



Australian Government

Australian Office of Financial Management

**AOFM**

# **2022 Asian Regional Forum on Investment Management of Foreign Exchange Reserves**

## **A view from the issuance side**

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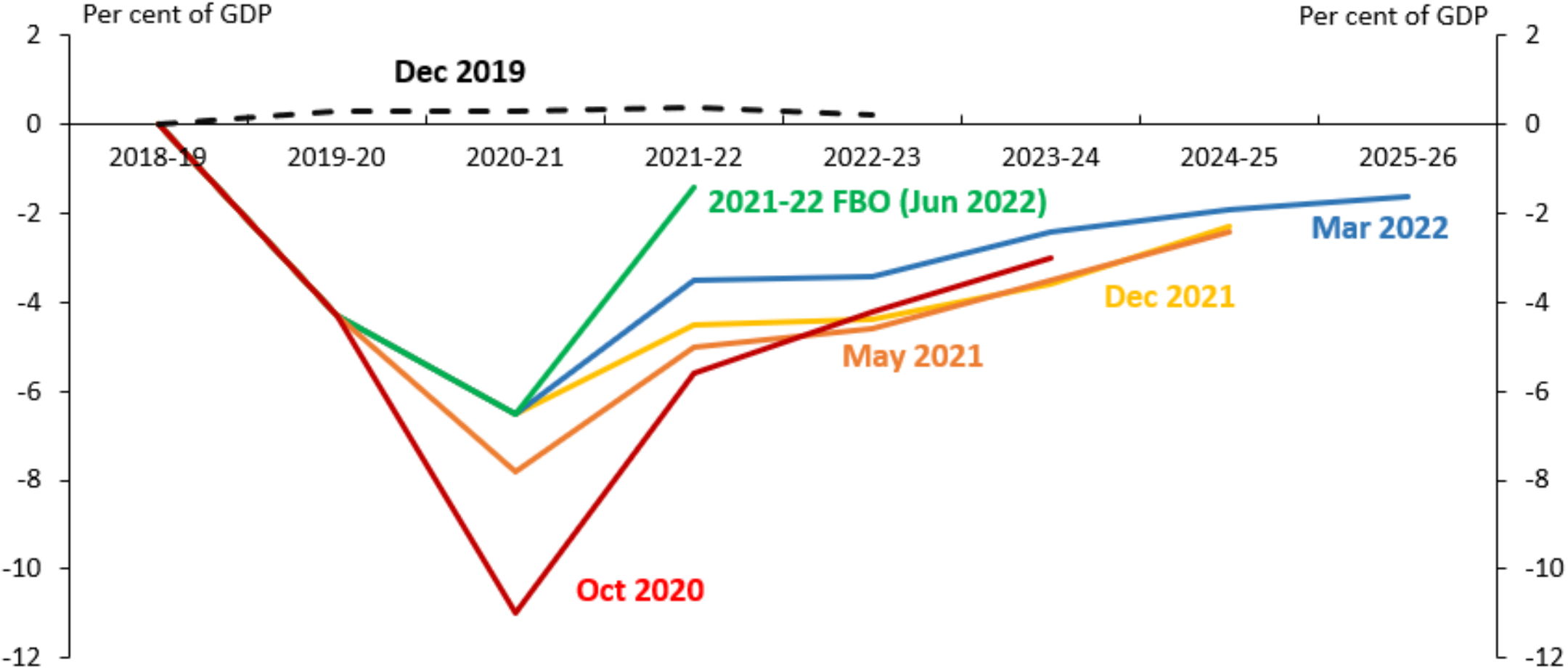
October 2022

# A view from the Issuance Side. Australia's Perspective.

- # Australia's debt management experience over the last 3 years
- # The impact of the RBA's QE program on the AGS market
- # How does the AOFM make its bonds attractive for investors?
- # How are ESG factors affecting Australia as a sovereign issuer?

