



Australian Government  
Australian Office of Financial Management

AOFM

# AGS Investor Chart Pack - Budget 2020-21 Update

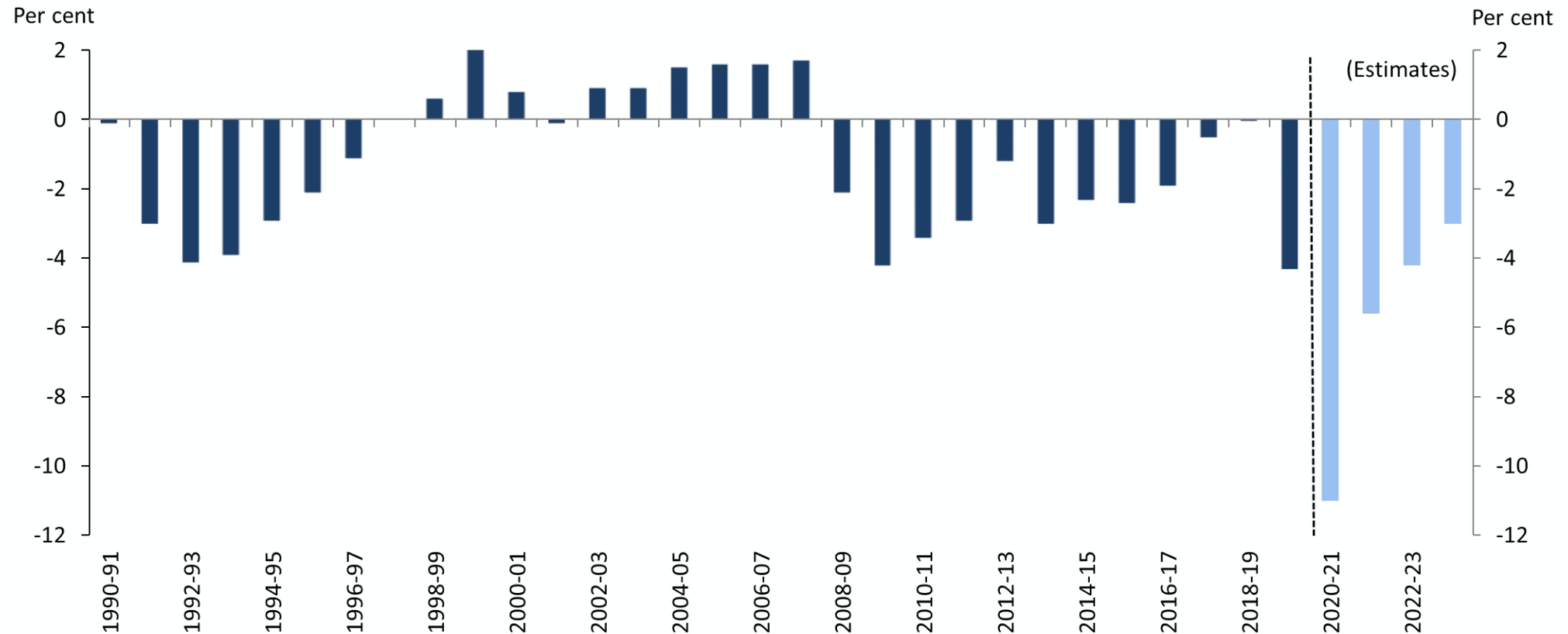
Australian Office of Financial Management

October 2020

# Australia's budget balance

## Underlying cash balance per cent of GDP

The fiscal position has deteriorated significantly as a result of COVID-19. The underlying cash balance in 2020-21 is forecast to be 11 per cent of GDP and is expected to improve across the forward estimates to 3 per cent of GDP in 2023-24. The announced fiscal response to COVID-19 since the onset of the pandemic is around \$507 billion or the equivalent of 25.6 per cent of GDP.

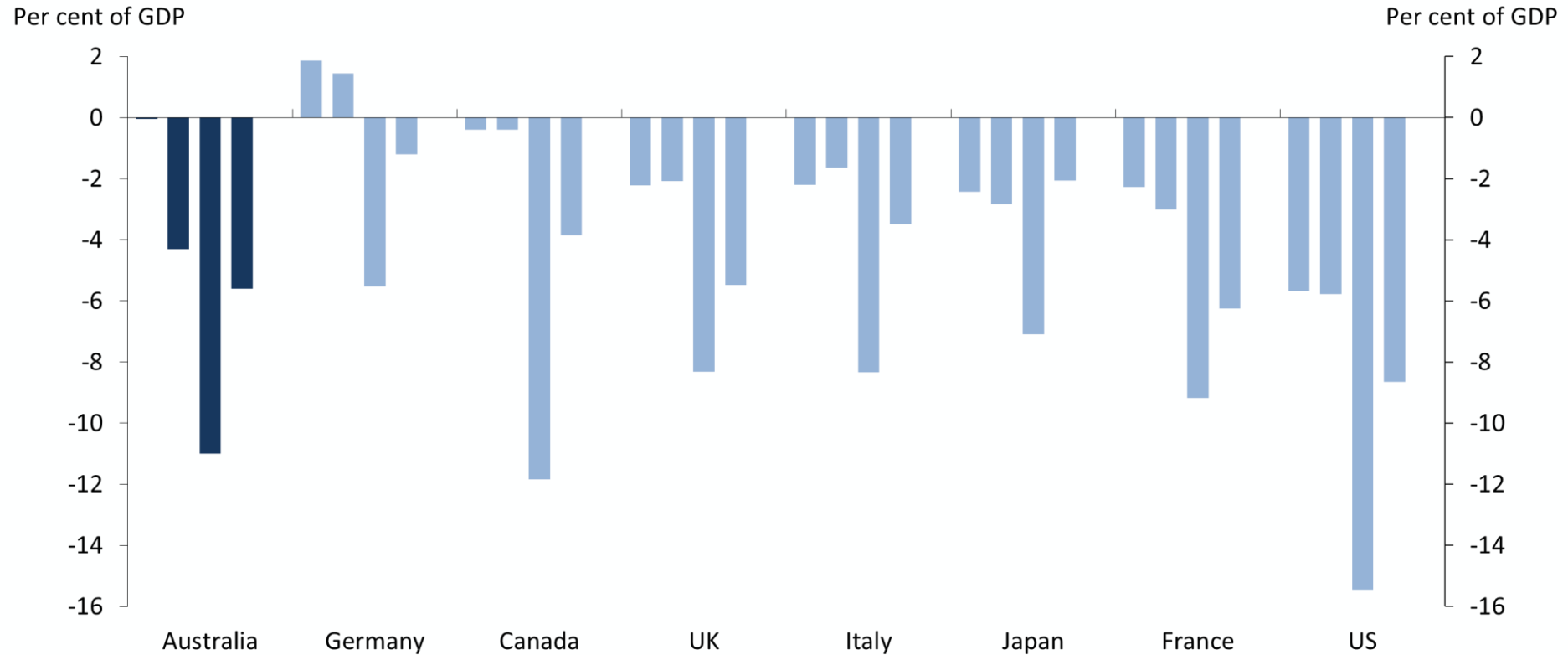


Source: Treasury – Budget 2020-21

# Comparison of Government Budget Balances

2018 to 2021 (forecast) for G7 and Australia

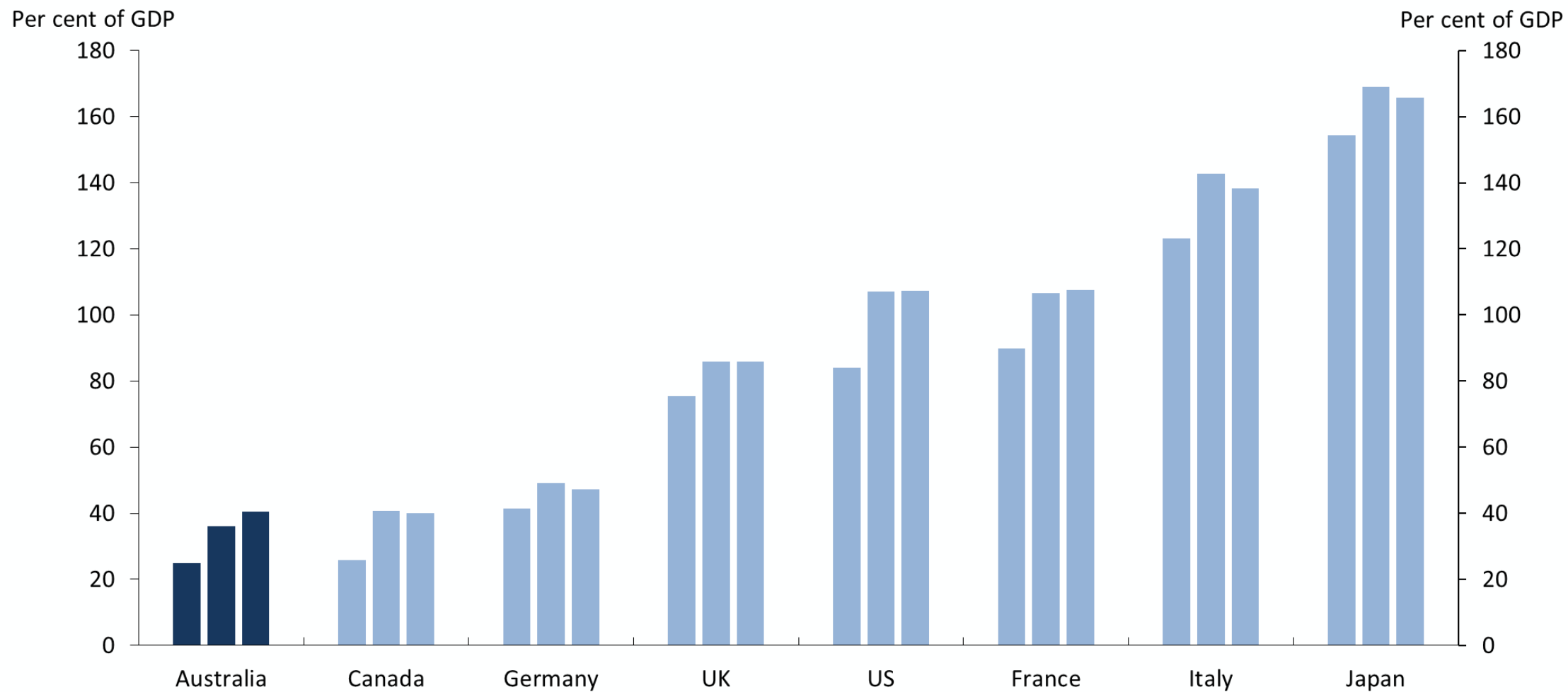
The Australian Government is managing the impact of the pandemic from the position of having a strong balance sheet. This will comfortably underpin the Government's fiscal response. Post-crisis, the balance sheet position will continue to exhibit relatively low net debt by global standards. S&P Moody's and Fitch have recently re-affirmed Australia's AAA sovereign rating.



Note: Australian data are for the Australian Government general government sector for financial years 2019-20 to 2021-22  
Source: Treasury – Budget 2020-21, IMF Fiscal Monitor April 2020.

