

BondAdviser Weekly Update

Economic Schedule

Wednesday:

- AOFM Tender: \$1 billion, 1.25% May 2032 Treasury Bond
- US June Markit Manufacturing PMI (survey: 61.5, last: 62.1)

Thursday:

- US Q1 GDP (survey: 6.4%, last: 6.4%)
- Bank of England Bank Rate (survey: 0.10%, last: 0.10%)

Friday:

- US May Personal Income (survey: -2.5%, last: -13.1%)
- US May Personal Spending (survey: 0.4%, last: 0.5%)

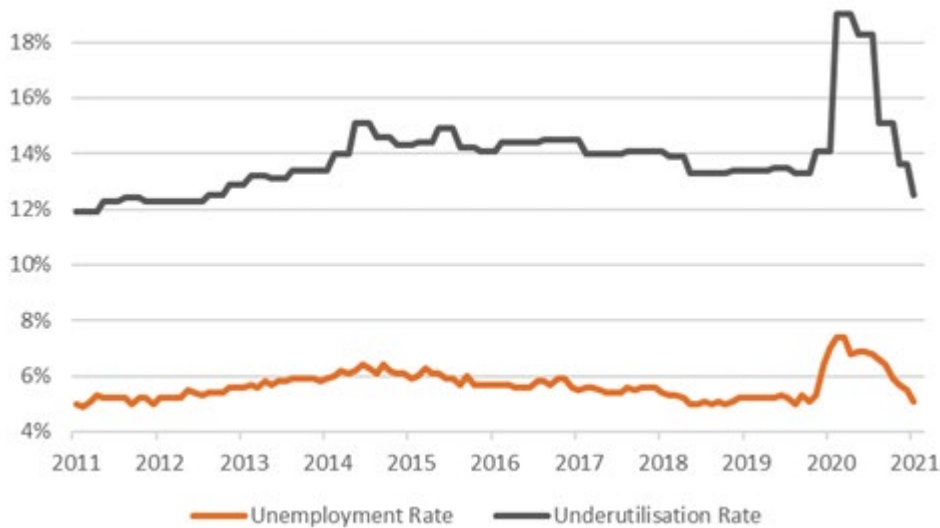
Issuance Update

- Today, **Lendlease International Towers Sydney Trust** (LLITST Finance)(Baa1), is seeking indications of interest on a fixed 9y A-MTN. Initial price guidance is S/Q ASW +150bps, with an indicative yield of 3.00%.
- Yesterday, **Emeco Pty Ltd** (B1), a subsidiary of Emeco Holdings Ltd (**ASX: EHL**)(B1/B+/B+), launched a A\$150 million 5NC2 senior secured (OpCo) transaction. Initial price talks are 6.25 – 6.50%, *which we place at the tighter end of fair value*.
- Last Wednesday, **Goldman Sachs Group** (A2/BBB+/A) priced a A\$325 million 6NC5 FRN-to-FRN, with a coupon of 3mBBSW +95bps.
- Last Wednesday, in a first for the AUD market, **Wesfarmers Limited** (**ASX: WES**)(A3/A-) priced a sustainability-linked bond (SLB) in two offerings. The 7-year priced A\$650 million at S/Q ASW +77bps and the 10-year priced A\$350 million at S/Q ASW +98bps. *Given the appetite for SLBs we expect strong secondary trading*.

Caught Our Eye

Employment Beat but Comparison is Hard

As we expected, growth in the domestic economy continues to surpass consensus. Australia's unemployment print for May 2021 was a substantial beat on expectations (5.1% vs 5.5%). We are now at largely pre-COVID, February 2020 levels. Even more bullish was the underutilisation rate, which combines underemployment and unemployment, which fell 0.7pts to 12.5% - the lowest since February 2013. We recognise some bias to these figures given the outflux of non-resident workers – as is evident in robust job vacancy rates.



Fed Speak Overreaction but Possible Misstep on Plumbing Policy

Whilst a stronger growth outlook would be bearish for duration, a pivot in the language of the US Fed overshadowed any inflationary pressures domestically. In fact, somewhat paradoxically, the USD and AUD yield curves flattened, rather severely also – the fall in the 30y - 5y spread was a 3 sigma move.

We characterise this flattening being due to markets assuming the Fed will stop inflation overheating – in effect protecting the long-end. In other words, whilst pricing for near term hikes has increased, markets now feel the best we can do is less than two years' worth of rate hikes. We also suspect there was a somewhat of a short-squeeze – the re-widening at the long-end of the curve today is indicative of this. Ultimately, we still expect an upward shift across the board domestically, reflecting a more normalised curve – as the stimulus wanes this will eventually flatten in shape.

Slipping under the radar, the Fed increased two administered rates, both the IOER and RRP, by 5bps. We think this will have unintended liquidity consequences. At 5bps, cash funds have an incentive to trade out of Treasury bills and stash cash in the reverse repo purchase facility.



Woolworths-Endeavour Demerger Approval

Shareholders of Woolworths (ASX: WOW) voted in favour of a demerger from the Endeavour Group. While the split will initially provide WOW with a \$566 million improvement in net cash position, the Group have flagged a \$1.6 - \$2.0 billion special dividend.

Alongside the now approved \$552 million bid on 65% of PFD foods, we expect to see deterioration in net debt position. In parallel with a less diverse revenue stream, we expect the credit profile to be moderately weaker, however not sufficiently so from a ratings action perspective.

Recommendation Updates

Wholesale:

- [Avanti Senior Secured Notes 1](#)
- [Avanti Senior Secured Notes 2](#)

Retail:

- None

BondAdviser Index Analysis (17 June 2021)

[BA Index Charts \(PDF\)](#)

BondAdviser \$A Financials RV Curves (18 June 2021)

[A\\$ Financials RV Curves \(PDF\)](#)

BondAdviser Global Markets Wrap (18 June 2021)

[Market Data Wrap \(PDF\)](#)

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