# Australia's debt management experience in the last 3 years

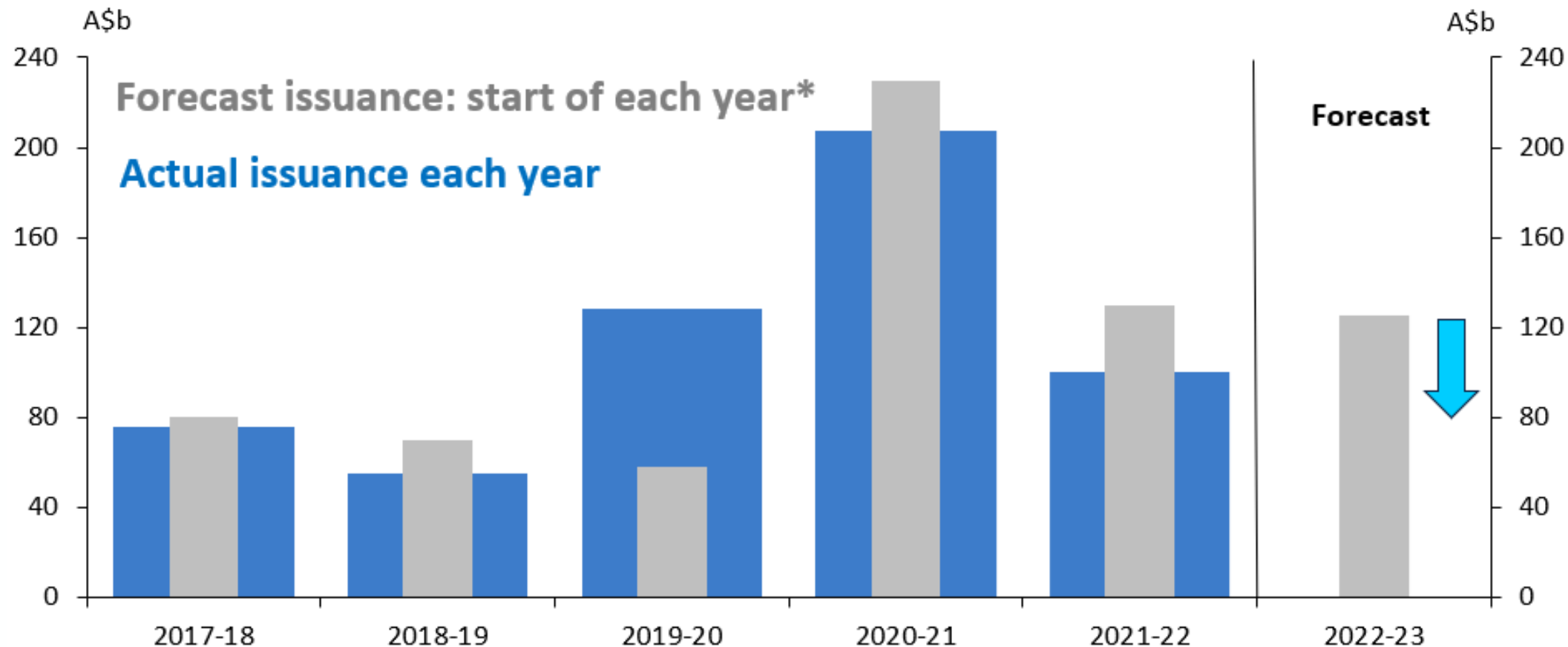
## Australia's changing fiscal position.



Source: The Department of Treasury. Fiscal position is the underlying cash balance as a per cent of GDP.

