



Australian Government

Australian Office of Financial Management

AOFM

AGS Investor Chart Pack - Budget 2021-22 Update

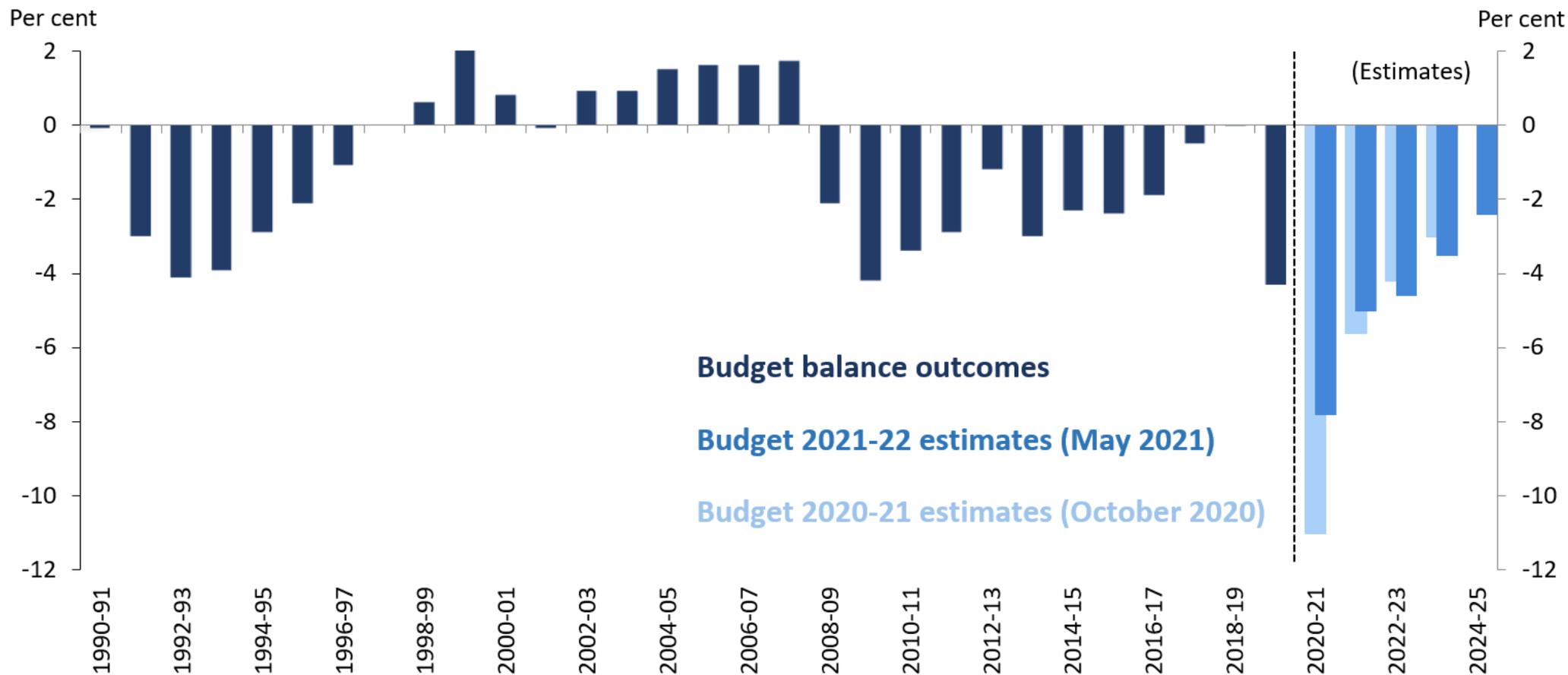
Australian Office of Financial Management

May 2021

Australia's budget balance

Underlying cash balance per cent of GDP

The underlying cash balance (UCB) in 2020-21 is forecast to be 7.8 per cent of GDP (Budget 2020-21 forecast was 11 per cent). The faster-than-expected economic recovery and improved economic outlook is driving a large upgrade to forecast tax receipts. The UCB is expected to improve across the forward estimates to 2.4 per cent of GDP in 2024-25.

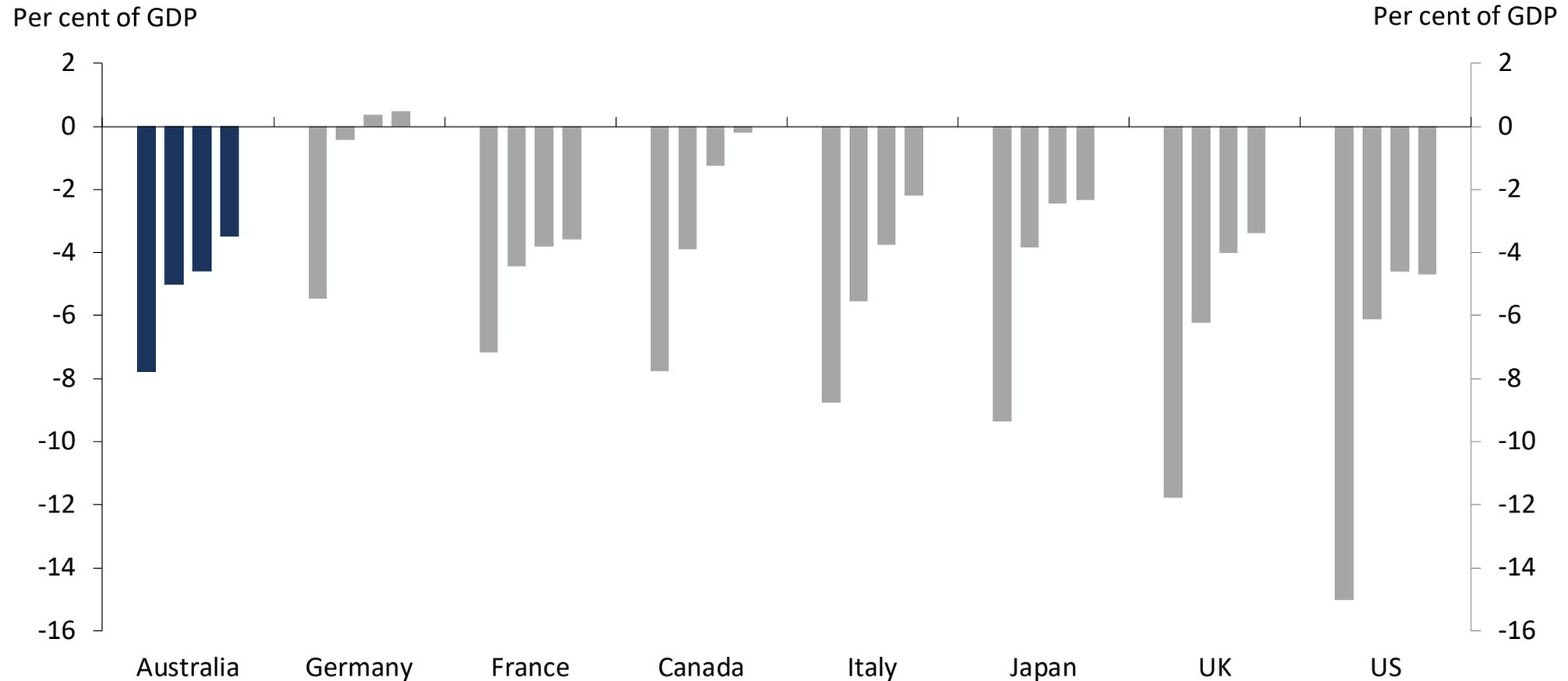


Source: Treasury – Budget 2021-22

Comparison of Government budget balances

2021 to 2024 (forecast) for G7 and Australia

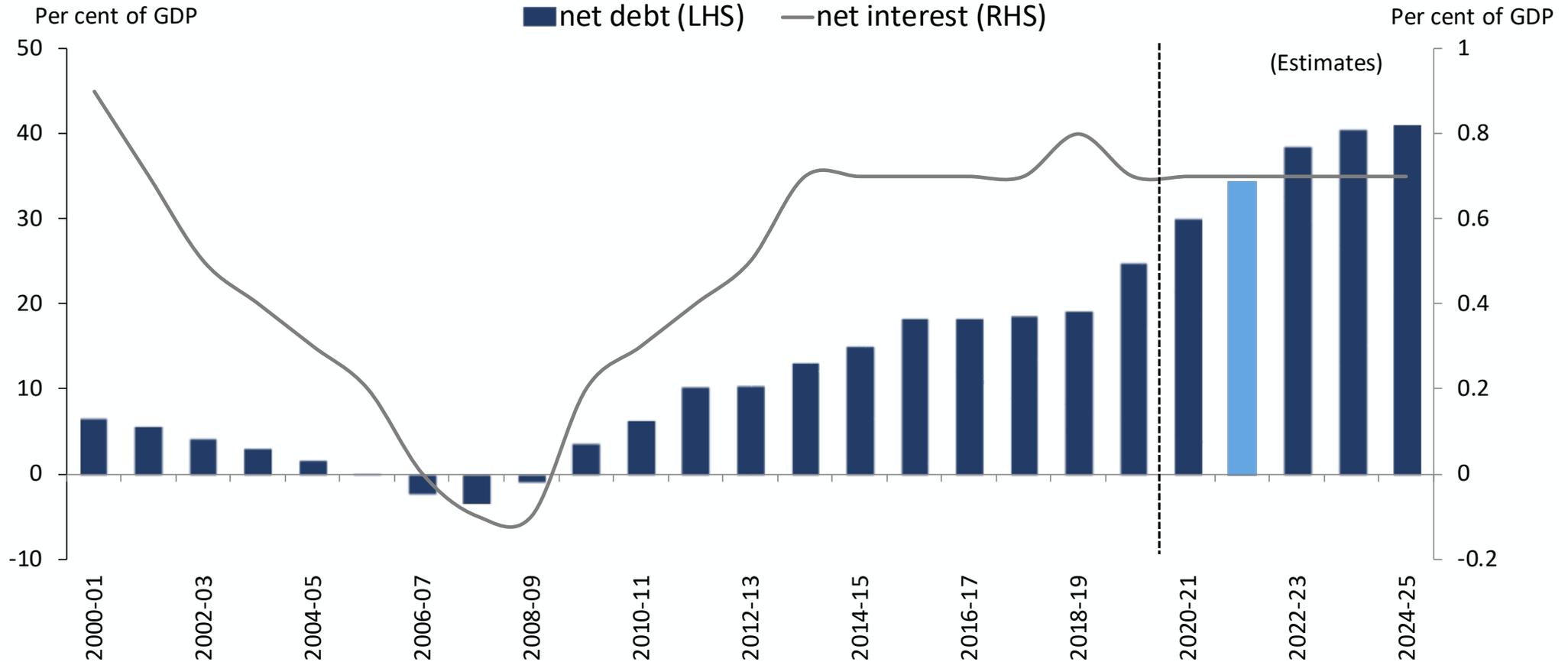
The Australian Government entered the pandemic with the budget in balance and is managing the impact of the pandemic from the position of having started the task with a strong balance sheet. Post-crisis, the balance sheet position is forecast to continue exhibiting relatively low net debt by global standards (see Charts 3 and 4).



Note: Australian data are for the Australian Government general government sector for financial years 2020-21 to 2023-24
Source: Treasury – Budget 2021-22, IMF Fiscal Monitor April 2021.

