Bloomberg Indices
Month in Review – December 2015

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Year in Review

In 2015, central banks largely retained easing monetary policy settings globally, largely driven by concerns over economic growth and deflation. Central bank interest rates in developed economies have continued to remain at historic lows. The key highlight was the US interest rate hike in December.

The Reserve Bank of Australia (RBA) cut interest rates in February and May 2015, by 25 basis points (bps) each time, leaving the Australian cash rate ending the year at record lows of 2%. Considerations weighing upon the RBA’s rate-setting agenda have included a softening of commodity prices globally and the strength of the Australian dollar, as well as concerns over mining investment tapering without a clear replacement to support the Australian economy. Other factors that have affected interest rates and credit markets have included concerns over a heated property sector, tightening bank prudential standards and market expectations of a US interest rate rise. The Australian dollar eased approximately 11% in 2015 against the US dollar and the RBA was keen to ‘jawbone’ the dollar down, particularly at the beginning of the year, in line with softening global commodity prices.

In December, the Reserve Bank of New Zealand (NZ) cut its cash rate by 25 bps to 2.5%. This followed earlier cuts in June, July and September, of 25 bps each, during 2015. The NZ central bank has been watching house price growth in Auckland and the NZ dollar, which eased approximately 12% against the US dollar in 2015. The NZ economy has also been affected by falling global milk prices and uncertainty over economic conditions in China, its largest export market.

Globally, markets have been anticipating a US interest rate hike since at least the first half of 2015. Market speculation of a September 2015 US rate hike was strong, however the Federal Reserve indicated global economic conditions and financial market turbulence, as well as their potential effects on economic activity, were not conducive of such a hike at the time. Finally, in mid-December, US interest rates were lifted by 25 bps to a range of 0.25% to 0.50%. The US cash rate has remained at near-zero since the end of 2008, with the Federal Reserve last raising rates in 2006.

The People’s Bank of China (PBC) cut interest rates several times over the course of 2015, from 5.6% to 4.35%. Stimulus measures also included lowering banks’ reserve requirement ratios (RRRs). In August, a share market rout in China spooked investor confidence and global markets.\(^1\) China’s central bank also devalued its currency against the US dollar that month. In November, the International Monetary Fund (IMF) announced the renminbi would included be into its basket of currencies that make up the Special Drawing Right (SDR), effective from 1 October 2016. Other currencies included in the SDR basket are the US dollar, euro, Japanese yen and British pound.

Deflation and economic growth concerns have seen ongoing unconventional monetary policy measures applied in Europe. European Central Bank (ECB) President Mario Draghi announced in early December that there would be “no particular limit” as to how the ECB would pursue its inflation target of 2 per cent. Mr. Draghi also extended the ECB’s 60 billion euro-a-month bond-buying program to March 2017. The quantitative easing program was first announced in March 2015 with an expiration date of September 2016. Earlier in January, the Swiss National Bank surprised markets by scrapping its cap on the Swiss franc against the euro. The Bank of England’s (BoE) official bank rate continued to remain at 0.5%, where it has been since mid-2009. In December, the BoE’s Monetary Policy Committee voted unanimously to maintain its £375 billion quantitative easing program.

Further in December, the Bank of Japan (BoJ) announced an expansion of its stimulus program. The new scheme, which is set to start in April 2016, was announced two days after the US rate hike and appeared to have surprised markets. The BoJ will purchase exchange-traded funds (ETFs) and Japanese real estate investment trusts (J-REITs), so that its amounts outstanding will increase at annual paces of approximately 3 trillion yen and 90bn yen respectively. In addition, purchases of Japanese government bonds (JGBs) would be maintained at approximately 80 trillion yen per month. The average maturity of the BoJ’s JGB purchases would be lengthened to about 7-12 years from 2016 onwards, up from 7-10 years in 2015.

