

# Bank Treasury

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Special Interest Group

16 Nov 2018

11am – 1.15pm

**Deloitte.**

31<sup>st</sup> ANNUAL  
CONFERENCE

**FTA**  
FINANCE & TREASURY ASSOCIATION



31<sup>st</sup> ANNUAL  
CONFERENCE



# APRA Funding and Liquidity

## Topics for 2019

- Short-term wholesale funding for MLH ADIs
- Changes to reporting forms ARF 210.3 and 210.4
- Enhanced liquidity fire drill reporting
- Basel update for liquidity
- Elevated OIS to BBSW spreads
- Buffers over MLH, LCR and NSFR regulatory minimums

# Finance & Treasury Association's 31<sup>st</sup> annual conference

16 November 2018

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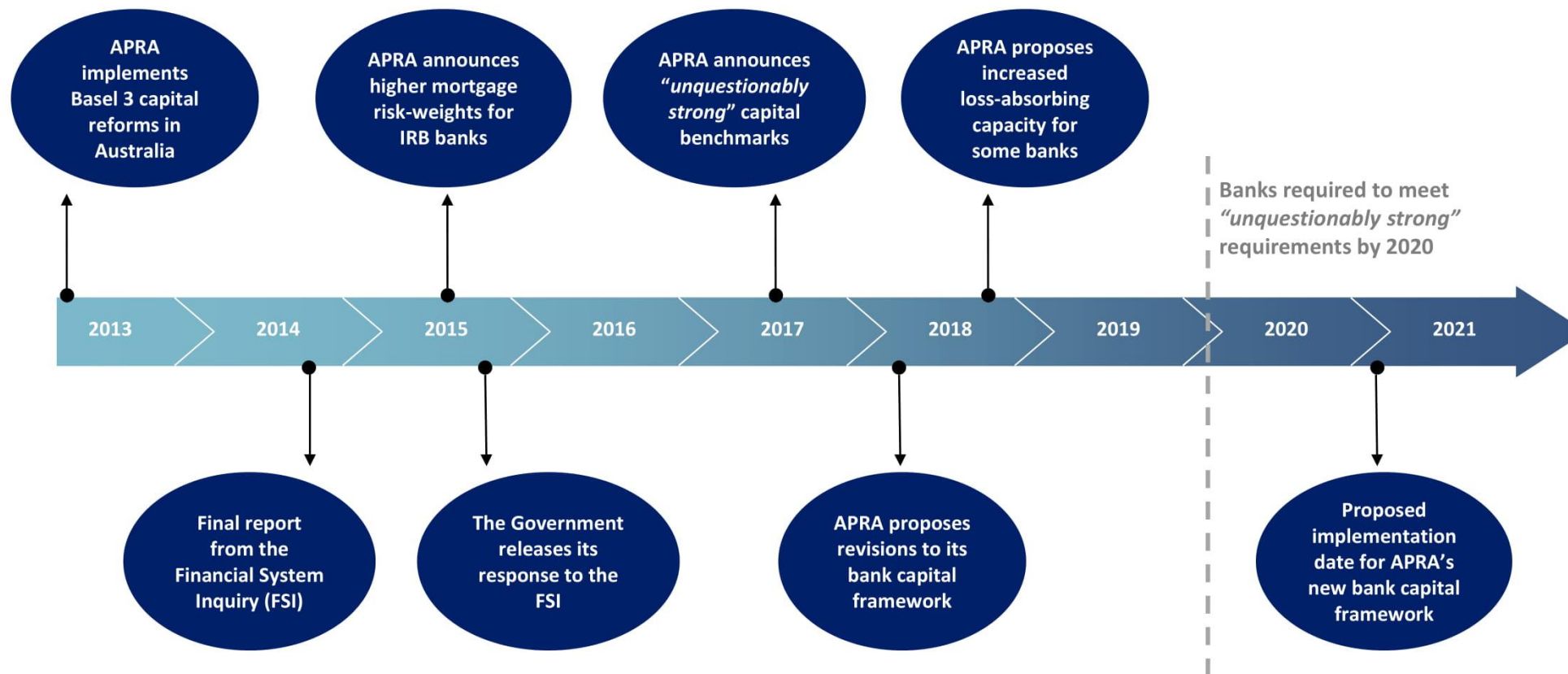
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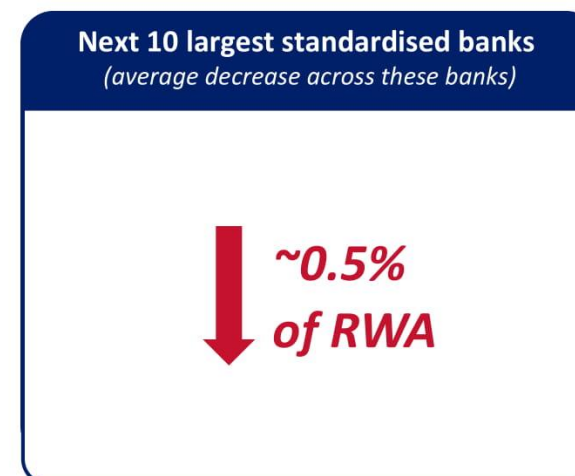
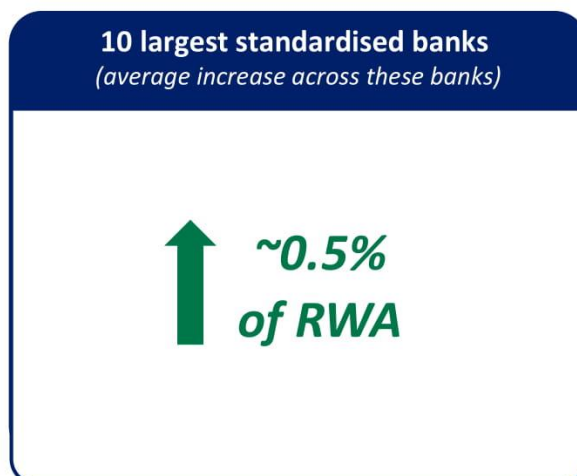
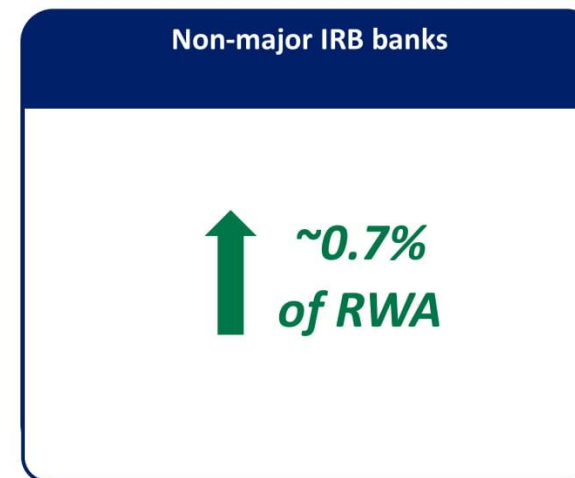
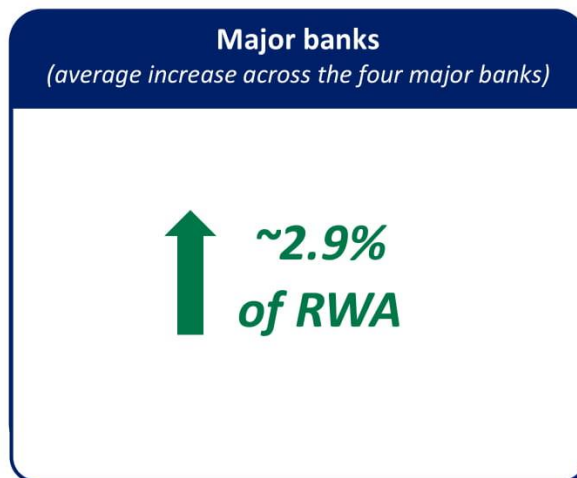
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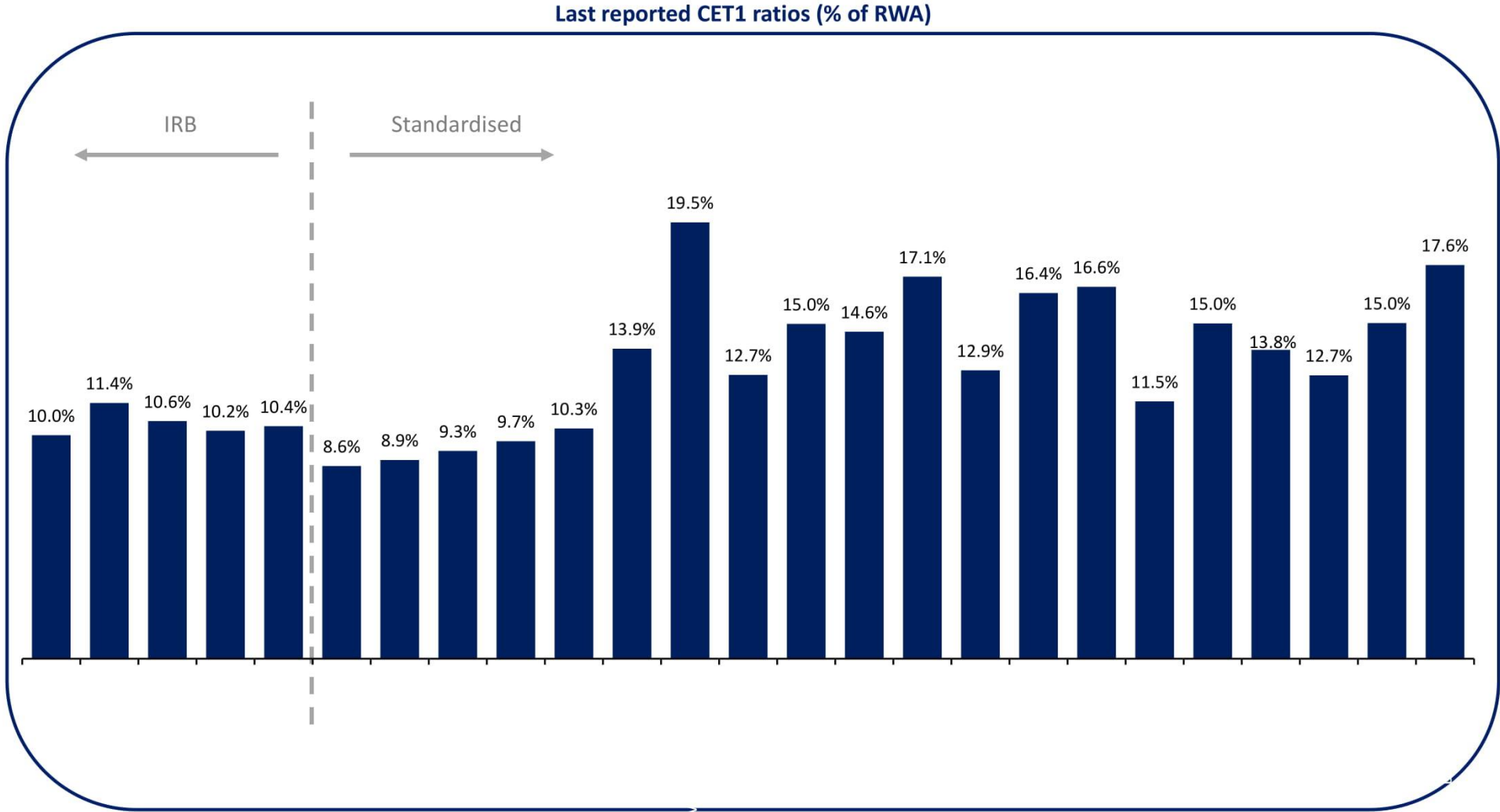
# Snapshot of recent substantive Australian bank capital reforms