Australia's net debt position

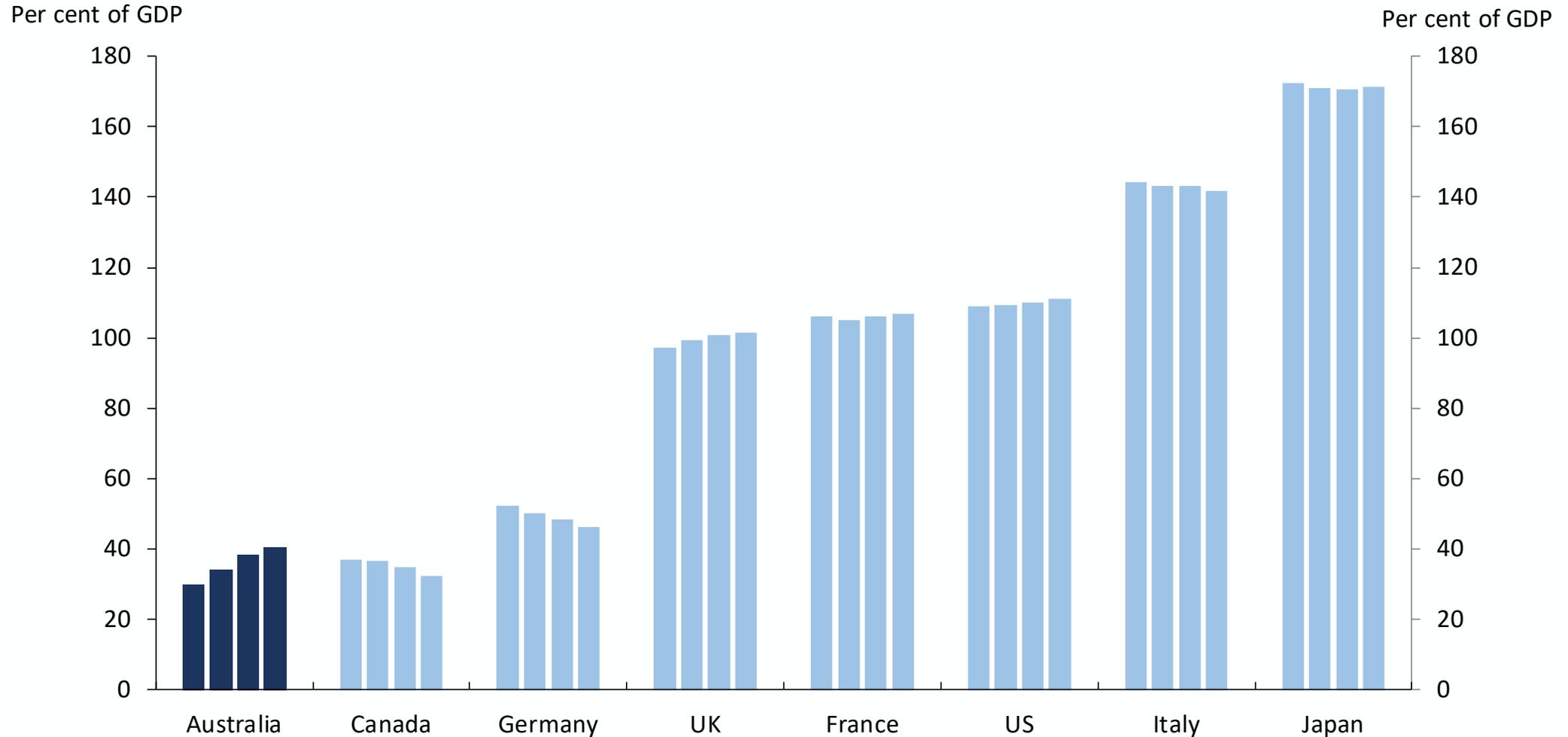
Net debt is forecast to be 34.2 per cent of GDP at end of 2021-22 (light blue bar) and is expected to peak at 40.9 per cent of GDP at end of 2024-25, below the 43.8 per cent peak projected at the 2020-21 Budget. Although net debt has increased significantly since the onset of the pandemic, net interest payments are expected to remain low (0.7 per cent of GDP over the forward estimates).



Source: Treasury – Budget 2021-22

Comparison of Government net debt

2021 to 2024 (forecast) for G7 and Australia



Note: Australian data are for the Australian Government general government sector for financial years commencing 2020-21. Data for all other countries are for total government and refer to calendar years commencing 2021.

Source: Treasury – Budget 2021-22, IMF Fiscal Monitor April 2021

Australian Government Securities

Three instruments available

Treasury Bonds

Amount Outstanding

\$768.4 billion

30 lines on issue

Average line size is \$25.6 billion

Maturities range from 2021 to 2051

Gross Issuance 2021-22 (F)

Around \$130 billion

Treasury Indexed Bonds

Amount Outstanding

\$38.4 billion

7 lines on issue

Average line size is \$5.5 billion

Maturities range from 2022 to 2050

Gross Issuance 2021-22 (F)

Around \$2-2.5 billion

Treasury Notes

Amount Outstanding

\$32.8 billion

6 lines on issue

Average line size is \$5.5 billion

Maturities range up to October-2021

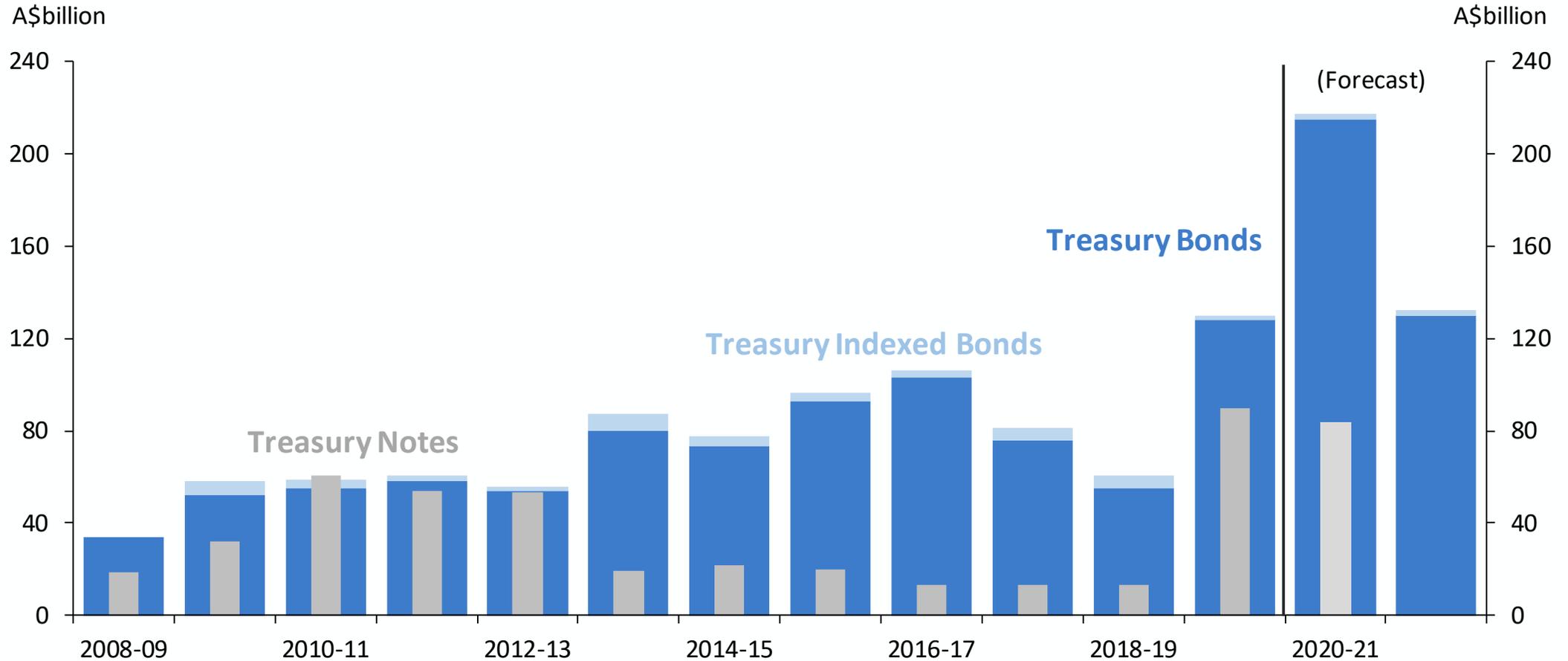
Further information

- Issuance of Treasury Bonds for 2020-21 has been revised to around \$210 billion (of which \$199 billion has been completed as of 14 May 2021).
- Issuance of Treasury Bonds in 2021-22 will be around \$130 billion.
- Issuance of Treasury Indexed Bonds by tender in 2021-22 will be around \$2-2.5 billion. Two tenders of Treasury Indexed Bonds will be conducted in most months.
- The AOFM will remain active in the Treasury Notes market with regular issuance to support cash management.
- Further guidance on issuance plans for 2021-22 will be provided on 2 July 2021.

Note: Figures are as at 14 May 2021. 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

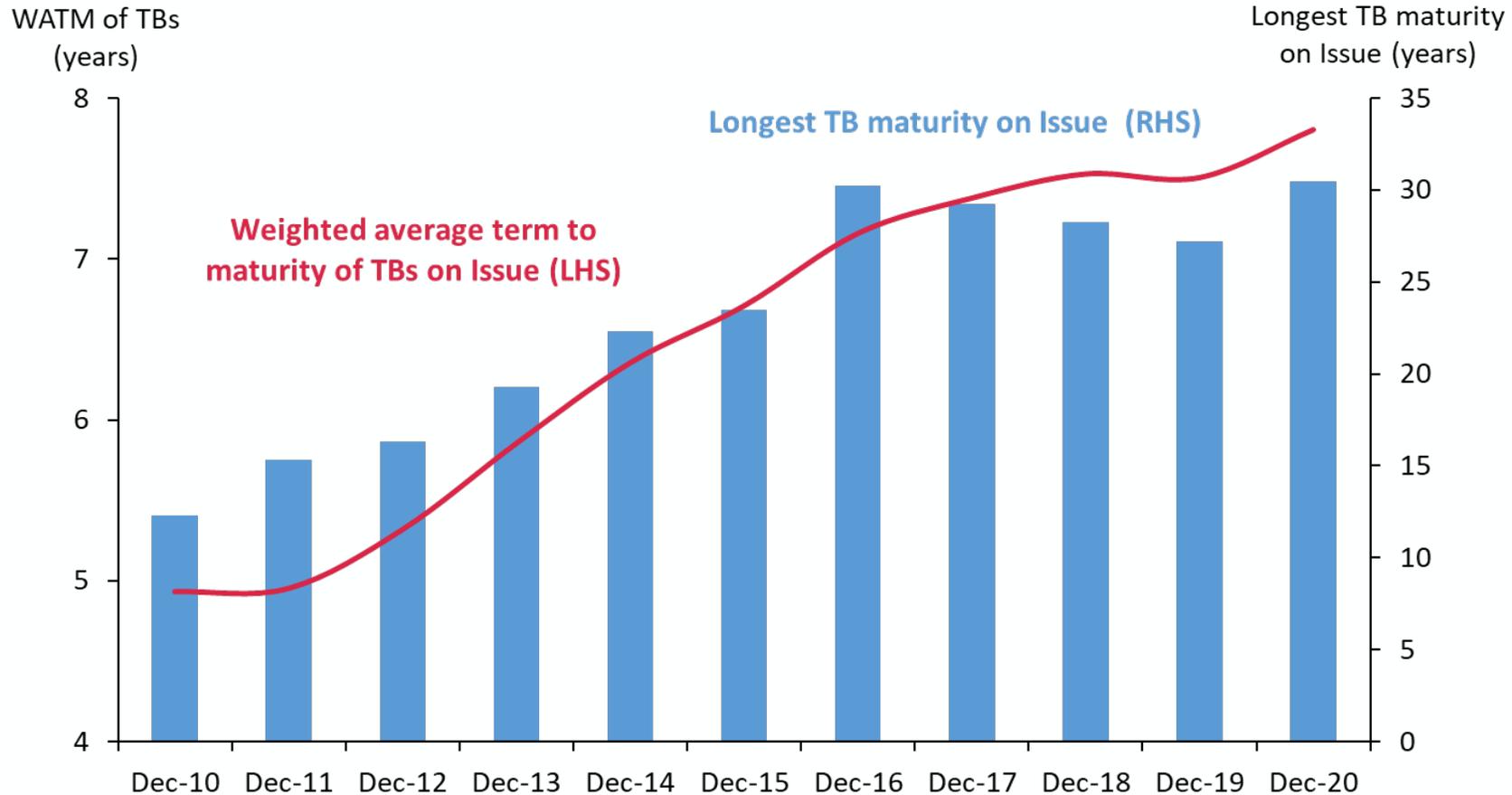
Gross Issuance



Source: AOFM. Gross Treasury Note issuance in 2020-21 is for the period 1 July 2020 to 14 May 2021. Forecast issuance of Treasury Notes are not available. Actual Treasury Note issuance will vary depending on the flows of Government expenditure and receipts.

