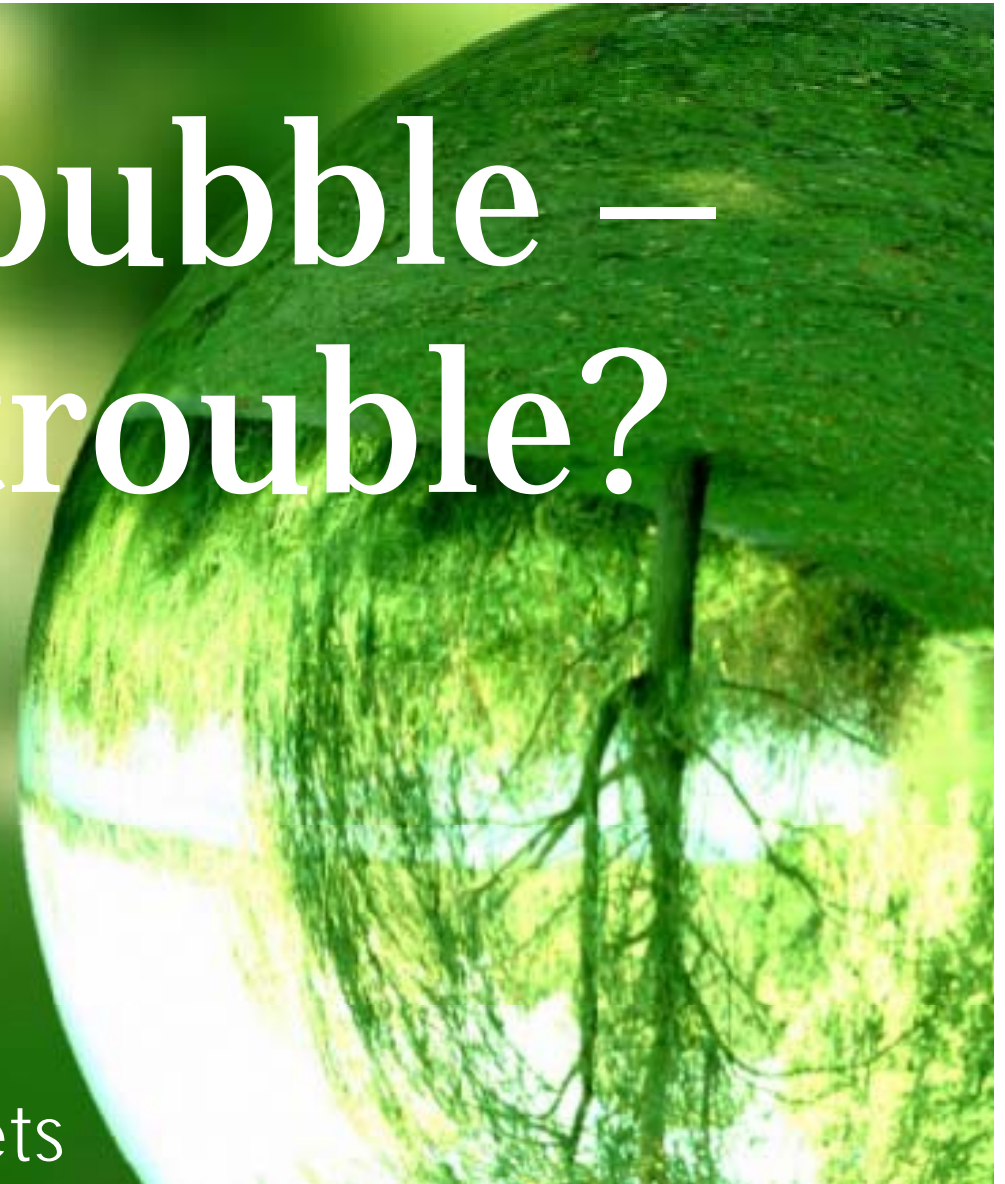


# Bubble, bubble – toil and trouble?

15 February 2011

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facilitating  
debate on the  
outlook for the markets





