SPOTLIGHT ON *North America*

The US Debt Capital Markets provided options for issuers.

Geoff Johnson and Maeve McLaughlin

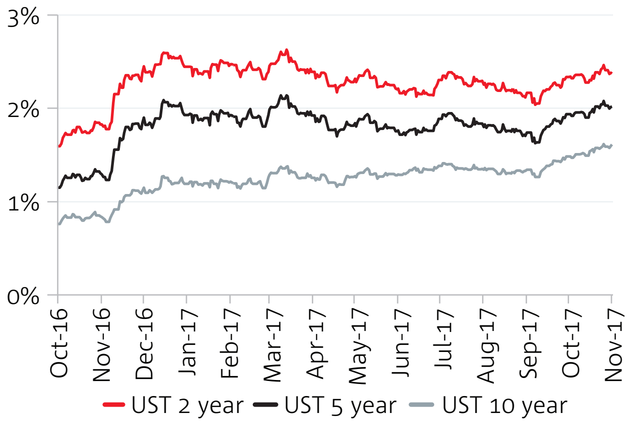
The North American Markets were on fire in 2017, with our two key DCM focus markets, the US Public market and the US Private Placement market, exhibiting vigorous levels of activity. Supply was consistent and demand was exceptionally strong for bond product in these markets, with NAB leading the way on a number of key transactions and importantly in overall market position. NAB was proud to retain its mantle as KangaNews Australian Issuer Offshore Debt House of the Year 2017 for the second year, the only domestic-domiciled bank ever to win this award, which until recently was dominated by international investment banks.

Add to this rapidly improving economic data and a soaring stock market and we had a recipe for a brilliant outcome. Unemployment ended our fiscal year at 4.2%, a level that was last seen in 2001. Similarly, the University of Michigan consumer confidence index ended the fiscal year at 95.1, which puts it in the top quartile of the previous decade.

US Treasury yields and corporate credit spreads

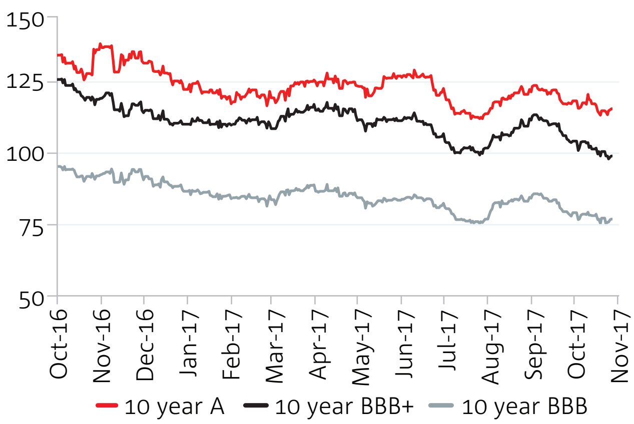
Over the last 12 months, US Treasury yields continued to widen based on optimism in the US economy. No longer was there a flight to quality, as in years past. Instead, we saw a broad acceptance of more risk as investors sold government bonds in favor of corporate bonds. The 10yr US Treasury yield started our fiscal year at 1.62% and ended at 2.34%. This in turn had a whipsaw effect on corporate credit spreads, which tightened from +127 to +106bps over the same period of time. Year to date average new issue pricing concessions is 1.1bps. Last year over the same period of time, the concession was 4.3bps. The average order-book was 3.1 times oversubscribed (vs 3.4 times). The small drop in order-book size is a result of the low absolute level of credit spreads, in conjunction with the thin new issue pricing concession, both of which resulted in levels that are out of reach for some relative value investors.

US Treasury yield



Source: Bloomberg

US industrial credit spreads



Source: Bloomberg

US investment grade market

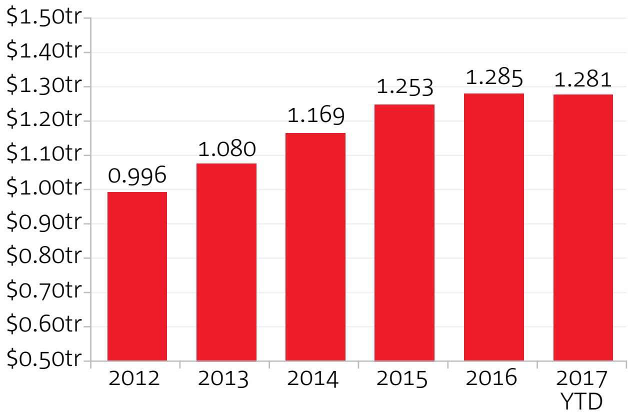
The US investment grade market is on pace to have the best ever issuance year. As of 24 November, year to date volume sits at US$1.28 trillion, up 4% from the same period last year. The final 2017 volume only needs to exceed US$1.29 trillion for it to break the record, and set a new issuance record for a seventh consecutive year.

