

Bloomberg AusBond Indices
Month in Review – July 2018

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Month in Review
Australian Market Performance

On July 3rd 2018, the Reserve Bank of Australia (RBA) left the target cash rate unchanged at 1.5%. As shown in Table 1 below, the AusBond Composite Index’s July return was positive (0.16%). The best performing component of the Index was the Credit Index at 0.24%. The AusBond Supra-Sovereign and Semi-Govt Indices returned 0.22% and 0.19% respectively, followed by the AusBond Treasury Index (0.11%) for the month. The Inflation Credit Index rose 0.52% during July and the AusBond Inflation Government Index decreased -0.08% for the month. The Bank Bill returned 0.19%. Within equities, the S&P/ASX Accumulation 200 Index rose in July, sending its return up by 1.39%.

Table 1. AusBond Total Return Performance: July 2018

| Index | JUL | JUN | MAY | QTD | YTD | 2 YR | 5 YR |
|---|--------|-------|-------|--------|-------|--------|-------|
| Bloomberg AusBond Composite 0+ Yr Index | 0.16% | 0.48% | 0.69% | 0.16% | 1.85% | 1.37% | 4.24% |
| Bloomberg AusBond Treasury 0+ Yr Index | 0.11% | 0.52% | 0.81% | 0.11% | 1.91% | 0.69% | 4.01% |
| Bloomberg AusBond Semi-Govt 0+ Yr Index | 0.19% | 0.50% | 0.65% | 0.19% | 1.85% | 1.46% | 4.48% |
| Bloomberg AusBond SupraSov 0+ Yr Index | 0.22% | 0.38% | 0.44% | 0.22% | 1.68% | 2.07% | 4.14% |
| Bloomberg AusBond Credit 0+ Yr Index | 0.24% | 0.34% | 0.49% | 0.24% | 1.79% | 3.13% | 4.63% |
| Bloomberg AusBond Bank Bill Index | 0.19% | 0.15% | 0.17% | 0.19% | 1.11% | 1.81% | 2.21% |
| Bloomberg AusBond Credit FRN 0+ Yr Index | 0.30% | 0.17% | 0.18% | 0.30% | 1.34% | 3.02% | 3.22% |
| Bloomberg AusBond Infl 0+ Yr Index | -0.05% | 1.09% | 0.79% | -0.05% | 2.24% | 1.12% | 4.83% |
| Bloomberg AusBond Infl Govt 0+ Yr Index | -0.08% | 1.07% | 0.78% | -0.08% | 2.11% | 0.90% | 4.64% |
| Bloomberg AusBond Infl Credit 0+ Yr Index | 0.52% | 1.50% | 0.96% | 0.52% | 4.50% | 4.51% | 7.43% |
| S&P/ASX Accumulation 200 Index | 1.39% | 3.27% | 1.09% | 1.39% | 5.73% | 10.90% | 9.17% |

Note: 2 and 5 year returns are annualized.

Chart 1. Bloomberg AusBond Composite Index: Monthly Performance 2017-2018

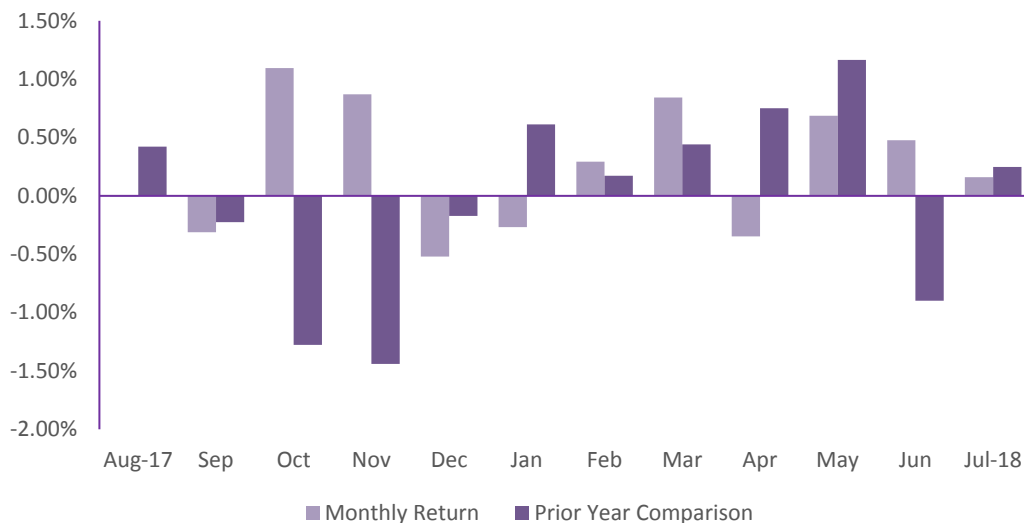


Chart 2. S&P/ASX200 Accumulation Index vs. Bloomberg AusBond Composite Index: Monthly Return Performance 2017 - 2018¹