Treasury Bond curve

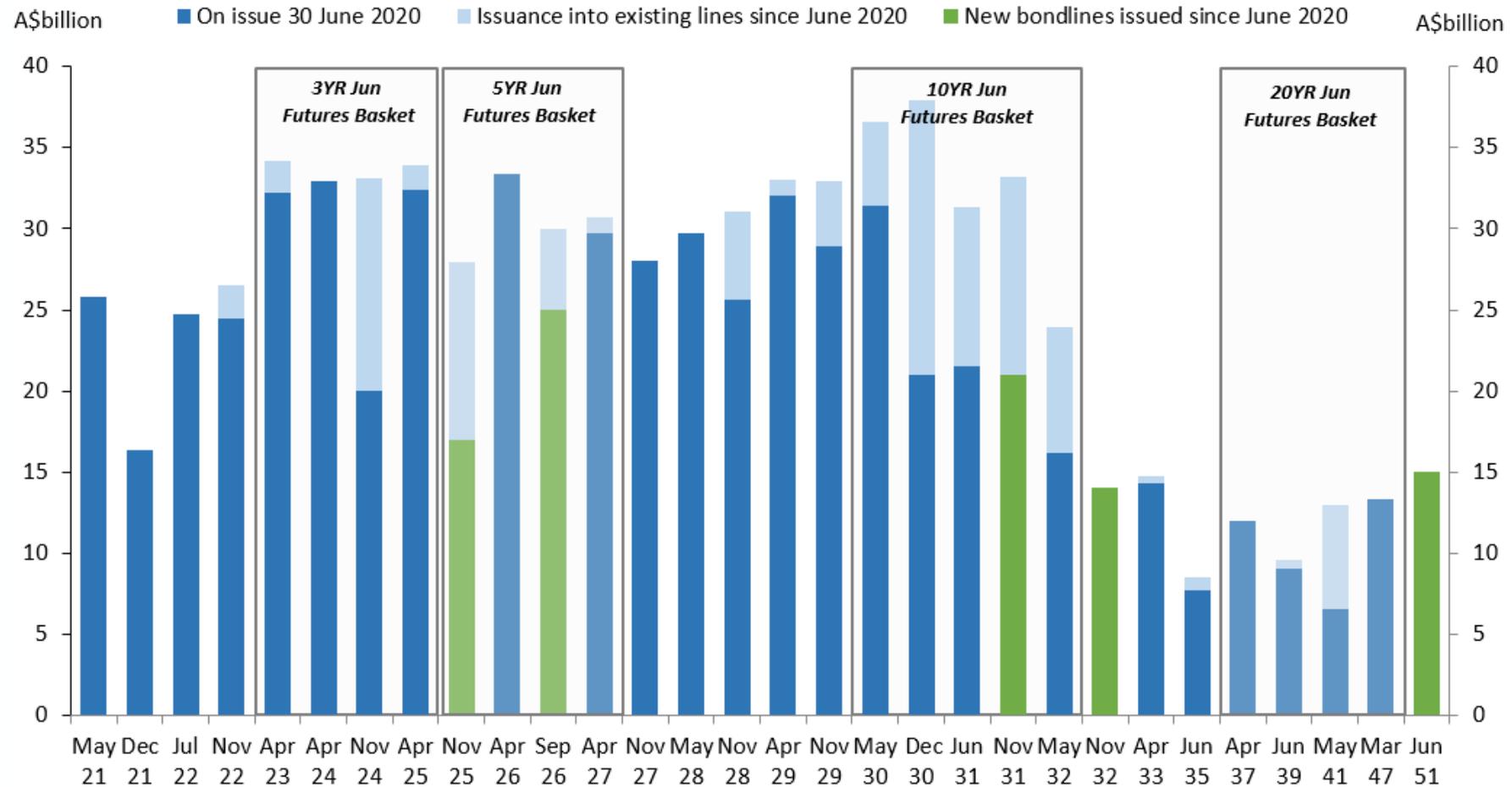
Over the last ten years the AOFM has gradually lengthened the Treasury Bond yield curve to 30 years and increased average term to maturity of the portfolio. That process is broadly complete, with the AOFM focused on maintaining the 30-year benchmark and continuing to support ultra-long maturities through issuance into existing lines.



Source: AOFM

Treasury Bonds on Issue

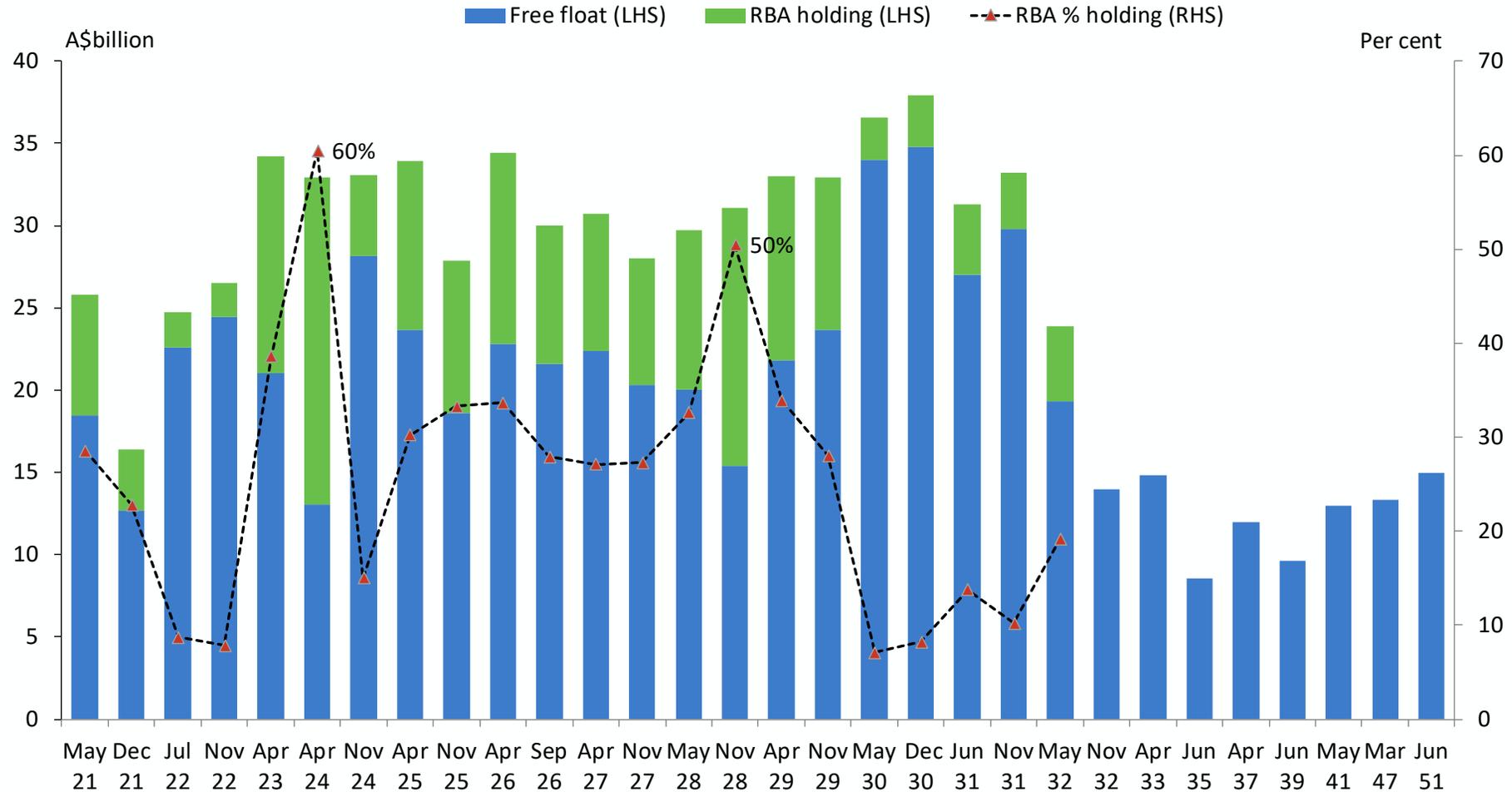
The AOFM will continue to use the most liquid (high-demand) parts of the yield curve to support the bulk of planned issuance, while supporting other parts of the market by responding to demand and issuing in appropriate volumes.



Source: AOFM. As at 14 May 2021.

Treasury Bonds on Issue

The RBA currently holds around 22 per cent of Treasury Bonds on issue and this amount will increase in the medium term as the RBA QE program continues. The AOFM will continue to monitor liquidity conditions in individual lines and can respond by issuing into lines if appropriate.



Source: AOFM, RBA. As at 12 May 2021.

Turnover – Treasury Bonds

Liquidity in the AGS market remains supportive – 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.

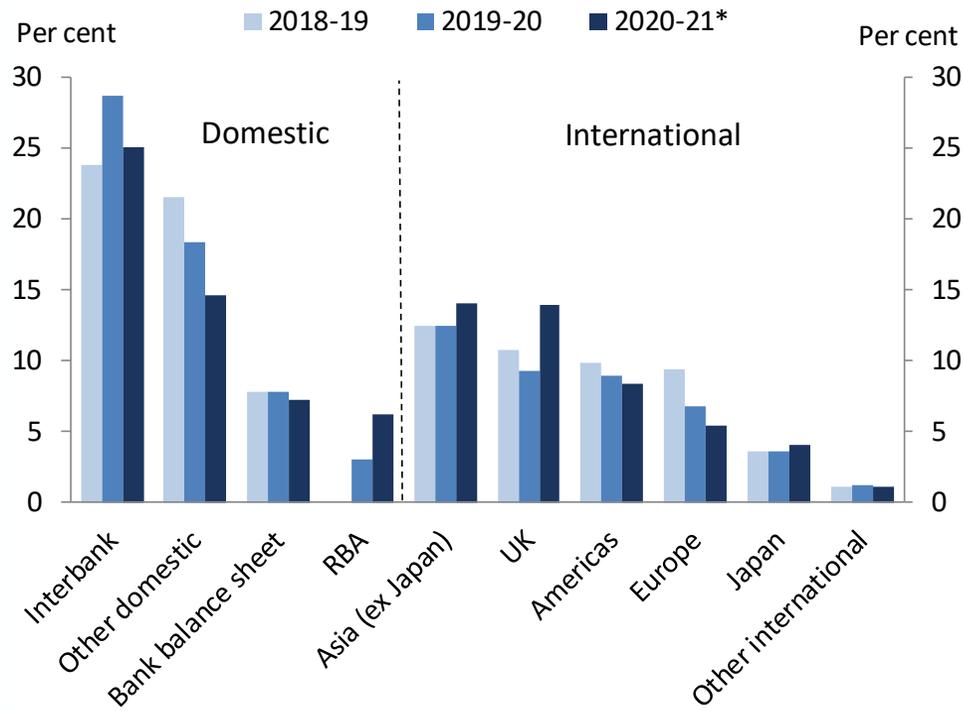
Total turnover A\$1.54 trillion (2019-20)

A\$1.30 trillion (2018-19)

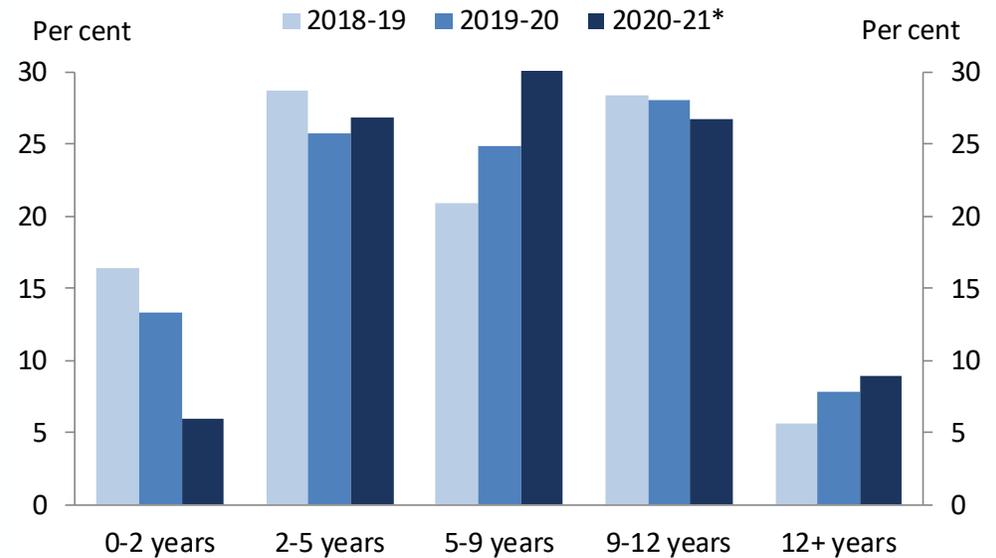
Monthly average A\$129 billion (2019-20)

A\$108 billion (2018-19)

Turnover by category (per cent)