# Australia's debt management experience in the last 3 years

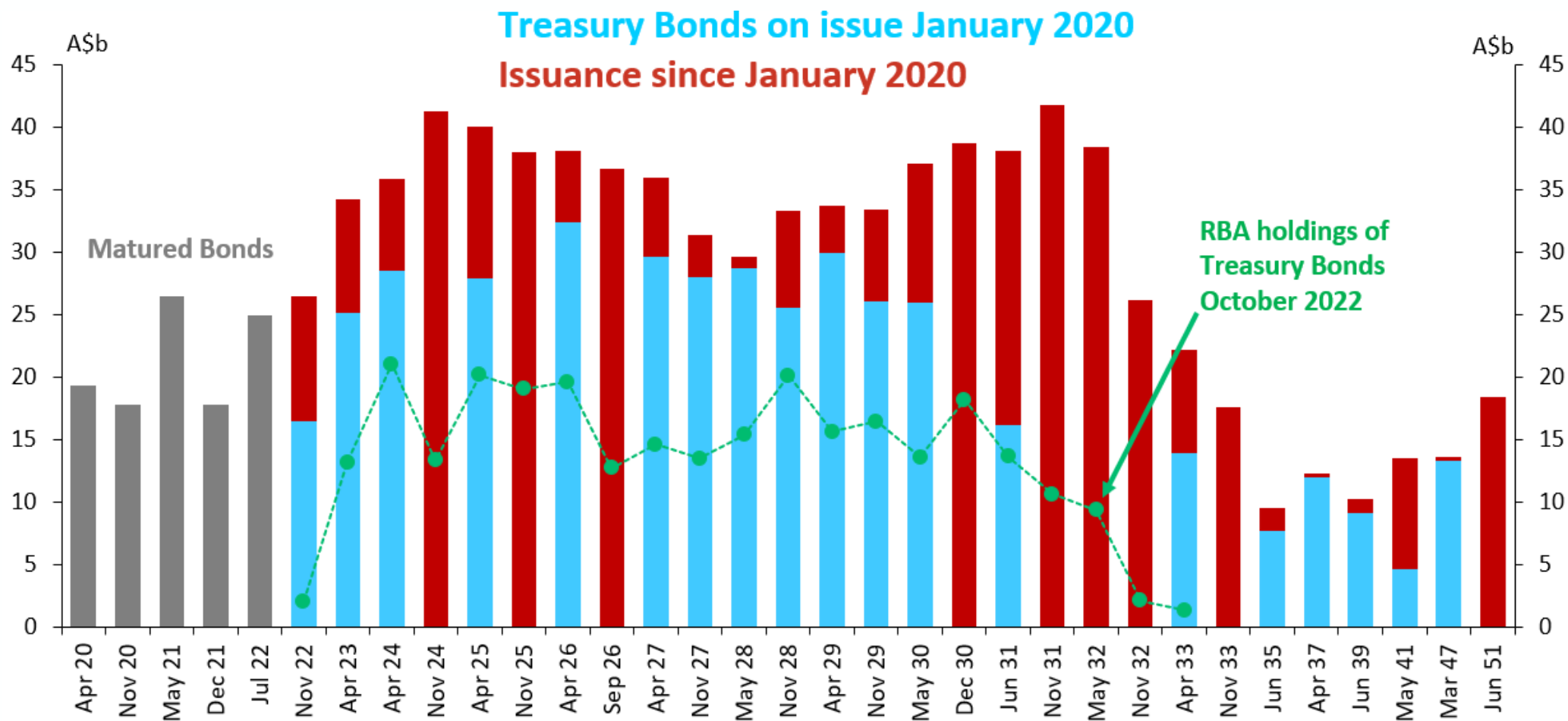
## Managing the AOFM's annual issuance program (Past 5 years)



Source: AOFM. \*initial forecasts are as at July of each year, except for 2020-21 which was January 2021.