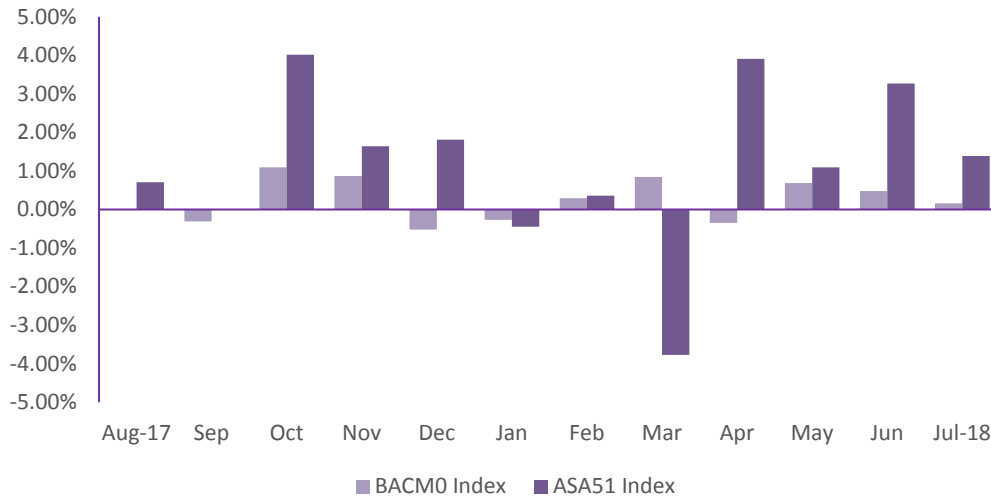
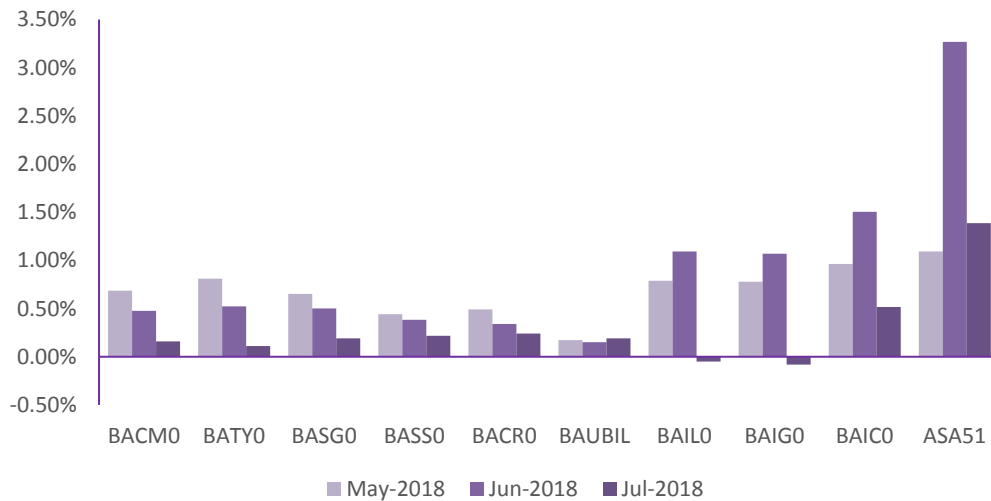


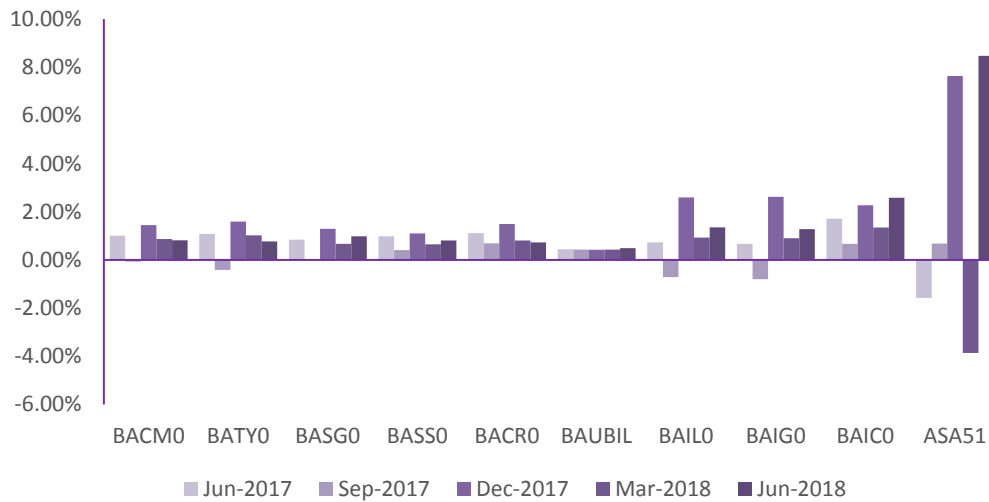
Chart 3. Bloomberg AusBond Indices: Recent monthly returns²



¹ The following indices are shown: AusBond Composite Index (BACM0) and S&P/ASX 200 Accumulation Index (ASA51).

²The following indices are shown: AusBond Composite Index (BACM0); AusBond Treasury Index (BATY0); AusBond Semi-Government Index (BASG0); AusBond Supra/Sovereign Index (BASS0); AusBond Credit Index (BACRO); AusBond Bank Bill Index (BAUBIL); AusBond Inflation Index (BAIL0); AusBond Inflation Government Index (BAIG0); AusBond Inflation Credit Index (BAIC0) and S&P/ASX 200 Accumulation Index (ASA51).

Chart 4. Bloomberg AusBond Indices: Recent quarterly returns



New Zealand Market Performance

The Reserve Bank of New Zealand (RBNZ)'s target cash rate was unchanged at 1.75% as no meeting was held in July 2018. As set out in the Table 2 below, monthly performance among NZBond indices were positive across the board for the month of July. The Composite Index on aggregate rose 0.34% for the month. The best performing component of the Composite Index was the Treasury Index (0.41%). The Local Govt Index increased 0.33%. The Credit index and Supra-Sovereign index were up by 0.27% and 0.22%, respectively. The Bank Bill Index gained 0.18%.