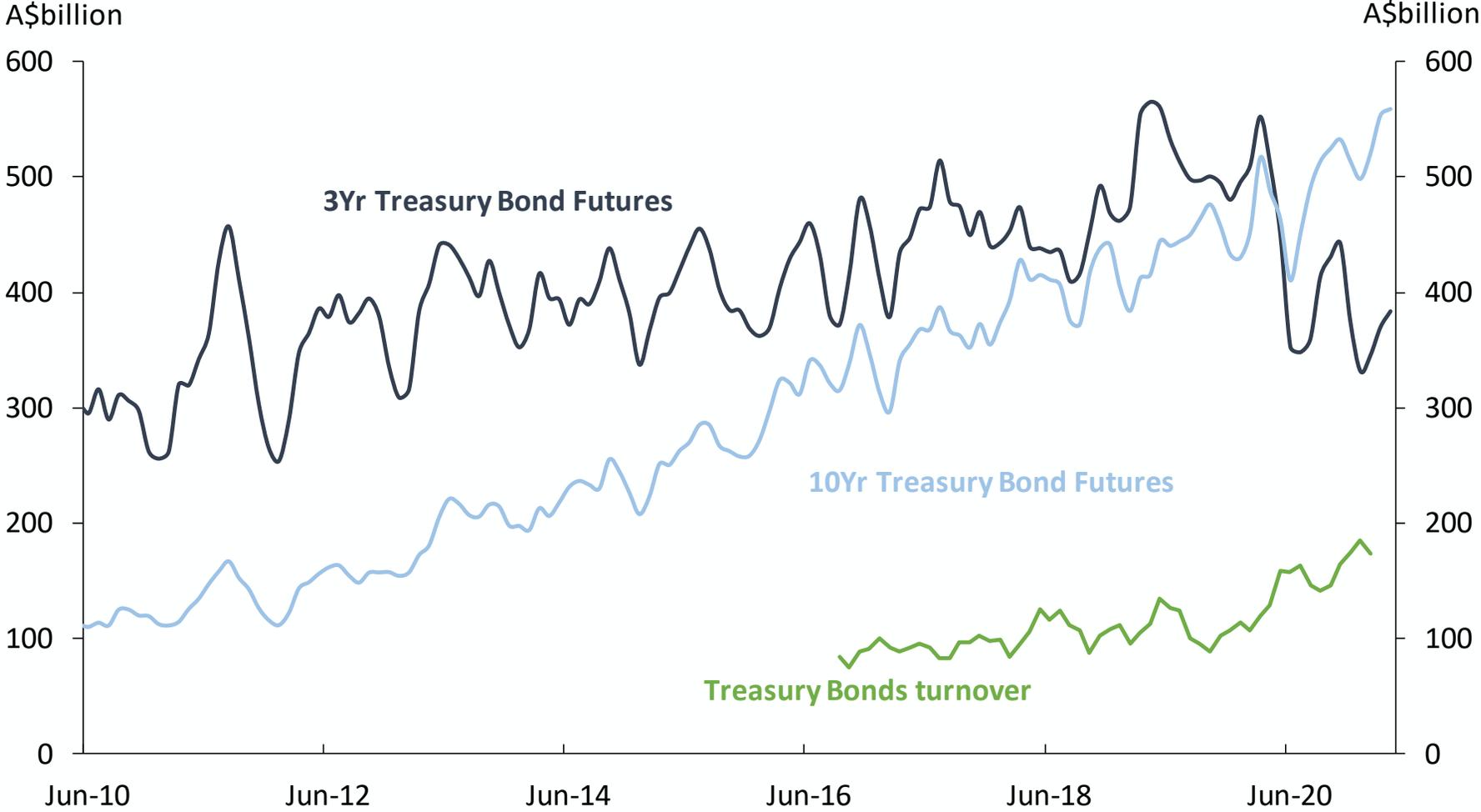
Turnover by tenor (per cent)



Source: AOFM. * 2020-21 is for the period 1 July 2020 to 31 March 2021. The AOFM relies on data provided by survey respondents and cannot guarantee the accuracy of this data.

Treasury Bond futures market activity

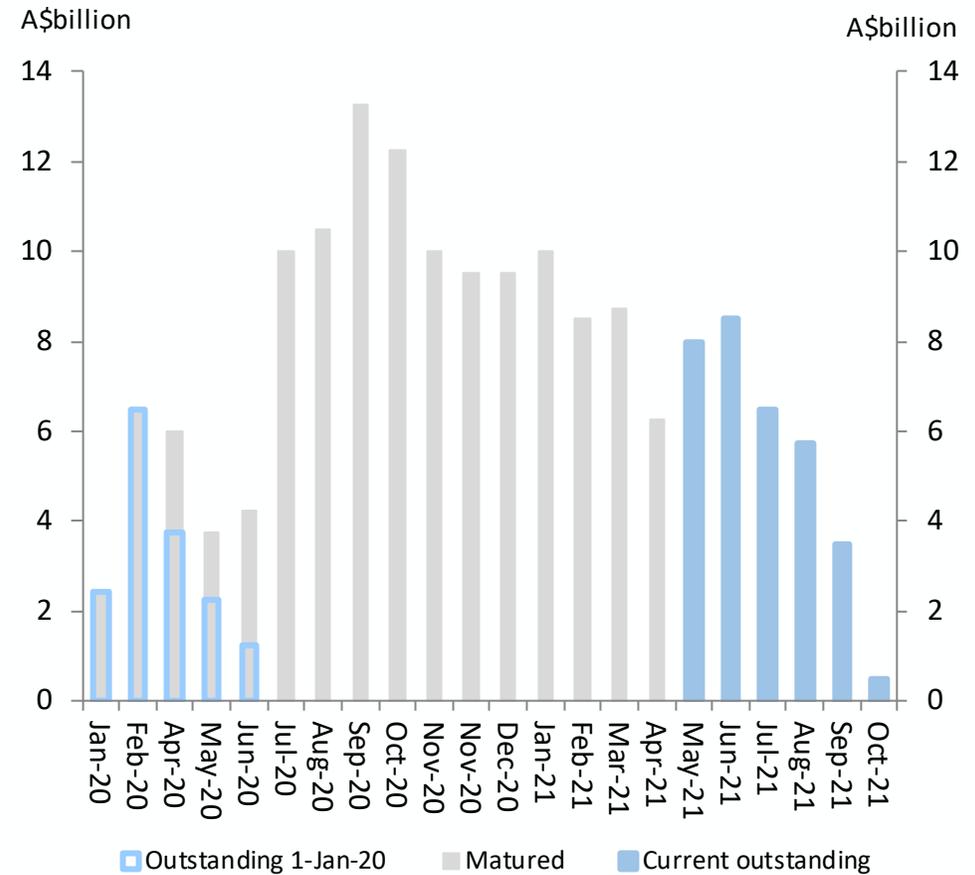
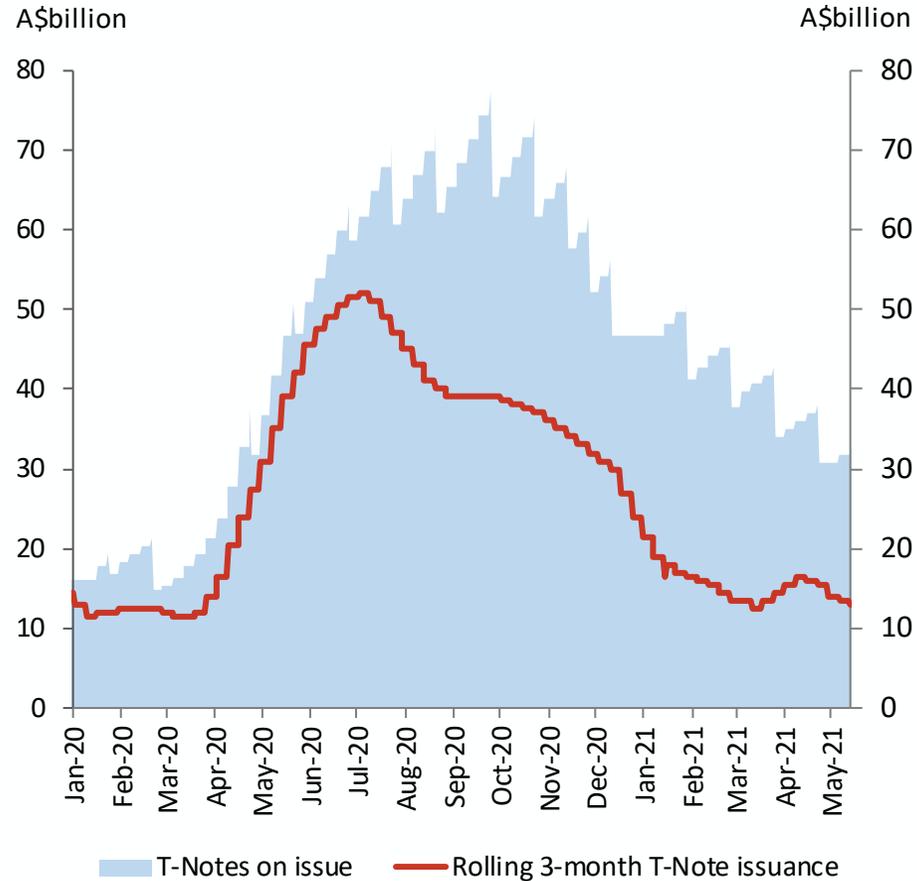
Monthly turnover (3m M.A.)



Source: ASX, AOFM

Issuance of Treasury Notes

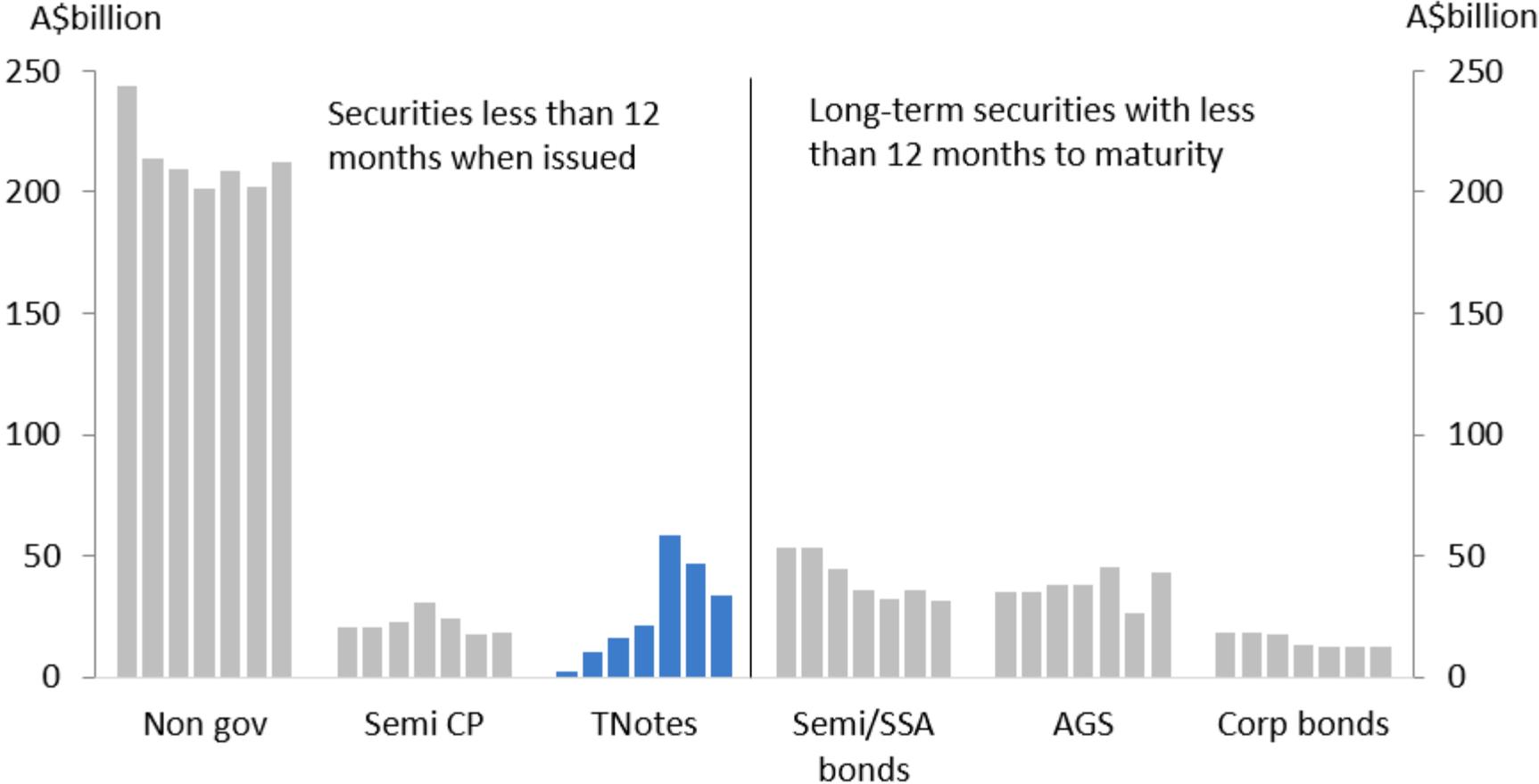
The AOFM will continue regular issuance of Treasury Notes with regular tenders and volumes dependent on cash management needs. No structural change in the reliance on Treasury Notes is expected in 2021-22 compared with 2020-21.