# Anthony Kirkham

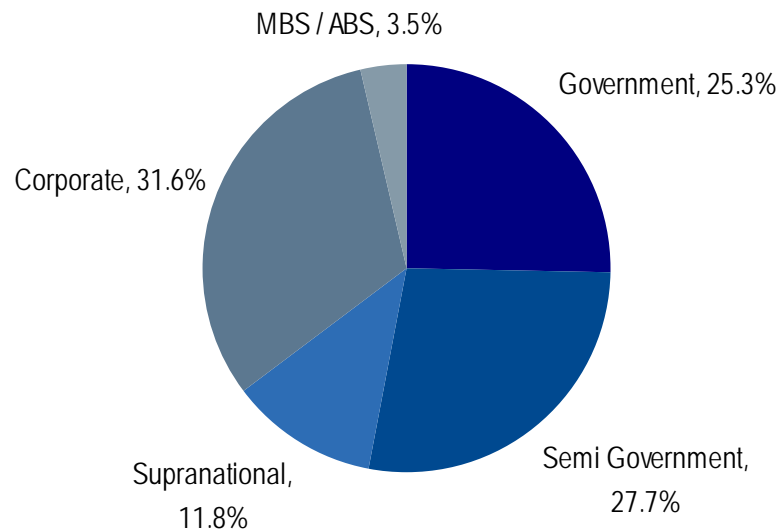
Head of Investment Management  
Western Asset Management

