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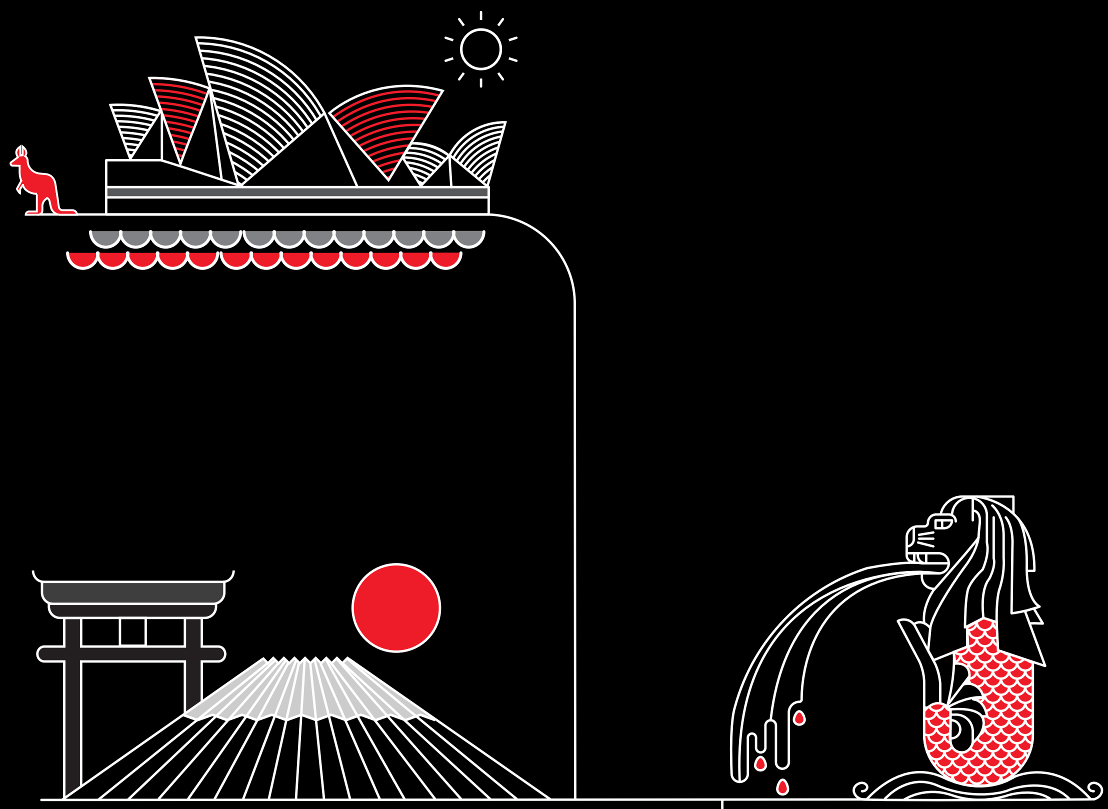
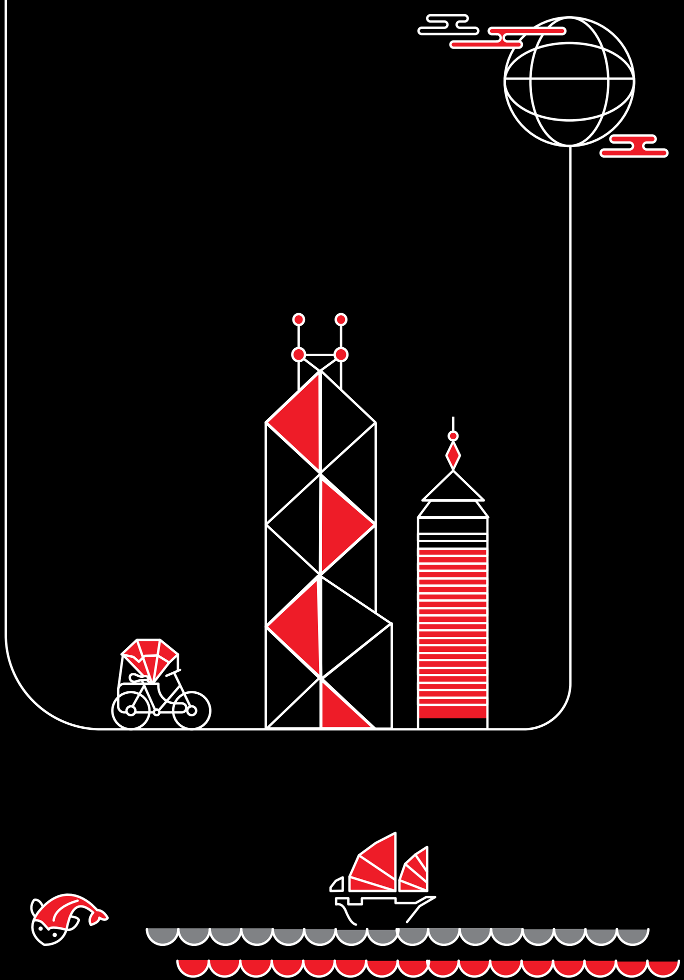