Source: AOFM

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

June 2019 to March 2021

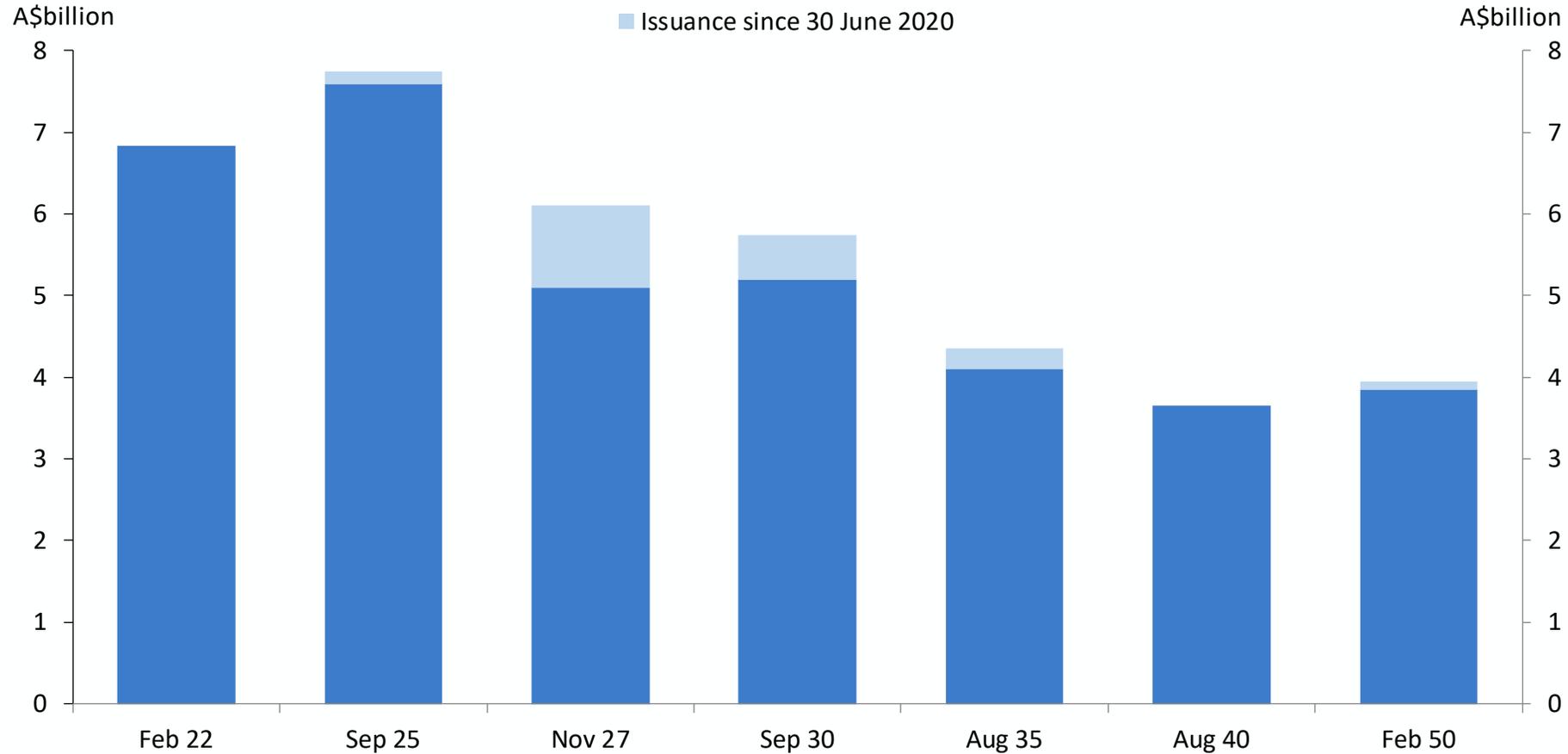


Source: AOFM, RBA, Bloomberg

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.



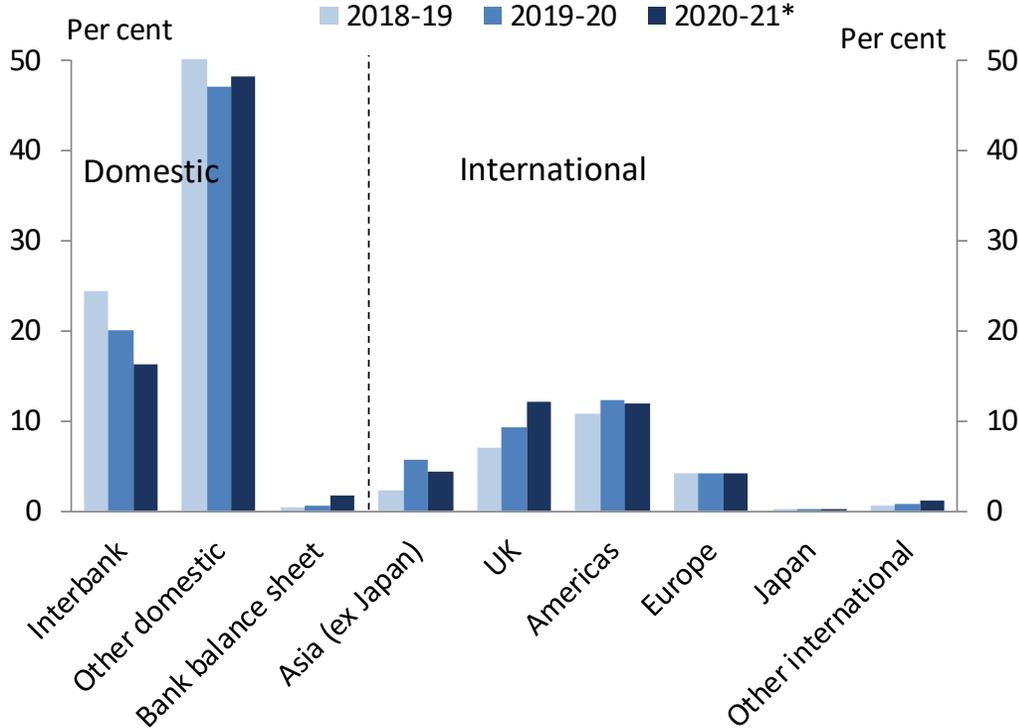
Source: AOFM. As at 12 May 2021.

Turnover – Treasury Indexed Bonds

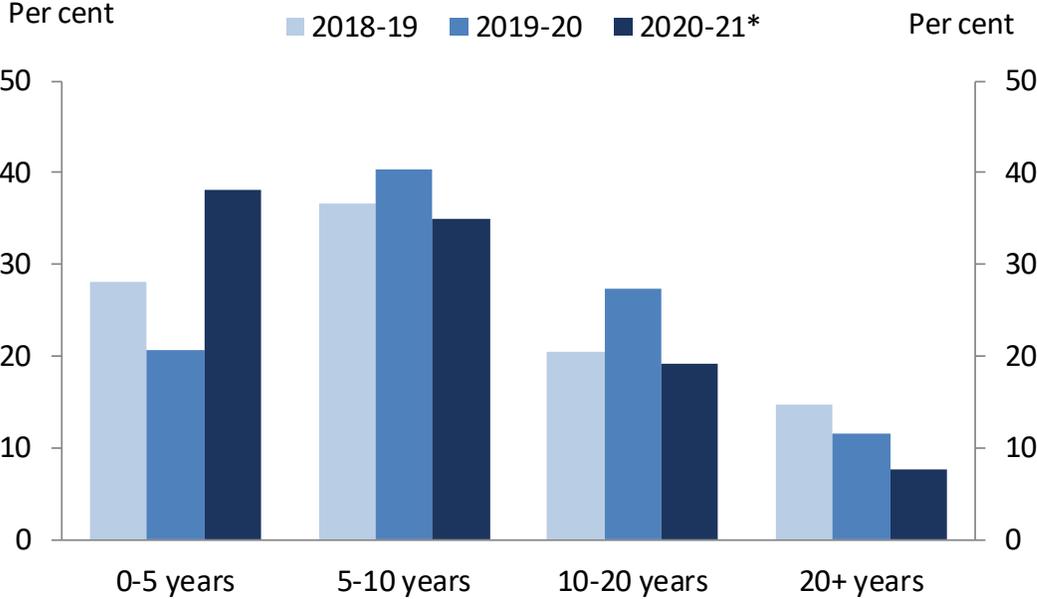
Total turnover A\$49 billion (2019-20)
 A\$52 billion (2018-19)

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

Turnover by category (per cent)



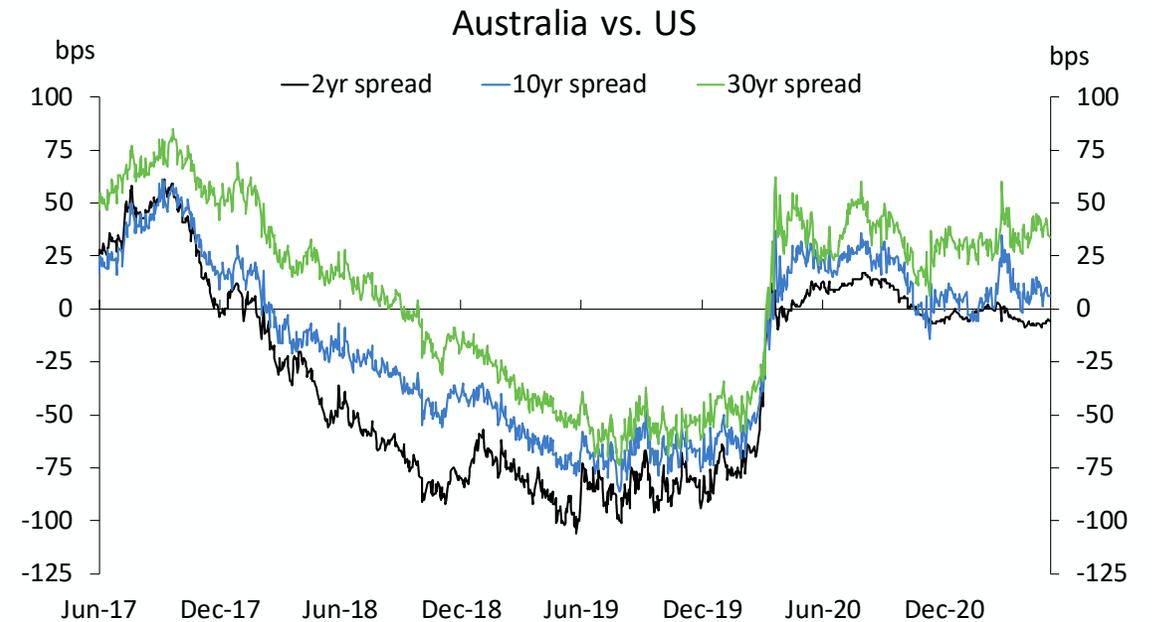
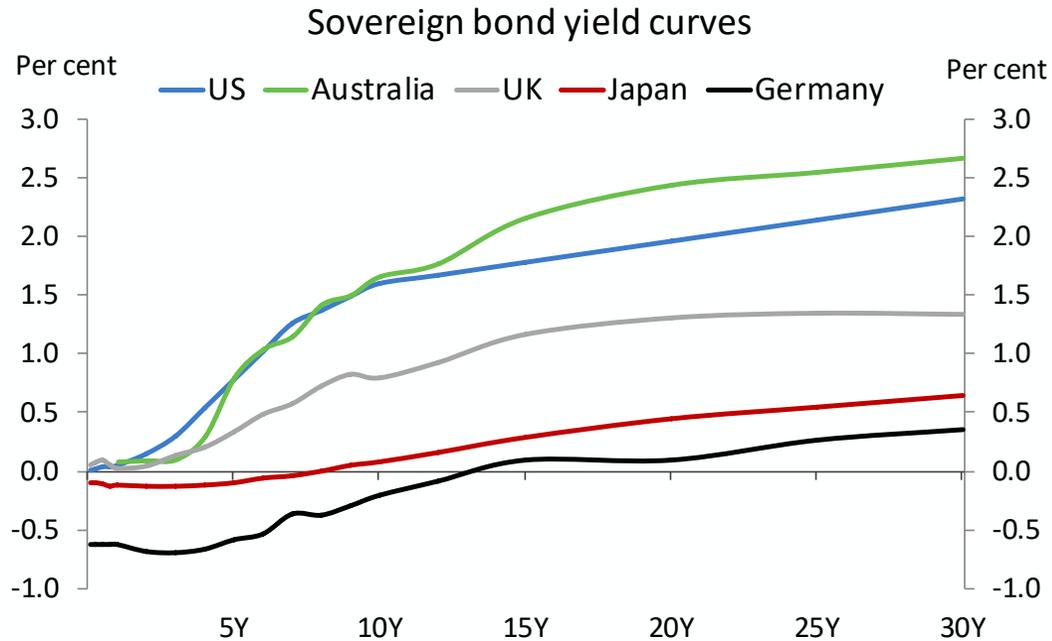
Turnover by tenor (per cent)