# Bond Market Changes

## Sector Allocation

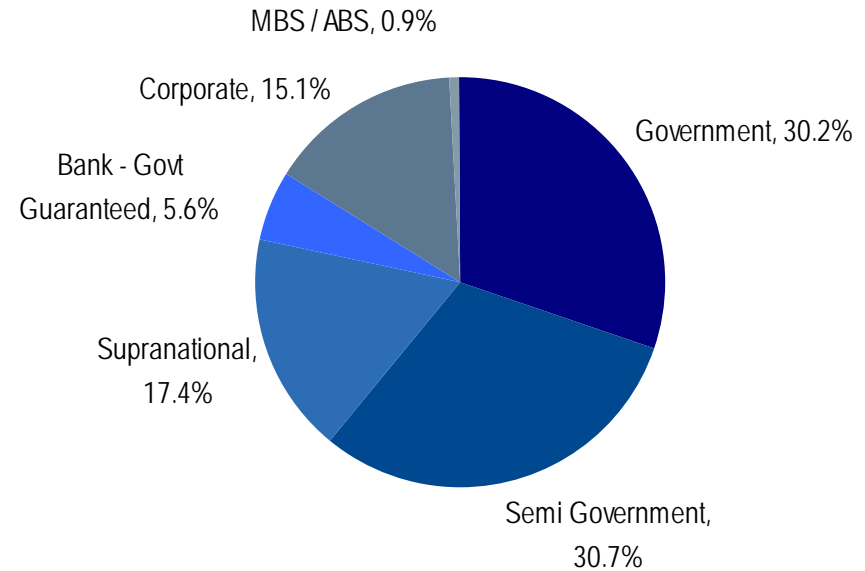
31 December 2005

Total Market Value : \$ 197,318,715,070



31 December 2010

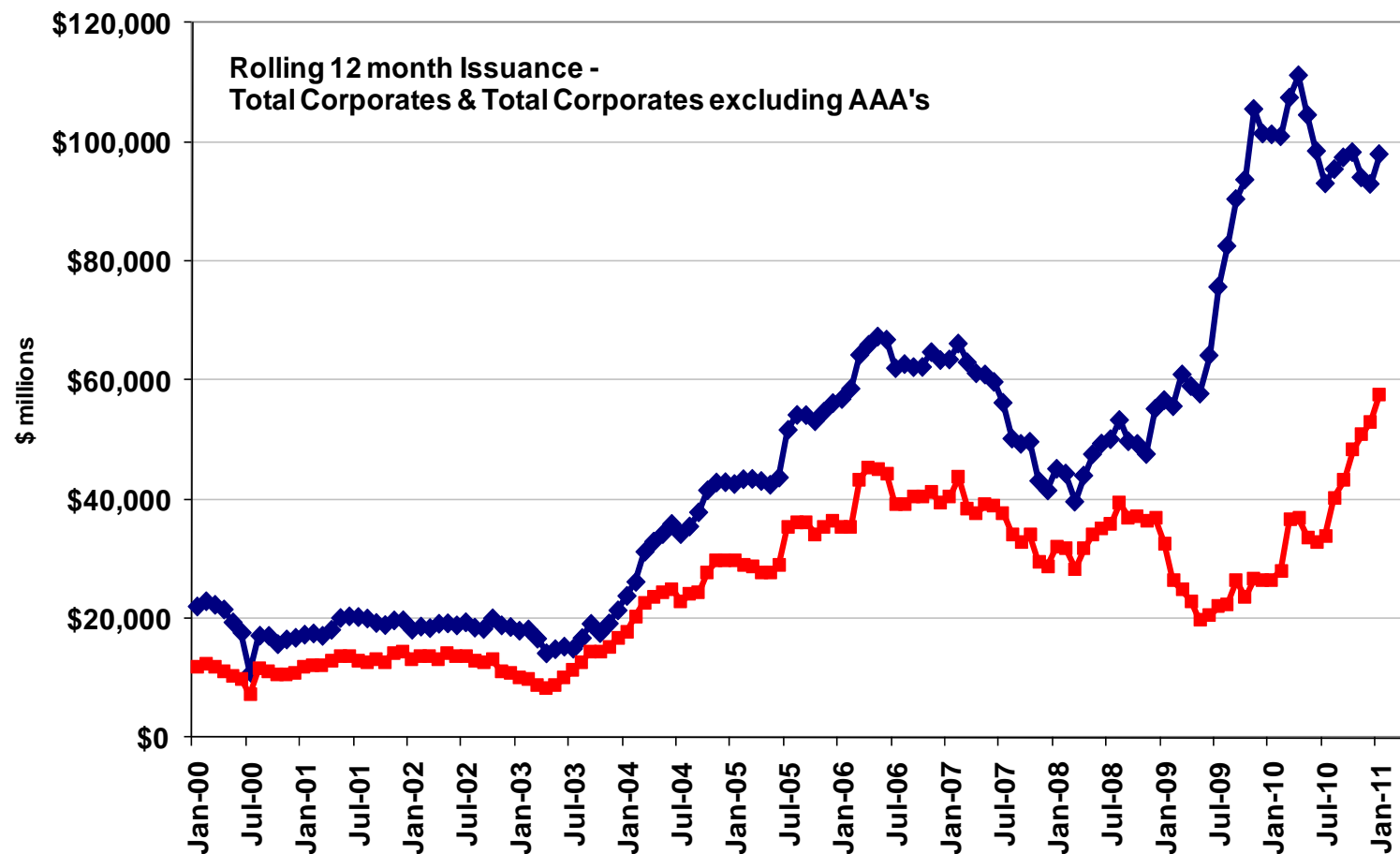
Total Market Value : \$ 484,927,198,724



- Bond market growing
- Benchmarks changing
- Not the time to be indexed

*Data may not add up to 100 due to rounding. Source: UBS, Western Asset.*

## Issuance Sprung to Life



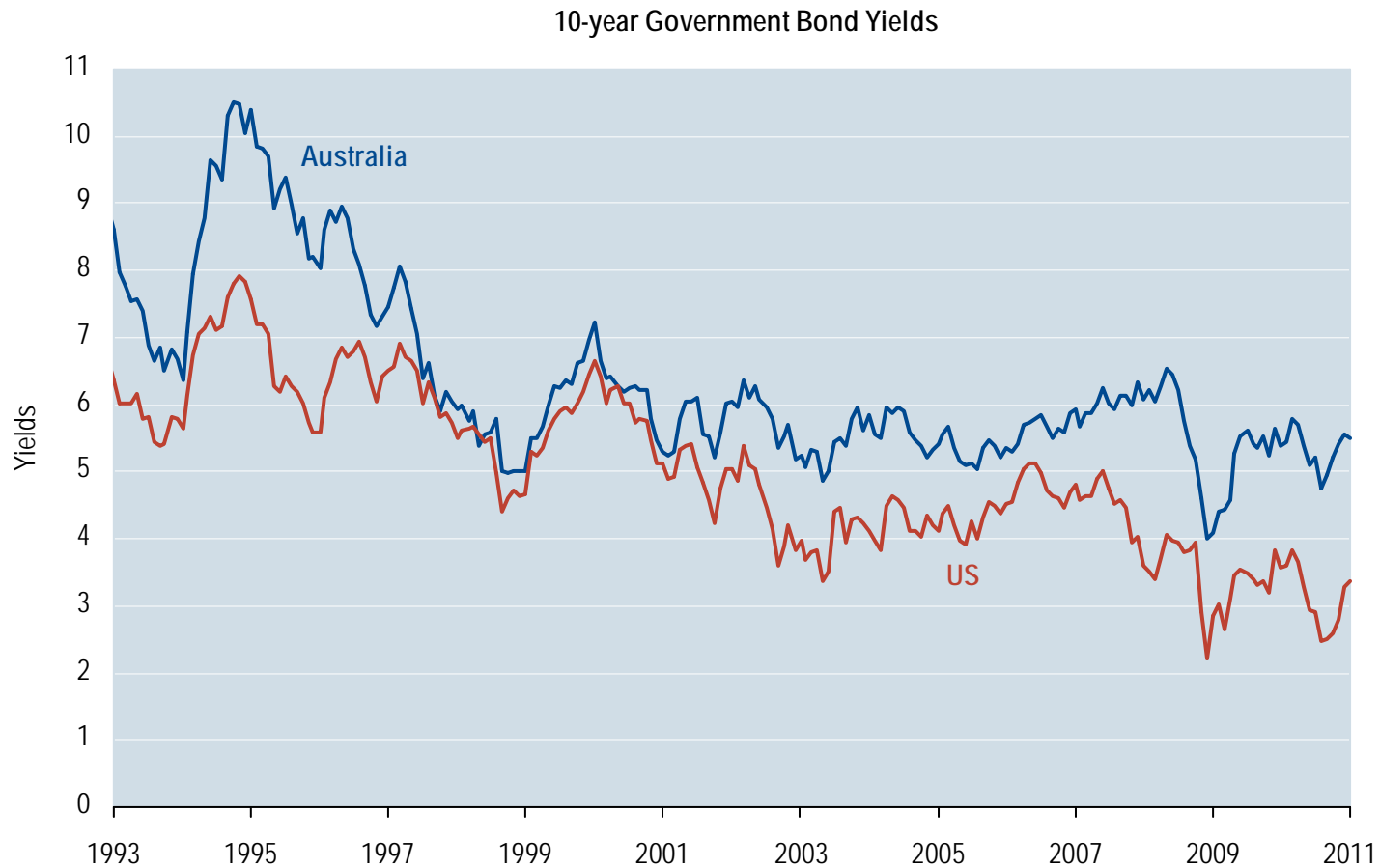
Source: NAB Wholesale Banking Credit Research. As of Jan 11.

## New Wave of Issuance

Issuer	Vol (AUD mil)	Maturity	Term	Swap +	S&P	Moody's
GE Capital Australia Funding	750	8 Oct 15	5.0	+175	AA+	Aa2
Mirvac Group Finance Limited (Mirvac)	200	16 Sep 16	6.0	+250	BBB	
Dampier Bunbury Natural Gas Pipeline (DBNGP)	550	29 Sep 15	5.0	+300	BBB-	Baa3
Macquarie University	250	9 Sep 20	10.0	+170		Aa2
National Wealth Management Holdings Limited	130	31 Aug 15	5.0	+220	AA-	
Asia Pacific Airports Melbourne Pty Ltd	250	25 Aug 16	6.0	+190	A-	A3
APT Pipelines Ltd	300	22 Jul 20	10.0	+240	BBB	Baa2
Sydney Airport	175	6 Jul 15	5.0	+265	BBB	Baa2
Telstra Corporation Ltd	150	15 Jul 20	10.0	+200	A	A2
AMP Capital Shopping Centre Fund	200	28 Apr 15	5.0	+185	A	
Dexus Finance Pty Limited	100	21 Apr 17	7.0	+270	BBB+	Baa1
Adelaide Airport	200	15 Sep 15	5.5	+255	BBB	Baa2
Mirvac Group Finance Limited (Mirvac)	150	15 Mar 15	5.0	+265	BBB	
SPI Electricity & Gas Australia Holdings Pty Ltd	200	25 Sep 17	7.5	+152	A-	
Westpac Banking Corporation (WBC)	230	11 Feb 20	10.0	+145	AA	Aa1
Commonwealth Bank of Australia (CBA)	250	5 Feb 20	10.0	+142	AA	Aa1