\(^1\) The Chicago Board of Exchange’s (CBOE) Volatility Index (VIX), which is based on US S&P 500 stock index option prices, reached an intraday high above 53 and closed above 40 on 24 August 2015. It averaged approximately 17 in 2015.
Credit spreads have widened over 2015, reflecting a re-emergence of volatility. Towards the end of the year, junk bonds took a hit as investor concern grew over valuations.\(^2\) The recent rout over the Third Avenue Focused Credit Fund spooked junk bond markets and drew attention to liquidity concerns in relation to such funds, after the US$800bn fund froze investor redemptions in December. Energy and commodity sectors have generally been most susceptible to distressed credit issues, following the collapse of global energy and commodity prices. This was reflected by increased volatility in Glencore and Anglo American Capital issuances, among other similar issuers.

\(^2\) See the Bloomberg USD High Yield Corporate Bond Index (BUHY Index) and FINRA – BLP Active HY US Corporate Bond Index Average Yield to Maturity (NBBHYL Index).
Australian Market Performance: December sees bonds marginally outperform equities in 2015

The AusBond Composite Bond Index has marginally outperformed the S&P/ASX Accumulation 200 Index for the year, with the indices finishing at 2.59% and 2.56% respectively, on a total return basis. The outperformance was despite a strong performance by equities for the December month and quarter, with the Australian equities index outperforming its bond counterpart by 273 and 648 percentage points respectively over those periods. In December alone, total returns on the AusBond Composite Bond Index were 0.33%, compared to 2.73% for the equities index.

Positive returns were recorded across the Bloomberg AusBond Indices group in December, except for inflation indices. Among AusBond Indices, the Treasury Index recorded the greatest monthly rise, of 0.43%. For the year, the AusBond Composite Bond Index outperformed the Treasury, Bank Bill and Inflation Indices. However, the strongest performer was the Credit Index, which returned 3.02%.

Table 1. AusBond Total Return Performance: December 2015

<table>
<thead>
<tr>
<th>Index</th>
<th>MTD</th>
<th>QTD</th>
<th>YTD</th>
<th>2 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>AusBond Composite Index</td>
<td>0.33%</td>
<td>-0.25%</td>
<td>2.59%</td>
<td>6.14%</td>
<td>6.62%</td>
</tr>
<tr>
<td>AusBond Treasury Index</td>
<td>0.43%</td>
<td>-0.46%</td>
<td>2.32%</td>
<td>6.24%</td>
<td>6.26%</td>
</tr>
<tr>
<td>AusBond Semi Govt Index</td>
<td>0.32%</td>
<td>-0.03%</td>
<td>2.70%</td>
<td>6.60%</td>
<td>7.06%</td>
</tr>
<tr>
<td>AusBond Supra/Sov Index</td>
<td>0.23%</td>
<td>-0.21%</td>
<td>2.77%</td>
<td>5.57%</td>
<td>6.55%</td>
</tr>
<tr>
<td>AusBond Credit Index</td>
<td>0.13%</td>
<td>-0.02%</td>
<td>3.02%</td>
<td>5.51%</td>
<td>6.84%</td>
</tr>
<tr>
<td>AusBond Bank Bill Index</td>
<td>0.19%</td>
<td>0.55%</td>
<td>2.33%</td>
<td>2.51%</td>
<td>3.37%</td>
</tr>
<tr>
<td>AusBond Inflation Index</td>
<td>-0.02%</td>
<td>-0.43%</td>
<td>1.63%</td>
<td>7.87%</td>
<td>8.18%</td>
</tr>
<tr>
<td>AusBond Govt Inflation Index</td>
<td>-0.01%</td>
<td>-0.47%</td>
<td>1.60%</td>
<td>7.70%</td>
<td>7.94%</td>
</tr>
<tr>
<td>AusBond Credit Inflation Index</td>
<td>-0.15%</td>
<td>0.10%</td>
<td>2.16%</td>
<td>9.97%</td>
<td>10.62%</td>
</tr>
<tr>
<td>S&amp;P/ASX 200 Accum Index</td>
<td>2.73%</td>
<td>6.48%</td>
<td>2.56%</td>
<td>4.07%</td>
<td>6.97%</td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance L.P.  
Note: 2 and 5 year returns are annualised.


