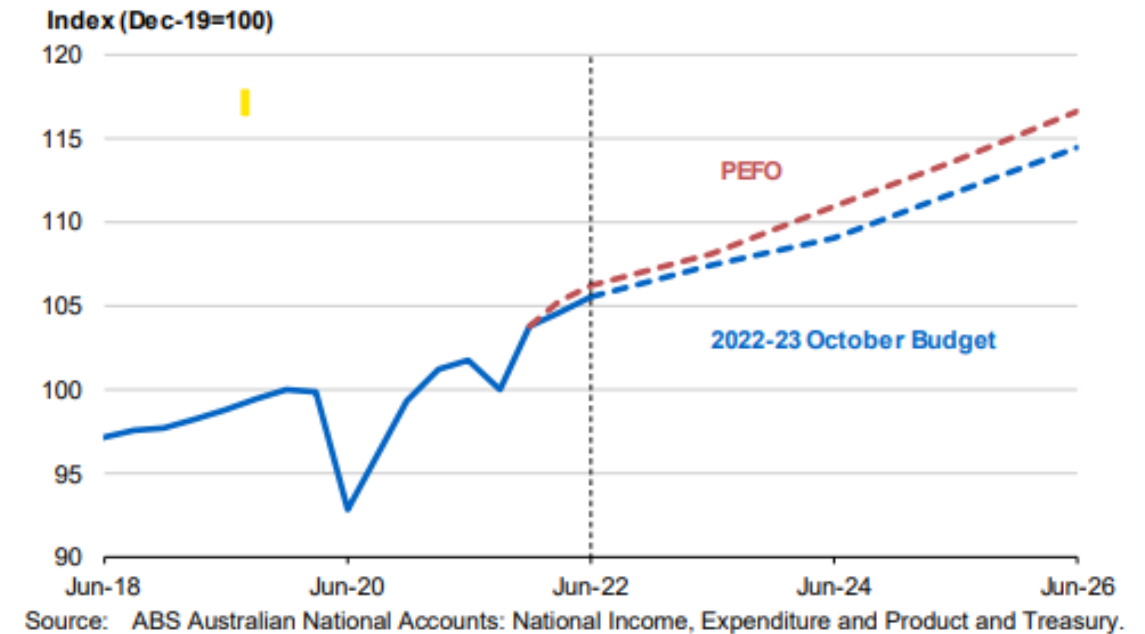
Economic outlook

Economic parameter forecasts

	Outcome	Forecasts			
	2021-22	2022-23	2023-24	2024-25	2025-26
Real GDP (% change)	3.9	3.25	1.5	2.25	2.5
Employment (% change)	3.3	1.75	0.75	1	1.25
Unemployment rate (%)	3.8	3.75	4.5	4.5	4.25
Consumer price index (% change)	6.1	5.75	3.5	2.5	2.5
Wage price index (% change)	2.6	3.75	3.75	3.25	3.5
Nominal GDP (% change)	11	8	-1	4.25	5
Gross debt (% of GDP)	39.0	37.3	40.8	42.5	43.1
Net Debt (% of GDP)	22.5	23.0	25.8	27.4	28.5

