

HD Aussie 'BBB' corporates could issue record levels of local MTNs in 2014

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A combination of cheaper funding costs and better yields could **lead** Australian companies to issue record levels of local currency push medium-term notes (MTN), say market experts.

The country enjoyed a strong year of Australian corporate debt issuance in 2013, in particular for corporates in the 'BBB'-rated bracket. Data from Dealogic shows that Australian dollar-denominated MTNs from companies ranked 'BBB+', 'BBB' or 'BBB-' rose from the equivalent of AUD269.14 **million** (US\$243.59 **million**) in 2012 to AUD482.36 **million** in 2013, an increase of 74%.

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The total number of total triple-**B** deals also increased from four to six. The State Grid Corp of **China's** subsidiary SPI (Australia) Assets was the top issuer for the year, raising AUD150 **million** (US\$156.14 **million**) through a seven-year MTN on March 18, 2013.

The upward trend in triple **B** deal flow is down to a combination of both internal and external factors. Domestically, Australia's bond market is starting to look more favourably on lower rated credit compared to previous years, according to James Arnold, a director for capital markets origination at Citi in Australia.

"There has been a preference for high yield investment in Australia. The market has developed a lot, there is wider acceptance of lower rated credit than in previous years," Arnold said.

But the major factor supporting the increased deal flow has been Australia's macroeconomic picture. A combination of foreign exchange (FX) volatility and quantitative easing (QE) tapering from the US Federal Reserve led investors and issuers to shift their preferences away from foreign currency and particularly US dollar-denominated **bonds**.

Further, Australian borrowers that had been willing to borrow in the euro during 2013 have been faced with increased risks in the past few months, ranging from European monetary policy to Turkish rate hikes.

According to Fitch these reasons have been sufficient to keep lower-rated Australian borrowers looking at local debt alternatives, despite a recent narrowing of the Australian dollar-US dollar cross currency basis swap rate. Meanwhile investors have increasingly sought out higher yields on **bonds** at home.

"The precedent is 2013; you saw domestic issuers going up to seven-year tenors, where normally they could only get three or five years," said Johann Kenny, director for corporate coverage at Fitch.

The result is that investors, both domestic and foreign, are actively increasing their Australian dollar allocation, according to a Fitch report published on February 11.

These conditions mean that Australia is likely to witness another wave of triple-**B** rated corporate bond issuance in 2014, despite a slow start to the year to date.

"For 2014 there has not been too much supply yet, it typically picks up in late February and early March," according to Sydney-based Paul White, global head of ANZ's debt syndicate. Citi's Arnold also added that with the number of borrowers that already went to market there may be some delay, as well as the fact that they could be "waiting for the market to rally more, borrowers could be not coming to market soon."

The banks are watching the macro trends that have created the positive conditions in the first place, in particular any Federal Reserve announcements on the tapering of quantitative easing, despite the new chairperson Janet Yellen confirming on her February 11 testimony that the pace of tapering will not be accelerating soon. The emerging markets' "wobbling" over the past weeks also needs to be watched.

"Australia is by no means an emerging market, but contagion is a risk. If the volatility continues it may have an impact. But, overall, we consider the outlook to be quite positive for the year," said Arnold.

Fitch's analysis points to two factors needed to get things rolling. On the one hand, "there will be a number of de-mergers executed in 2014, and there will be a need for funding the deals," said Kenny. News was out recently on both chemicals and explosives major Orica's potential spinoff of its chemical division, for around US\$1 billion bucks, as well as the planned demerger of engineering and property services company UGL.

Secondly, the rating agency notes that lower-rated companies in Australia have AUD14 billion in debt needing to be refinanced by 2016. They are unlikely to wait for the good moment to pass before hitting the markets again.

CO stgcoc : State Grid Corporation Of China

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