Table 2. NZBond Total Return Performance: July 2018

| Index | JUL | JUN | MAY | QTD | YTD | 2 YR | 5 YR |
|---|--------|-------|-------|--------|-------|--------|--------|
| Bloomberg NZBond Composite 0+ Yr Index | 0.34% | 0.53% | 0.62% | 0.34% | 2.03% | 2.50% | 4.83% |
| Bloomberg NZBond Treasury 0+ Yr Index | 0.41% | 0.56% | 0.68% | 0.41% | 1.93% | 1.93% | 4.69% |
| Bloomberg NZBond Local Govt 0+ Yr Index | 0.33% | 0.57% | 0.62% | 0.33% | 2.30% | 2.87% | 5.41% |
| Bloomberg NZBond Non-Govt 0+ Yr Index | 0.25% | 0.48% | 0.53% | 0.25% | 2.12% | 3.31% | 4.98% |
| Bloomberg NZBond SupraSov 0+ Yr Index | 0.22% | 0.47% | 0.50% | 0.22% | 2.01% | 2.95% | 4.60% |
| Bloomberg NZBond Credit 0+ Yr Index | 0.27% | 0.48% | 0.56% | 0.27% | 2.23% | 3.70% | 5.38% |
| Bloomberg NZBond Bank Bill Index | 0.18% | 0.17% | 0.17% | 0.18% | 1.14% | 2.04% | 2.69% |
| Bloomberg NZBond Infl 0+ Yr Index | 0.24% | 0.51% | 1.97% | 0.24% | 1.92% | 2.86% | 5.56% |
| S&P/NZX 50 Gross Index | -0.24% | 3.28% | 2.55% | -0.24% | 6.24% | 10.19% | 14.48% |

Note: 2 and 5 year returns are annualized.

Chart 5. Bloomberg NZBond Composite Index: Monthly Performance 2017-2018

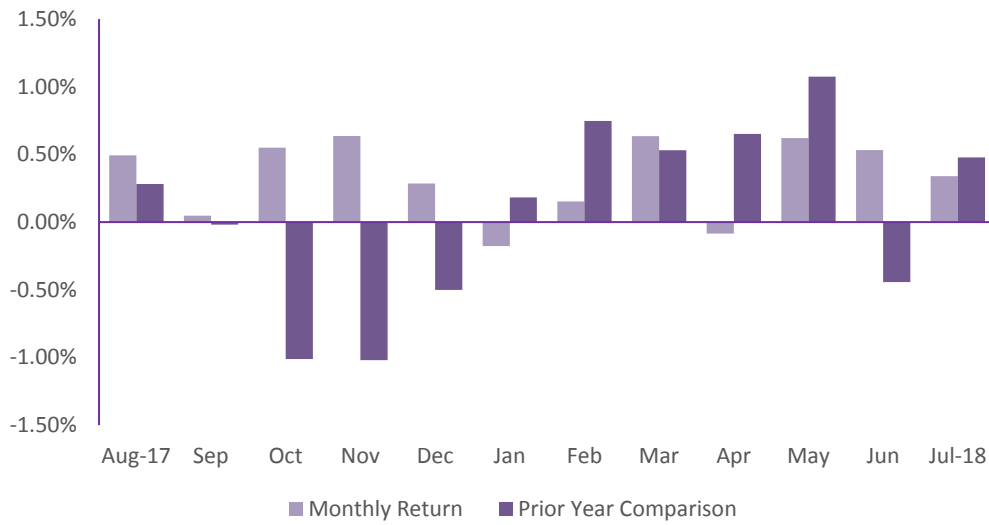
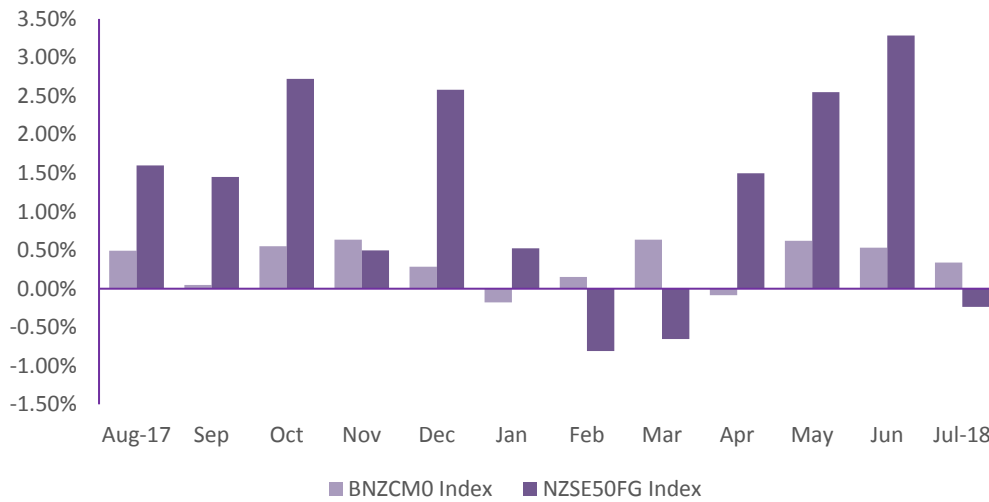


Chart 6. S&P/NZX50 Gross Index vs. Bloomberg NZBond Composite Index: Monthly Return Performance 2017-2018³



³ The following indices are shown: NZBond Composite Index (BNZCM0) and S&P/NZX 50 Gross Index (NZSE50FG).