The recovery in real GDP

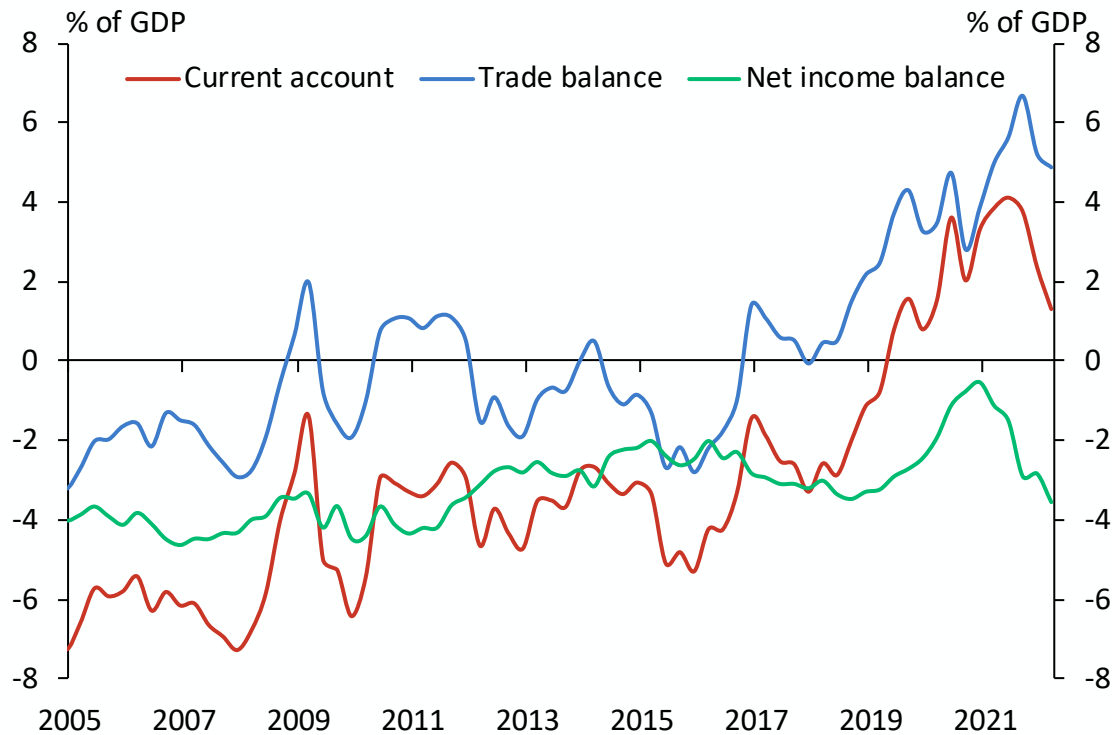
Chart 2.11: Real GDP



Source: Treasury – Budget October 2022-23

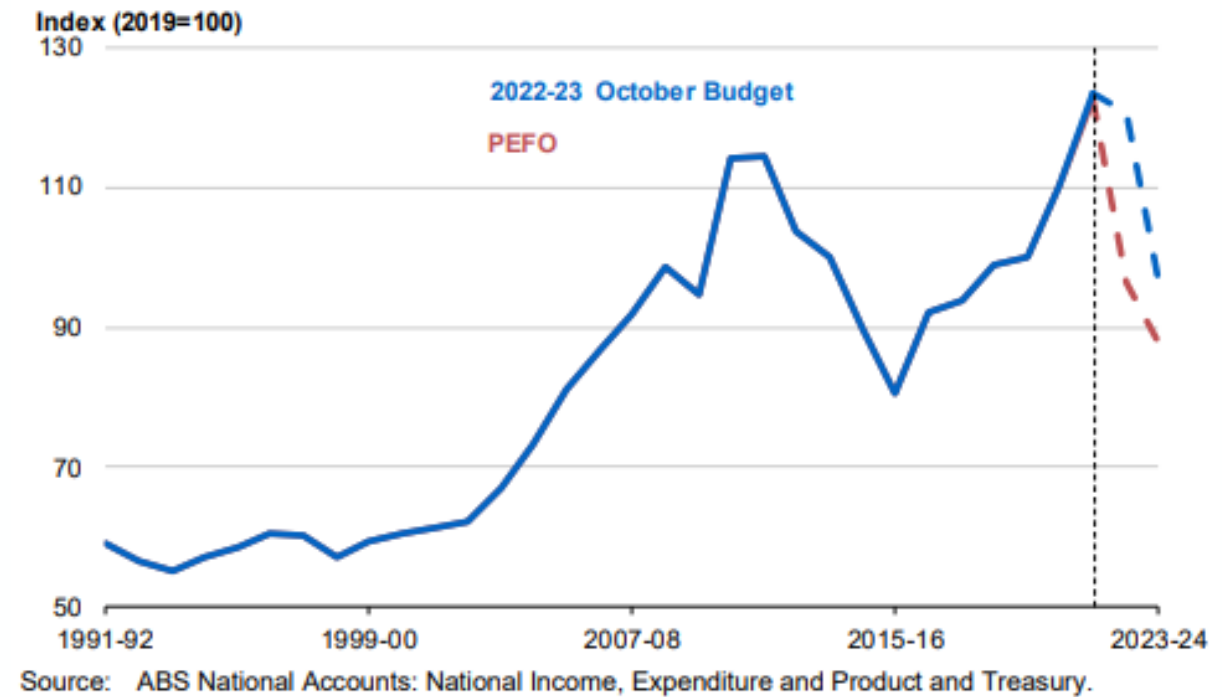