Source: AOFM. *2020-21 is the period 1 July 2020 to 31 March 2021. The AOFM relies on data provided by survey respondents and cannot guarantee the accuracy of this data

Australian Sovereign bond spreads

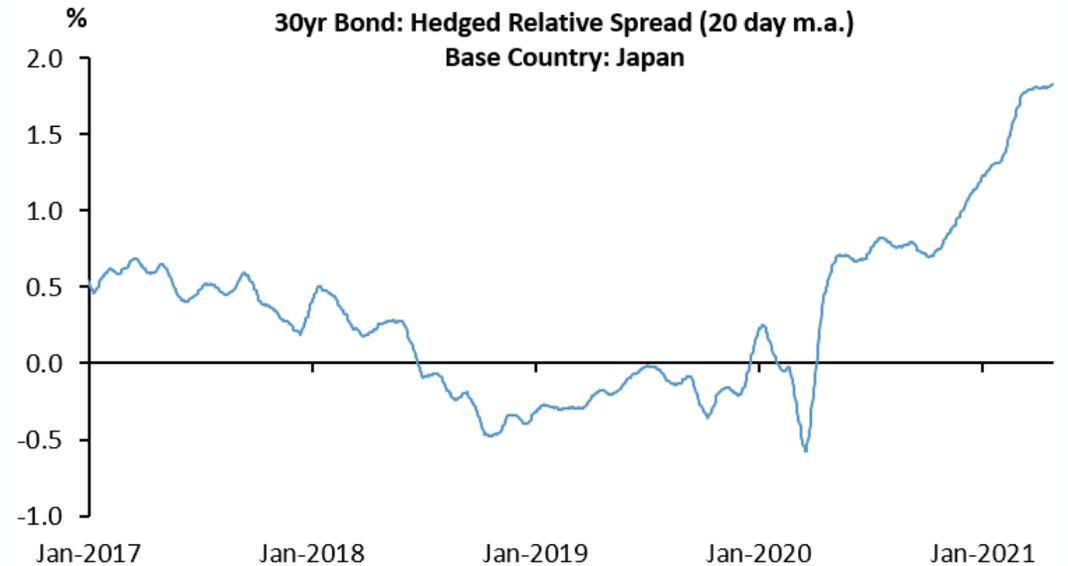
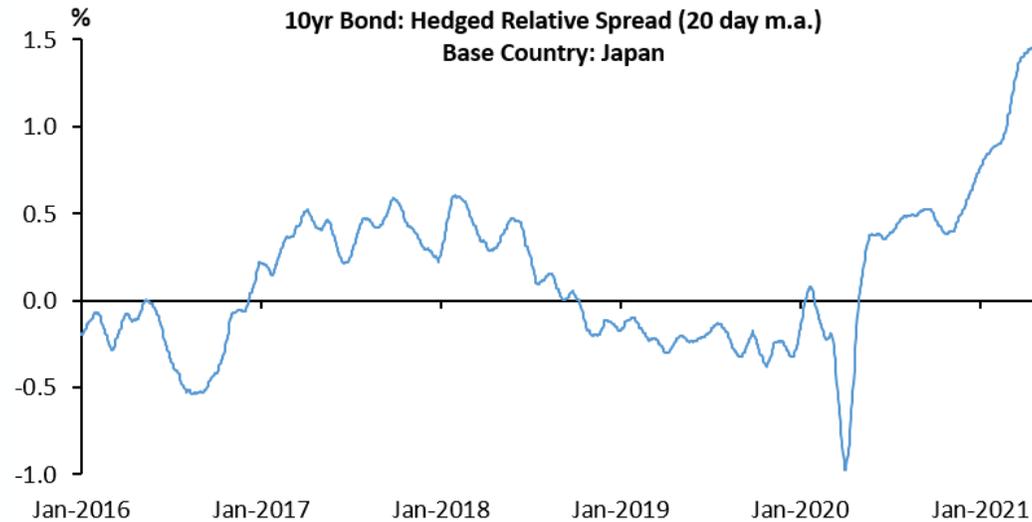
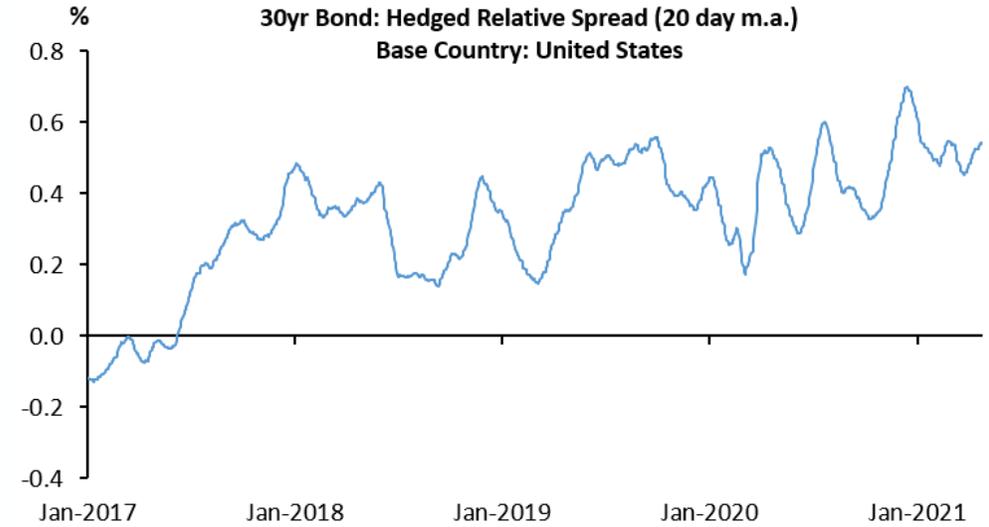
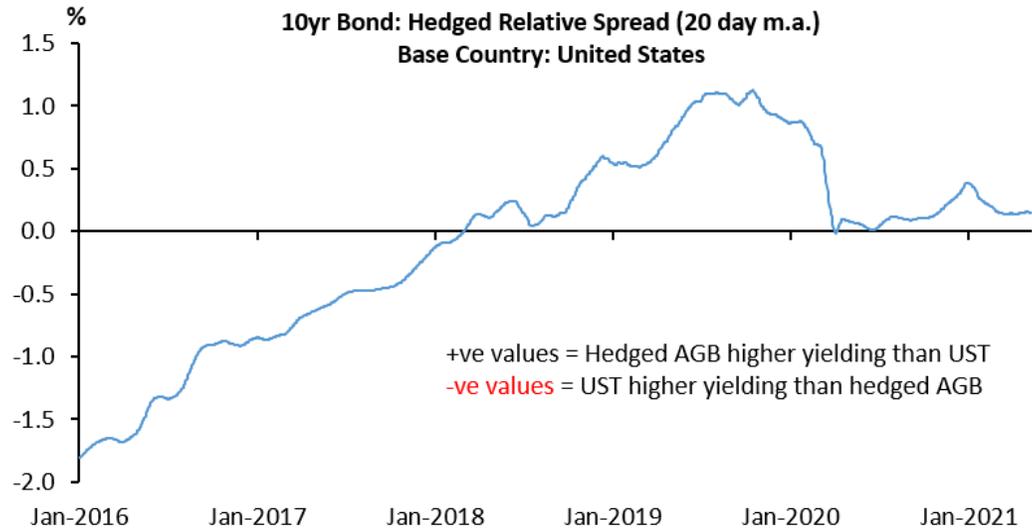
- The AGS market continues to look attractive compared to other core sovereign markets on an outright and hedged basis from an offshore investor perspective.
- The AGS domestic investor base primarily comprises bank balance sheets and fund manager allocations, with the RBA also a significant holder of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



Source: Refinitiv, as at 12 May 2021.