Chart 7. Bloomberg NZBond Indices: Recent monthly returns⁴

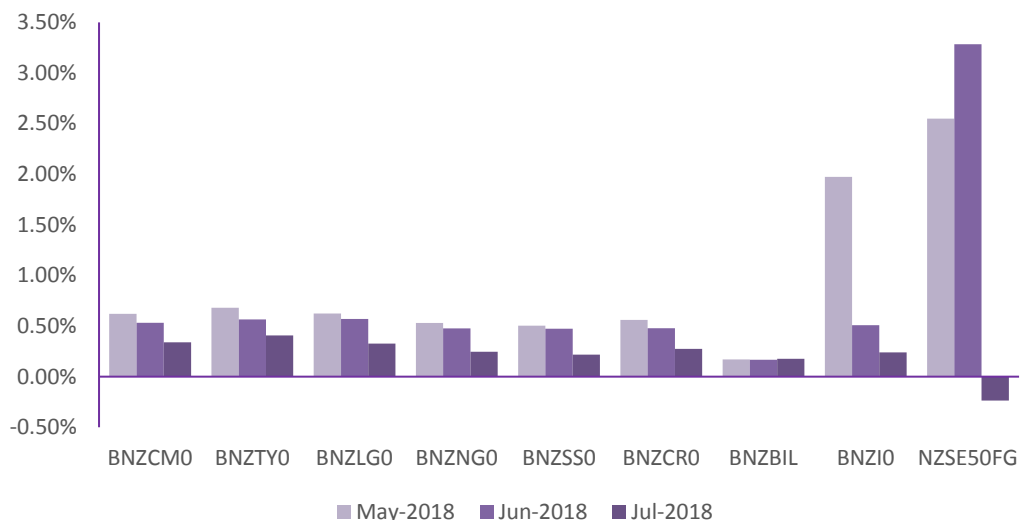
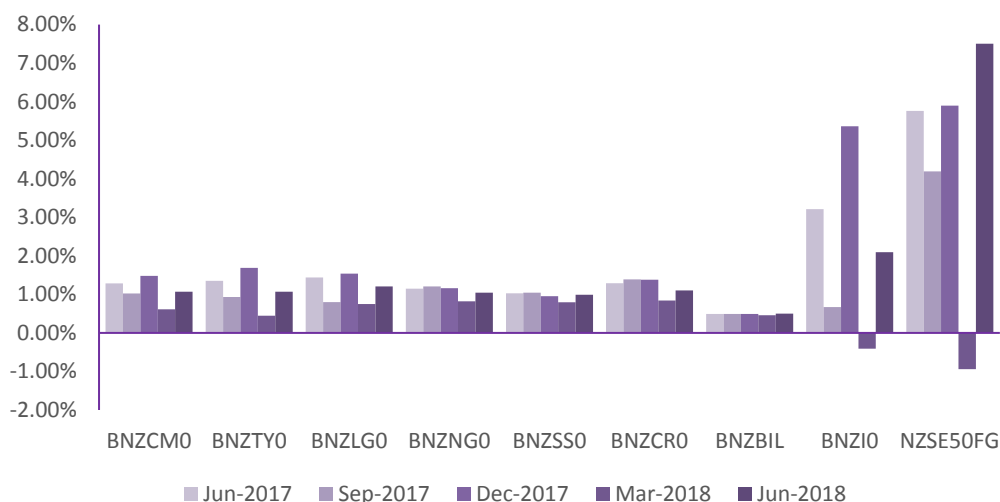


Chart 8. Bloomberg NZBond Indices: Recent quarterly returns



⁴The following indices are shown: NZBond Composite Index (BNZCM0); NZBond Treasury Index (BNZTY0); NZBond Local Govt Index (BNZLGO); NZBond Non-Govt Index (BNZNGO); NZBond SupraSov Index (BNZSSO); NZBond Credit Index (BNZCRO); NZBond Bank Bill Index (BNZBIL); NZBond Govt Inflation Index (BNZIO) and S&P/NZX 50 Gross Index (NZSE50FG).

Global Market Performance

Chart 9 illustrates the recent monthly and yearly performance of global sovereign indices. The largest mover, Canada, decreased -0.75% in July. The US Aggregate Treasury Index was down -0.42%. On a twelve-month basis, as shown in Table 3, returns were mixed. Global Sovereign Indices returns were as follows: Canada (0.97%), US (-1.23%), UK (1.34%), Germany (1.54%), Euro (1.13%), Japan (0.92%), Singapore (-0.53%), Hong Kong (-0.86%) and China (4.87%).

Chart 9. Bloomberg Indices Sovereign Debt Performance: July 2018⁵

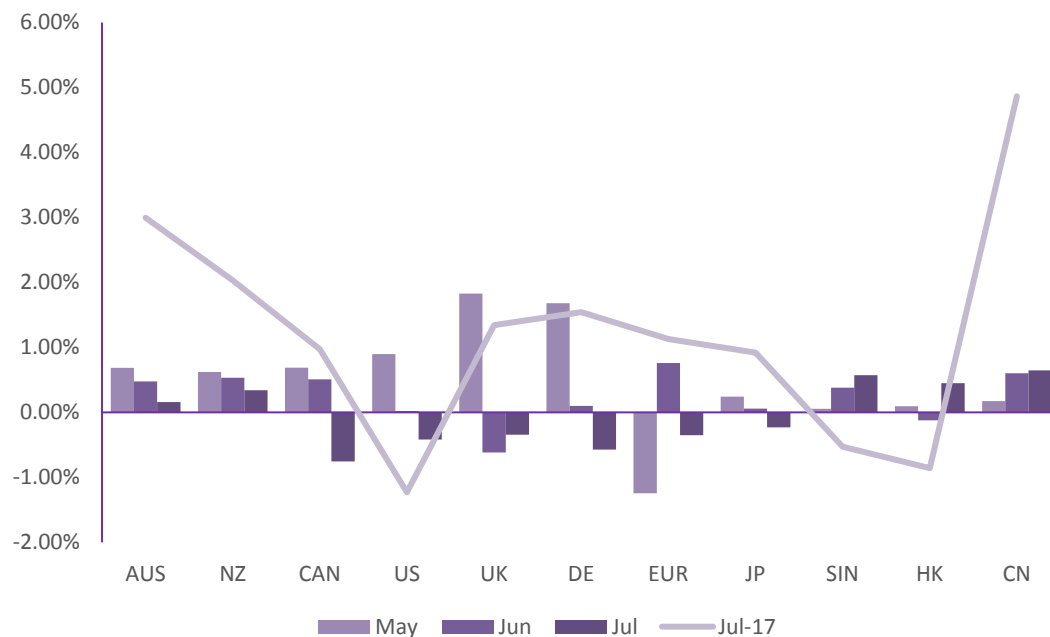


Table 3. Bloomberg Indices Sovereign Debt Performance: July 2018

| Return | AUS | NZ | CAN | US | UK | DE | EUR | JP | SIN | HK | CN |
|--------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| Jul | 0.16% | 0.34% | -0.75% | -0.42% | -0.34% | -0.57% | -0.35% | -0.23% | 0.57% | 0.45% | 0.65% |
| Jun | 0.48% | 0.53% | 0.51% | 0.02% | -0.62% | 0.10% | 0.76% | 0.06% | 0.38% | -0.12% | 0.60% |
| May | 0.69% | 0.62% | 0.69% | 0.90% | 1.83% | 1.68% | -1.24% | 0.24% | 0.05% | 0.09% | 0.17% |
| 12-MTH | 2.99% | 2.03% | 0.97% | -1.23% | 1.34% | 1.54% | 1.13% | 0.92% | -0.53% | -0.86% | 4.87% |