# How much have CET1 ratios increased over the last 5 years?

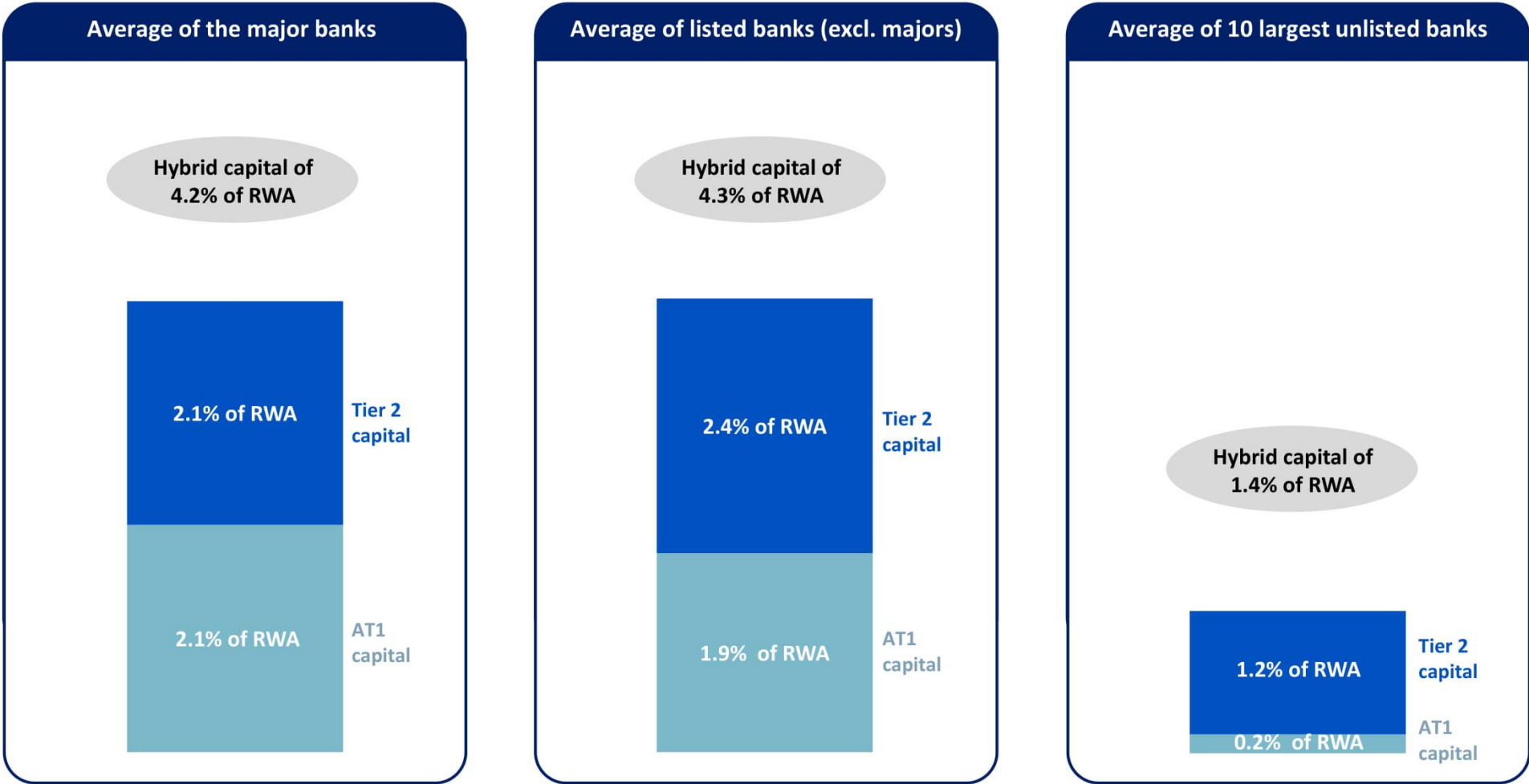


# Current CET1 ratios for Australian banks



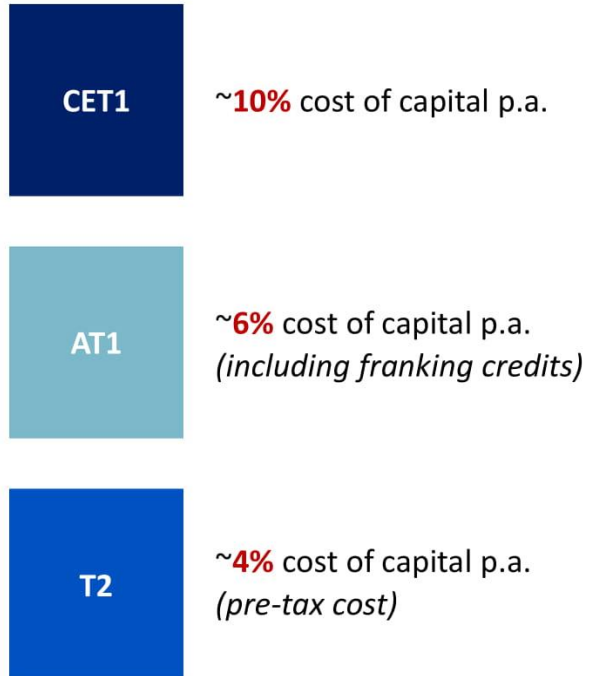


# How much hybrid capital are Australian banks utilising?

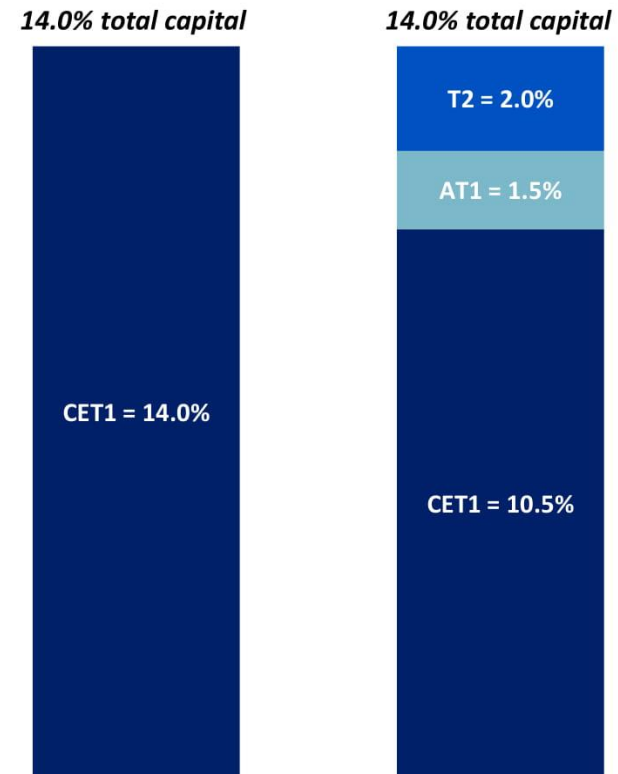


# Why do banks utilise hybrid capital?

## Illustrative cost comparison



## Hypothetical capital stacks



# BBSW: The Ties that Bind



## Philip Brown

Senior Fixed Income Strategist  
+61 3 9675 7522

November 2018



- Best Overall Research on Australian Fixed Income
- Best Research and Analysis of Australian Government and Semi-Government Bonds
- Best Relative Value Research in Australian Debt Market
- Best Trade Ideas