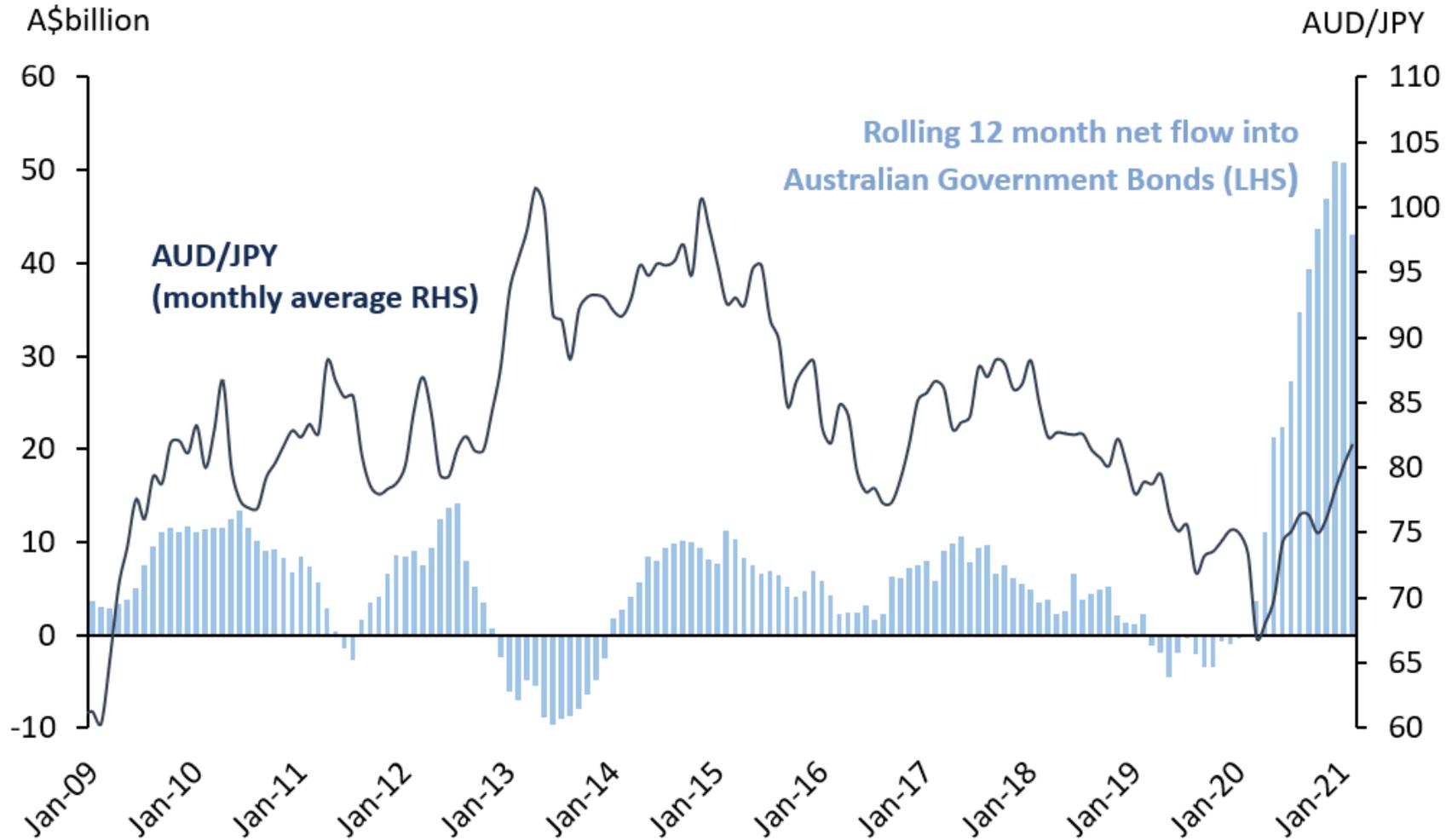
Australian Sovereign bond spreads

Hedged via rolling 3m fx forwards



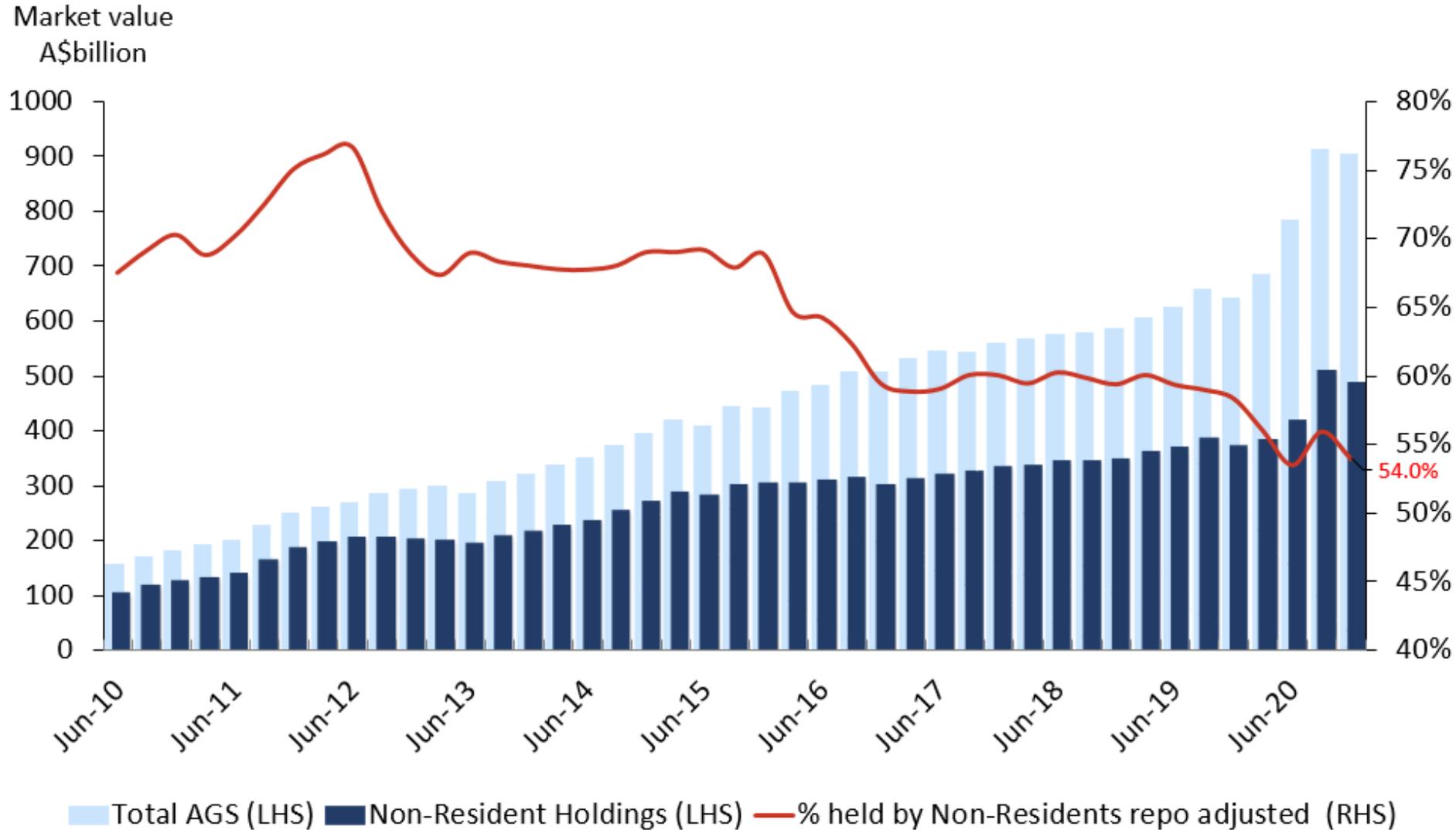
Source: Bloomberg, AOFM

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



Source: Japan Ministry of Finance, Bloomberg.

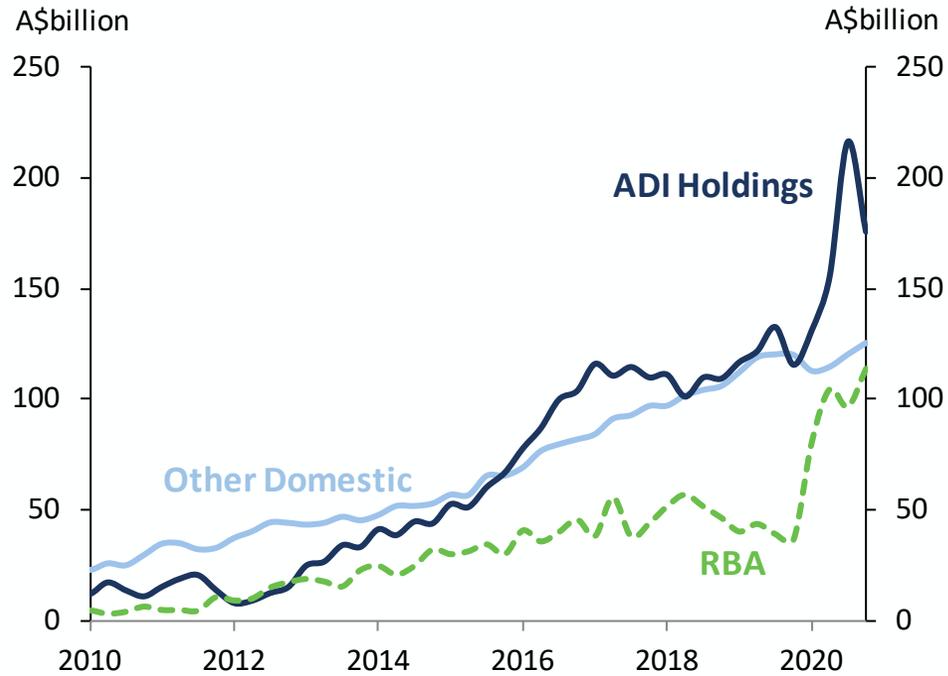
Resident and Non-resident holdings of AGS



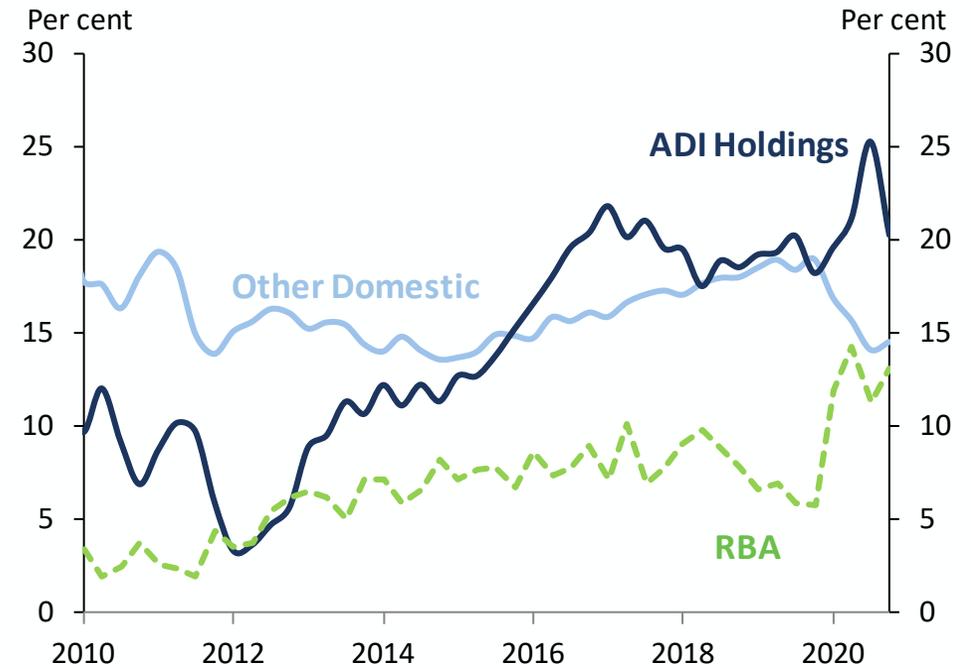
Source: Australian Bureau of Statistics (ABS), RBA, AOFM. AGS are Treasury Bonds, Treasury Indexed Bonds and Treasury Notes.

Domestic bank and non-bank holdings of AGBs

Value of Holdings



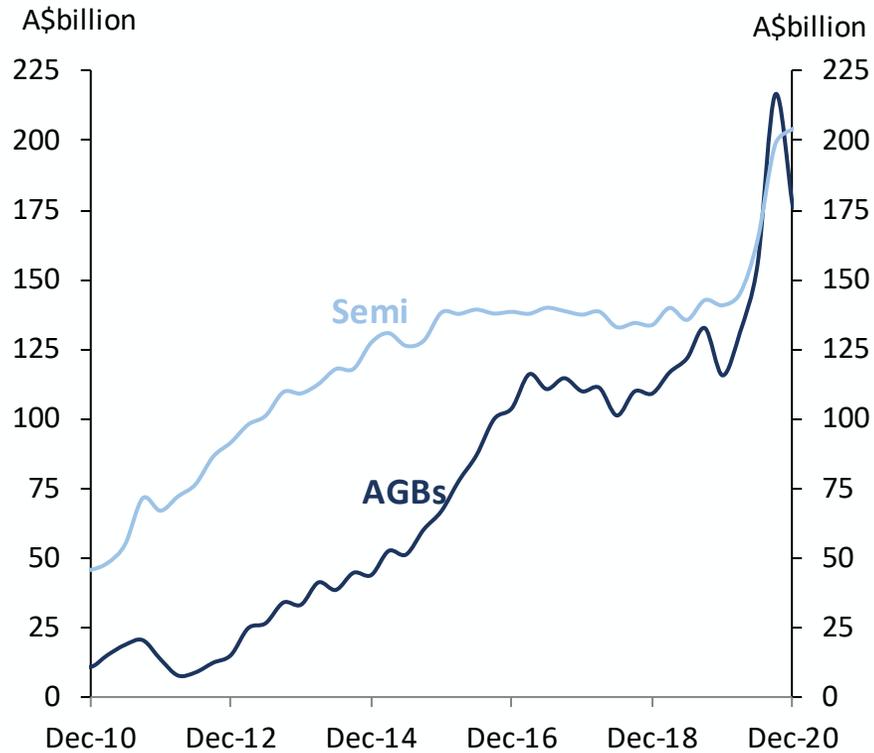
Proportion of AGB Market



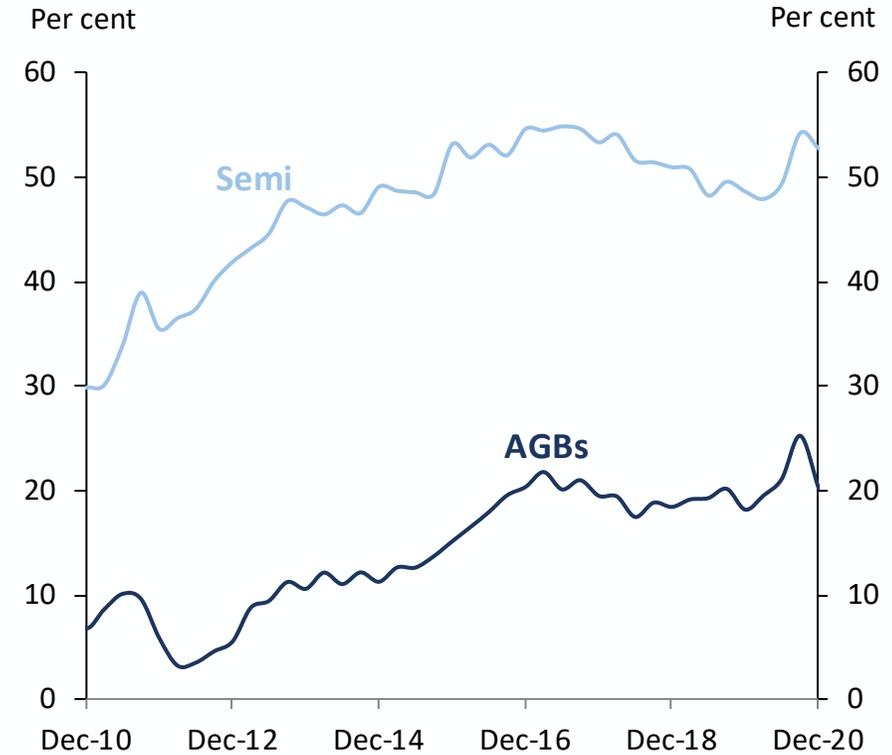
Source: ABS. Holdings are not adjusted for repurchase transactions.
AGBs are Treasury Bonds and Treasury Indexed Bonds.