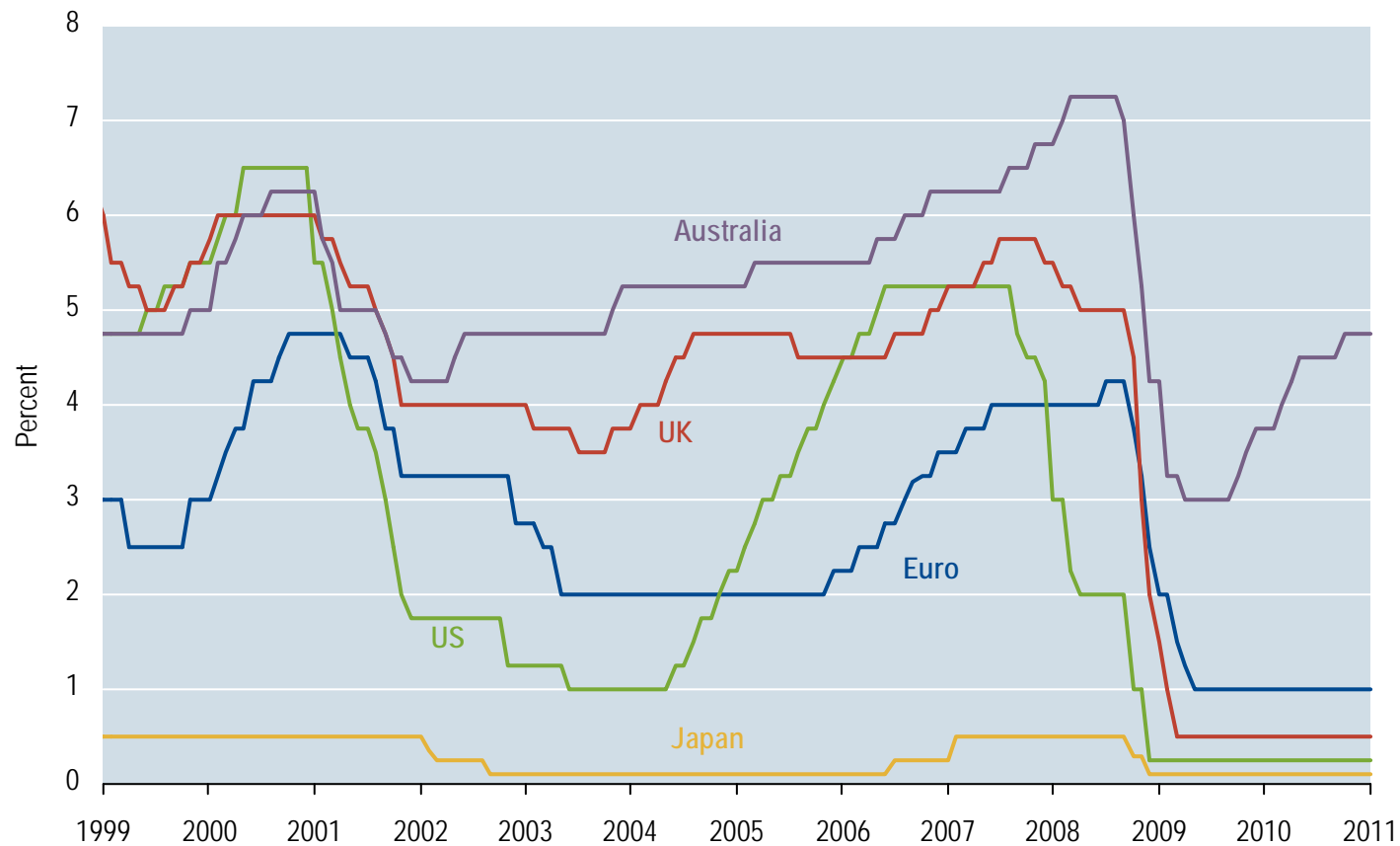
- Longer dated issuance
- Deepening sectors
- New/Reinvigorated sectors

## Bond Bubble? Not Here!



Source : Bloomberg. As of 31 Jan 11.