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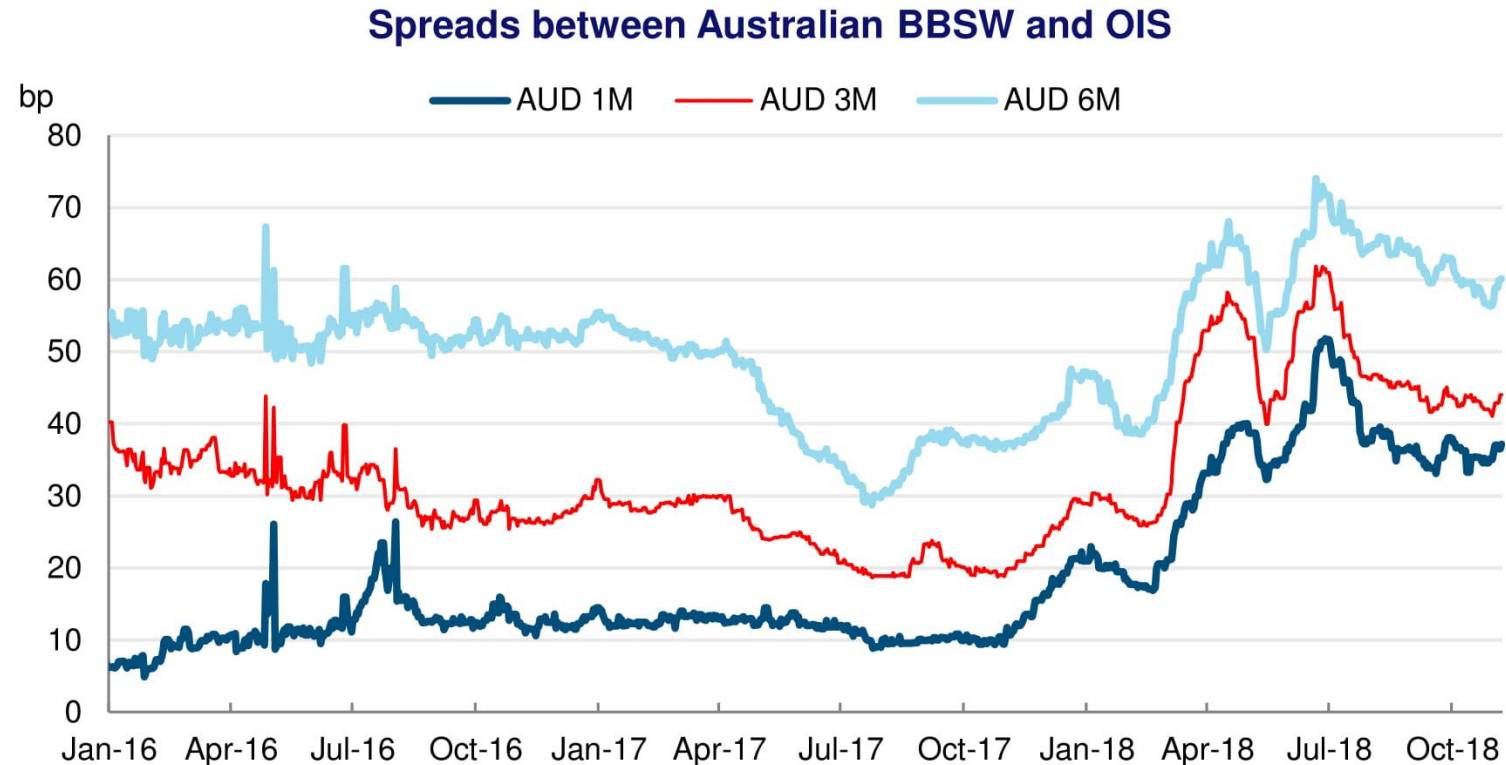
- Domestic Corporate Bond Research
- Bonds/Semi's Relative Value Research
- Bonds/Semi's Most Useful Axe Sheets
- Corporate Bonds/FRN's Market Share (Equal)



- Supranational Debt Overall Quality of Service
- Bonds/Semi's Domestic Market Flow Feedback
- Short Dated Securities Market Share

# BBSW spreads widening

All maturities have risen



- There has been a clear rise in all maturities of BBSW.
- The quarterly seasonality was a new development – but seasonal patterns not yet predictable. It makes pricing decisions more complex.
- Fears had been widespread of a poor performance in September, though ultimately BBSW markets were granted a reprieve.