# Comparison of Government Net Debt

2019 to 2021 (forecast) for G7 and Australia

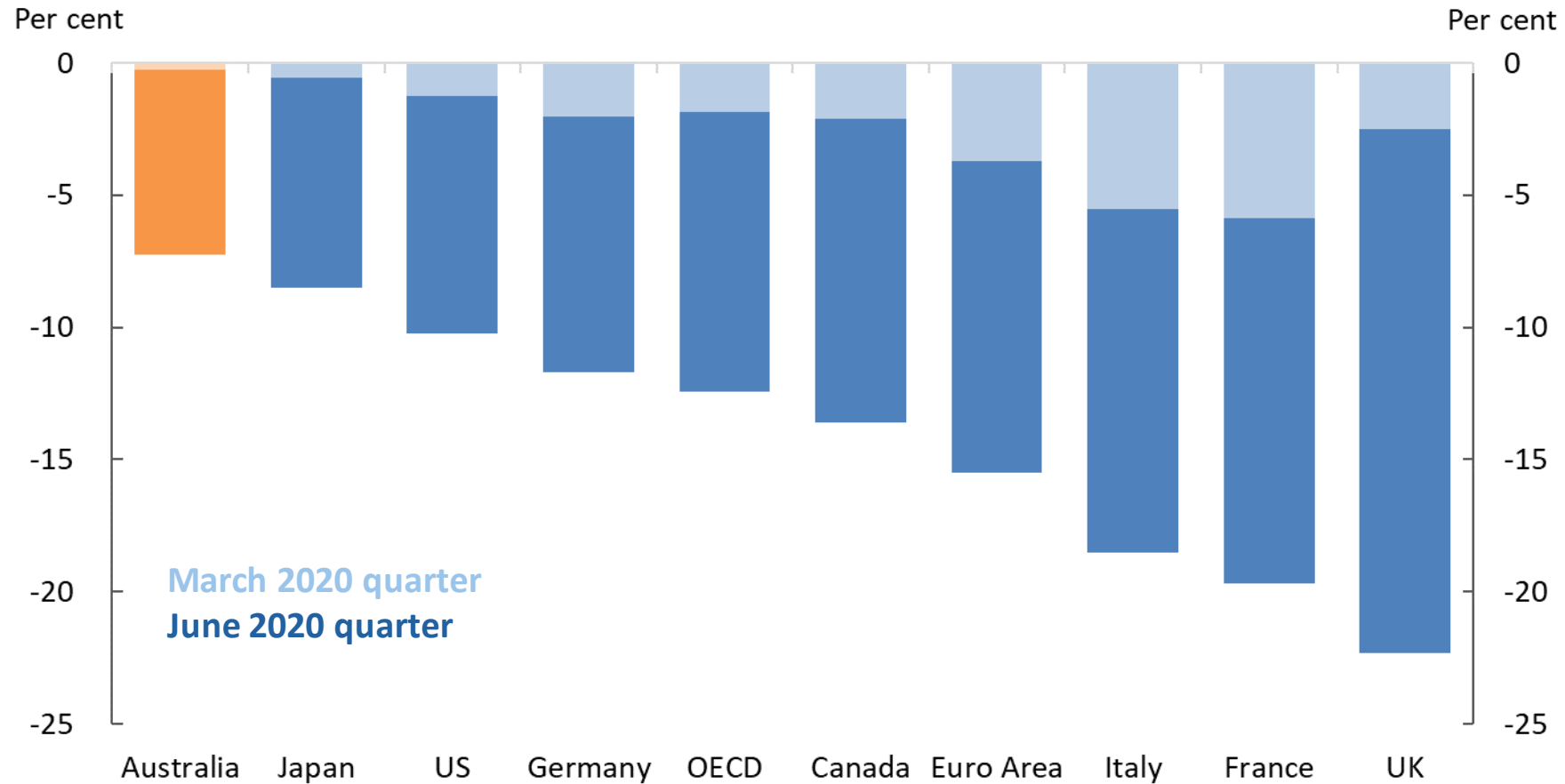


Note: Australian data are for the Australian Government general government sector for financial years commencing 2018-19. Data for all other countries are for total government and refer to calendar years commencing 2018.

Source: Treasury – Budget 2020-21, IMF Fiscal Monitor April 2020

# Cumulative GDP growth since December 2019 quarter

for G7 and Australia



Source: OECD Quarterly National Accounts

# Australian Government Securities

Three instruments available

## Treasury Bonds

### *Amount Outstanding*

**\$708.2 billion**

30 lines on issue

Average line size is \$23.6 billion

Maturities range from 2020 to 2051

### *Gross Issuance 2020-21 (F)*

**Around \$240 billion**

## Treasury Indexed Bonds

### *Amount Outstanding*

**\$37.0 billion**

7 lines on issue

Average line size is \$5.3 billion

Maturities range from 2022 to 2050

### *Gross Issuance 2020-21 (F)*

**Around \$2-2.5 billion**

## Treasury Notes

### *Amount Outstanding*

**\$69.0 billion**

11 lines on issue

Average line size is \$6.3 billion

Maturities range up to July-2021

### Further information

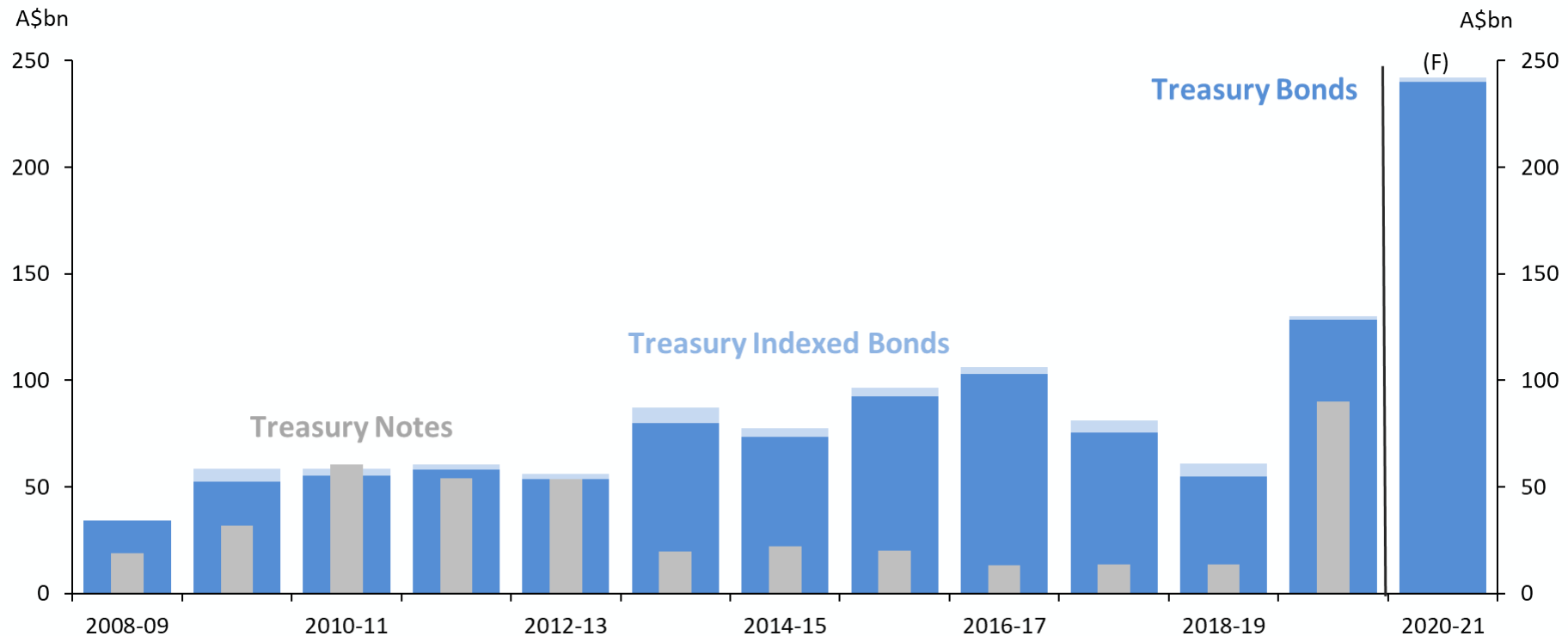
- Four new Treasury Bond lines have been established in 2019-20 maturing in 2025, 2026, 2031 and 2051. It is planned to establish an additional new Treasury Bond line maturing in 2032 in the second half of 2020-21.
- Treasury Bond tenders totaling \$3-4 billion will be conducted in most weeks
- Syndicated taps of existing long-dated Treasury Bond lines will remain under consideration.
- There are no plans to resume regular Treasury Bond buyback tenders during 2020-21.
- Two tenders of Treasury Indexed Bonds will be conducted in most months.
- Treasury Notes tenders of \$2-4 billion can be expected in most weeks.

Note: Figures are as at 9 October 2020. 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

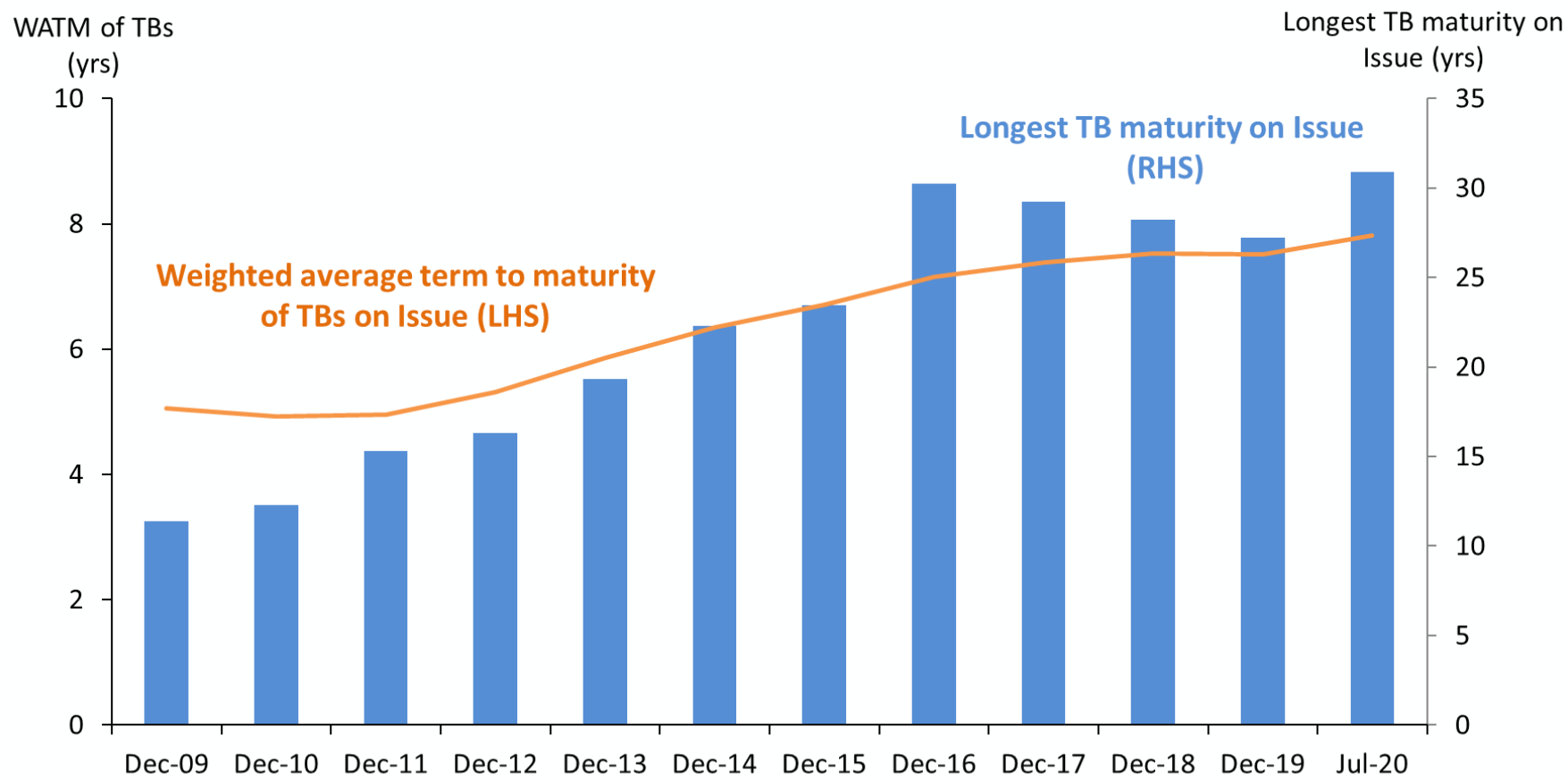
- Treasury Bond issuance for 2020-21 is expected to be around \$240 billion, of which \$117 billion has already been undertaken as at 6 October 2020. It is planned for \$3-4 billion to be issued in most weeks by tender for the remainder of the 2020 calendar year.
- Treasury Notes will continue to be issued on a regular basis, which will involve issuance of \$2-4 billion in most weeks by tender.
- Treasury Indexed Bond issuance of \$2-2.5 billion is expected for 2020-21, of which \$650 million has already been undertaken. Two tenders are planned for most months.