In July, monthly performance among the global Investment Grade Corporate Indices was mixed. The Bloomberg Barclays Asian-Pacific Japan Corporate Bond Index dipped the most (-0.03%) while APAC (ex-JP) benchmark was up the most by 1.85%. The Bloomberg Barclays US Corporate Bond Index rose by 0.83% for the month. On a twelve-month basis, as shown in Table 4, the return of the APAC (ex-JP) (-1.79%), US (-0.73%) and UK (-0.12%) were in negative territory.

⁵ The Sovereign Indices shown are: Bloomberg AusBond Treasury (BATY0 Index); Bloomberg NZBond Treasury (BNZTY0 Index); Bloomberg Barclays Global Treasury Bond Index country subsets for Canada, US, UK, Germany, Euro, Japan, Singapore, Hong Kong and the China Aggregate Treasury subset.

Chart 10. Bloomberg Indices Investment Grade Corporate Indices: July 2018⁶

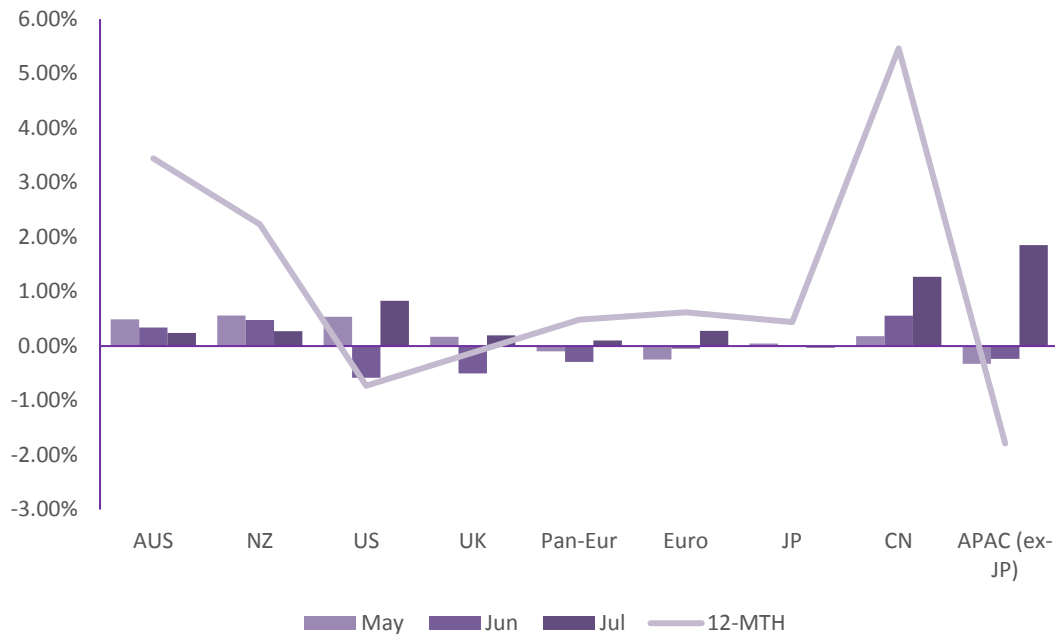


Table 4. Bloomberg Indices Investment Grade Corporate Indices: July 2018

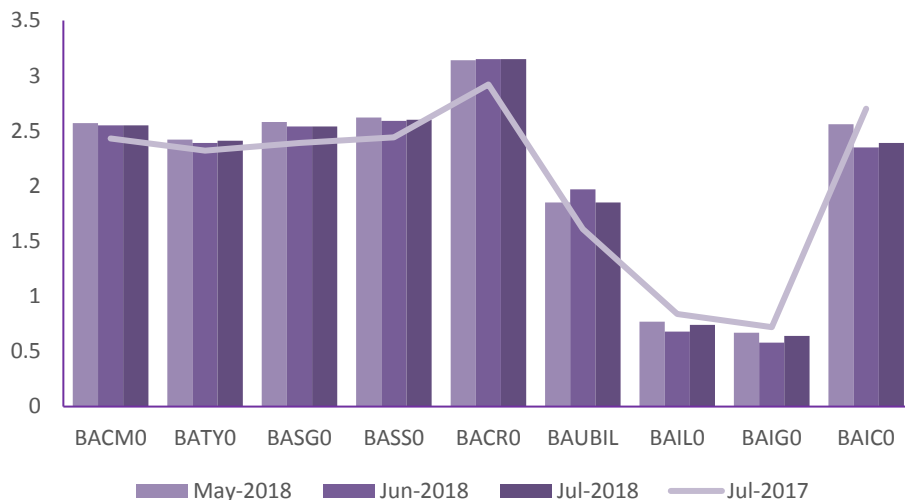
| Return | AUS | NZ | US | UK | Pan-Eur | Euro | JP | CN | APAC (ex-JP) |
|--------|-------|-------|--------|--------|---------|--------|--------|-------|--------------|
| Jul | 0.24% | 0.27% | 0.83% | 0.20% | 0.10% | 0.28% | -0.03% | 1.27% | 1.85% |
| Jun | 0.34% | 0.48% | -0.58% | -0.50% | -0.29% | -0.05% | 0.01% | 0.56% | -0.23% |
| May | 0.49% | 0.56% | 0.54% | 0.17% | -0.10% | -0.25% | 0.05% | 0.18% | -0.33% |
| 12-MTH | 3.44% | 2.23% | -0.73% | -0.12% | 0.48% | 0.62% | 0.44% | 5.46% | -1.79% |