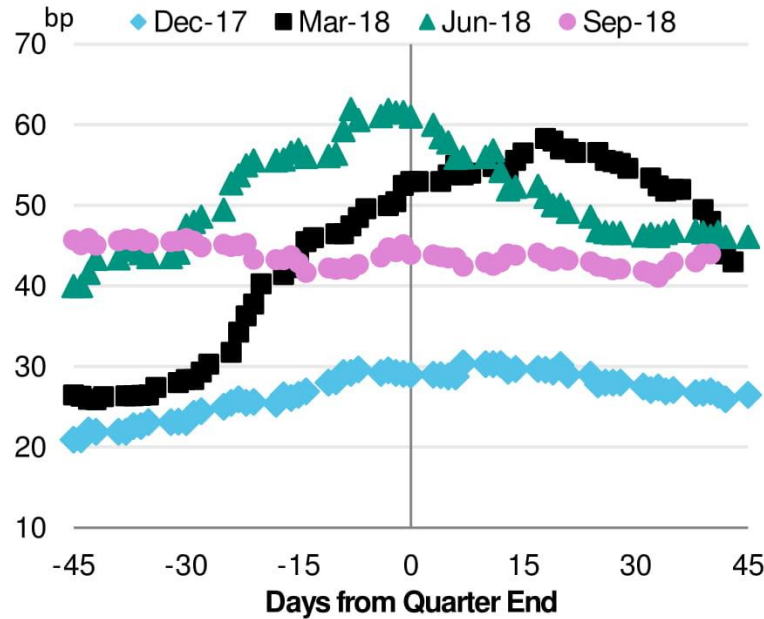




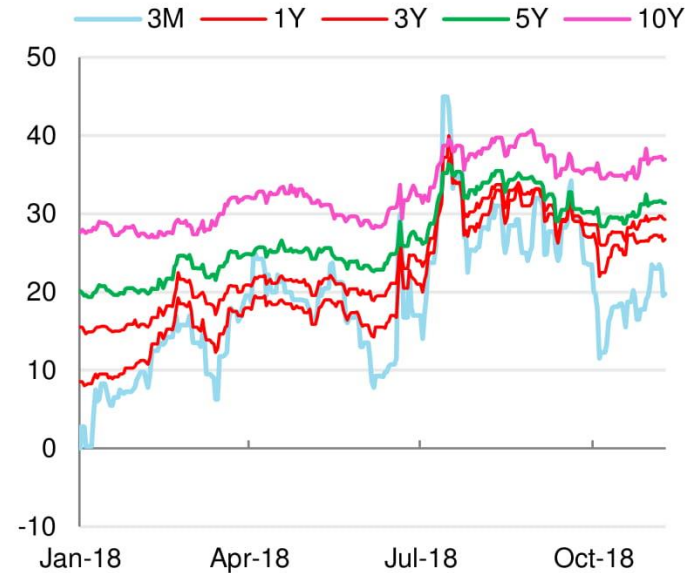
# Seasonality – or not?

## September reprieve and patterns around quarter-end

### 3M BBSW around quarter-end



### AUDUSD Cross-Currency Basis



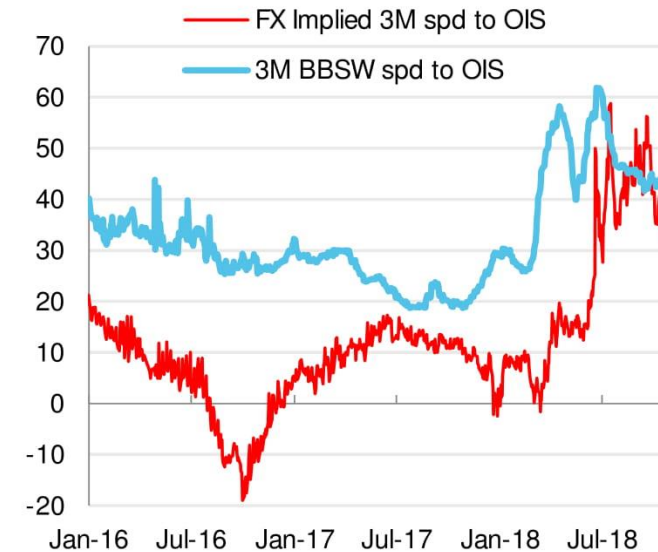
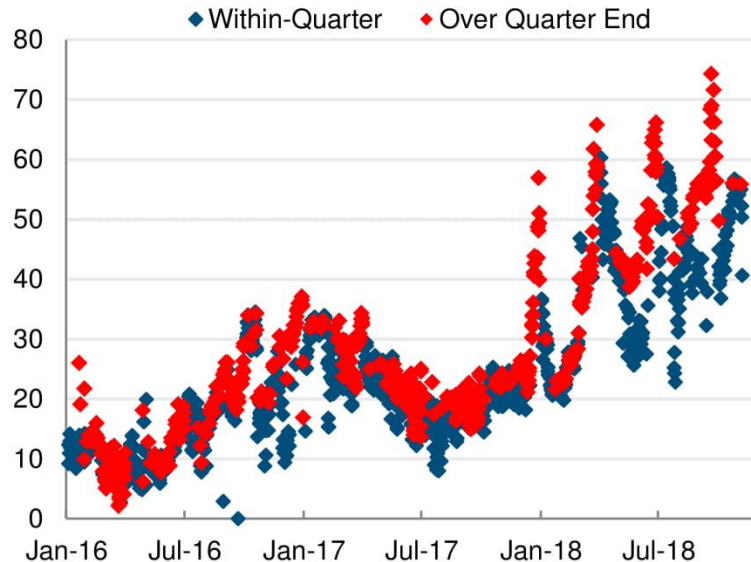
- No widening in September – but no real tightening either!
- Widening likely to stay, but the unclear seasonal pattern makes it harder to calibrate – or justify – quarter-end pricing adjustments.
- Cross-Currency Basis is elevated, but comparatively stable at elevated levels.



# BBSW in a local context

Other front-end funding pressures are evident

## Repo Spreads to OIS and FX Forward Spreads to OIS



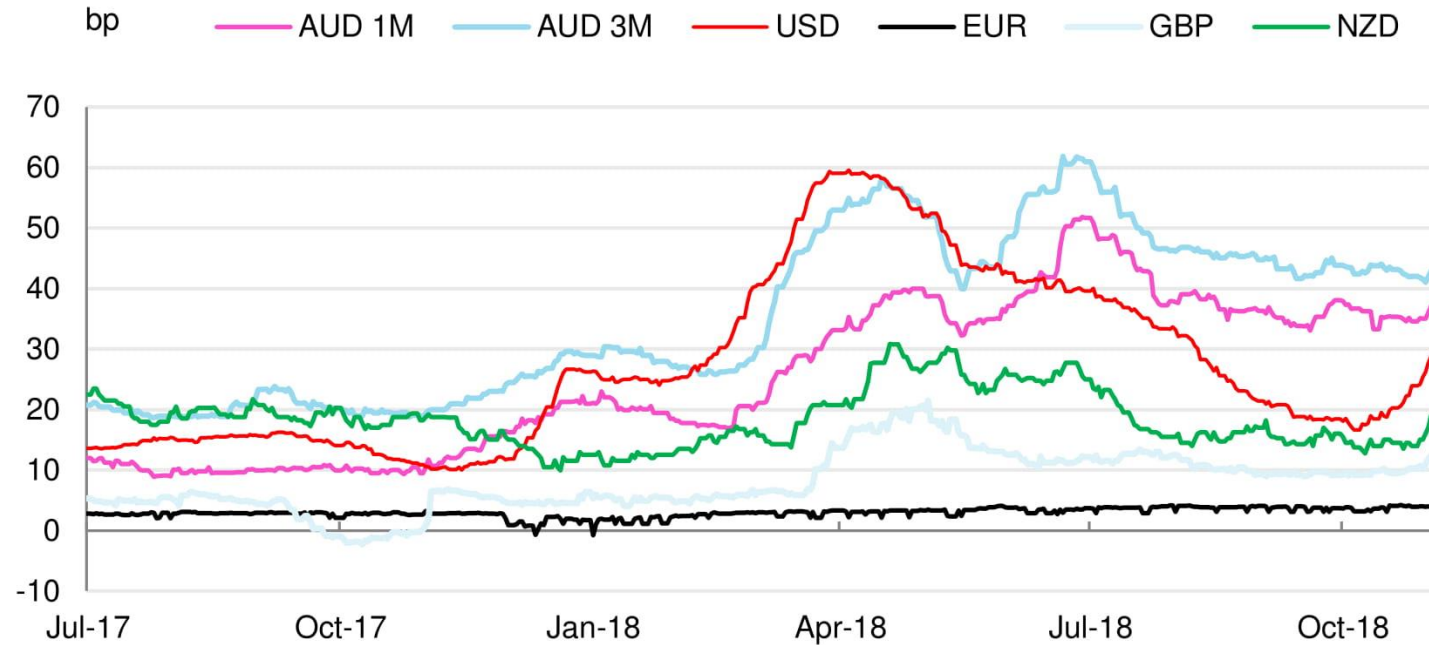
- There has been clear funding pressure evident in both RBA OMO Repo rates (left) and Foreign Exchange markets (right).
- The September reprieve didn't happen in repo or FX markets. There remain risks that the BBSW can spike at future quarter-ends.