Source: AOFM. Forecast issuance of Treasury Notes in 2020-21 is not available.  
Actual Treasury Note issuance will vary depending on the flows of Government expenditure and receipts.

# Treasury Bond curve extension and long issuance bias

Maintaining a 30-year Treasury Bond curve remains a key objective of the AOFM's debt management strategy. The recent syndication of the new June 2051 bond line increased the weighted average term to maturity (WATM) of the Treasury Bond portfolio to around 7.8 years. The AOFM is aware of the differences in liquidity across the yield curve and will look to systematically build the stock outstanding in ultra-long maturities, but not at a rate that is a detriment to the market.

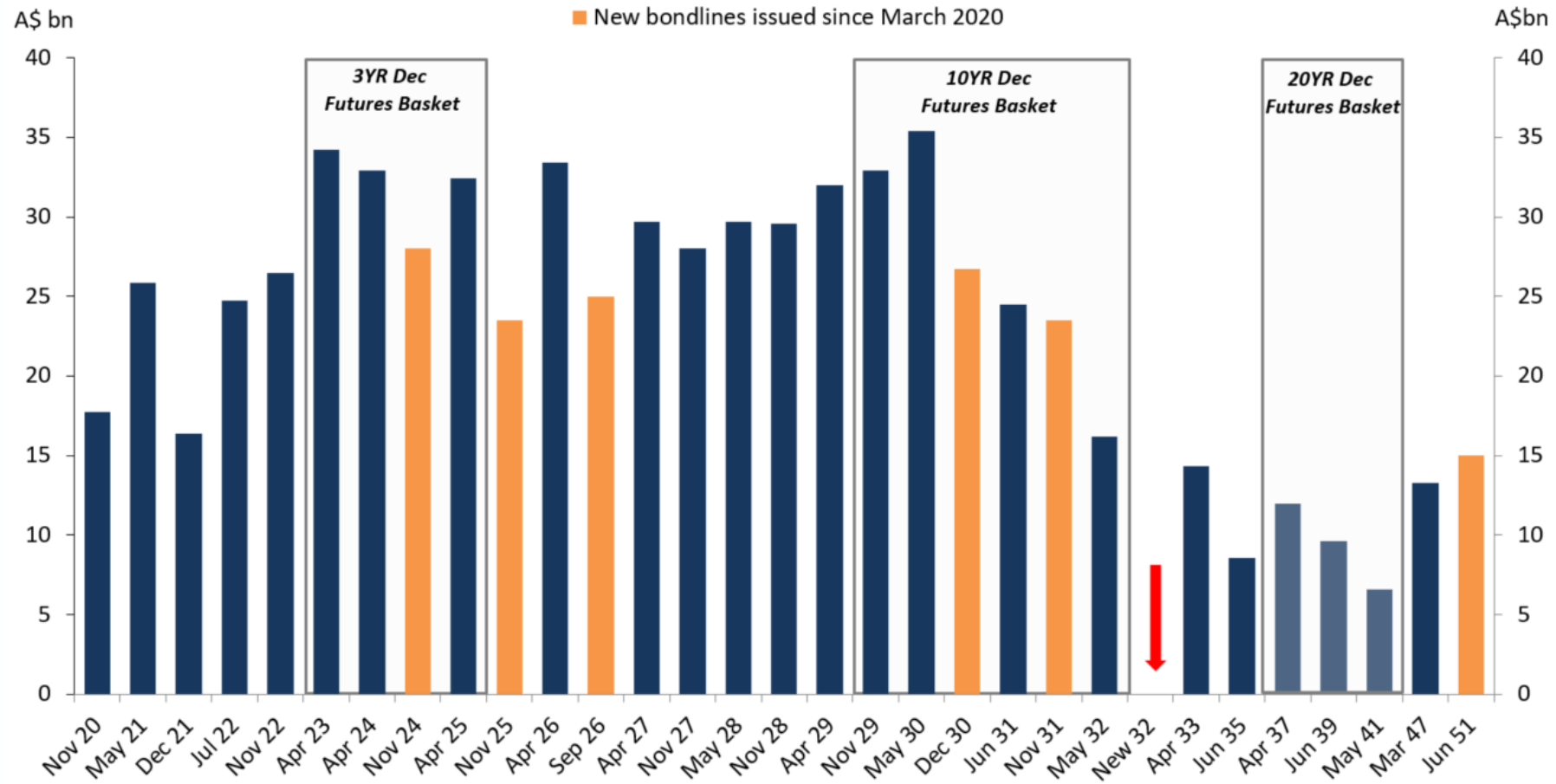


Source: AOFM



# Treasury Bonds on Issue

The AOFM will continue to target high volume issuance in the most liquid (high-demand) parts of the yield curve while supporting other parts of the market by responding to demand and issuing in appropriate volumes. Six new Treasury Bond lines have been established since March 2020, with a new 2032 maturity planned for the second half of 2020-21. Syndicated taps of existing long-dated bond lines will be considered. Around the time of the resumption of issuance in January 2021, the AOFM will announce plans for new bond lines. This may include selectively adding a third maturity in some calendar years.



Source: AOFM. As at 9 October 2020

# Turnover – Treasury Bonds

Liquidity in the AGS market remains attractive – particularly around the 3 and 10-year futures baskets. Trading between AGS intermediaries is strong which provides confidence to support investors when banks need to ‘short’ lines to provide liquidity.

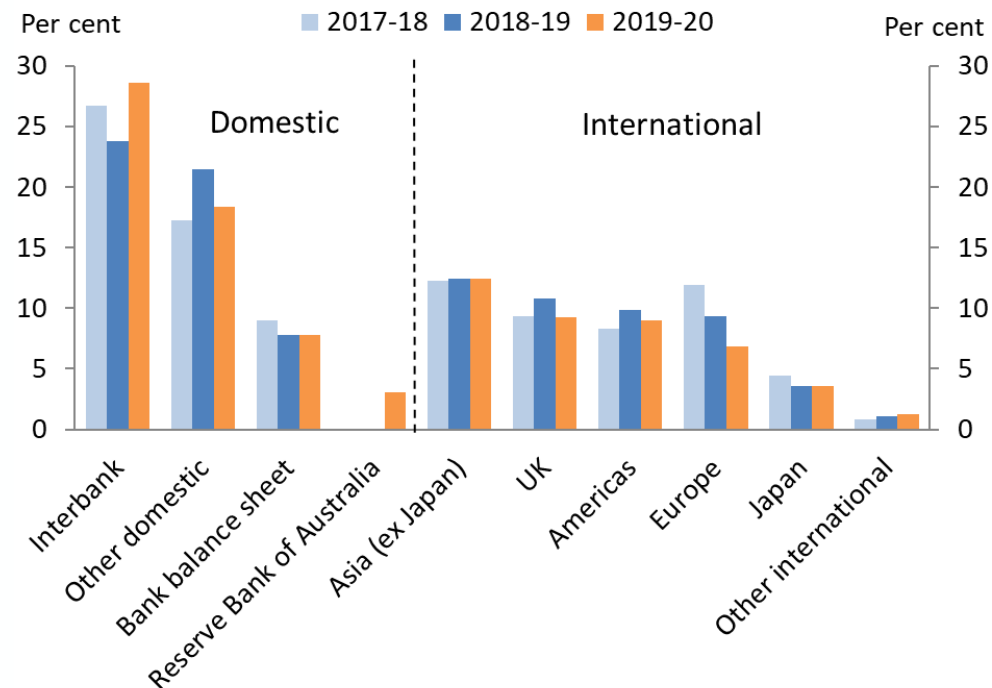
**Total turnover A\$1.54 trillion (2019-20)**

A\$1.30 trillion (2018-19)

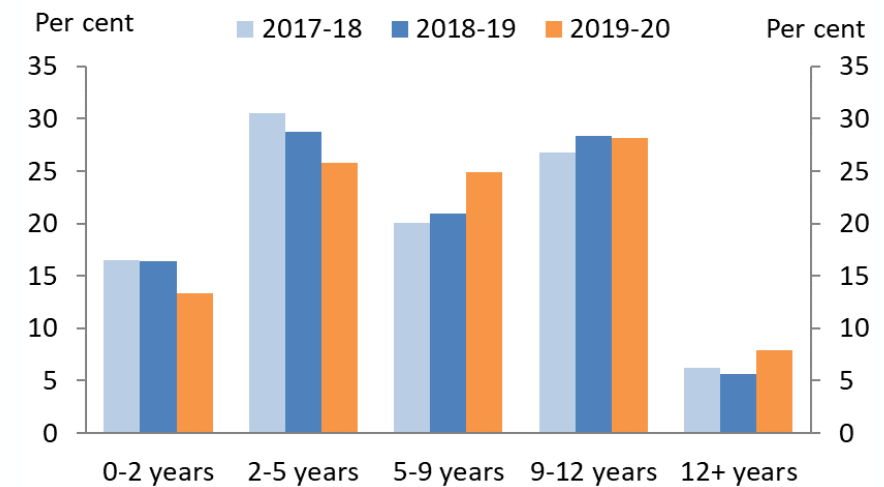
**Monthly average A\$129 billion (2019-20)**

A\$108 billion (2018-19)