Economic outlook

Current account balance



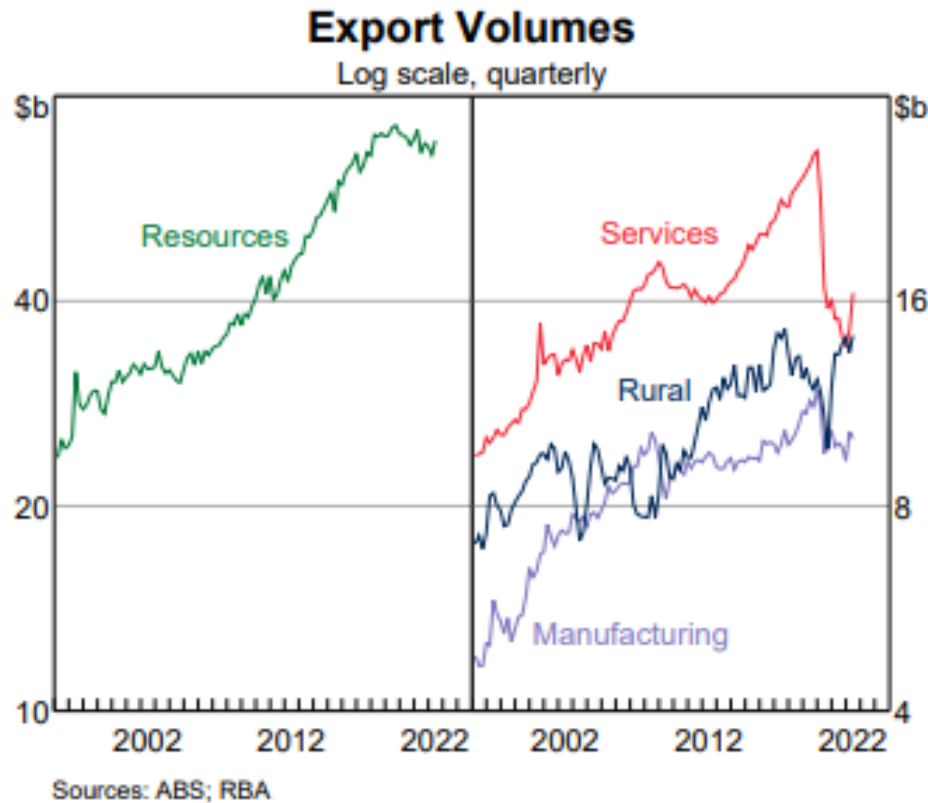
Source: Australian Bureau of Statistics