⁶ The global benchmarks for investment-grade corporate bonds shown are: Bloomberg AusBond Credit Index (BACR0 Index); Bloomberg NZBond Credit Index (BNZCR0 Index); Bloomberg Barclays US Corporate Bond Index (LUACTRUU Index); Bloomberg Barclays Sterling Corporate Bond Index (LC61TRGU Index); Bloomberg Barclays EURO Index; Bloomberg Barclays Pan-European Index; Corporates Bond Index (LECPTRU Index); Bloomberg Barclays Asian-Pacific Japan Corporate Index (LJC1TRJU Index); Bloomberg Barclays China Aggregate: Corporate Index and Bloomberg Barclays Asian-Pacific Non-Japan Corporate Index.

Market Yields

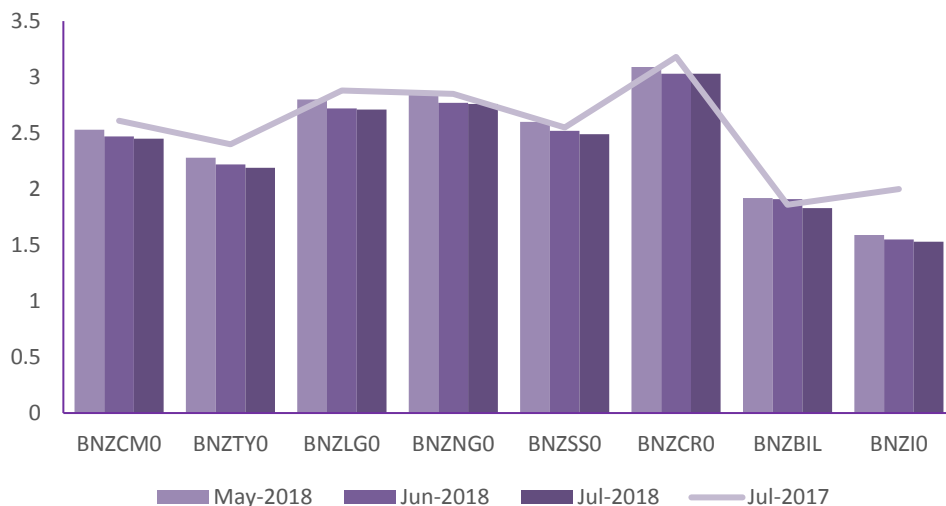
In July, the Yield to Worst (YTW) on the AusBond Composite Index ended the month at 2.56%, a 1bp increase compared to previous month. The Treasury Index was at 2.41%, a 2 bps increase compared to previous month. The Semi-Government Index was unchanged at 2.54% and the SupraSov Index was up 2 bps to 2.61%. The Bank Bill Yield decreased -12 bps to 1.85%.

Chart 11. Bloomberg AusBond Indices: Bond Yields



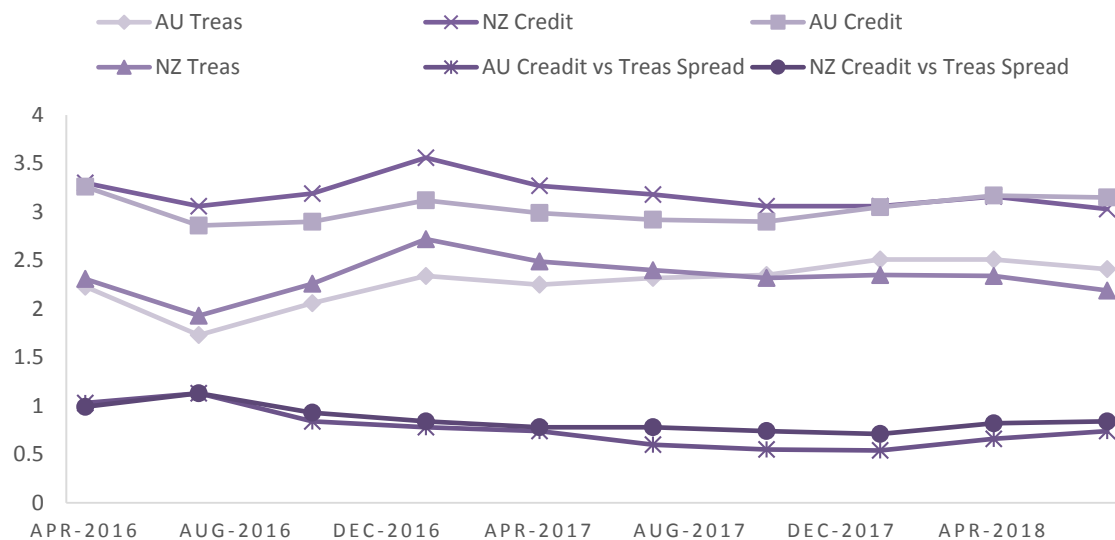
Yields for most NZBond Indices decreased for the month. The yield on the composite Index decreased to 2.46% from 2.47%. The yield on the Local Govt and SupraSov Index decreased -1 bp to 2.71% and -3 bps to 2.49%, respectively. The New Zealand Bank Bill decreased -8 bps to 1.83%.