**Turnover by category (per cent)**



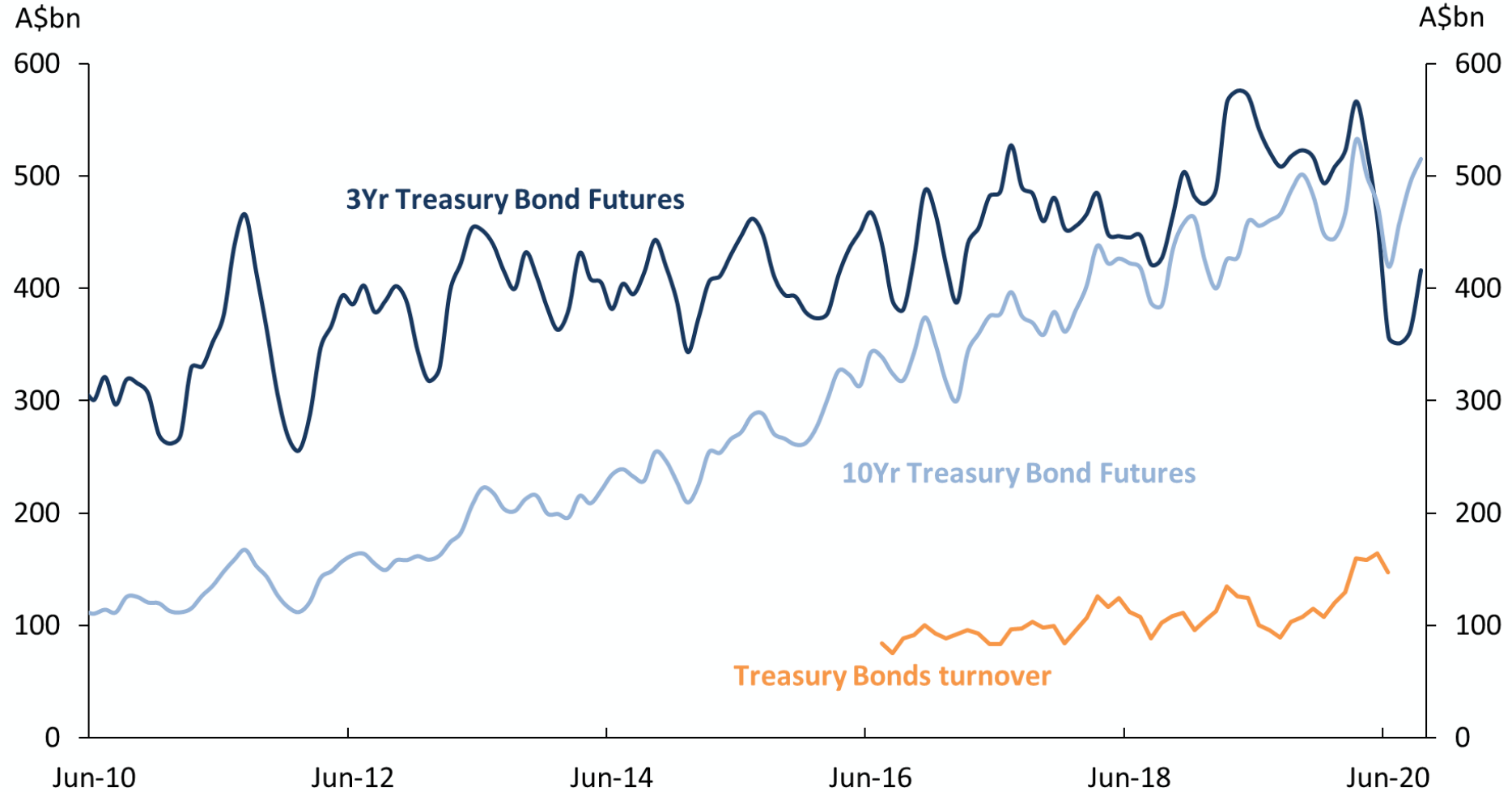
**Turnover by tenor (per cent)**



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

# Treasury Bond futures market activity

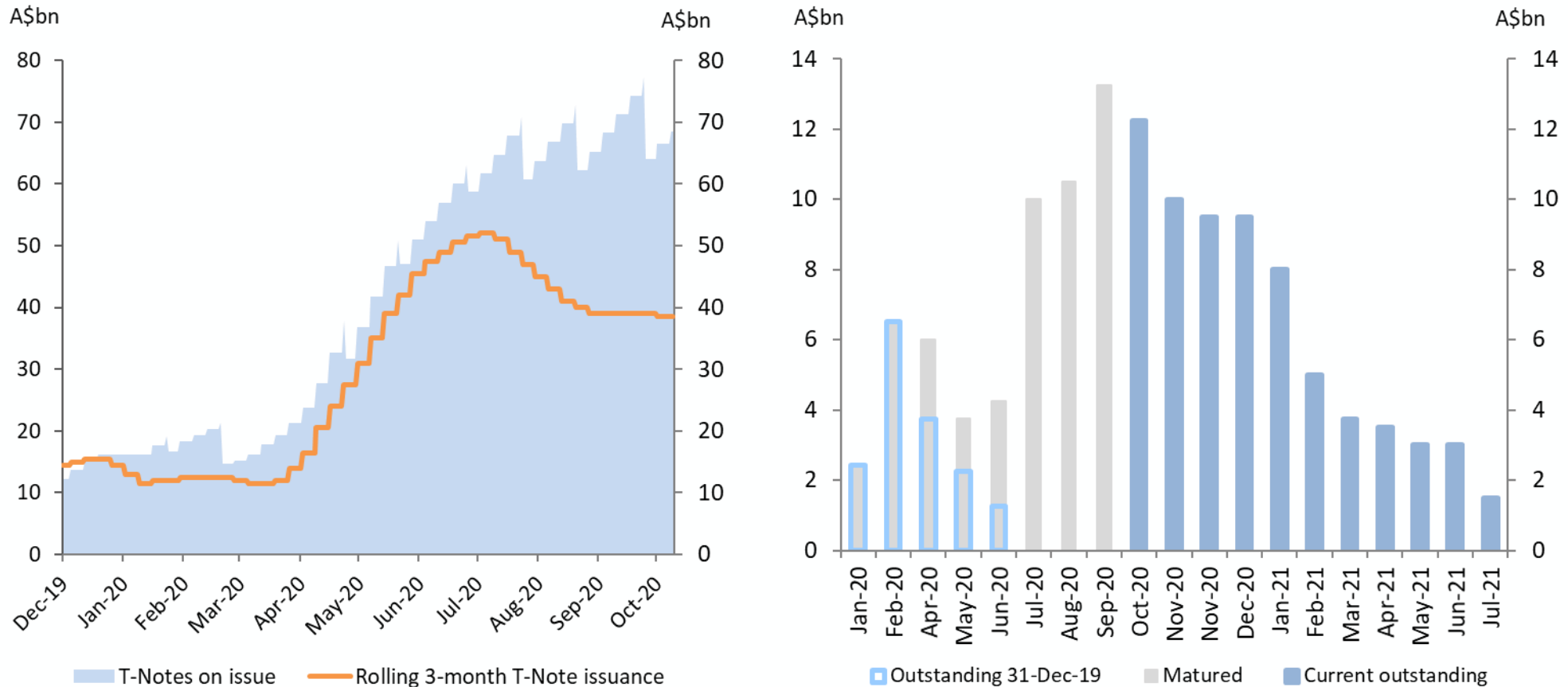
Monthly turnover (3m M.A.)



Source: ASX, AOFM

# Issuance of Treasury Notes

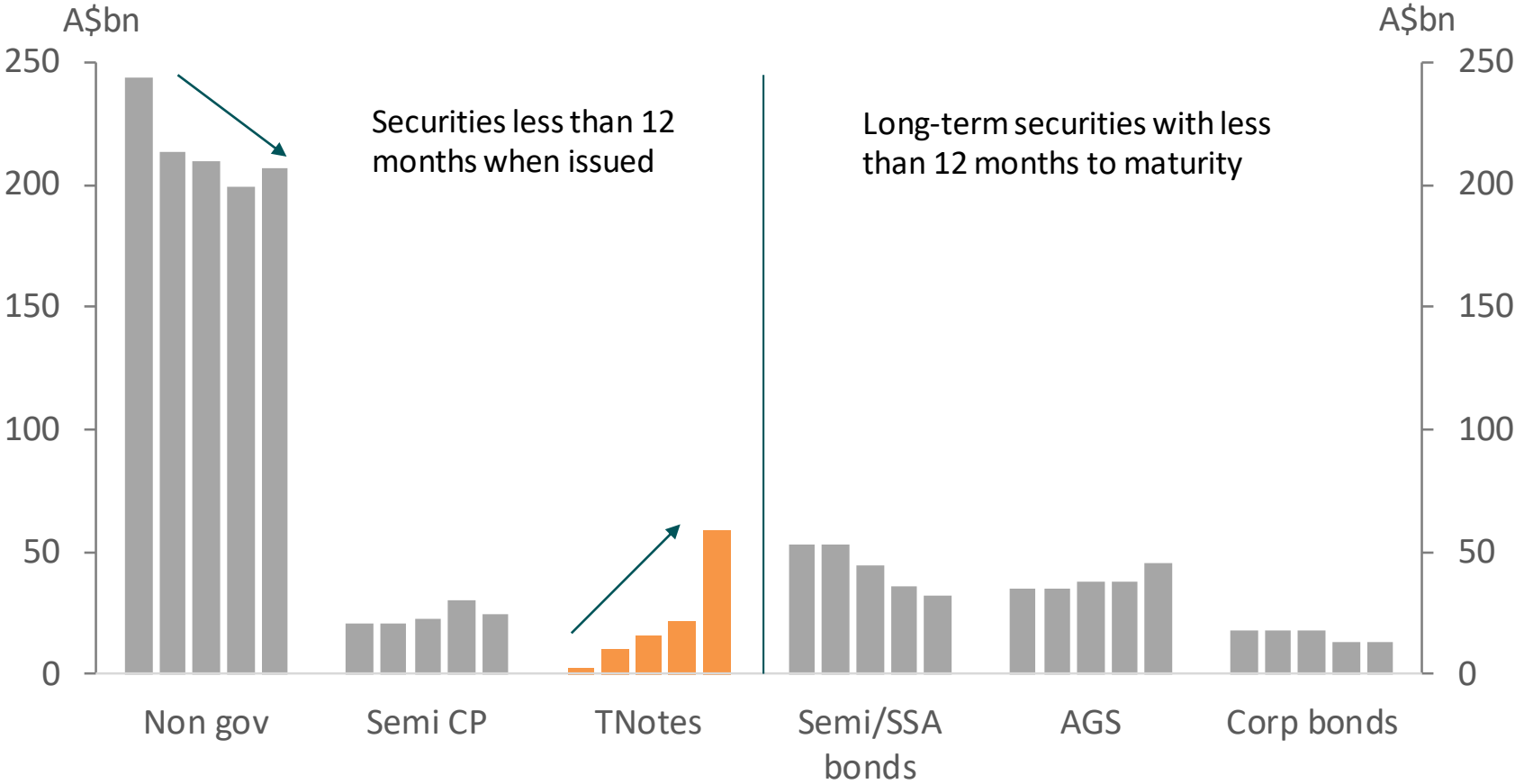
Treasury Note issuance is planned to be around \$2-4 billion each week dependent on cash management needs. Treasury Notes will continue to have an important role throughout this year and for the foreseeable future. While some 'terming out' of a proportion of the Treasury Note stock can eventually be expected, the AOFM will carefully reflect on the experience of investor engagement with Treasury Notes since the market dislocation in March 2020 prior to doing so.



Source: AOFM

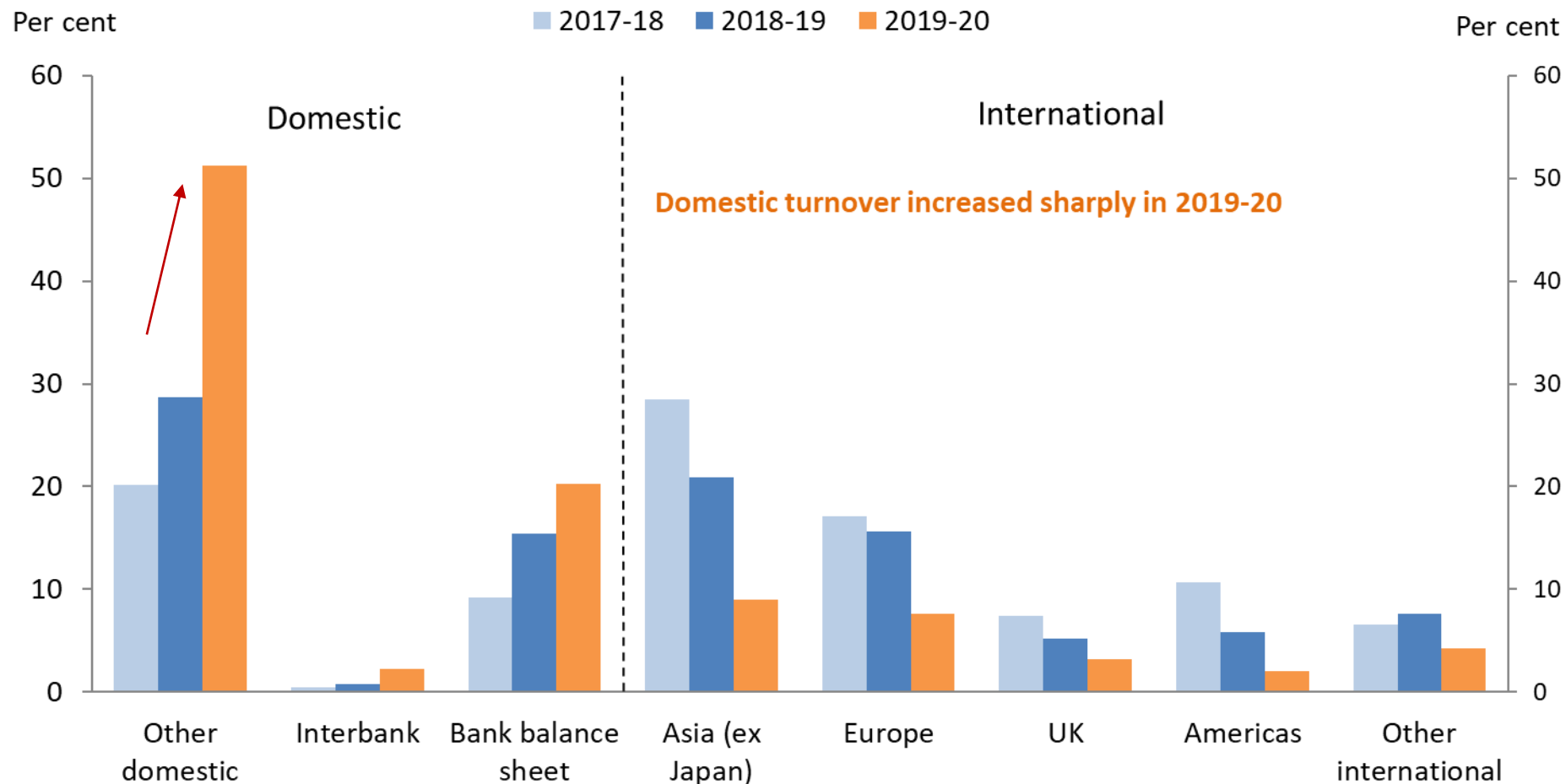
# Rise and importance of T-Notes in available short-term securities

