

## Financial Services - Australia

## Asia marketing feedback: Focus on Banks in a falling rate environment

Industry Overview

## Asia marketing: Focus on implications of lower rates

We met with investors in Singapore and Hong Kong from 29 Jan to 1 Feb. Key discussions centred around impacts of lower interest rates, elevated TFF maturities looming, Bank NIMs/ credit quality, P&C premium pricing and capital management.

## Investors weigh implications of RBA rate cuts

Investors focused on implications of lower RBA cash rates, with markets pricing cuts in mid-2024. Banks were cited as more resilient in this environment with the opportunity to reprice mortgages, improved mortgage loan growth and lower bad debts. P&C insurers and CPU received greater concern around potential for falling investment returns (we estimate +/-25bp in rates impacts CPU NPAT by +/-2.3%).

## Positioning driving CBA valuations to new highs

CBA was in focus with valuations approaching new highs on the back of positioning. Holders were positive about earnings resilience and potential for a special dividend at the 1H24 result after CBA paused the buyback in Nov-2024 (\$155m of \$1.0bn completed). Our Quant Strategy team note Financials is the largest underweight in the Australian market with CBA the most crowded underweight, [refer note](#).

## ANZ/ Suncorp Bank deal a near-term catalyst

On balance, investors we met expect the Tribunal decision on the acquisition of Suncorp Bank in ANZ's favour (due Feb-2024). This was perceived as a potentially negative catalyst for ANZ where investors favoured capital returns, vs SUN investors supportive of a pure-play insurer with increased focus on the core P&C business.

## Banks reporting season: Credit quality a perceived positive

Investors we met expect mortgage margin pressures to ease, cost pressures to persist and credit quality to remain benign. WBC: Stock expected to be resilient with 1Q24 update on credit quality and capital expected to show resilient bad debts and surplus capital print with \$355m of \$1.5bn buyback completed. NAB: Business Bank credit quality a positive vs concerns from management feedback on deposit migration to term. BEN: Potential capital management a positive, vs NIM downside to stale consensus expected to be a negative read-through for BOQ. MQG's a negative, vs optimism on medium-term organic growth opportunities across both cyclical and structural businesses.

## P&amp;C insurers: lower rates vs COR improvement

Investors remain positive on P&C benefitting from ongoing elevated premiums, softening catastrophes, elevated investment income and attractive valuations, vs risk of softening rates. Top-line growth and easing underlying pressures support COR improvement, with investors focused on QBE's ability to meet 94.5% FY23 guidance. Investor positioning favoured IAG while the sale of SUN's bank remains uncertain.

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**Matt Dunger >>**  
Research Analyst  
Merrill Lynch (Australia)  
+61 2 9226 5329  
[matthew.dunger@bofa.com](mailto:matthew.dunger@bofa.com)

**Christiane Holstein >>**  
Research Analyst  
Merrill Lynch (Australia)  
+61 2 9226 5840  
[christiane.holstein@bofa.com](mailto:christiane.holstein@bofa.com)

Glossary overleaf

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**Refer to important disclosures on page 3 to 5.**

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# Glossary

## Exhibit 1: Australia Financials

Glossary of abbreviations

Abbreviations
ANZ: ANZ Group
BEN: Bendigo Bank Ltd
BOQ: Bank of Queensland
CBA: Commonwealth Bank Australia
CET1: Common Equity Tier 1
CHES: Clearing House Electronic Subregister System
CPU: Computershare Limited
GI: General Insurance
IAG: Insurance Australia Group
MI: Margin Income
MQG: Macquarie Group Ltd
NAB: National Australia Bank
NIM: Net Interest Margin
P&C: Property and Casualty
QBE: QBE Insurance Group
RBA: Reserve Bank of Australia
SUN: Suncorp Group
TFF: Term Funding Facility
WBC: Westpac Bank Corporation

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