Chart 12. Bloomberg NZBond Indices: Bond Yields



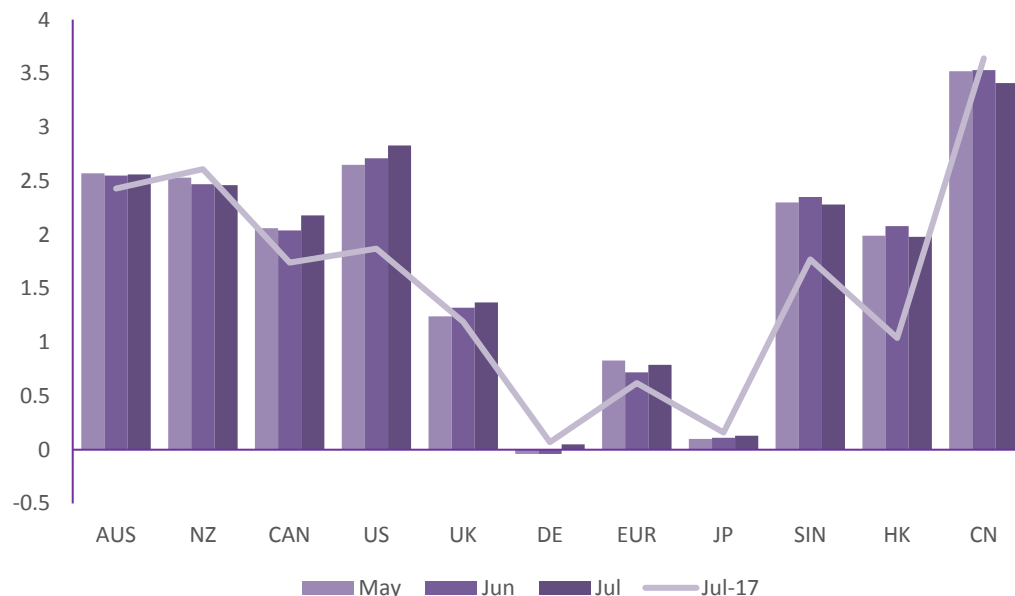
As illustrated in Chart 13, the YTW decreased for the Australian Credit Index and the New Zealand Credit Index for the past 3 months. There is also evidence of divergence for credit and treasury spread during the last 3 months for Australia.

Chart 13. Bloomberg AusBond & NZBond Indices: Yields and Spreads



YTW figures for the Global Bloomberg Barclays Sovereign Indices were mixed in July. The YTW for Canada sovereign index rose the most (+14 bps) while YTW for China sovereign index dropped the most (-12 bps). The YTW for US sovereign index was up by 12 bps to 2.83% in July as shown below.

Chart 14. Bloomberg Indices Sovereign Bond Yields⁷



⁷The Sovereign Bond Indices shown are: Bloomberg AusBond Treasury (BATY0 Index); Bloomberg NZBond Treasury (BNZTY0 Index); Bloomberg Barclays Global Treasury Bond Index country subsets for Canada, US, UK, Germany, Euro, Japan, Singapore, Hong Kong and China.

In July 2018, China Investment-Grade Corporate Bond Index decreased the most (-32 bps) to 4.83% from 5.15%. Yield movement of other Investment-Grade Corporate Bond Indices were within 5 bps.

Chart 15. Bloomberg Indices Investment Grade Corporate Bond Yields⁸



⁸The global benchmarks for investment-grade corporate bonds shown are: Bloomberg AusBond Credit Index (BACR0 Index); Bloomberg NZBond Credit Index (BNZCR0 Index); Bloomberg Barclays US Corporate Bond Index (LUACTRUU Index); Bloomberg Barclays Sterling Corporate Bond Index (LC61TRGU Index); Bloomberg Barclays Euro-Aggregate: Corporates Bond Index (LECPTRU Index); Bloomberg Barclays Asian-Pacific Japan Corporate Index (LJC1TRJU Index); Bloomberg Barclays China Aggregate: Corporate Index and Bloomberg Barclays Asian-Pacific Non-Japan Corporate Index.

Supply

Table 5 shows that the AusBond Composite Index added A\$9.2bn of new supply (issuances and taps) in July. The new supply was 23.08% higher than the previous month and A\$3.22bn lower than the 12 month average (A\$12.42bn). The largest contributors were Treasuries at A\$4.7bn followed by Semi-Government at A\$3.36bn and Non-Government at A\$1.14bn. Six new issues were added to the Composite Index amounting to A\$5.43bn, which leaves A\$3.77bn in taps.

The new additions to the Composite Index were issued across five different sectors. ACGB issued A\$3.6bn fixed coupon bonds which is the largest amongst new additions in July. The largest tap was carried on the 3.5% August 2030 QTC bond. Additionally, five Semi-Government issuers upsized in July: QTC (A\$1.11bn), SAFA (A\$1bn), NSWTC (A\$0.8bn), TCV (A\$0.18bn) and WATC (A\$0.16bn). The month of July also saw approximately A\$8.25bn of buybacks and maturities.

Table 5. Bloomberg AusBond Composite Index Net New Supply: July 2018

| Sector | JUL-18 (A\$bn) | JUN-18 (A\$bn) | MAY-18 (A\$bn) | QTD (A\$bn) | 12-mth AVG (A\$bn) | % diff on prior mth | % diff on 12-mth AVG |
|------------------------|-------------------|-------------------|-------------------|----------------|-----------------------|------------------------|-------------------------|
| Additions | | | | | | | |
| Treasury | 4.7 | 5.3 | 5 | 4.7 | 6.22 | -11.32% | -24.44% |
| Semi-Government | 3.36 | 1.26 | 1.63 | 3.36 | 2.73 | 166.67% | 23.08% |
| Non-Government | 1.14 | 0.87 | 3.23 | 1.14 | 3.47 | 31.03% | -67.15% |
| Total Composite | 9.2 | 7.43 | 9.86 | 9.2 | 12.42 | 23.82% | -25.93% |
| Removals | | | | | | | |
| Treasury | 5.7 | 1.6 | 0.8 | 5.7 | 3.1 | 256.25% | 83.87% |
| Semi-Government | 0.87 | 0.29 | 1.66 | 0.87 | 2.23 | 200.00% | -60.99% |
| Non-Government | 1.68 | 3.3 | 1.03 | 1.68 | 2.63 | -49.09% | -36.12% |
| Total Composite | 8.25 | 5.19 | 3.49 | 8.25 | 7.96 | 58.96% | 3.64% |
| Net new supply | | | | | | | |
| Treasury | -1 | 3.7 | 4.2 | -1 | 3.12 | -127.03% | -132.05% |
| Semi-Government | 2.49 | 0.97 | -0.03 | 2.49 | 0.5 | 156.70% | 398.00% |
| Non-Government | -0.54 | -2.43 | 2.2 | -0.54 | 0.84 | -77.78% | -164.29% |
| Total Composite | 0.95 | 2.24 | 6.37 | 0.95 | 4.46 | -57.59% | -78.70% |