June 2019 to June 2020



Source: AOFM, RBA

# Changes to geographic and sectoral secondary market turnover for Treasury Notes in 2019-20

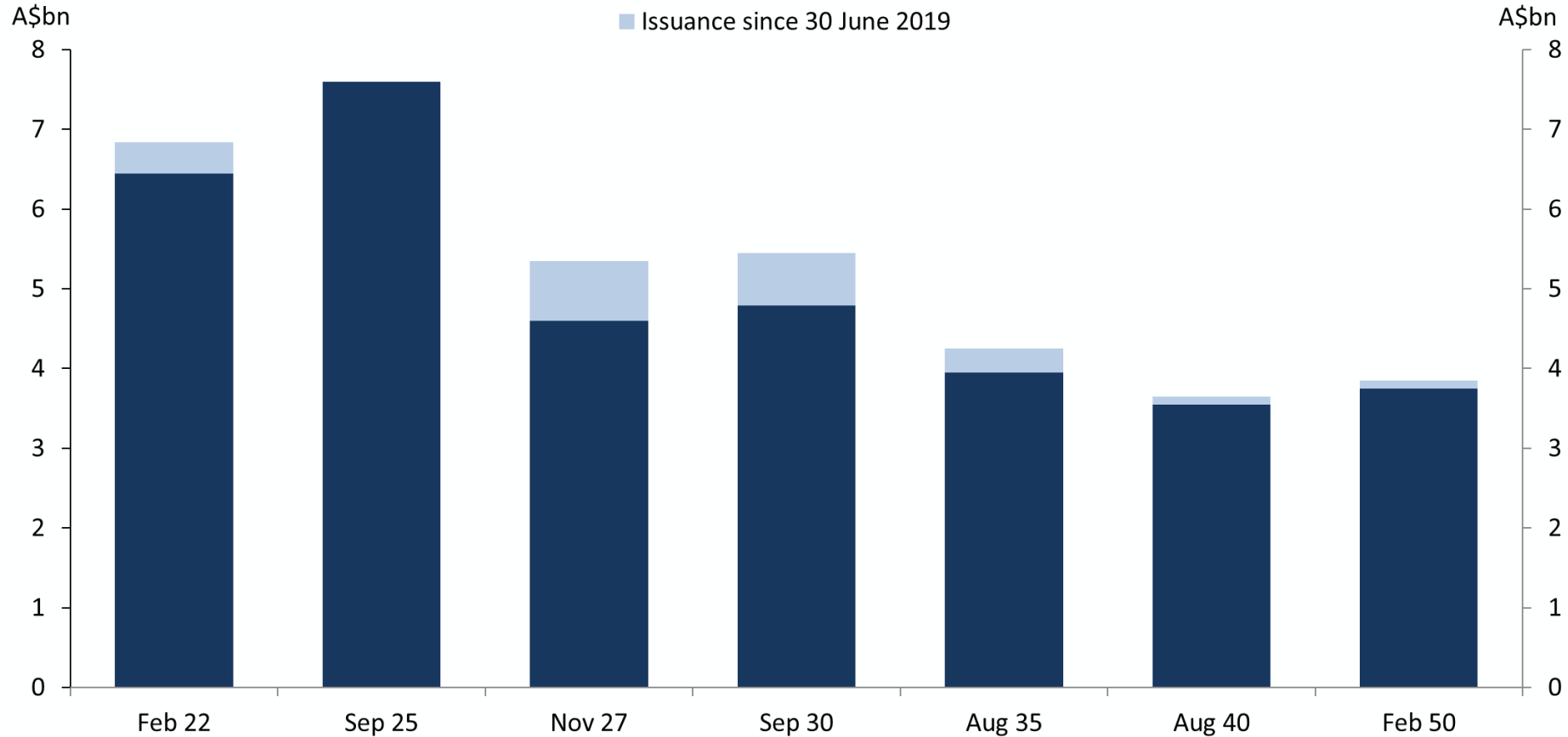


Source: AOFM

# 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 over the past year in particular, and will continue to support this market. This means that prevailing market conditions and appropriate tender volumes will remain important determinants of issuance decisions. The importance of regular issuance supply is acknowledged.



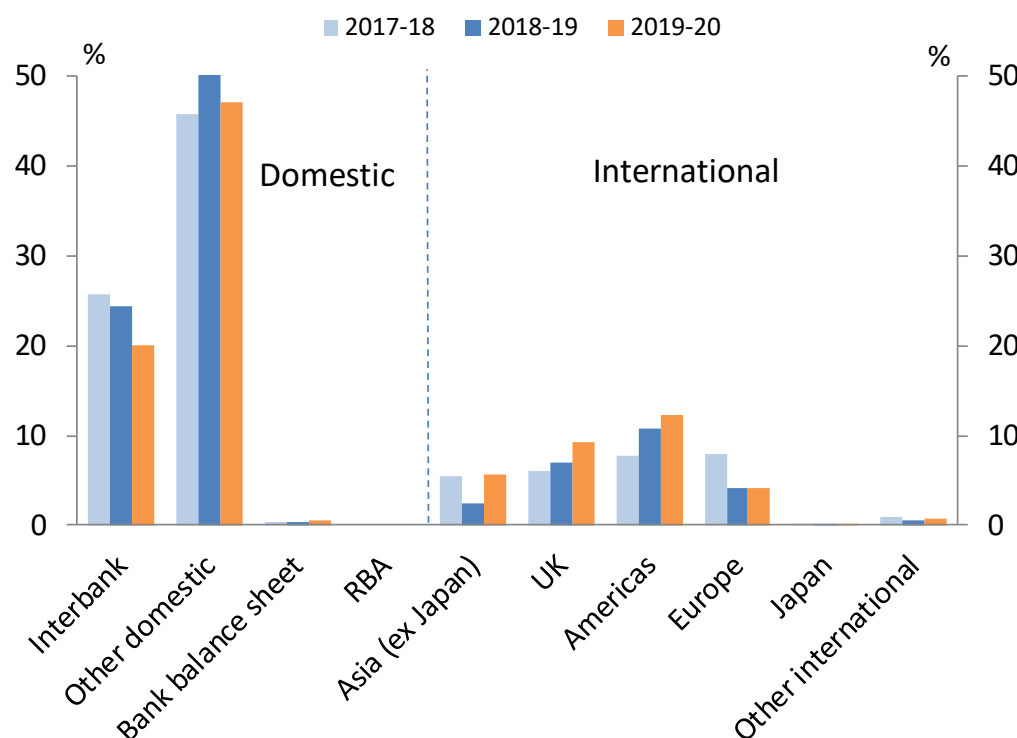
Source: AOFM. As at 9 October 2020

# Turnover – Treasury Indexed Bonds

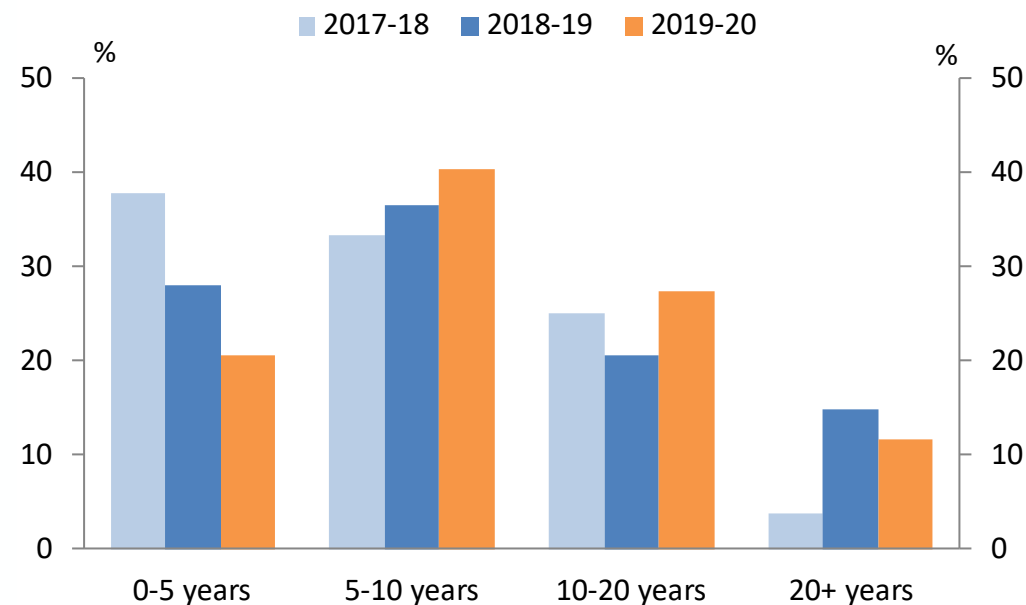
**Total turnover A\$49 billion (2019-20)**  
A\$52 billion (2018-19)

**Monthly average A\$4.0 billion (2019-20)**  
A\$4.4 billion (2018-19)

*Turnover by category (per cent)*



*Turnover by tenor (per cent)*

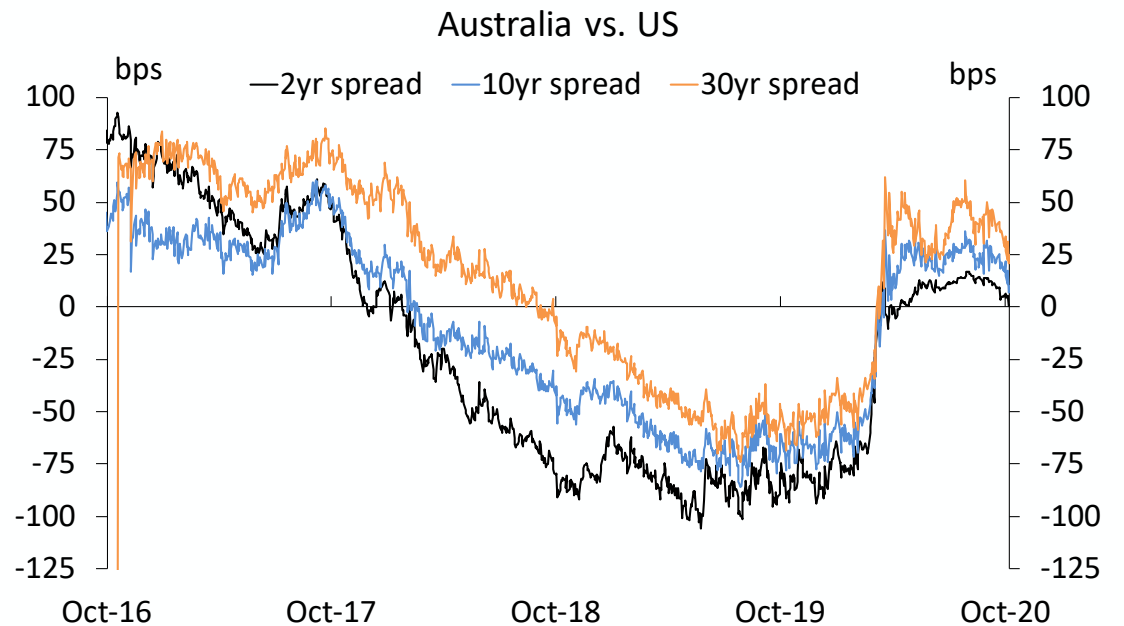
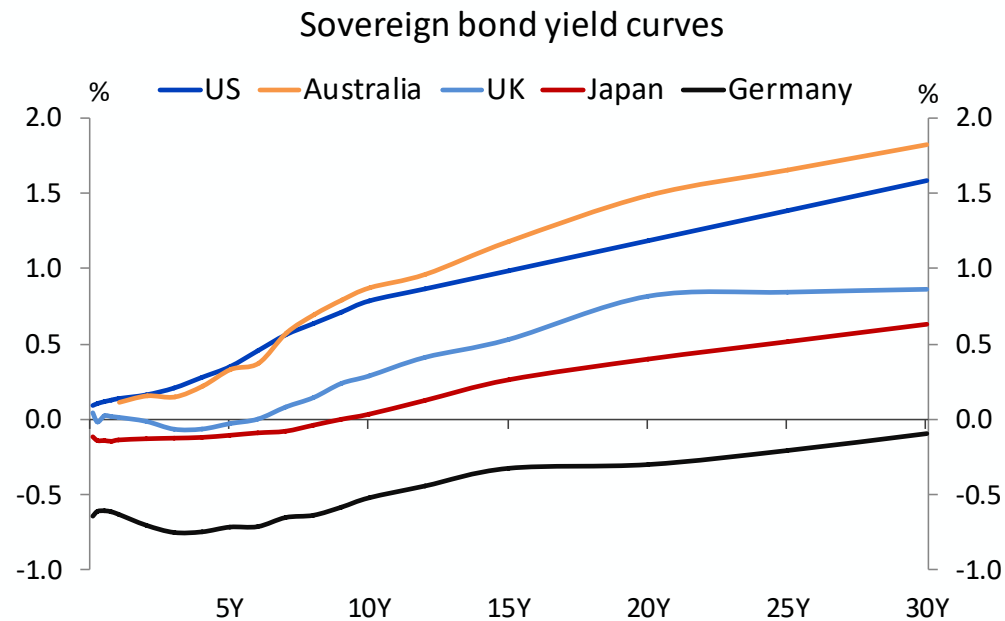