# BBSW in a global context

Funding pressures are evident in other markets too

## LIBOR Pressure early in the year – and again in December



- The US market is clearly a driver for Australian spreads.
- Timing of widening of US spreads: FOMC ending QE; massive US Treasury Bill issuance; Repatriation of funds following US Tax changes.
- There's been a clear widening of US LIBOR of late not (yet) affecting BBSW though.



# Understanding BBSW

**Not one Market, but many loosely linked markets**

- **The experience in BBSW cannot be understood by only looking at BBSW markets.**
- **Funding markets are linked across instruments and geography, but the links are loose, not tight.**
- **BBSW reprieve in September tempered by the fact that the Repo and FX markets both showed funding pressure over quarter-end.**
- **Market Segmentation is preventing arbitrage.**
  - There are clear differences in the price of AUD funding in different markets.
  - The Arbitrage players are not able to force prices back into alignment across Repo, BBSW and FX.
  - RBA repo now frequently trades above BBSW, for example.

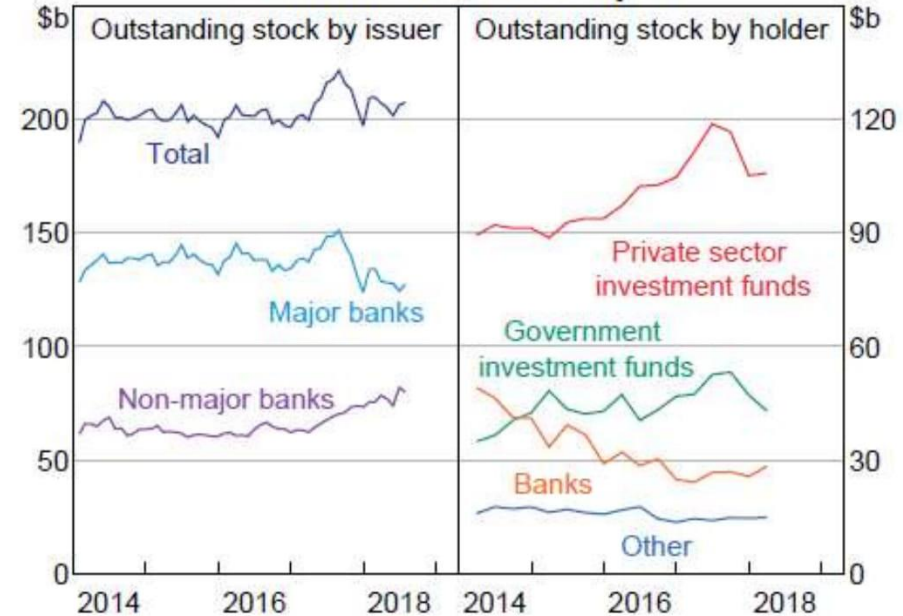


# Segmentation of Markets

Not all organisations have access to all markets

- **Total short-term debt is flat-lining.**
  - Stark contrast to bond issuance, and to total credit measures.
- **Highlights switch underway between Major banks and Non-major banks.**
  - Cross-Bank holdings are declining – banks don't own much paper any more.
  - Issuance measures don't capture secondary trading.
  - Private Sector investment funds were a growing part of the market.
- **BBSW only captures Major Bank funding costs.**

**Graph 3.5**  
**Short-term Bank Paper**

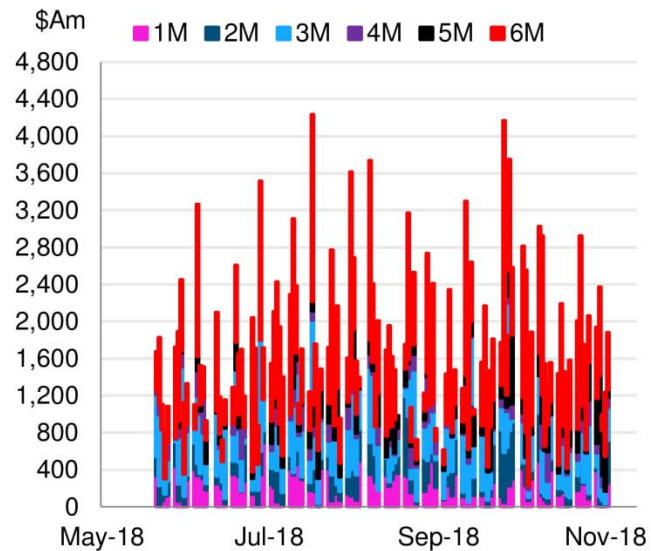


Sources: ABS; Austraclear; RBA

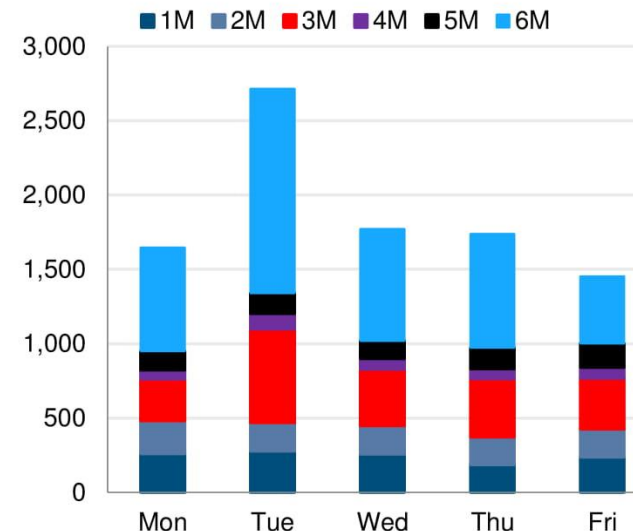
# Volumes in BBSW markets

The new system is better, but still uses fairly small volumes

**BBSW Volumes**



**By Day of Week**



	1M	2M	3M	4M	5M	6M
Threshold Size	200	100	200	100	100	200
Days Below Threshold	54	44	30	80	57	7
Days Above Threshold	63	73	87	37	60	110
Percentage	54%	62%	74%	32%	51%	94%
Average Daily Transaction (\$M)	243	195	408	75	138	810