# Australia's debt management experience in the last 3 years

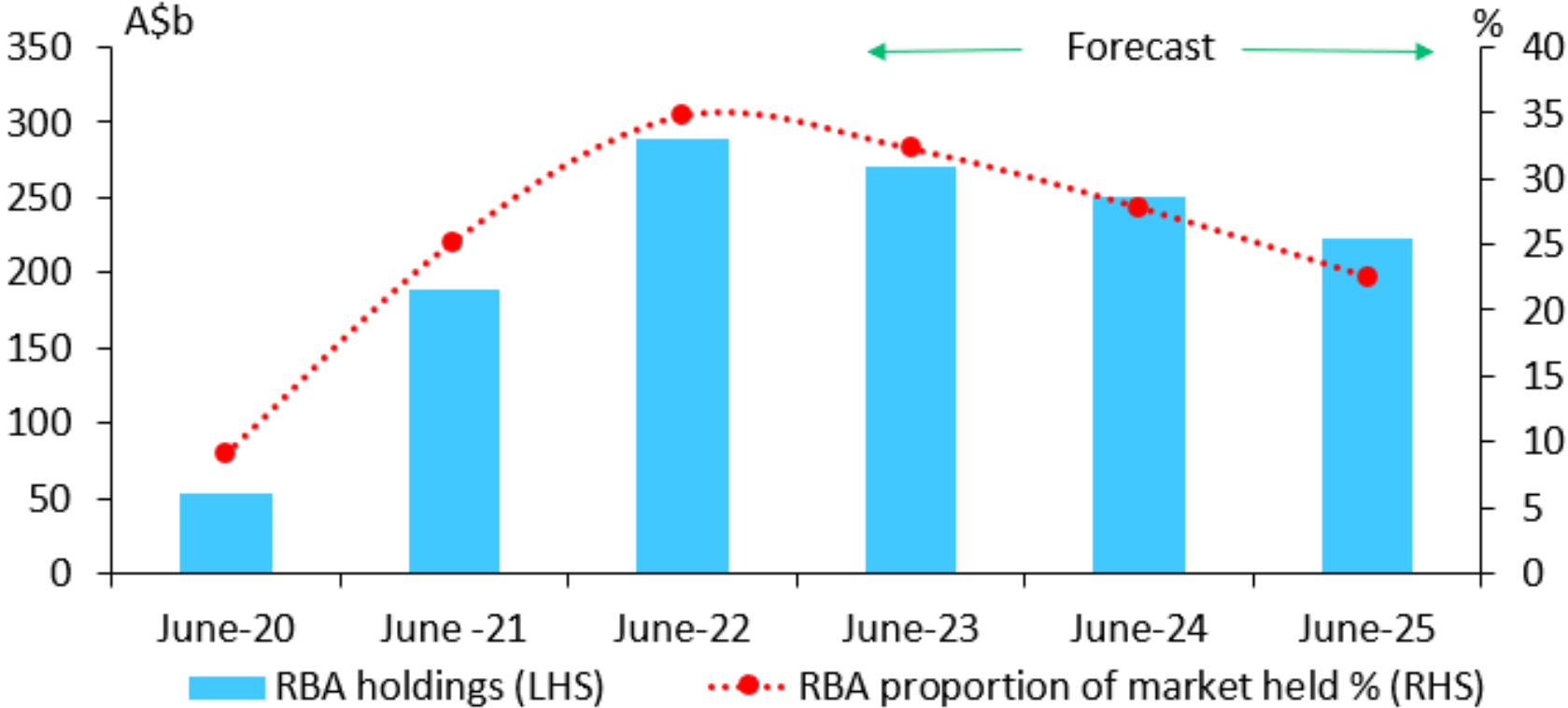
## Treasury Bond issuance from January 2020 to October 2022