Source: AOFM. The AOFM relies on data provided by survey respondents and cannot guarantee the accuracy of this data



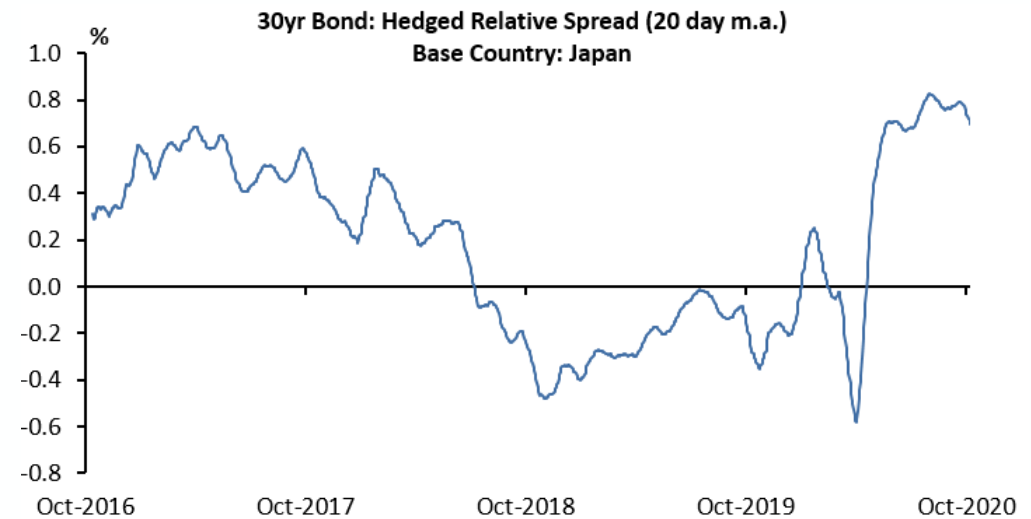
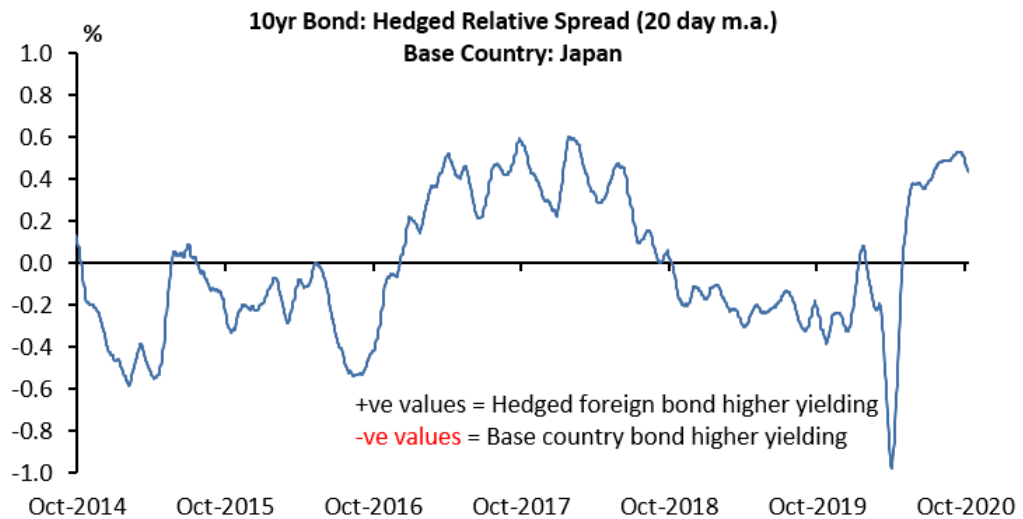
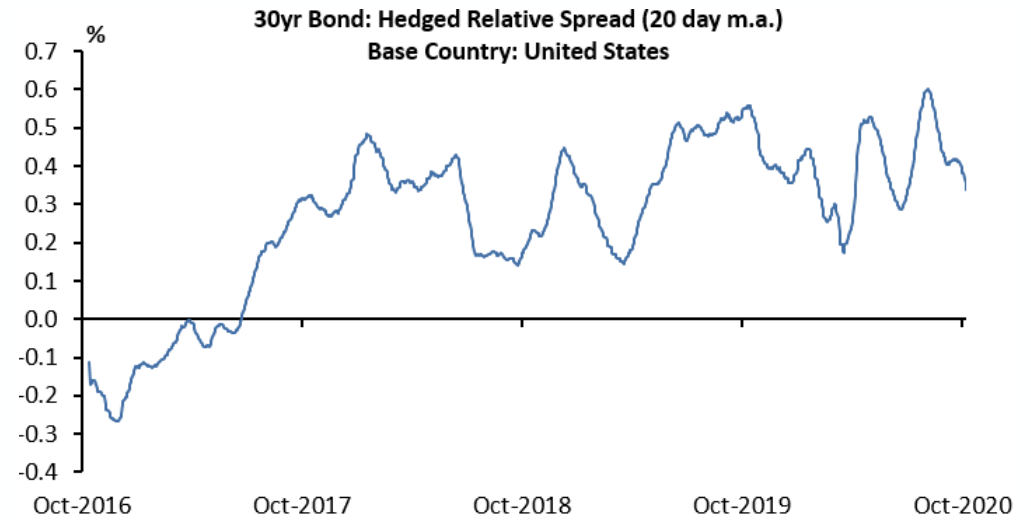
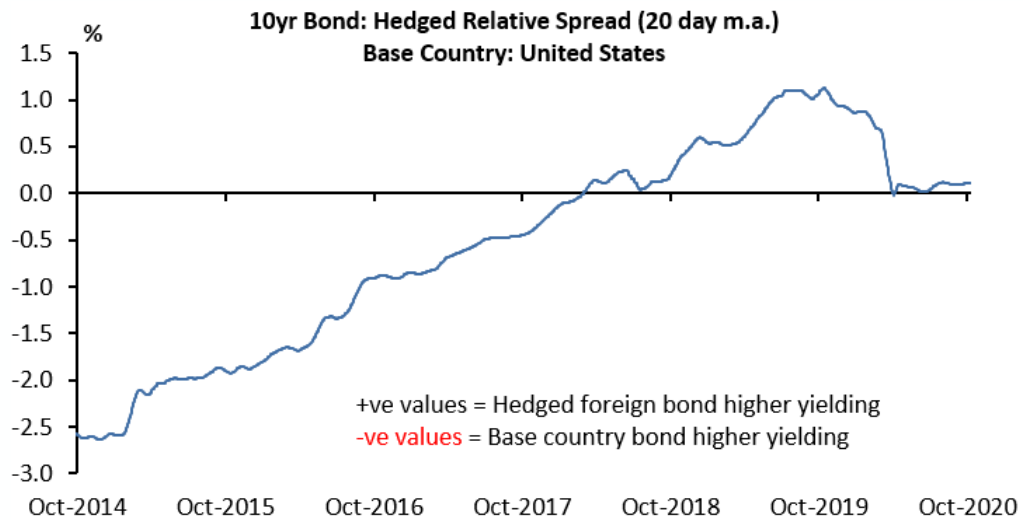
# Australian Sovereign bond spreads

- Recent market changes have resulted in a reversal of the negative yield spreads on AGS relative to US Treasuries. The AGS market will continue to look attractive to other core sovereign markets on an outright and hedged basis for many offshore investors.
- The AGS domestic investor base continues to be dominated by bank balance sheets and fund manager allocations, which re-engaged with the market early after the period of dislocation experienced in late March.