- BBSW only sets by VWAP method some of the time. It has a process of fall-backs including interpolation.
- 6M very often using VWAP, 3M mostly doing so. 1M is less clearly liquid.



# Conclusion

## Pressure likely to remain in global funding markets

- **Funding markets remain under pressure, with year-end factors a major global issue.**
  - LIBOR likely to widen into December 31.
  - That is likely to put pressure on BBSW as well
  - Next year remains a question. Might June 30 prove a problem?
- **Consider “Funding” rather than BBSW only. Funding markets are linked.**
  - BBSW only part of the market. Repo and FX show signs of pressure too.
  - BBSW reprieve in September not repeated in other markets.
  - Expect BBSW to remain elevated for quarters to come. Risk of spikes on some quarter-ends.
- **LIBOR may cease to exist over coming years.**
  - Quite likely to at least become a secondary indicator.
  - BBSW has better prognosis, but could come under pressure.
  - Australia may well use multiple benchmarks.



Thank you for  
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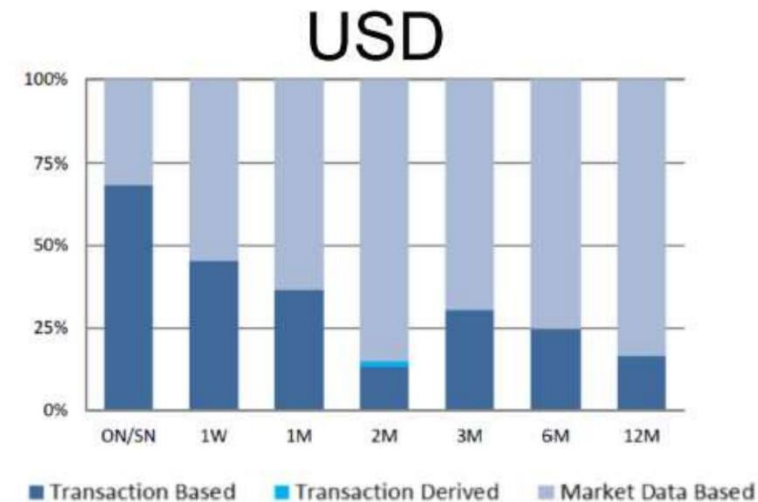
# The Regulatory Background

The LIBOR scandal caused a reassessment

## RIP LIBOR?

FCA CEO Andrew Bailey (27 July 2017)

- 'It is not only potentially unsustainable, but also undesirable, for market participants to rely indefinitely on reference rates that do not have active underlying markets to support them.'
- 'I and my colleagues have therefore spoken to all the current panel banks about agreeing voluntarily to sustain LIBOR for a four to five year period, i.e. until end-2021. Our intention is that, at the end of this period, it would no longer be necessary for the FCA to persuade, or compel, banks to submit to LIBOR ... the benchmark would no longer be sustained through the mechanism of the FCA persuading or obliging panel banks to stay.'
- 'The survival of LIBOR on the current basis, as a dynamic benchmark based on daily submissions and updates, could not and would not be guaranteed.'

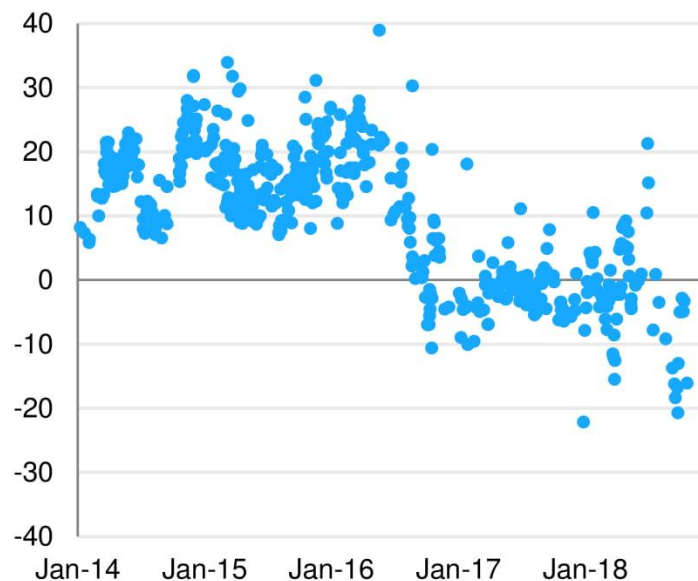




# Repo vs BBSW

Secured lending is often more expensive than unsecured lending

**BBSW compared to RBA Repo (60 day)**



- Theory says BBSW should be higher than Repo...
- Since the funding pressure became clear the inversion has continued and exacerbated.
  - 10bp frequently, and 20bp occasionally.
- Different participants access different markets.
  - Major bank BBSW vs offshore bank repo
- Segmentation of markets is a growing concern.