Source: AOFM, RBA

# The impact of the RBA's QE program on the AGS market

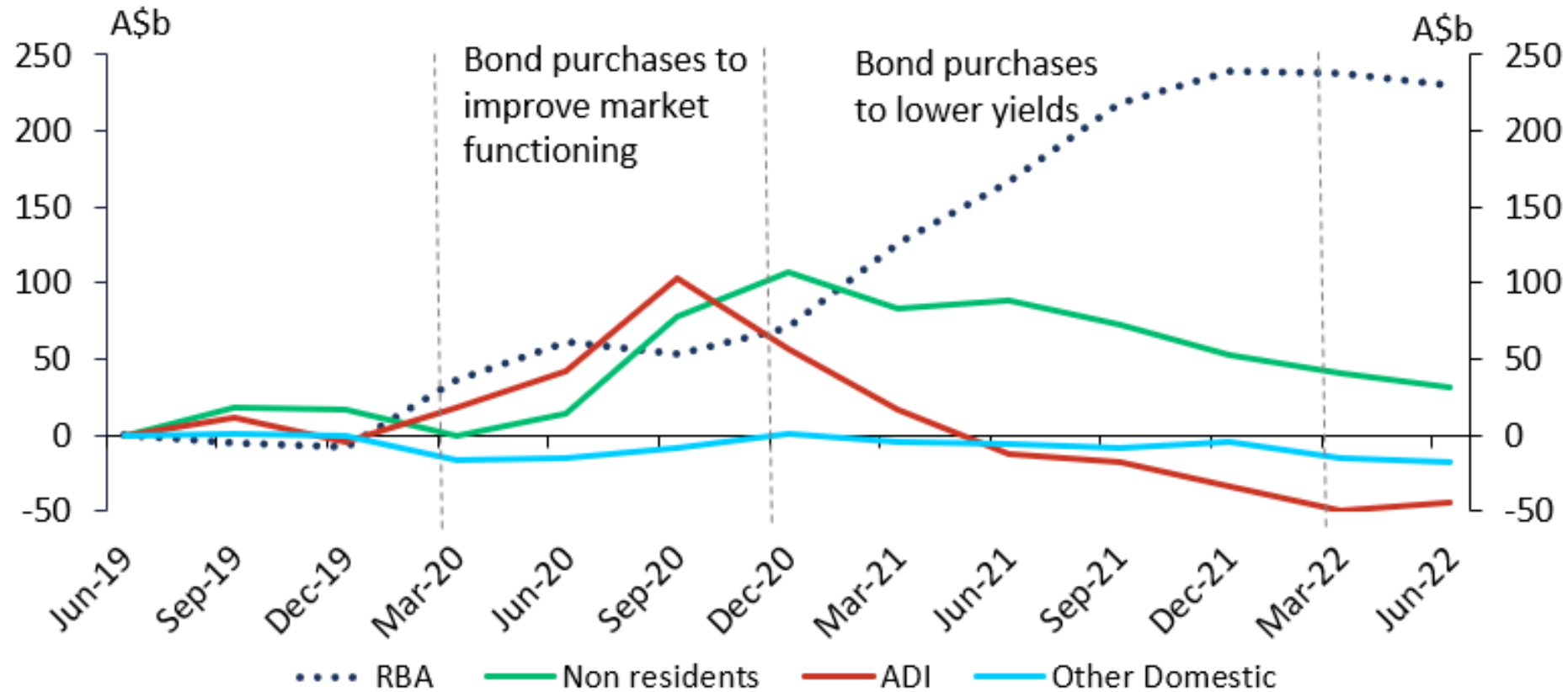
## Proportion of the Treasury Bond market held by RBA



Source: AOFM, RBA.

# The impact of the RBA's QE program on the AGS market

## Shift in investor holdings of Australian government Bonds (Change in AGB holdings since June 2019)



Source: Australian Bureau of Statistics (ABS).

# How does the AOFM make our bonds more attractive to investors?

Three important investor drivers: [Capital preservation, return and liquidity](#).

AOFM can only influence [liquidity](#)! Bond market liquidity is a key element of market Efficiency