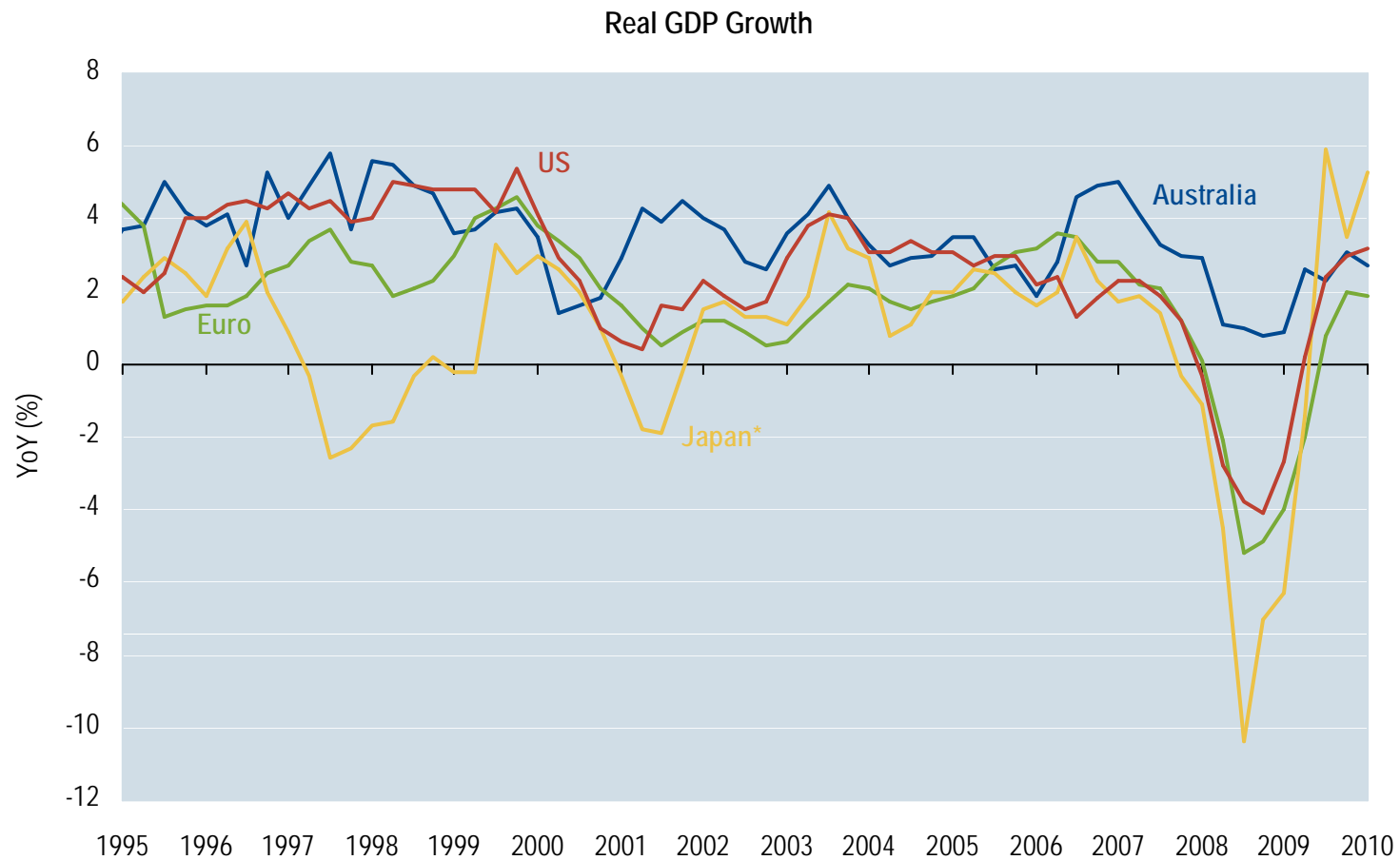
## Policy Rates



- RBA normalized rates
- For the others, the only way is up! But not yet ..

