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# TFF Maturities in 2023 to Drive Primary Market

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As Term Funding Facility (TFF) maturities drive banks to issue Floating Rate Notes (FRNs) into the primary market, this provides income seeking Australian investors an opportunity to position their portfolio's to have exposure to high quality domestic FRNs to complement traditional duration.



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Floating-rate senior-unsecured bank debt performed strongly in the fourth quarter of 2022. As opposed to the first several months of 2022 when yield and spread curves aggressively widened. This pivot occurred as global markets acknowledged that central bank stimulus would continue to be rapidly unwound as the world came out of pandemic lockdowns. The latter half of 2022 presented opportunities to lock in senior unsecured bank spreads at levels not seen for many years.

Fixed income indices globally endured a very tough fourth quarter of 2022, indeed the entire year was tough for bond investors. The aggressive repricing of fixed yield curves throughout 2022 was driven by strong inflationary repricing throughout the year combined with the rapid withdrawal by many central banks of loose monetary policy and bond buying programmes. Added to this scenario in Australia was the unwinding by the Reserve Bank of Australia (RBA) of the term funding facility (TFF) on 30th June 2021. Although this move occurred well over a year ago, the downstream effects are just starting to be seen as banks look to source funds from the market.

The TFF was an opportunity for Australian banks and branches of International banks operating in Australia to borrow up to three year money from the RBA at a de minimis cost of 0.10%. The RBA, led by Governor Lowe, launched this loan facility in 2020 in an attempt to avoid a Global Financial Crisis (GFC) style market wobble at the height of the COVID pandemic. While the facility was in place banks were, understandably, reluctant debt issuers in the money market – simply because they could borrow from the RBA at near zero for a maximum of three years. The last possible maturity date for the TFF is 30 June 2024. It does seem likely that there will be an uptick of primary issuance in Australia as TFF loans are repaid, and in part funded from the money market both domestically and globally.

The RBA wound-back the TFF as mentioned earlier in mid-2021. Senior unsecured Issuance from that point until mid-2022 was very light from most banks that run AUD debt programs as they had understandably borrowed 1-3yr money from the RBA. These loans from the RBA have started to unwind. Banks have started issuing again at very palatable spreads in both the one year, three year and five year space. This has allowed money market participants to not just be marked with their existing positions wider as spreads blew out, but to actually partake in the wider spreads in the primary market as major four banks, and others, printed senior unsecured floating rate notes in the 5 year space at spreads of over 1.00% in excess of 3month BBSW.

After a tough 2022, the outlook for investors seeking income, looks more attractive and there is an opportunity as TFF maturities drive banks to issue floating rate notes in the primary market, to position portfolio's to have exposure to high quality domestic floating rate notes to complement traditional duration.

## Important Disclosures

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