Domestic bank holdings of AGBs and semi-government bonds

Value of Holdings



Proportion of Respective Market

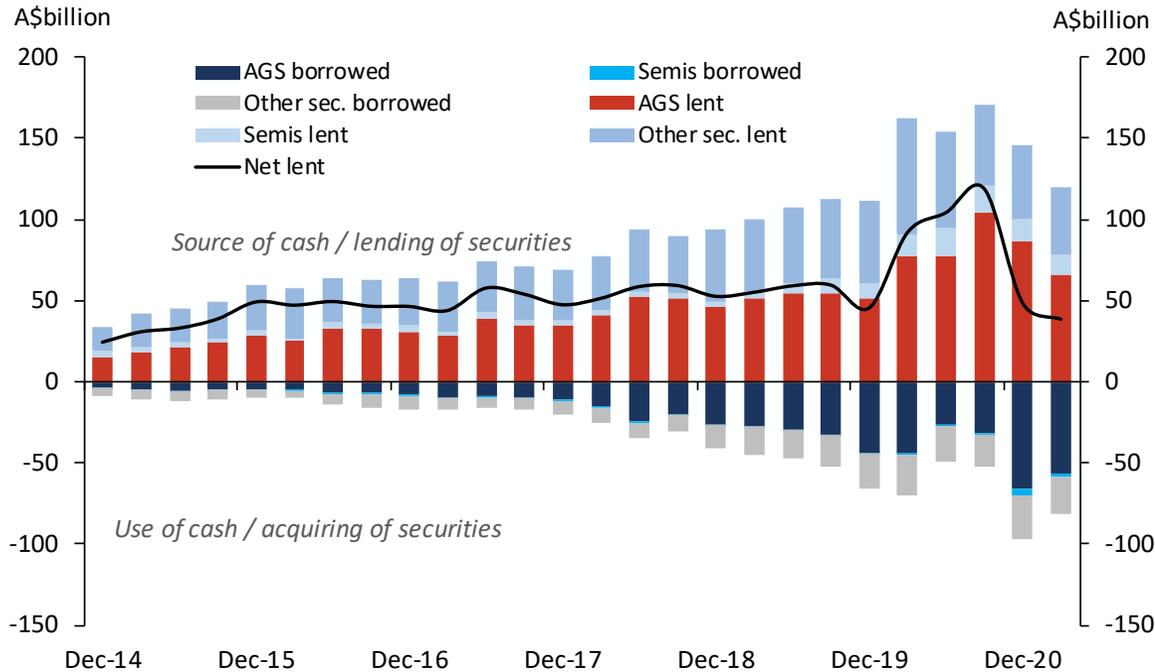


Source: ABS. AGBs are Treasury Bonds and Treasury Indexed Bonds.

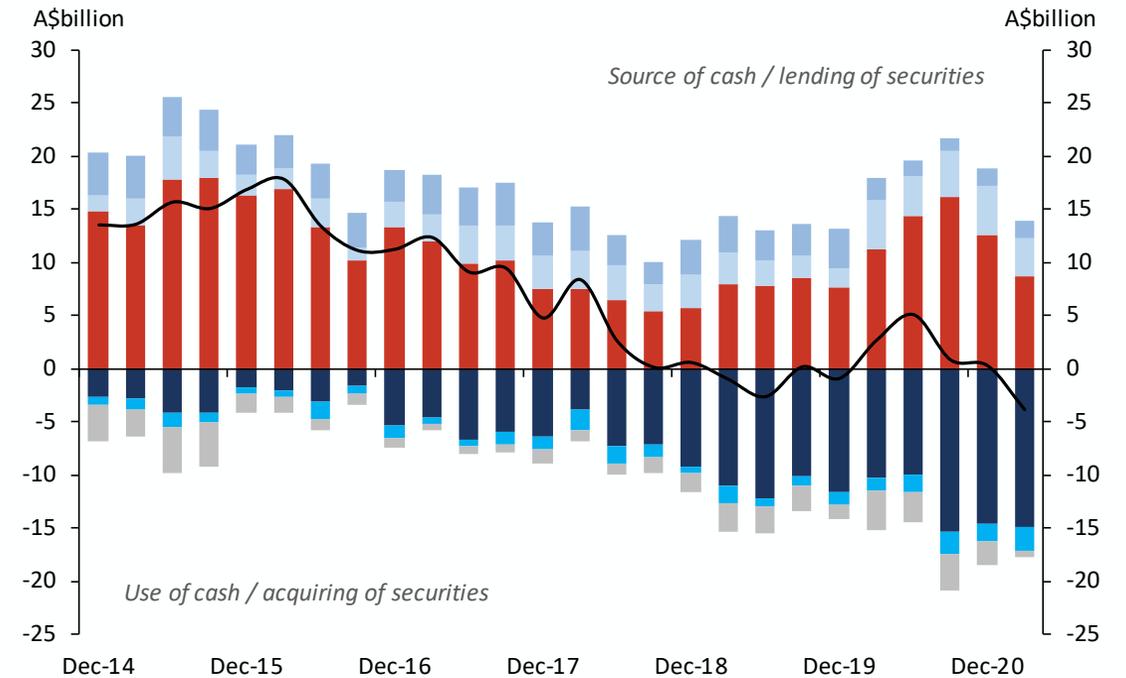
Repo market activity and short-term funding

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

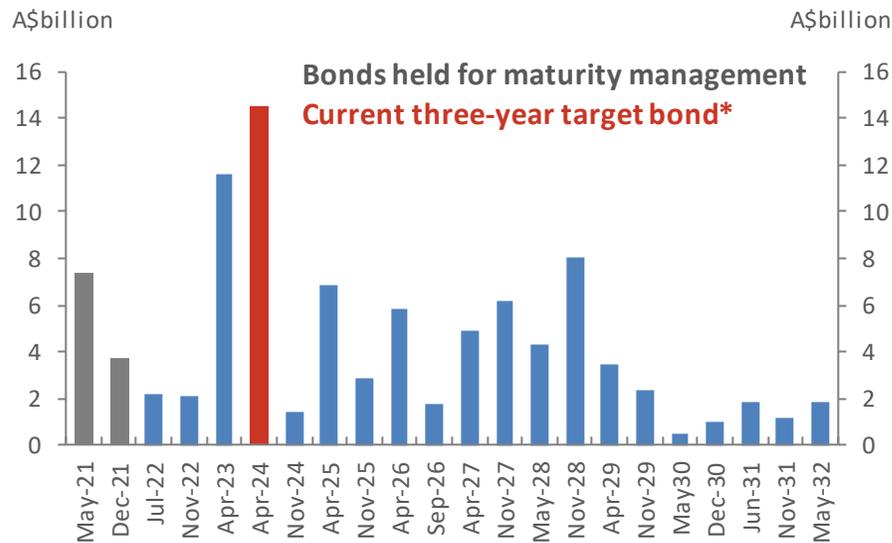


Source: RBA. Quarterly data except for the last data point which is 28 February 2021.

RBA bond purchase program

- A total announced bond purchase program (QE) of \$200 billion of Treasury Bonds and semis (expected 80/20 split) in the secondary market of maturities around 5 to 10 years.^
- A cash rate target of 0.1 per cent.
- Maintaining the target yield on the 3-year Australian Government Bond at around 0.1 per cent by purchasing the 3-year bond in the secondary market as necessary.
- A 3-year Term Funding Facility of 0.1 per cent available until 30 June 2021.

RBA holdings of Treasury Bonds by line



3-year Treasury Bond yields



Source: AOFM, RBA. As at 12 May 2021. *The RBA's target three-year bond is the bond closest to three years in tenor.

^The RBA will announce at its July 2021 board meeting whether the bond purchase program will be extended and whether it will change the three-year target bond.

Australian Government Bonds

| Treasury Bonds: | Volume Outstanding (AUD) | Yield (%) | Modified Duration |
|--------------------------------|---------------------------------|------------------|--------------------------|
| 5.75% 15 May 2021 | 25,823,805,000 | 0.06 | 0.00 |
| 2.00% 21 December 2021 | 16,398,000,000 | 0.02 | 0.59 |
| 5.75% 15 July 2022 | 24,762,708,000 | 0.06 | 1.12 |
| 2.25% 21 November 2022 | 26,500,000,000 | 0.07 | 1.50 |
| 5.50% 21 April 2023 | 34,199,708,000 | 0.08 | 1.85 |
| 2.75% 21 April 2024 | 32,900,000,000 | 0.09 | 2.83 |
| 0.25% 21 November 2024 | 33,100,000,000 | 0.30 | 3.50 |
| 3.25% 21 April 2025 | 33,900,000,000 | 0.46 | 3.72 |
| 0.25% 21 November 2025 | 27,900,000,000 | 0.62 | 4.48 |
| 4.25% 21 April 2026 | 34,400,000,000 | 0.71 | 4.51 |
| 0.50% 21 September 2026 | 30,000,000,000 | 0.85 | 5.26 |
| 4.75% 21 April 2027 | 30,699,566,000 | 0.94 | 5.28 |
| 2.75% 21 November 2027 | 28,000,000,000 | 1.09 | 6.01 |
| 2.25% 21 May 2028 | 29,700,000,000 | 1.21 | 6.51 |
| 2.75% 21 November 2028 | 31,100,000,000 | 1.30 | 6.84 |
| 3.25% 21 April 2029 | 32,999,803,000 | 1.38 | 7.06 |
| 2.75% 21 November 2029 | 32,900,000,000 | 1.48 | 7.65 |
| 2.50% 21 May 2030 | 36,600,000,000 | 1.58 | 8.10 |
| 1.00% 21 December 2030 | 37,900,000,000 | 1.69 | 9.04 |
| 1.50% 21 June 2031 | 31,300,000,000 | 1.74 | 9.26 |
| 1.00% 21 November 2031 | 33,200,000,000 | 1.80 | 9.89 |
| 1.25% 21 May 2032 | 23,900,000,000 | 1.84 | 10.20 |
| 1.75% 21 November 2032 | 14,000,000,000 | 1.88 | 10.38 |
| 4.50% 21 April 2033 | 14,800,000,000 | 1.85 | 9.60 |
| 2.75% 21 June 2035 | 8,550,000,000 | 2.09 | 11.64 |
| 3.75% 21 April 2037 | 12,000,000,000 | 2.22 | 12.36 |
| 3.25% 21 June 2039 | 9,600,000,000 | 2.38 | 13.79 |
| 2.75% 21 May 2041 | 13,000,000,000 | 2.49 | 15.44 |
| 3.00% 21 March 2047 | 13,300,000,000 | 2.64 | 18.12 |
| 1.75% 21 June 2051 | 15,000,000,000 | 2.73 | 22.08 |
| Total: | 768,433,590,000 | | Portfolio: 6.6 |
| Treasury Indexed Bonds: | Volume Outstanding (AUD) | Yield (%) | Modified Duration |
| 1.25% 21 February 2022 | 6,840,106,000 | -2.50 | 0.77 |
| 3.00% 20 September 2025 | 7,742,722,000 | -1.71 | 4.12 |
| 0.75% 21 November 2027 | 6,100,000,000 | -1.12 | 6.39 |
| 2.50% 20 September 2030 | 5,742,720,000 | -0.66 | 8.50 |
| 2.00% 21 August 2035 | 4,350,000,000 | -0.21 | 12.74 |
| 1.25% 21 August 2040 | 3,650,000,000 | 0.14 | 17.39 |
| 1.00% 21 February 2050 | 3,950,000,000 | 0.30 | 25.41 |
| Total: | 38,375,548,000 | | Portfolio: 8.7 |

Source: AOFM, Refinitiv. As at 14 May 2021.

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

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Easy 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*)

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