ASIA PACIFIC DEBT CAPITAL MARKETS

Maintaining
the balance,
and building a
brighter future



MAINTAINING THE BALANCE, AND BUILDING A BRIGHTER FUTURE

The world's capital markets are witnessing an ideal confluence of demand and supply in the Asia Pacific (APAC) region. Home to some of the world's fastest-growing economies, APAC is experiencing a boom in investor wealth[1] that has created deep pools of liquid capital helping to fund major infrastructure projects across Asia, Australia, New Zealand, and farther afield.

This was the key message from NAB's sixth annual Asia Pacific Debt Capital Markets Conference, which brought investors and issuers from a range of geographies together in Singapore, Hong Kong and Tokyo.

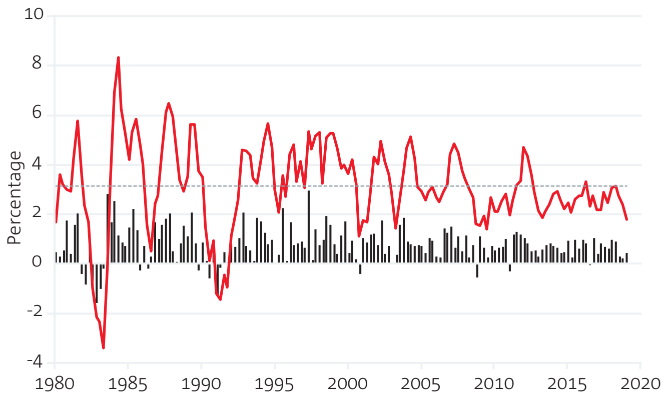
The gatherings provided an in-depth look at the key macroeconomic, geopolitical and regulatory issues shaping international debt markets, while shining a spotlight on the economies of Australia and New Zealand, and the opportunities they offer Asia's investors.

[1] https://www.bloomberg.com/news/articles/2018-06-15/asia-is-home-to-world-s-fastest-growing-wealth and http://www.theasianbanker.com/updates-and-articles/understanding-asia%E2%80%99s-high-net-worth-market

The macro picture

Australia, which has recorded nearly three decades of growth since its last recession, is viewed as one of the world's most successful economies, and has been held up as a role model for developed markets.[2] This enviable record is in part due to strong, continued growth in population, much of it driven by immigration.

26 years of economic growth since the last recession



Year-ended growth · Quarterly growth
Long-run average growth percentage from 1980 to present

Source: National Australia Bank, ABS

In recent quarters, the pace of economic growth has slowed due to a drop in housing construction and retail spending. But mining, government expenditure and investments in infrastructure projects have combined to keep unemployment low and counter the effects of the slowdown, according to Ivan Colhoun, NAB's Global Head of Research.

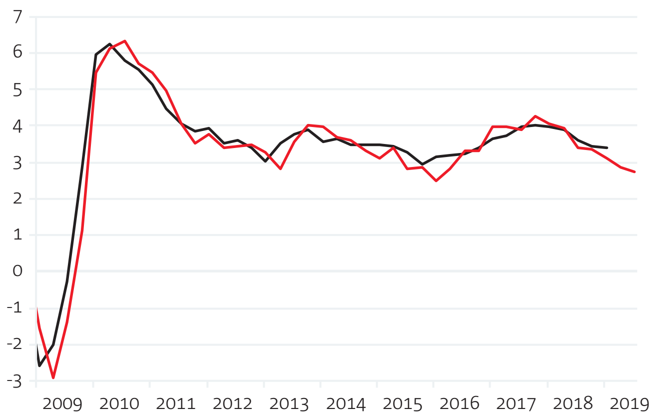
New Zealand's economy is performing slightly more strongly than Australia's, especially in sectors such as housing, Mr. Colhoun noted. "If you line up the two economies, you would say that the New Zealand economy has been performing better than the Australian economy...my bottom line for both economies is that, while they are not booming, they're still both doing quite well."