Maturities

Table 6. Maturities for AusBond Composite Index: July 2018

| ISSUER | ISIN | VALUE | MATURITY |
|--------------------------|--------------|-------------|-----------|
| ROYAL BANK OF CANADA/SYD | AU3CB0231744 | 200,000,000 | 8/7/2018 |
| GOLDMAN SACHS GROUP INC | AU3CB0211944 | 450,000,000 | 8/8/2018 |
| Medallion Trust | AU3CB0212702 | 400,000,000 | 8/11/2018 |
| BANK OF AMERICA CORP | AU3CB0208775 | 425,000,000 | 8/23/2018 |
| LLOYDS BANK PLC | AU3CB0232338 | 200,000,000 | 8/28/2018 |

Table 7. Upcoming maturities for AusBond Composite Index: August 2018

| ISSUER | ISIN | VALUE | MATURITY |
|--------------------------|--------------|-------------|-----------|
| DEXUS FINANCE PTY LTD | AU3CB0199065 | 205,000,000 | 9/10/2018 |
| NORTHERN TERRITORY TREAS | AU3SG0000383 | 479,400,000 | 9/20/2018 |

Table 8. Maturities for NZBond Composite Index: July 2018

| ISSUER | ISIN | VALUE | MATURITY |
|--------|------|-------|----------|
| (None) | | | |

Table 9. Upcoming maturities for NZBond Composite Index: August 2018

| ISSUER | ISIN | VALUE | MATURITY |
|--------------------------|--------------|---------------|-----------|
| COOPERATIEVE RABOBANK UA | NZRABDT015C1 | 200,000,000 | 9/4/2018 |
| ANZ BANK NEW ZEALAND LTD | NZANBDG021C8 | 125,000,000 | 9/20/2018 |
| WESTPAC NEW ZEALAND LTD | NZWNZD0918L1 | 1,129,308,000 | 9/20/2018 |

Index Market Capitalisation

The AusBond Composite Index ended July 2018 at A\$1,012bn.

The NZBond Composite Index stood at NZ\$118.22bn at the end of July.

Chart 16. Growth of Bloomberg AusBond Composite Index: 2016 – 2018

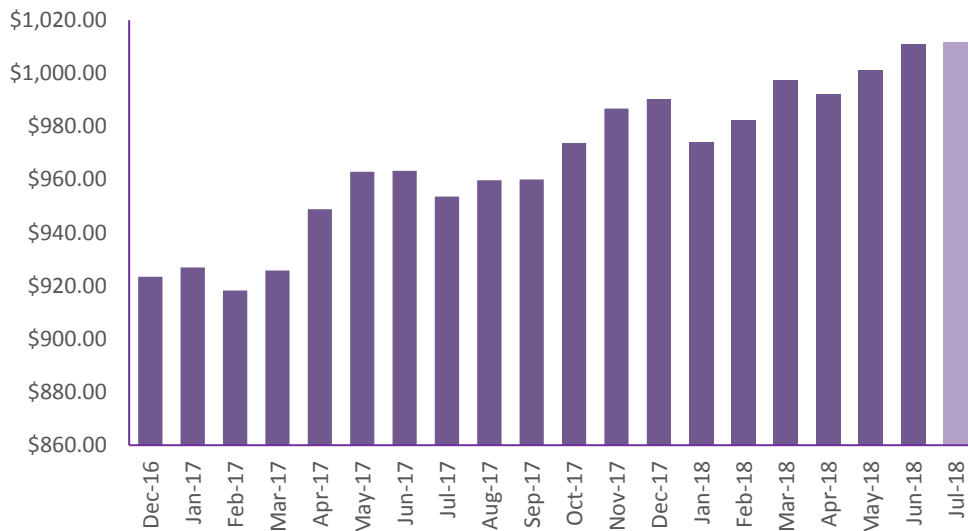
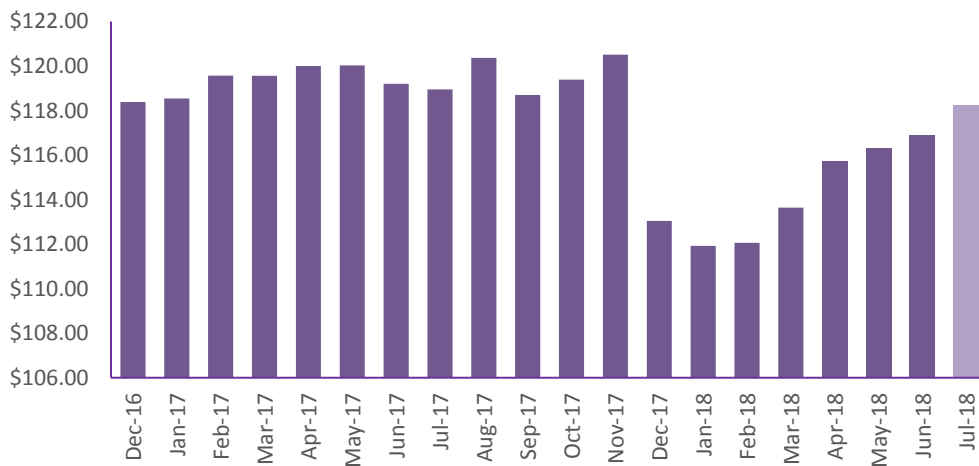


Chart 17. Growth of Bloomberg NZBond Composite Index: 2016 – 2018



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INDEX <GO>

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