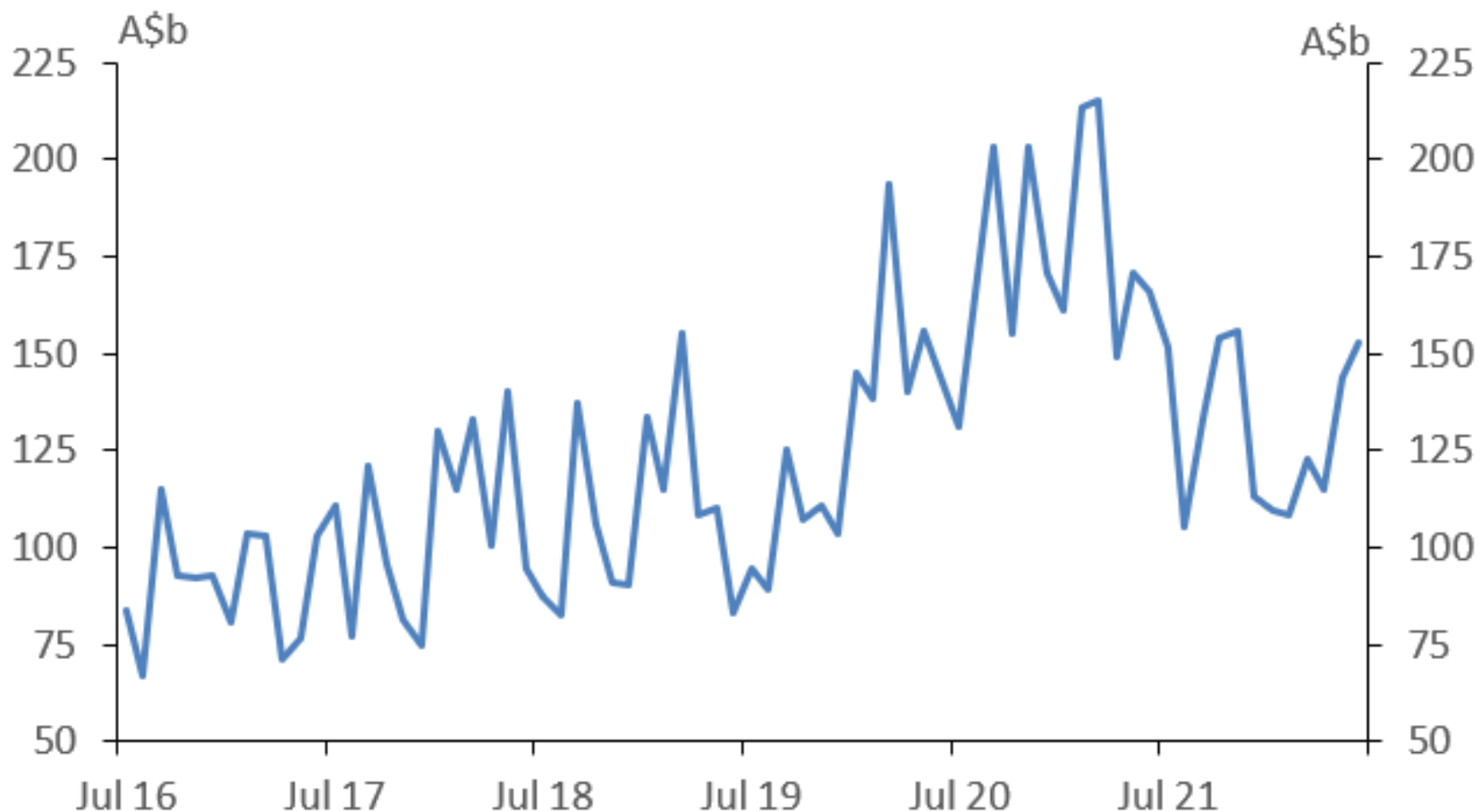
What do we do?

- Flexible issuance program via weekly auctions and weekly reviews of market feedback. (No fixed issuance calendar)
- Issuance often focused in the 3-year and 10-year futures basket bonds but support issuance across the entire yield curve.
- Focusing on maintaining a readily available stock of Treasury Bonds. (the free float)
- Focus on building up new bond lines to a liquid size.
- Regular and active engagement with market intermediaries and our investor base with a focus on investor diversity.