Global outlook: slower growth, but not recession/GFC

	2017	2018	2019	2020	2021
US	2.2	2.9	2.5	1.9	1.8
Euro-zone	2.5	1.8	1.2	1.5	1.4
Japan	1.9	0.8	0.3	0.6	0.9
UK	1.8	1.4	1.4	1.5	1.6
Canada	3	1.8	1.5	1.8	1.8
China	6.9	6.6	6.3	6	5.8
India	6.7	7.3	7.1	7.2	7.1
Latin America	1.3	1.1	1.5	2.3	2.5
Other East Asia	4.4	4.1	3.8	3.7	3.6
Australia	2.4	2.8	2.1	2.3	2.3
NZ	3.1	2.8	2.4	2.6	2.5
Global	3.8	3.6	3.4	3.5	3.5

Source: National Australia Bank, Macrobond

NAB global leading indicator and world GDP growth



NAB leading indicator · World GDP growth

Source: National Australia Bank, Macrobond

[2] https://www.economist.com/leaders/2018/10/27/what-the-world-can-learn-from-australia

Bond markets beckon

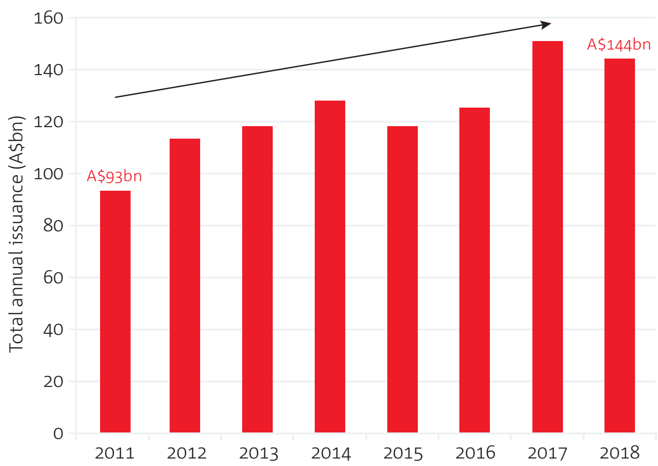
Drawn to these strong fundamentals, a growing number of investors across Asia - especially in Singapore, Hong Kong and Japan - are looking to the bond markets in Australia and New Zealand, with infrastructure a key area of focus. Indeed, according to a recent survey, nearly 74 percent of Asian investors are expected to increase their fixed income exposure in the infrastructure sector.[3]

"We see a lot of Asian investments in infrastructure. At the same time the loan market is characterised by increased demand across the region," said Jacqueline Fox, General Manager of Capital Markets and Advisory at NAB.

Yet another factor driving up Australian issuances is the growth of superannuation funds, whose assets now total about AUD2.7 trillion (USD1.9 trillion).[4]

"Those funds need a home," pointed out Josh Sife, Director of Capital Markets at NAB, noting that demand from superannuation funds coupled with the growing appetite of Asian investors had led to a near doubling of total deal sizes for senior unsecured debt at major banks in Australia since 2013.

AUD market: total annual issuance in AUD market



Note: The size of the A$ bond market has increased more than 50% since 2011 driven mainly by Government and Financial Sectors.

Source: Bloomberg

"In the next five to six years, we'll see plenty of growth in the Australian market," Mr. Sife added.

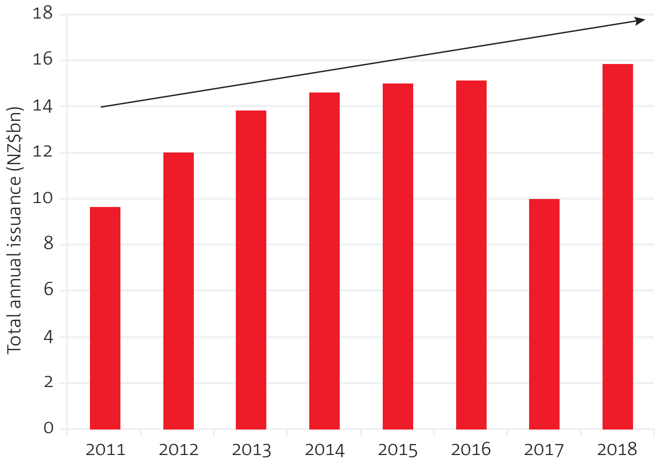
The increased liquidity is attracting a diversified pool of issuers to the market. So far in 2019, approximately 40% of corporate transactions in the A$ debt markets were from foreign issuers. "NAB's European clients view the A$ debt market as an efficient and attractive method to take advantage of increased liquidity from Asian investors as well as Australian institutional investors. A clear example is last autumn's inaugural A$ transaction from Heathrow Airport," indicated Rosalie Valladares, Director of Capital Markets, Europe at NAB.