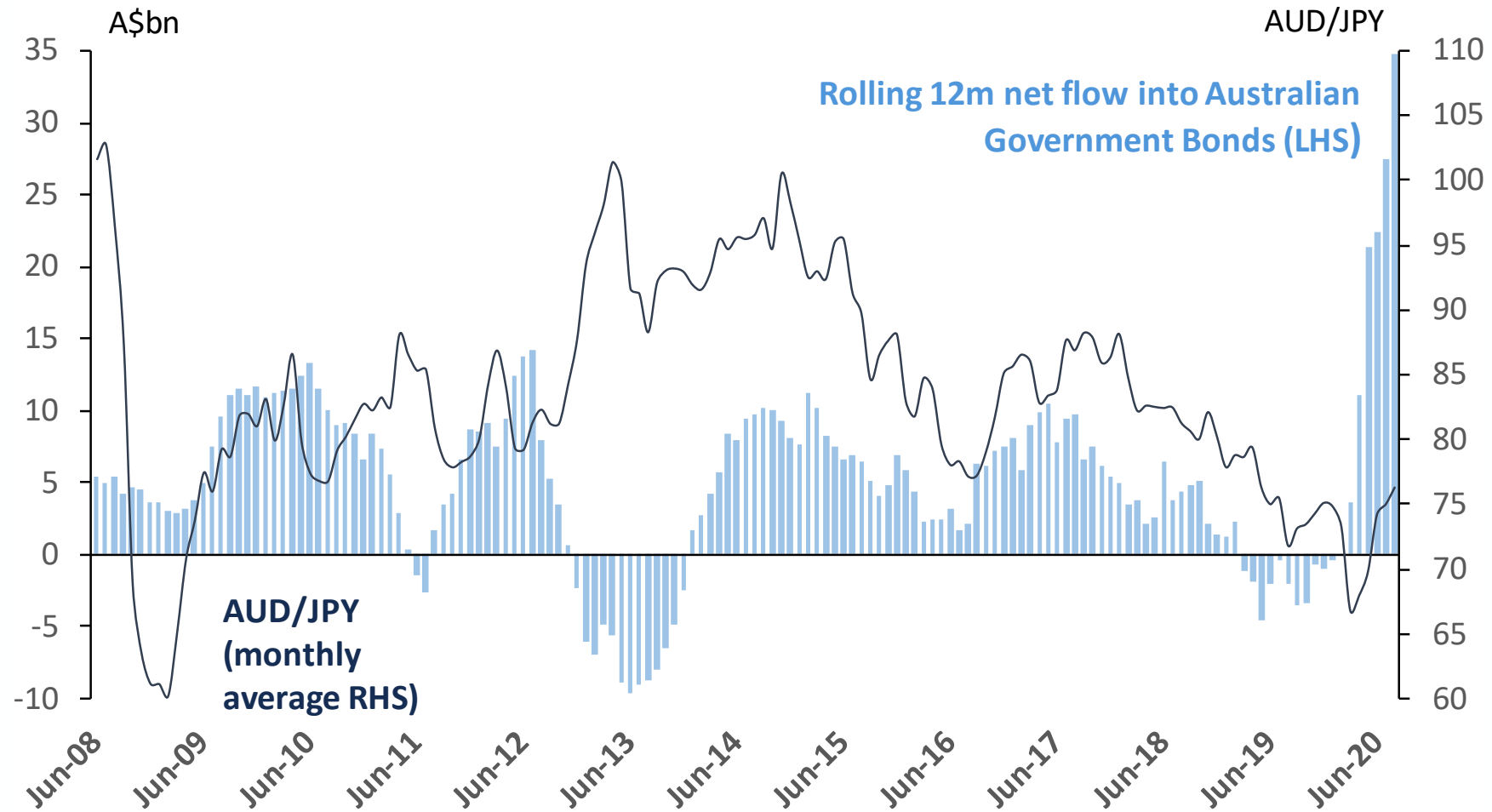
Source: Refinitiv, as at 9 October 2020

# Australian Sovereign bond spreads



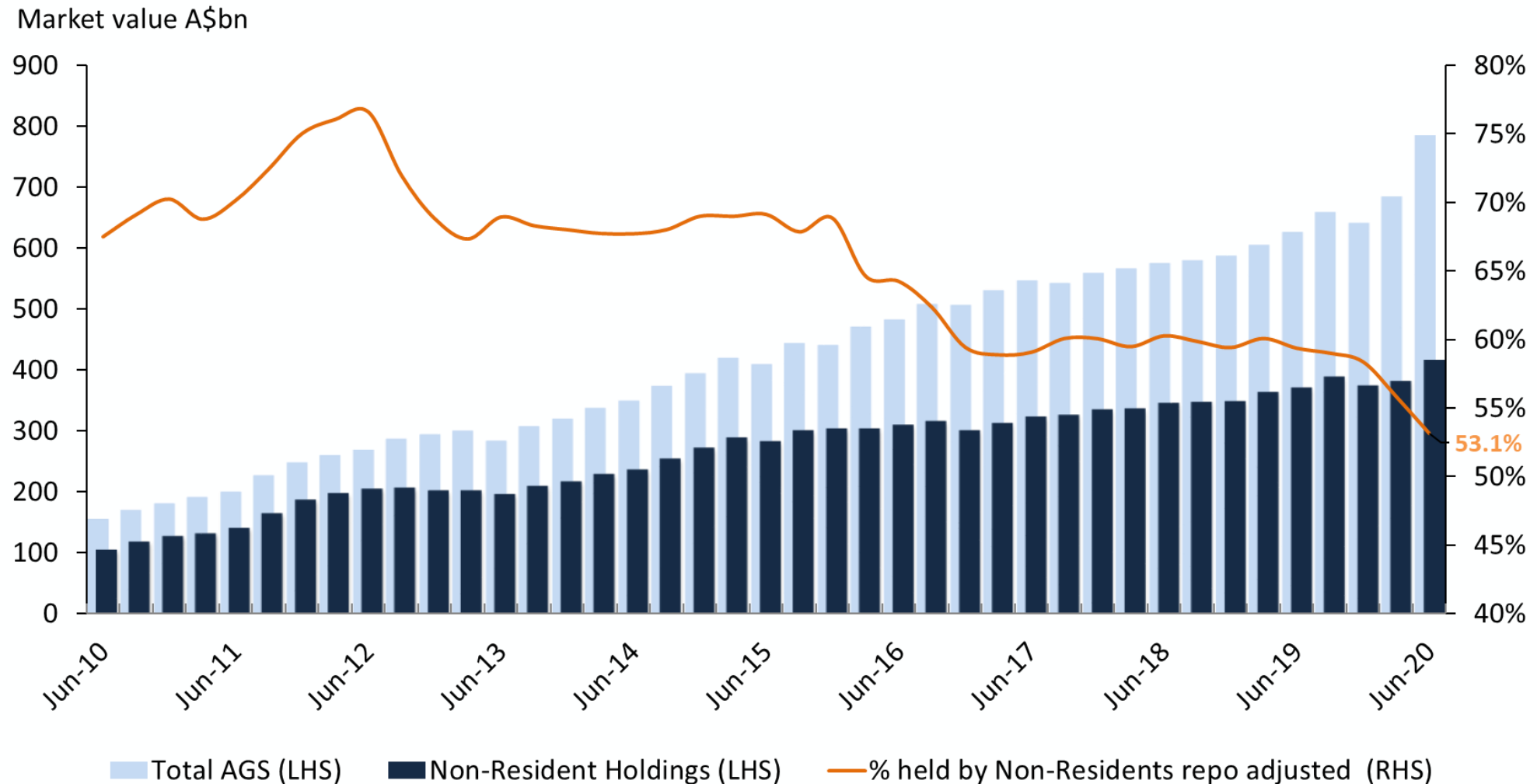
Source: Bloomberg, AOFM

# Net capital flow into Australian Government Bonds by Japanese investors (AUD billion)



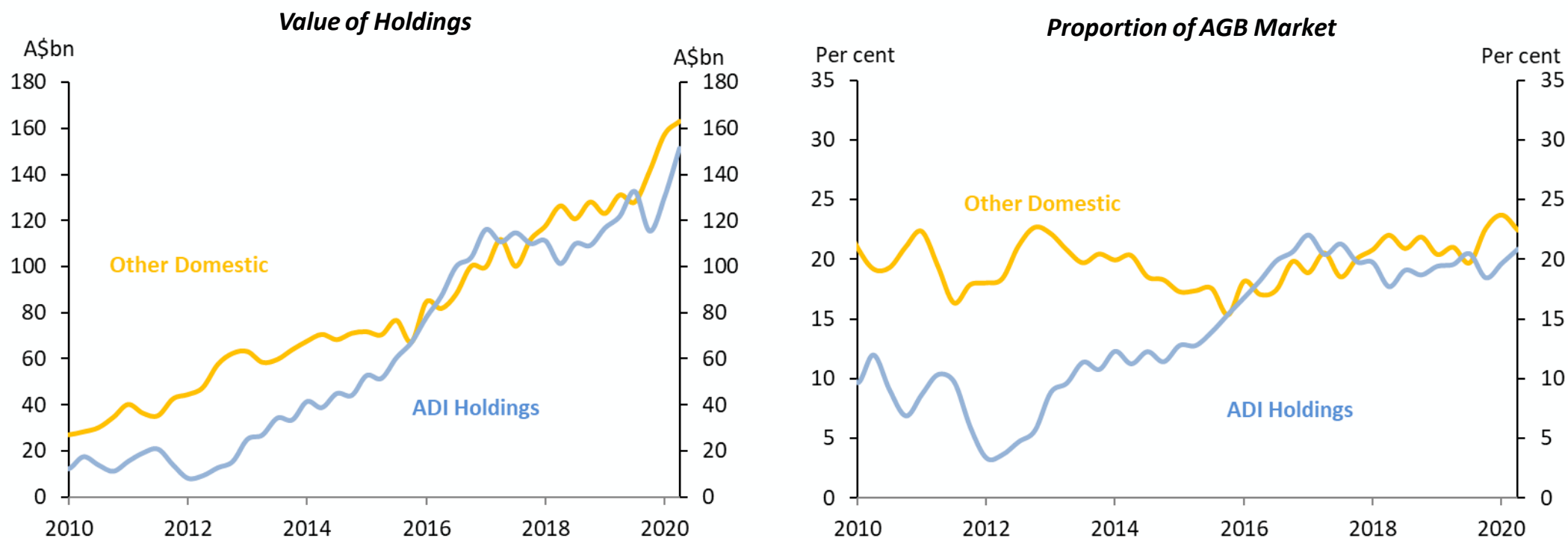
Source: Bank of Japan, Bloomberg.

# Resident and Non-resident holdings of AGS



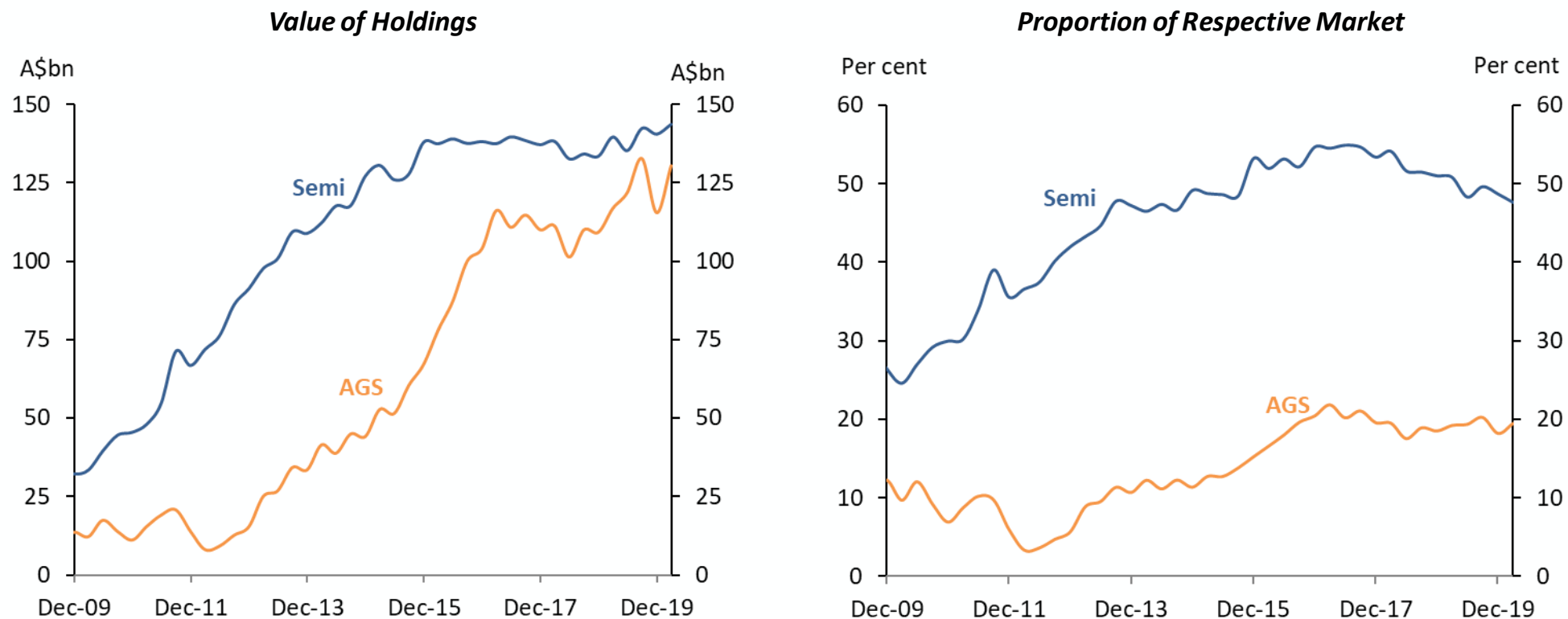
Source: Australian Bureau of Statistics, RBA, AOFM