Terms of trade budget projection

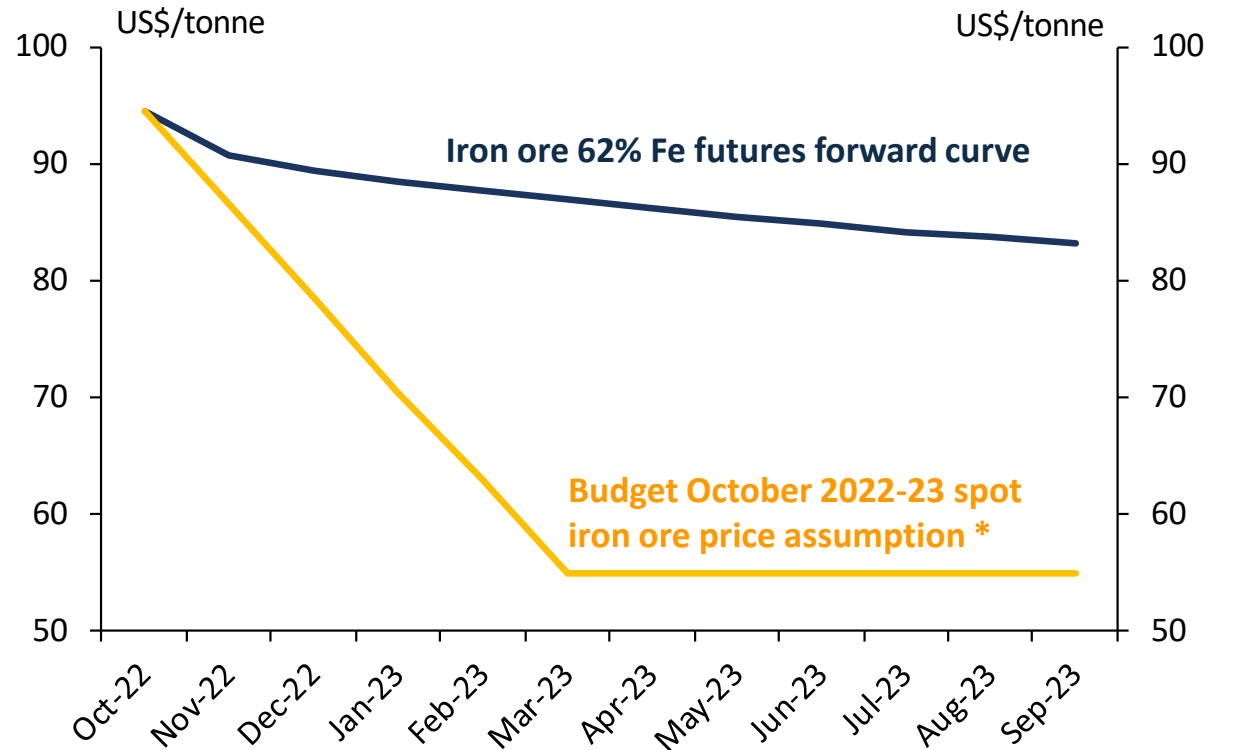


Source: ABS National Accounts: National Income, Expenditure and Product and Treasury.