Source: Bloomberg Finance L.P.

Source: Bloomberg Finance L.P.

Chart 3. S&P/ASX 200 Accumulation Index vs. Bloomberg AusBond Composite Bond Index: Long Run Performance

Source: Bloomberg Finance L.P.
New Zealand Market Performance: Rally sees strong outperformance by stocks over bonds

The NZ bond and equity markets have generally delivered stronger returns in comparison to their Australian counterparts in 2015. The NZBond Composite Index delivered a total return of 5.73%, however this was less than half the 13.58% total return delivered by the S&P/NZX 50 Gross Index for the year.

Bond market returns were relatively outpaced by a strong performance in equities in December. The NZBond Composite Index fell 0.08%, while the S&P/NZX 50 Gross Index returned 3.67%. The NZ equities index has recorded strong performance towards the end of the year, with total returns of 13.07% for the December quarter. This mirrors the Australian market experience.

Among NZBond Indices, returns were mixed: the Government Inflation Index experienced the greatest monthly gain (0.48%), while the Local Government Index recorded the greatest monthly loss (-0.49%).

Table 2. NZBond Total Return Performance: December 2015

<table>
<thead>
<tr>
<th>Index</th>
<th>MTD</th>
<th>QTD</th>
<th>YTD</th>
<th>2 Year</th>
<th>4 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZBond Composite Index</td>
<td>-0.08%</td>
<td>-0.18%</td>
<td>5.73%</td>
<td>6.64%</td>
<td>3.46%</td>
</tr>
<tr>
<td>NZBond Treasury Index</td>
<td>0.08%</td>
<td>-0.39%</td>
<td>5.55%</td>
<td>6.66%</td>
<td>3.14%</td>
</tr>
<tr>
<td>NZBond Local Govt Index</td>
<td>-0.49%</td>
<td>-0.57%</td>
<td>5.97%</td>
<td>7.10%</td>
<td>3.94%</td>
</tr>
<tr>
<td>NZBond Non-Govt Index</td>
<td>-0.26%</td>
<td>0.25%</td>
<td>5.88%</td>
<td>6.44%</td>
<td>4.17%</td>
</tr>
<tr>
<td>NZBond SupraSov Index</td>
<td>-0.33%</td>
<td>0.28%</td>
<td>5.69%</td>
<td>6.14%</td>
<td>3.41%</td>
</tr>
<tr>
<td>NZBond Credit Index</td>
<td>-0.17%</td>
<td>0.21%</td>
<td>6.13%</td>
<td>6.76%</td>
<td>4.85%</td>
</tr>
<tr>
<td>NZBond Bank Bill Index</td>
<td>0.25%</td>
<td>0.73%</td>
<td>3.40%</td>
<td>3.38%</td>
<td>2.42%</td>
</tr>
<tr>
<td>NZBond Govt Inflation Index</td>
<td>0.48%</td>
<td>-0.78%</td>
<td>1.10%</td>
<td>6.34%</td>
<td>1.70%</td>
</tr>
<tr>
<td>S&amp;P/NZX 50 Gross Index</td>
<td>3.67%</td>
<td>13.07%</td>
<td>13.58%</td>
<td>15.55%</td>
<td>14.07%</td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance L.P.  
Note: 2 and 4 year returns are annualised.


Source: Bloomberg Finance L.P.

[Chart showing monthly return performance with specific months and returns indicated, such as Jan-15: 2.0%, Feb-15: 3.2%, Mar-15: 0.0%, and so forth, with NZBond Composite and S&P/NZX 50 marked with different colors.]

Source: Bloomberg Finance L.P.


[Chart showing long run performance with a line graph illustrating the index value over time from 31-Dec-10 to 31-Dec-15, with NZBond Composite and S&P/NZX 50 Gross marked with different lines.]