Australian bond markets are also seeing greater variety in terms of formats, according to Mr. Sife, who highlighted the growing demand for operating company (opco) bank issuances as particularly notable. "There's a lot more to choose from and that's bringing new investors in Australia, in Asia, globally, into the market," he said.

New Zealand too is attracting investors from across Asia thanks to a combination of factors, according to Neil Bradley, Treasurer, Bank of New Zealand. The appeal of its robust economy has been enhanced by regulatory efforts to shock-proof the country from future financial crises by enhancing capital requirements for its banks. This in turn is expected to result in an increase in Tier 1 and Tier 2 issuances going forward.

[3] http://cdn.haymarketmedia.asia/finance-asia/content/ABS_survey4_online.pdf
[4] https://www.superannuation.asn.au/resources/superannuation-statistics

NZ market: total annual issuance in NZ market



Source: BNZ

Asian investors keen on exposure to higher-yielding, longer-dated paper are also helping grow the market for institutional term loans, noted Lorna Greene, Director/Head Debt Syndicate and Origination Asia, at NAB.

Underlining the widening scope of Asian investments, Geoff Schmidt, General Manager of Corporate Finance at NAB, pointed out the growing participation of investors from the region, including Australia and New Zealand, in the US private placement market. At the same time, from an issuer's perspective, Matt Brassington, CEO of Melbourne-based Aquasure, observed that Asian markets such as Japan have developed to the point where they now offer a useful alternative to the US private placement market.

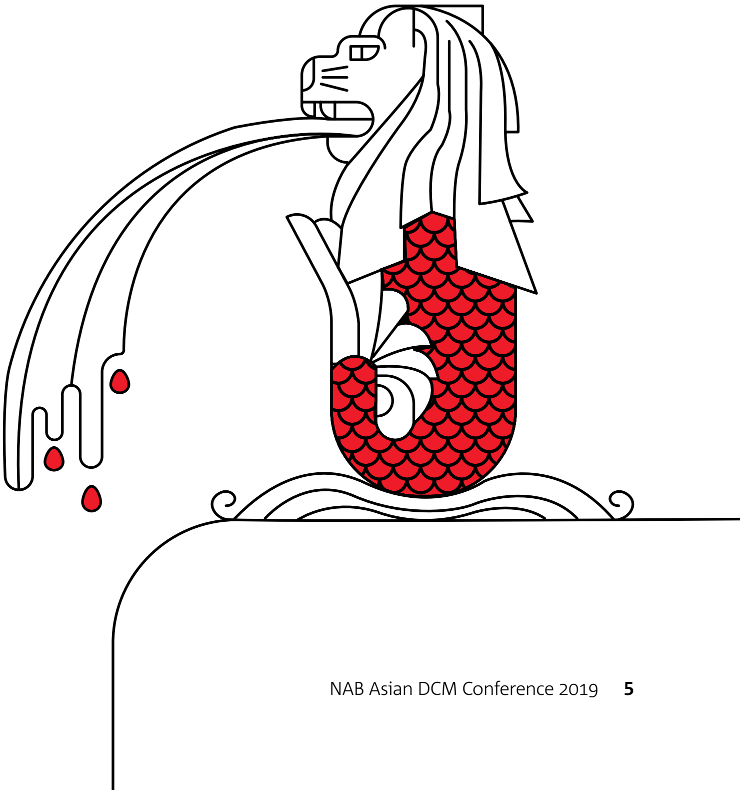
Indeed the region's growing investor base has tilted the balance of power to a point where Asian investors have a bigger say than their Western counterparts in pricing issuances, as borrowers find they can cover a large part of their books in Asia before heading to traditional markets in the US and Europe, panellists agreed.