Economic outlook



Iron Ore futures forward curve vs Budget assumption

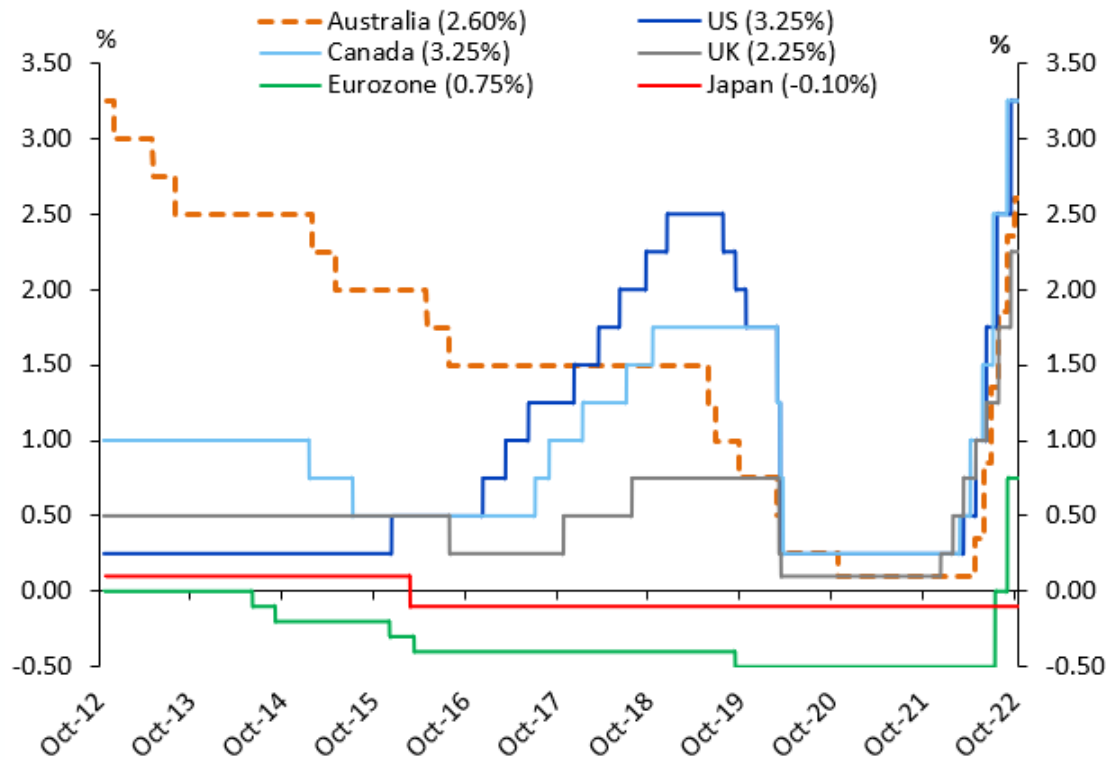


Source: Right hand chart Treasury – Budget October 2022-23., Bloomberg – Iron Ore 62%, CFR China (TSI) swap futures

* AOFM estimate based on Budget October 2022-23 assumption of the Iron ore spot price assumed to decline to US\$55/tonne free-on-board (FOB) by the end of the March quarter 2023..

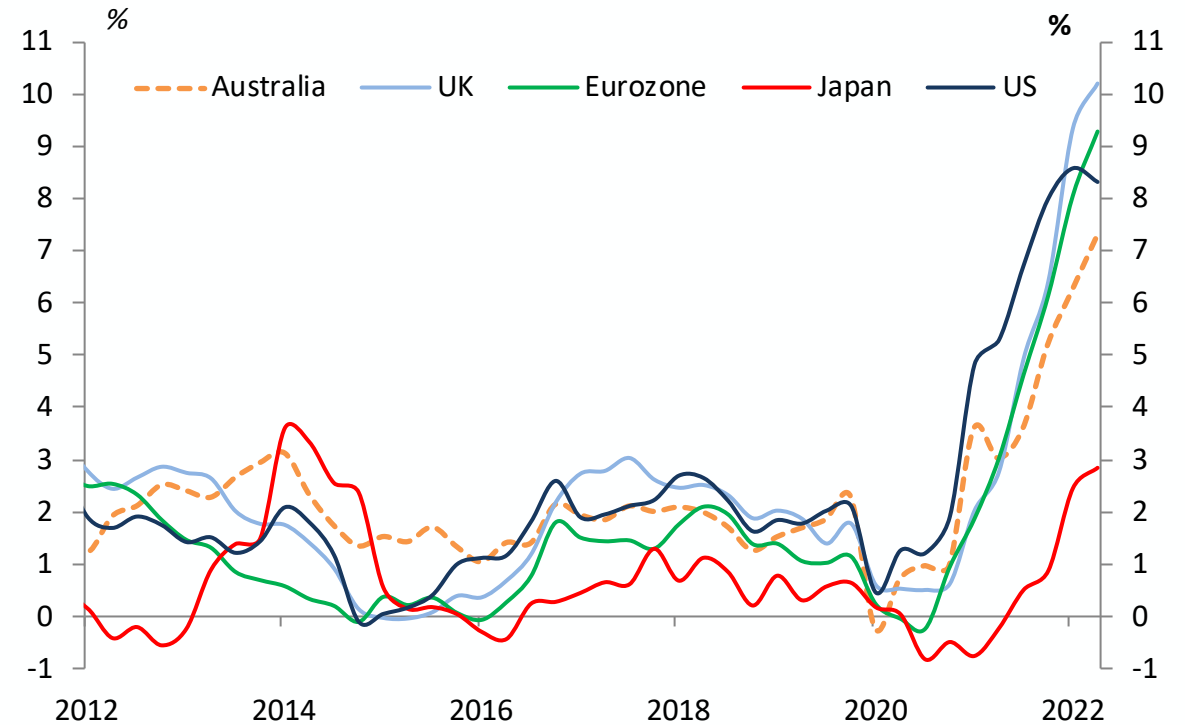
Economic outlook

Central bank policy rates



Source: Refinitiv

CPI global comparisons



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