Annualised 21-yr return
S&P/NZX 50 gross return: +13.83%
NZBond Composite return: +5.76%

Source: Bloomberg Finance L.P.
Global Market Performance

Among Bloomberg’s Global Sovereign Bonds Indices, NZ performed strongly for the year, delivering 5.55% returns. In comparison Australia delivered only 2.32%, although this was higher than the US, Japan and Europe. However, for the December month, NZ treasuries managed only a 0.08% return, while Australia treasuries delivered 0.43%.


Source: Bloomberg Finance L.P.

Chart 8. Bloomberg Indices Sovereign Debt Performance: December 2015 (Month)

Source: Bloomberg Finance L.P.
NZ and Australia also strongly outperformed in the investment-grade corporate bond space relative to most major developed markets. The NZBond Credit Index returned 6.13% for the year, compared to 3.02% for the AusBond Credit Index. Comparable benchmarks for the US and Europe posted negative returns while Japan recorded a modest 0.40% gain.3


Source: Bloomberg Finance L.P.

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3 The comparable global benchmarks are: Bloomberg JPY Investment Grade Corporate Bond Index (BJPY Index); and Bloomberg GBP Investment Grade European Corporate Bond Index (BGBP Index); Bloomberg US Corporate Bond Index (BUSC Index); and Bloomberg EUR Investment Grade European Corporate Bond Index (BERC Index).
Market Yields

In December, yields to maturity generally held steady for AusBond Indices and generally rose for NZBond Indices compared to the previous month.

Yields for AusBond Indices were also generally steady in December compared to the start of 2015, except for the Bank Bills Index, which fell 50 bps, and the credit and credit inflation-linked indices, which rose 17 and 18 bps respectively. Yields fell across all NZBond Indices in 2015, except for the Inflation Index, which rose 11 bps in 2015.

Chart 10. Bloomberg AusBond Indices Bond Yields (monthly)

![Chart 10](source: Bloomberg Finance L.P.)

Chart 11. Bloomberg NZBond Indices Bond Yields (monthly)

![Chart 11](source: Bloomberg Finance L.P.)
Global sovereign yields fell in December for Australia, New Zealand, Japan, Hong Kong, Europe and the Pacific Rim compared to the beginning of 2015. However, they rose for Singapore, the US and UK. Yields were generally steady in December compared to the previous month except for Europe and the UK, where yields rose by 12 and 11 bps respectively.

**Chart 12. Bloomberg Indices Sovereign Bond Yields**

Source: Bloomberg Finance L.P.
Supply

New supply (issuances and taps) included in the AusBond Composite Bond Index totalled A$142.93bn in 2015. This was 9.42% less than the $157.80bn reached in 2014. However, supply of floating rate notes increased by 31.75% to A$39.28bn in 2015.

In August 2015, Apple Inc’s debut A$2.25bn Australian bond sale became the largest Australian issuance by a non-financially company to date. The corporation also has other debt issuances denominated in euros, yen, pounds and swiss francs. The Apple Inc deal eclipsed the A$1bn raised by BHP earlier in March. Other notable Australian issuances by non-financial companies in 2015 included Intel Corp (A$800m in November), SABMiller PLC (A$700m in July) and Crown Resorts Ltd (A$630m in March).

In December, new supply fell for both the AusBond Composite Bond Index and the Credit FRN Index in comparison to the previous month. New issues and taps totalled A$6.26bn and A$1.38bn respectively for these two indices, representing declines of 14.63% and 11.29% from the same time last year. A$1.08bn (17.25%) and A$0.90bn (65.45%) of this December supply was attributable to new issuances for the two respective indices. Treasuries have comprised over 50% of new supply for the AusBond Composite Bond Index since May 2015. AusBond Composite Bond Index buybacks totalled A$4.06bn in December, with transactions predominantly (73.88%) relating to Treasury securities.