# Domestic bank and non-bank holdings of AGBs



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

# Domestic bank holdings of AGS and semi-government bonds

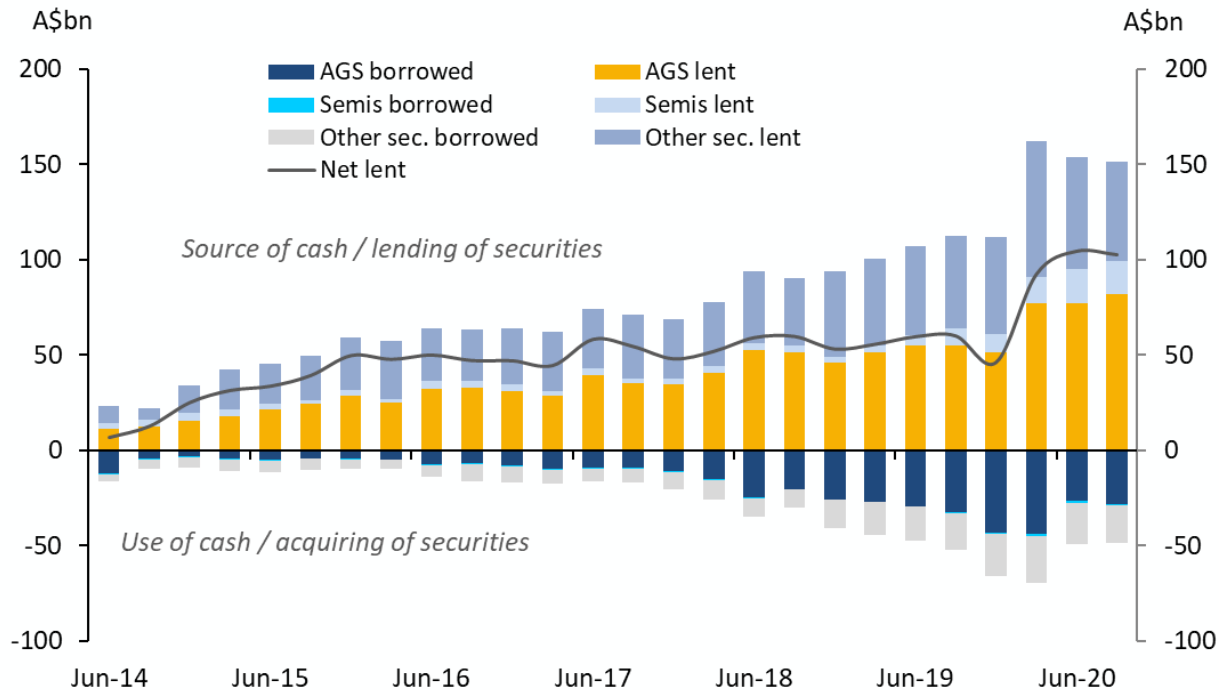


Source: Australian Bureau of Statistics, AOFM

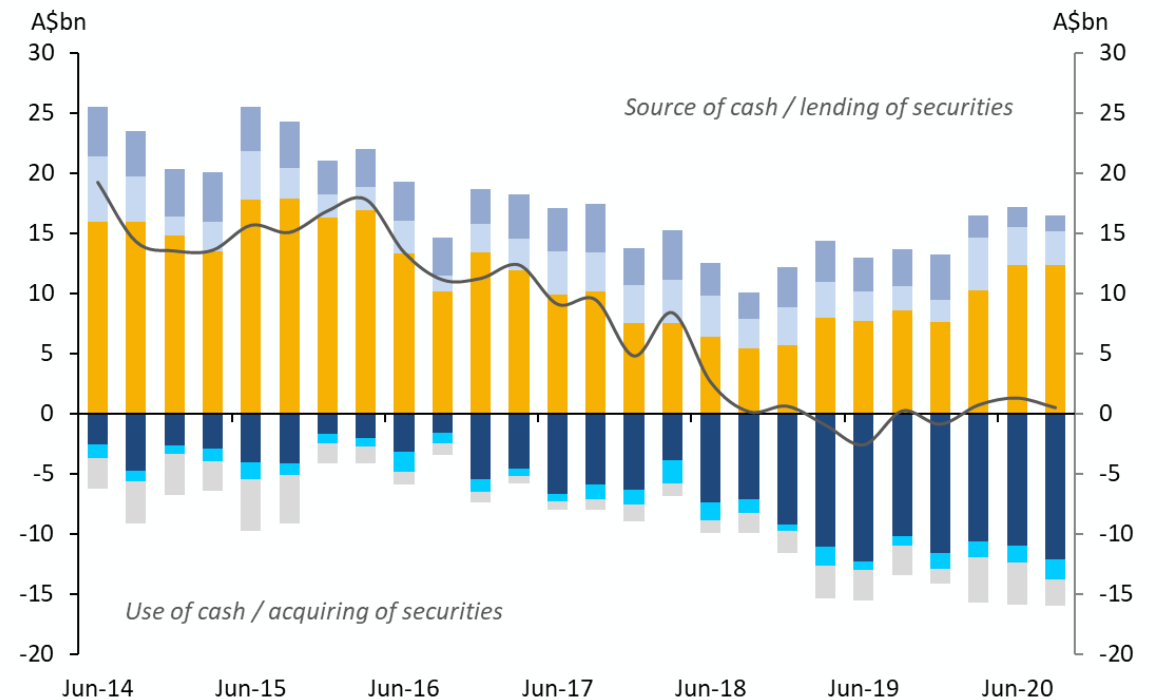
# Repo market activity and short-term funding

Elevated funding rates in repo markets can limit the ability of some investors to hold large positions in AGS. Funding conditions eased in 2019 and into 2020 with an increase in the use of repo by non-residents. Since March 2020, the RBA has injected additional liquidity into the financial system through its open market operations at rates which do not crowd out the private sector repo market – for example domestic non-banks lending cash through repo as an investment (right hand chart).

**Non-resident repo market activity**

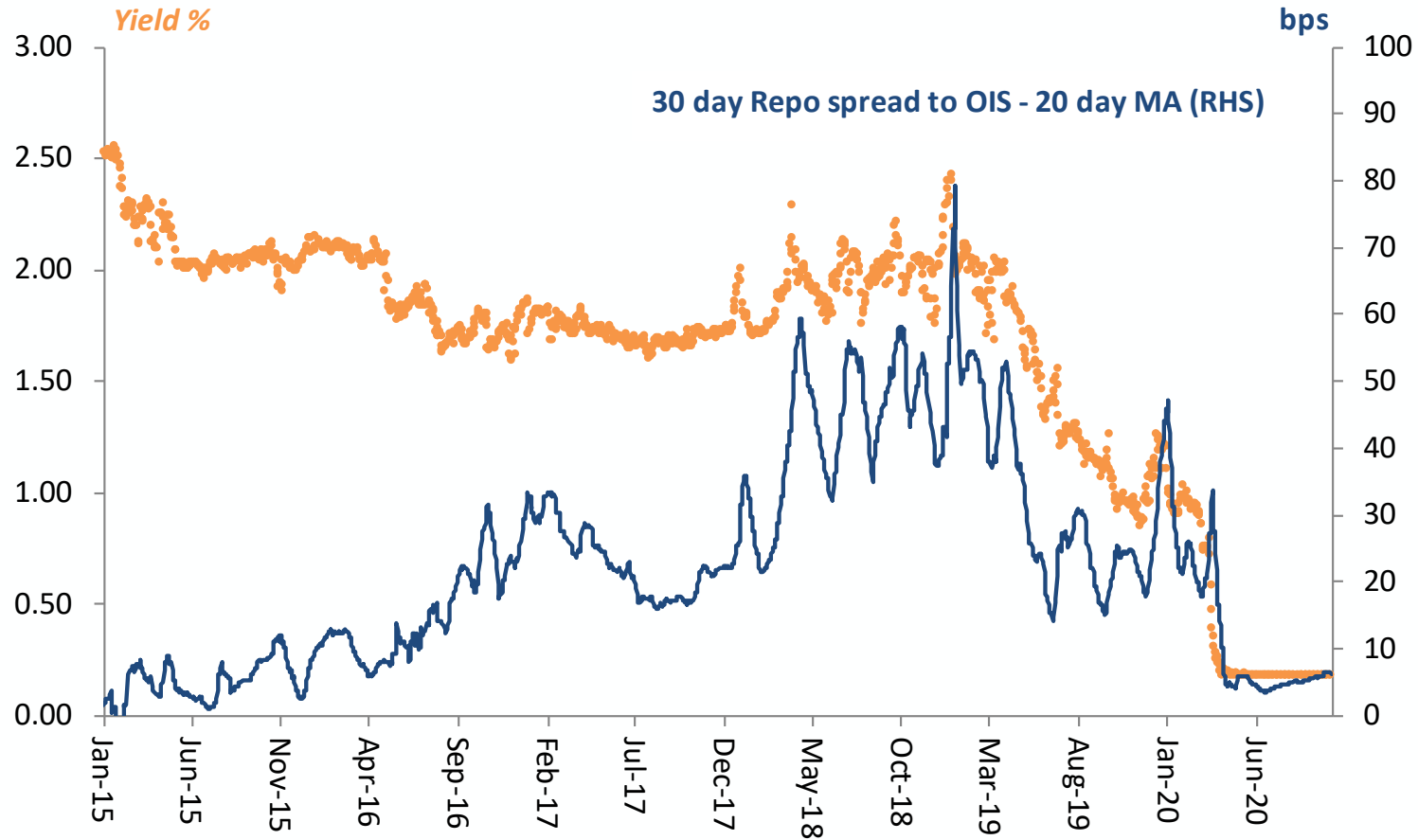


**Domestic non-ADI repo market activity**



Source: RBA. Quarterly data except for the last data point which is 31 July 2020.

# Repo market activity and short-term funding



Source: RBA, Refinitiv



# Australian Government Bonds

<i>Treasury Bonds:</i>	<i>Volume Outstanding (AUD)</i>	<i>Yield (%)</i>	<i>Modified Duration</i>
1.75% 21 November 2020	17,721,000,000	0.06	0.11
5.75% 15 May 2021	25,824,324,000	0.09	0.57
2.00% 21 December 2021	16,398,000,000	0.10	1.17
5.75% 15 July 2022	24,762,708,000	0.13	1.67
2.25% 21 November 2022	26,500,000,000	0.15	2.05
5.50% 21 April 2023	34,199,708,000	0.14	2.34
2.75% 21 April 2024	32,900,000,000	0.16	3.34
0.25% 21 November 2024	28,000,000,000	0.22	4.08
3.25% 21 April 2025	32,400,000,000	0.25	4.19
0.25% 21 November 2025	23,500,000,000	0.32	5.06
4.25% 21 April 2026	33,400,000,000	0.36	4.94
0.50% 21 September 2026	25,000,000,000	0.43	5.83
4.75% 21 April 2027	29,699,566,000	0.47	5.67
2.75% 21 November 2027	28,000,000,000	0.55	6.46
2.25% 21 May 2028	29,700,000,000	0.62	6.97
2.75% 21 November 2028	29,600,000,000	0.67	7.28
3.25% 21 April 2029	31,999,803,000	0.72	7.47
2.75% 21 November 2029	32,900,000,000	0.77	8.07
2.50% 21 May 2030	35,400,000,000	0.80	8.54
1.00% 21 December 2030	26,700,000,000	0.85	9.61
1.50% 21 June 2031	24,500,000,000	0.88	9.81
1.00% 21 November 2031	23,500,000,000	0.92	10.41
1.25% 21 May 2032	16,200,000,000	0.94	10.70
4.50% 21 April 2033	14,300,000,000	0.96	9.98
2.75% 21 June 2035	8,550,000,000	1.15	12.23
3.75% 21 April 2037	12,000,000,000	1.30	12.80
3.25% 21 June 2039	9,600,000,000	1.46	14.46
2.75% 21 May 2041	6,600,000,000	1.55	15.98
3.00% 21 March 2047	13,300,000,000	1.69	19.13
1.75% 21 June 2051	15,000,000,000	1.80	23.28
<i>Total:</i>	<b>708,155,109,000</b>	<i>Portfolio:</i>	<b>6.7</b>
<i>Treasury Indexed Bonds:</i>	<i>Volume Outstanding (AUD)</i>	<i>Yield (%)</i>	<i>Modified Duration</i>
1.25% 21 February 2022	6,840,106,000	-0.44	1.35
3.00% 20 September 2025	7,592,722,000	-0.64	4.66
0.75% 21 November 2027	5,350,000,000	-0.62	6.97
2.50% 20 September 2030	5,442,720,000	-0.52	9.04
2.00% 21 August 2035	4,250,000,000	-0.37	13.25
1.25% 21 August 2040	3,650,000,000	-0.20	17.96
1.00% 21 February 2050	3,850,000,000	-0.09	26.10
<i>Total:</i>	<b>36,975,548,000</b>	<i>Portfolio:</i>	<b>9.8</b>

Source: AOFM, Refinitiv. As at 9 October 2020.

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.



# Further information

**Website:** [www.aofm.gov.au](http://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](mailto:InvestorRelations@aofm.gov.au)

**Easy access to quoted yields:**

[www.rba.gov.au](http://www.rba.gov.au)

**Bloomberg:**

“AOFM Go” (*Homepage*)

“ACGB Govt Go” (*TBs and TIBs*)

“ACTB Govt Go” (*TNs*)

**Thomson Reuters:**

“AOFMINDEX” (*Homepage*)

“O#AUTSY=YBAU” (*TBs*)

“O#AUILB=YBAU” or “O#AUTSYIL=” (*TIBs*)

“O#AUTNOTES=YBAU” (*TNs*)

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