# Forecasts

AUD Swap Rates	08-Nov	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Cash	1.50	1.50	1.50	1.50	1.50	1.75	1.75	2.00	2.00	2.25
1M BBSW	1.87	1.80	1.80	1.80	1.85	2.10	2.00	2.30	2.30	2.50
3M BBSW	1.94	1.90	1.80	1.80	1.93	2.05	2.18	2.30	2.43	2.55
6M BBSW	2.11	2.10	2.25	2.40	2.60	2.75	2.85	2.95	2.90	2.90
2-year	2.09	2.15	2.25	2.25	2.30	2.45	2.55	2.55	2.65	2.70
3-year	2.22	2.20	2.30	2.35	2.40	2.55	2.65	2.70	2.75	2.80
5-year	2.58	2.55	2.65	2.70	2.85	2.90	3.05	3.10	3.10	3.10
10-year	2.94	2.85	2.85	2.85	3.00	3.05	3.15	3.15	3.10	3.10

NZD Swap Rates	08-Nov	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
2-year	2.16	2.40	2.50	2.55	2.75	2.95	3.15	3.25	3.35	3.45
3-year	2.30	2.55	2.70	2.90	3.10	3.25	3.35	3.45	3.50	3.60
5-year	2.58	2.80	2.90	3.00	3.05	3.20	3.30	3.40	3.45	3.50
10-year	3.06	3.35	3.45	3.40	3.45	3.50	3.50	3.60	3.60	3.65

USD Swap Rates	08-Nov	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
3M LIBOR	2.59	2.85	2.95	3.03	3.13	3.13	3.13	3.13	3.13	3.00
2-year	3.14	3.05	3.10	3.15	3.20	3.15	3.05	2.95	2.80	2.65
5-year	3.21	3.15	3.15	3.15	3.10	3.00	2.90	2.85	2.75	2.65
10-year	3.29	3.15	3.25	3.15	3.00	2.85	2.80	2.75	2.65	2.65

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**Commonwealth**Bank  
of Australia



**IMPERIUM MARKETS**

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# Transitioning the Money Market to platform trading:

The move to greater transparency  
& better benchmarks



## Overview

- Australian based fintech
- Founded in December 2016
- Team of experienced practitioners
- ASIC markets license – one of only 12 granted

## Objective

Transition **entire** fixed income market to electronic platform and deliver to wholesale issuers and investors:

- transparency
- efficiency
- compliance

*"On 5th September 2017, the transformation began when Imperium Markets was granted the only 'Australian Markets License' for Term Deposit by ASIC\*."*

*Stu Burns – Founder & CEO*

### Imperium at a glance

ADI's responding on platform	34
Investors on platform	57
Funds Under Management	>\$12.0B
RFQ's actioned	\$3.02B
Average ticket size	\$3,106,814.00

*\*As at 30/09/2018*

## The evolution of the money market

### *The current constraints:*

- Highly manual & inefficient
- Largely traded by phone and e-mail
- Issuers can only access a limited number of investors
- Opaque and predominantly based on bilateral or brokered transactions

The short-end is trapped in the past and *in the dark*.

### *The opportunity:*

Despite the large amount of **trade data**, this isn't made available to market participants.

By moving to platform trading, data is centrally stored. We improve visibility and contribute to more meaningful **tenor and credit-related benchmarks**.

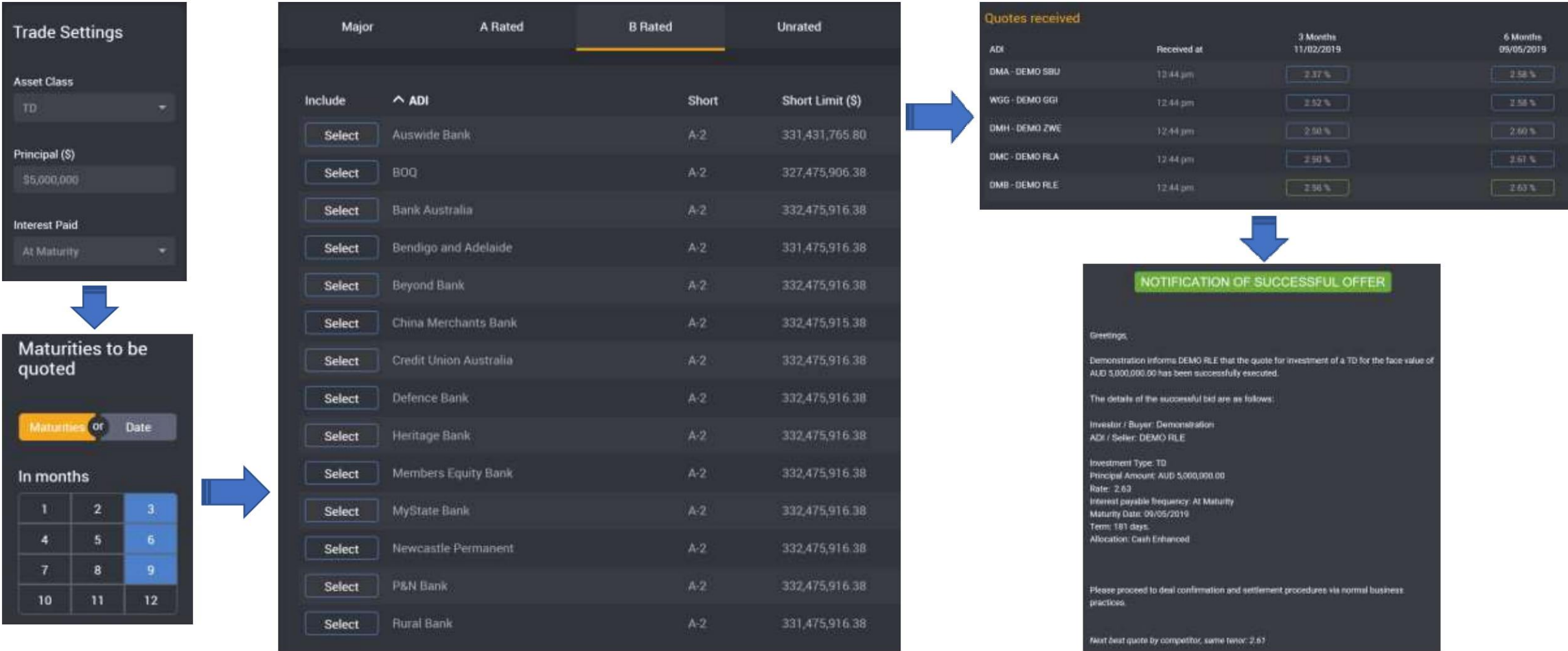


Image of present day money market dealer





# How does the market transition? (in platform presentation)



## ASIC requirement (RG-172, May 2018):

“the obligation to do all things necessary to ensure the market is fair, orderly and transparent”

Trading on platform:

- Brings greater **transparency** & enriches data available for all market participants
- Contributes meaningfully to **benchmarks** beyond Risk Free Rates (RFRs), the cash rate and BBSW
- Promotes **liquidity** in secondary markets for NCDs and CP, which rarely trade
- Improves **regulatory** oversight & eliminates brokerage





**IMPERIUM MARKETS**

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**Thank You**