The NZBond Composite Index added NZ$530m in December, of which NZ$250m was attributable to two new bond issuances, both in the credit space.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Dec-15 Supply (A$bn)</th>
<th>12 mth avg (A$bn)</th>
<th>% diff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury</td>
<td>4.2</td>
<td>6.6</td>
<td>-36.6%</td>
</tr>
<tr>
<td>Semi Government</td>
<td>0.7</td>
<td>2.2</td>
<td>-66.0%</td>
</tr>
<tr>
<td>Non-Government</td>
<td>1.3</td>
<td>3.1</td>
<td>-57.6%</td>
</tr>
<tr>
<td><strong>Total Composite</strong></td>
<td><strong>6.3</strong></td>
<td><strong>11.9</strong></td>
<td><strong>-47.4%</strong></td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance L.P.
Chart 13. Maturity breakdown of AusBond December 2015 new issuances

Source: Bloomberg Finance L.P., Issuers, Lead Managers
Maturities

In December, three securities with a combined face value of A$3.85bn exited the AusBond Composite Bond Index upon rebalancing for 1 January 2016.

Three more securities with a combined face value of A$2.70bn will exit the AusBond Composite Bond Index for maturity reasons when rebalancing for 1 February 2016 (Table 5).

Table 4. Maturities for AusBond Composite Index: December 2015

<table>
<thead>
<tr>
<th>Issuer</th>
<th>ISIN</th>
<th>Value</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>KFW</td>
<td>AU0000KFWHP6</td>
<td>2,600,000,000</td>
<td>19-Jan-16</td>
</tr>
<tr>
<td>AFDB</td>
<td>AU3CB0168524</td>
<td>500,000,000</td>
<td>25-Jan-16</td>
</tr>
<tr>
<td>RENTEN</td>
<td>AU3CB0168789</td>
<td>750,000,000</td>
<td>27-Jan-16</td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance L.P.

Table 5. Upcoming maturities for AusBond Composite Index

<table>
<thead>
<tr>
<th>Issuer</th>
<th>ISIN</th>
<th>Value</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASIA</td>
<td>AU0000ATBHB2</td>
<td>1,850,000,000</td>
<td>15-Feb-16</td>
</tr>
<tr>
<td>EDC</td>
<td>AU3CB0170009</td>
<td>500,000,000</td>
<td>18-Feb-16</td>
</tr>
<tr>
<td>OKB</td>
<td>AU3CB0170694</td>
<td>350,000,000</td>
<td>23-Feb-16</td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance L.P.

For the NZBond Composite Index, there are no maturities upon rebalancing for 1 January 2016 in December. There is one upcoming maturity for rebalancing for 1 February 2016.

Table 6. Upcoming maturities for NZ Composite Index

<table>
<thead>
<tr>
<th>Issuer</th>
<th>ISIN</th>
<th>Value</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZNZ</td>
<td>NZANBDG017C6</td>
<td>150,000,000</td>
<td>16-Feb-16</td>
</tr>
</tbody>
</table>

Notes:

1. Rebalancing occurs at the end of each month in order to construct the index portfolio for the beginning of the next month.

2. Amendments to the AusBond Indices membership rules came into effect from 1 October 2015. The impact of the amendments in relation to maturities was first felt in the monthly portfolio rebalancing process for constructing the 1 December 2015 AusBond Composite Bond Index. Broadly, the amendments cause bonds expiring within the next month to exit from the index when rebalancing occurs at the end of the previous month. This means bonds maturing in January 2016 exited the index upon rebalancing on 31 December 2015 (whereas prior to the amendments, they would have been held to maturity in the index). These changes were first announced in July 2015.
Index market capitalisation

As a result of the above-mentioned new supply, maturities and buybacks over the course of 2015, the AusBond Composite Bond Index ended the year at A$864.05bn, an increase of A$127.63bn (17.33%) since December 2014.

The NZBond Composite Index stands at NZ$107.74bn.


Source: Bloomberg Finance L.P.
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