The mix of issuance this year is relatively similar to previous years with circa 45% financial supply and circa 55% corporate supply.

This continued market strength can be attributed to a number of different factors. Chief among these are the increasing capital needs of companies in the growing economies around the world, the absence of a significant market event such as Brexit derailing the primary flow, and a general view that a businessperson at the helm of the US government will drive a better outcome for issuers. Notably, the potentially destabilizing events which have occurred up during the year, such as the North Korean tensions, have been entirely brushed off by the market and had no impact on overall volumes or spreads.

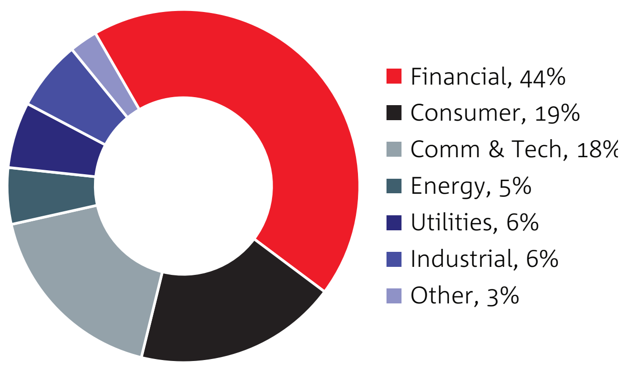
The message from the NAB team to issuers this year has been to access the public market while spreads and yields are low, and investors are pouring their cash into new primary trades.

Investment grade volume



Source: Bloomberg

2017 YTD sector breakdown



Source: Bloomberg

US Private Placements

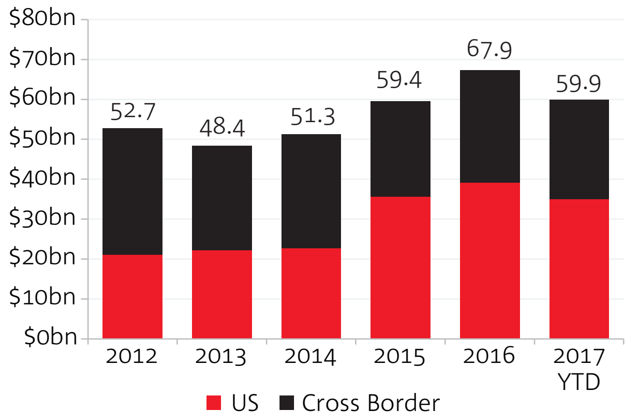
The US Private Placement market is on pace to deliver the best volume year on record. Transaction flow is coming from the usual three regions, Australia, the United Kingdom and the United States with Australia and the United Kingdom in second and third place at 13.2% and 11.9%, respectively.

The investor mix is changing, with more "public style" investors entering the mix to capture additional volume and squelch the thirst for product the US public bond market can't quench. Foreign currency, long delays and mega-bids were quite common in the US Private Placement market this year.

New sectors and regions were less prevalent in 2017, but the market did double down on favorites such as Education, Property, Utilities and Infrastructure. More importantly, the market saw a new record offering for Ausgrid (NAB JLM), which handily took the title of largest cross border US Private Placement transaction of all time with its US$1.9 billion (equivalent) multi-tranche offering.

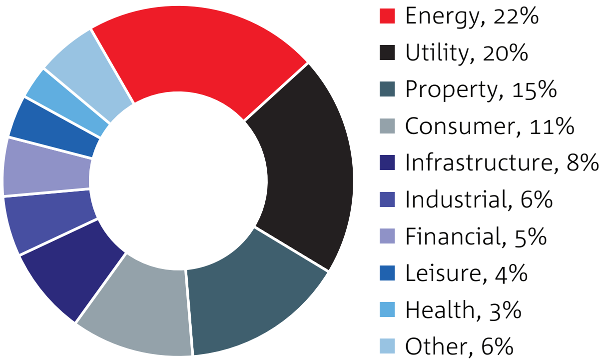
Also this year, we saw a larger than normal number of tenders. NAB completed the largest, a US$335 million tender and new issue for Star Entertainment. As we close out the year we note the mix has been far more heavily weighted towards Utility and Energy when compared to years past, which means the other big sectors Property and Infrastructure are poised for a strong start to 2018.

US Private Placement volume



Source: Private Placement Monitor, November 2017

2017 YTD sector breakdown



Source: Private Placement Monitor, November 2017

Overall we are pleased with volume driven through the market and volume led by NAB. Given the economic stimulus that is on the horizon: enhanced infrastructure spend, corporate tax overhaul and a new, right leaning Chairman of the Federal Reserve Board, it's entirely possible that market performance in 2018 will look at least as good as the year that has just passed.