# How does the AOFM make our bonds more attractive to investors?

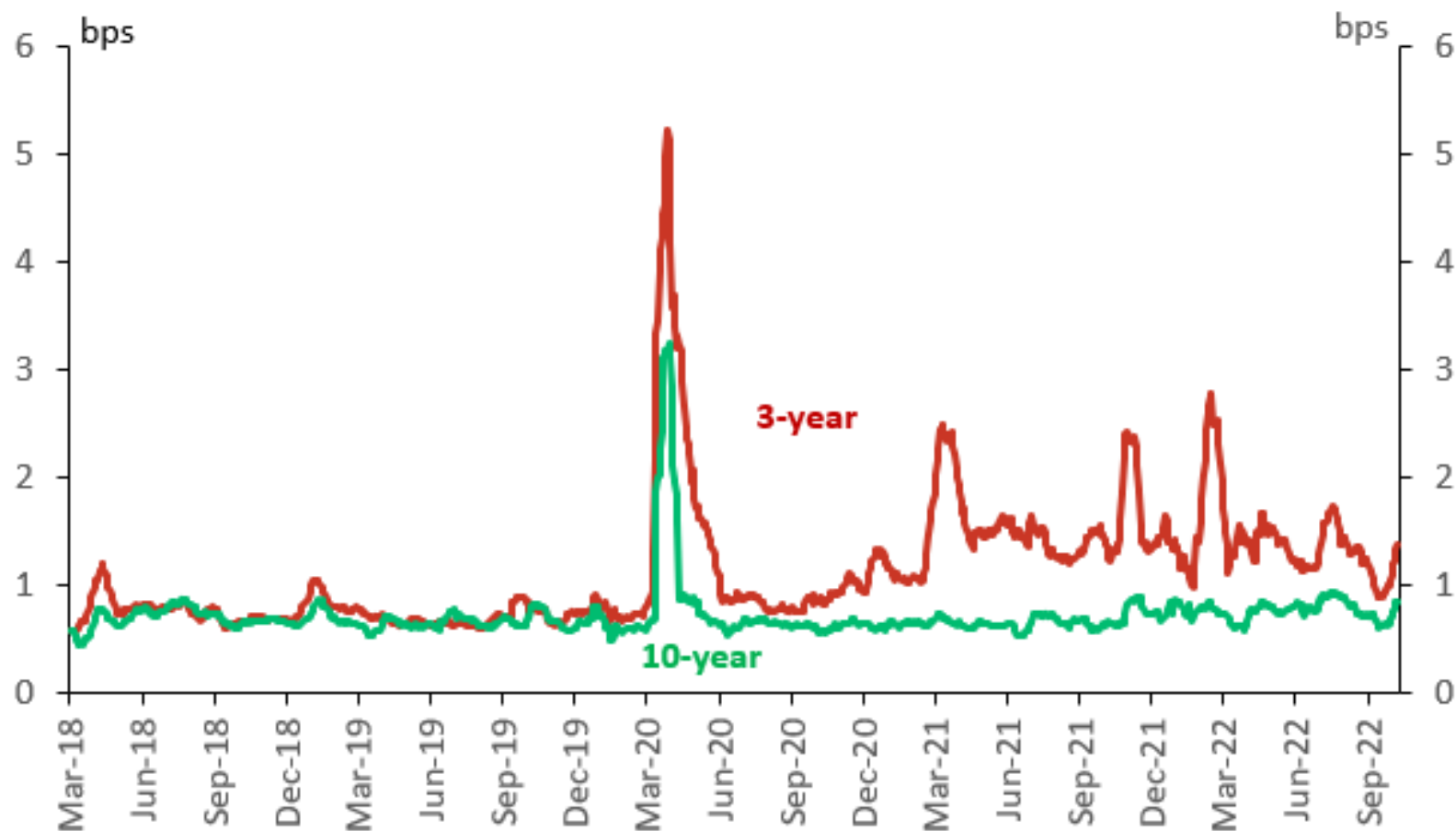
## Treasury Bond liquidity - monthly turnover



Source: AOFM.

# How does the AOFM make our bonds more attractive to investors?

## Treasury Bond liquidity - bid-offer spreads\*



Source: Yieldbroker, UBS, \* 15-day moving average

# How are ESG factors affecting Australia as a sovereign issuer?

Different sovereigns will be approached in different ways depending on

- Their differing strengths, weaknesses and focus on ESG.
- Specific focus on climate change and climate policies.
- Interest and support for sustainable finance.
- Whether they have a green bond framework and are issuing green or sustainable bonds.

# How are ESG factors affecting Australia as a sovereign issuer?

For Australia, the focus is very much on the 'E' of ESG.

- AOFM was first approached on ESG issues about seven years ago.
- Engagement on ESG have increased steadily in the last three years.
- Regularly approached by Investors now, either within a standard meeting or specific ESG engagement.

Investors generally approach us in one of two ways.

- Will Australia / AOFM issue a green or sustainable bond? Strong growing demand!
- What is Australia doing around its climate policies, emissions, renewable energy, resilience and adaptation.

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