Near-term challenges

While Asian investors continue to explore promising debt market opportunities, a positive development for issuers in Australia, New Zealand and elsewhere, certain external factors have the potential to disrupt the supply/demand balance in the short term.

The US-China trade war is key among them, especially given the uncertainty surrounding its outcome. For Australia, the trade war's effect is expected to be indirect, via the impact on global growth. Australia's trade with China has so far not been significantly affected with goods exports near record levels.

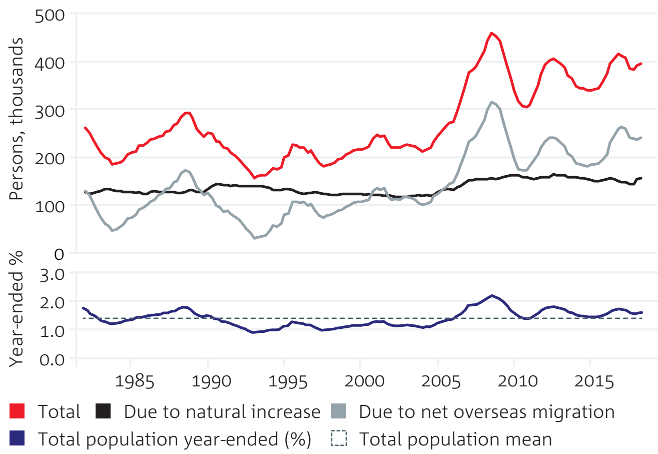
"We are not seeing a direct impact of the US-China trade war on the Port of Melbourne at present. The reason for this is because port volumes are heavily based on local Victorian demand/supply dynamics. If the trade war escalates and impacts global GDP growth, the risk is that this has a flow-on effect to the Australian and Victorian economies more generally, which could impact port volumes. We are monitoring the situation, but we are not overly concerned at this point in time," said Andrew Vandeligt, Treasurer, Port of Melbourne.



Additionally, Australia's population growth has effectively seen the country add a city the size of Canberra every year over the past 10 years. This is seeing very strong growth in infrastructure spending and provides opportunities for private investments in the sector, noted Mr. Colhoun.

On the issue of Brexit, Sally Ding, Director of Treasury and Corporate Finance at Heathrow Airport, said that while Britain's exit from the European Union would contribute to short-term volatility it should not unduly worry investors in the infrastructure sector, who typically take a long view.

Population growth a key driver 1.5%+ per annum for the past 10 years

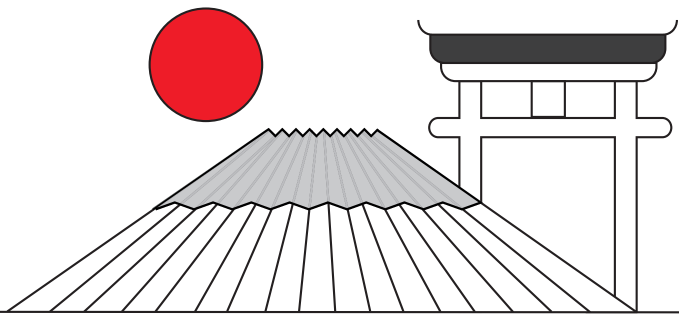


Source: National Australia Bank, ABS

Yet another issue to consider is the Australian Prudential Regulatory Authority (APRA)'s approach to implementing the Australian loss-absorbing capacity (ALAC) regime, which remains in flux. However, the regulator's conservatism and consultative strategy is seen as a positive.

"Australia's performance during the global financial crisis was exceptionally good, thanks to APRA's approach, which has also proven beneficial to investors across asset classes, including in A$ bonds," pointed out Nick Chaplin, Head of Hybrids and Structured Capital Origination at NAB, adding that more clarity can be expected on the capital-raising issue, with regard to ALAC in the next few months.

According to APRA's proposal, Australia's five major banks would have to raise an additional AUD70-80 billion (USD49-56 billion) in Tier 2 capital, but the domestic market is not large enough to absorb these issuances - a point that's been repeatedly made by the industry to APRA during the consultation process, Chaplin noted. Forcing Australian banks to adhere to this requirement would put them on an uneven footing compared to global systemically important banks (G-SIBs), Chaplin said, adding: "It is an equality issue. It is one of the major arguments for APRA to consider the inclusion of a new T3 asset class under the ALAC regime."

