

DCM Watch

Diversity drivers: global funding opportunities for issuers

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As the global search for capital heats up, Australasian corporates and financial institutions are focused on diversifying their funding sources. Anna-Marie Slot, Head of High Yield at Ashurst in Hong Kong, and Nigel Pridmore, Debt Capital Markets Partner, Hong Kong, discuss where their clients are finding liquidity, how regulation is changing the funding landscape for Aussie banks and what investors are looking for in a low yield environment.

Where are you seeing funding opportunities for Australasian issuers right now?

Nigel Pridmore: Issuers are generally taking a far more integrated approach to funding globally. Rather than treating markets as disparate, they are approaching them more strategically, depending on how interest rates for other currencies and swap rates back into Australian dollars (AUD) are unfolding.

There is a large and growing pool of private wealth investors in Asia Pacific who have a lot of money in different currencies to put to work. They have a significant pool of US dollars (USD), for example, ready to be deployed, so issuers often don't need to go to the US market to access USD. The Asian market is – just like any other part of the Euro markets – a global market in many different currencies.

Anna-Marie Slot: The private wealth base in Asia Pacific has been growing. Historically, that money went into real estate in Hong Kong, China or Japan, but now they are investing heavily in corporate bonds. They're interested in anything that offers yield, and they're more likely to buy if there's some name recognition. In terms of duration, we're seeing five- to seven-year USD funding in the Asian bond markets and a robust appetite for up to three-year money in the Dim Sum market out of Hong Kong.

What structures are appealing to Asia Pacific investors?

Anna-Marie Slot: Yield is the real driver – in many ways these investors seem to be product agnostic. We see good appetite for high yield debt, renminbi (RMB) – which carries completely different covenant packages – perpetuals and hybrids. We're also seeing dual tranche AUD/USD deals – there is one in particular in the market at the moment which is generating real interest.

Nigel Pridmore: One of the most interesting structures we've seen recently out of Australasia was ANZ Bank's RMB2.5 billion five-year Tier 2 Dim Sum bond, which was issued in January. Westpac sold a RMB1.5 billion Dim Sum bond just days later. Clearly this is a market which is very comfortable with regulatory capital deals – the Chinese banks have been doing these types of transactions for some time – and the yield on these Tier 2 deals makes them attractive to investors. With global regulatory capital rules changing, banks will need to find new sources of capital, so this is a very good prospect for Australian financial institutions.

How is the RMB market developing as a viable funding source?

Nigel Pridmore: China is a \$10 trillion economy. The macro-economic environment in China means the country has almost reached the limit of what it can achieve as a manufacturing economy. That means a need to upgrade the technological base of the economy through offshore M&A and to liberalise the currency to

enable that. This drives the RMB market and issuers will increasingly access funding from this market as they do with Euro/US markets.

While this is still primarily a market for Chinese state-owned enterprises, Chinese banks and conglomerates, we have also seen US and European issuers tapping it.

Anna-Marie Slot: China tends to think very long term and will consider how it enables the market to develop as well as the process of liberalising the currency. But in the meantime we are seeing the deposit base of RMB outside China growing and this presents a great opportunity for Australian issuers.

The key challenge to overcome is, of course, the swap market, which is not very deep. So unless you have a need for RMB, you will still be limited by the swap market.

How is the Euromarket shaping up for Australian issuers?

Nigel Pridmore: Europe is a very interesting market now because of the rock bottom interest rates. We are seeing companies with strong credit and good names funding at low rates and locking in very long term funding, such as 100-year deals. Earlier this month Mexico sold the world's first euro-denominated "century bond", that is 100-year government notes in euro – a

euro1.5 billion March 2115 issue. Meanwhile, Germany and Switzerland have sold debt at negative yields, meaning investors are effectively paying to hold their paper.

We're seeing a lot of action in the corporate hybrid market as well, as appetite for yield strengthens.

What is sentiment like in the US market towards Australian issuers?

Anna-Marie Slot: US markets like all markets are driven by a combination of macroeconomic factors and sentiment. Australia is always very interesting because of the resource play – mining, and oil and gas have been real favourites for high yield investors in particular. However, that appetite has moderated in the wake of the plummeting prices of oil and iron ore.

Until those prices come to some kind of bottom and people fundamentally understand what is driving them, investors will remain sceptical on these sectors. This investor caution makes it more difficult for Australian issuers in these sectors to access the US markets.

For more information about opportunities in global debt capital markets, please contact us.

Contacts

Paul Jenkins	Sydney	T: +61 2 9258 6336	paul.jenkins@ashurst.com
Jamie Ng	Sydney	T: +61 2 9258 6753	jamie.ng@ashurst.com
Nigel Pridmore	Hong Kong	T: +852 2846 8922	nigel.pridmore@ashurst.com
Anna-Marie Slot	Hong Kong	T: +852 2846 8966	anna-marie.slot@ashurst.com

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