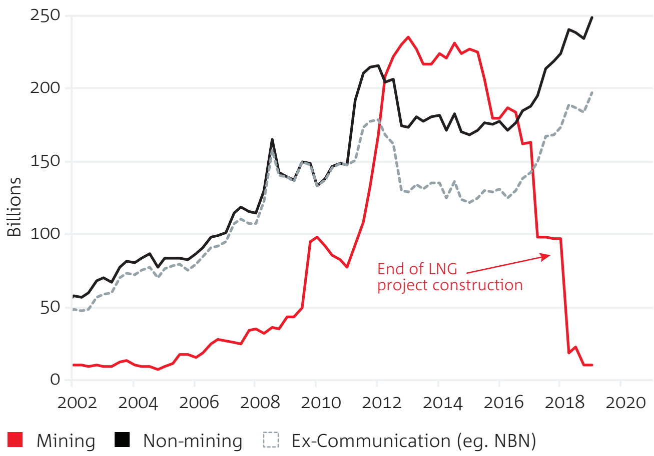


Looking ahead, NAB expected the Reserve Bank of Australia to cut interest rates twice in 2019, of which we have just seen the first. This should support weak sectors such as housing and retail while bellwether sectors like mining remain strong. The surprise outcome in the election in favour of the coalition government[5] should help business sentiment given the administration's focus on income tax cuts and increasing government spending, especially in the infrastructure sector. In New Zealand, a rate cut by the Reserve Bank of New Zealand should ease pressure on the exchange rate while boosting spending by consumers and businesses, helping address concerns of growth moderating, Mr. Colhoun added.

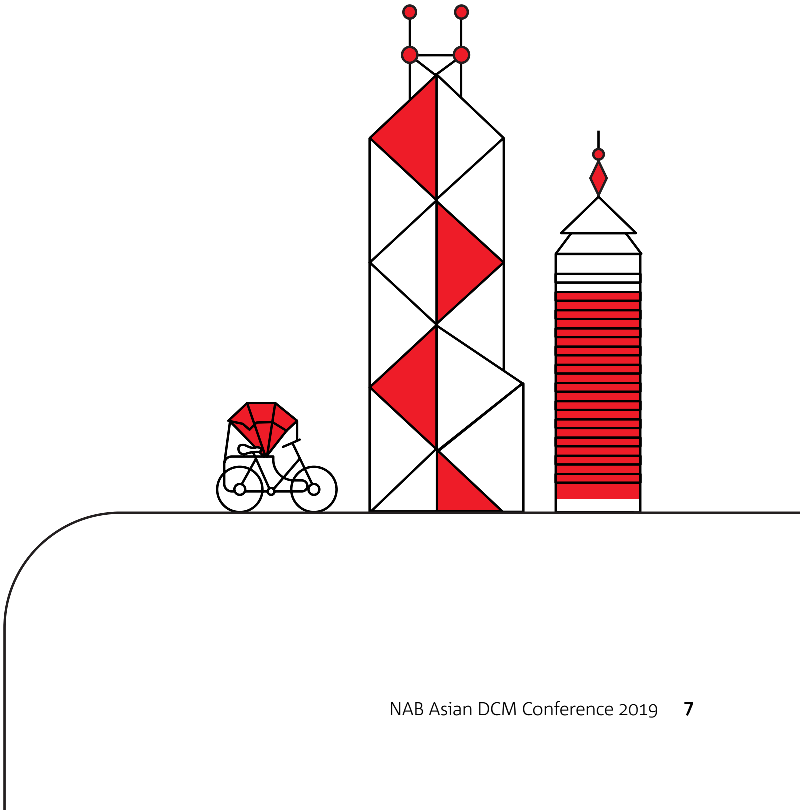
In summary, a key point of consensus that emerged from the conference deliberations was the continued availability across Asia of deep pools of capital that issuers worldwide can draw from to fund long-term projects in infrastructure, housing and other sectors.

As Melissa Gribble, Head of Capital Markets Origination observed: "There is liquidity in the market. We have also seen increased demand from across the region. That provides a good opportunity for our borrowers to have optionality in the way they are thinking about their financing. At the end of the day, capital markets work most effectively when we match demand and supply."

Infrastructure pipeline strong: economy more than a one trick pony



Source: Deloitte Access Economics, National Australia Bank, Macrobond



[5] https://www.bbc.com/news/world-australia-48331125

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