Source : Bloomberg. As of 31 Jan 11.

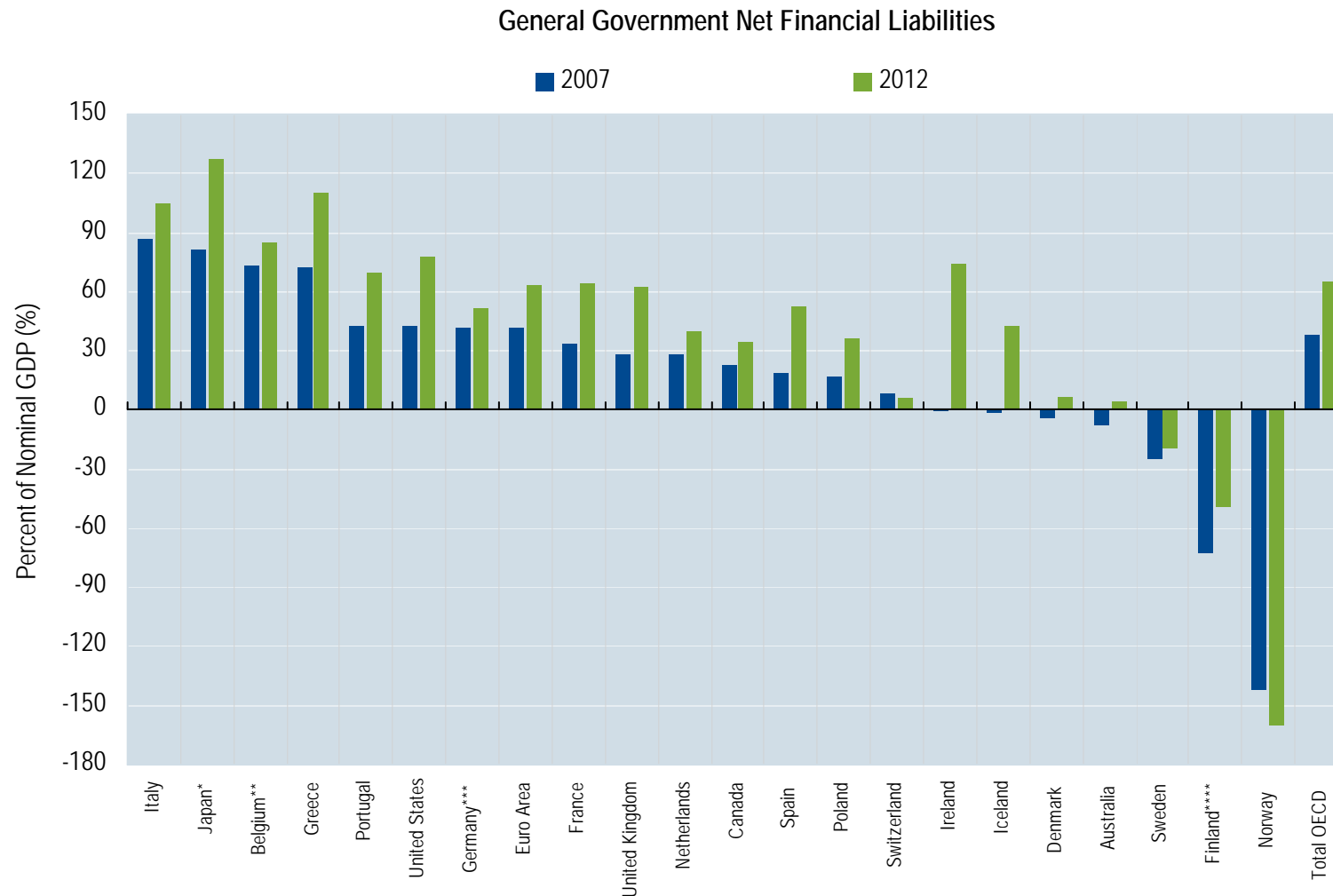
## The “Lucky” Country



*\*Non-seasonally adjusted.  
Source : Bloomberg. As of 30 Sep 10.*



# The Debt Binge



\*Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards

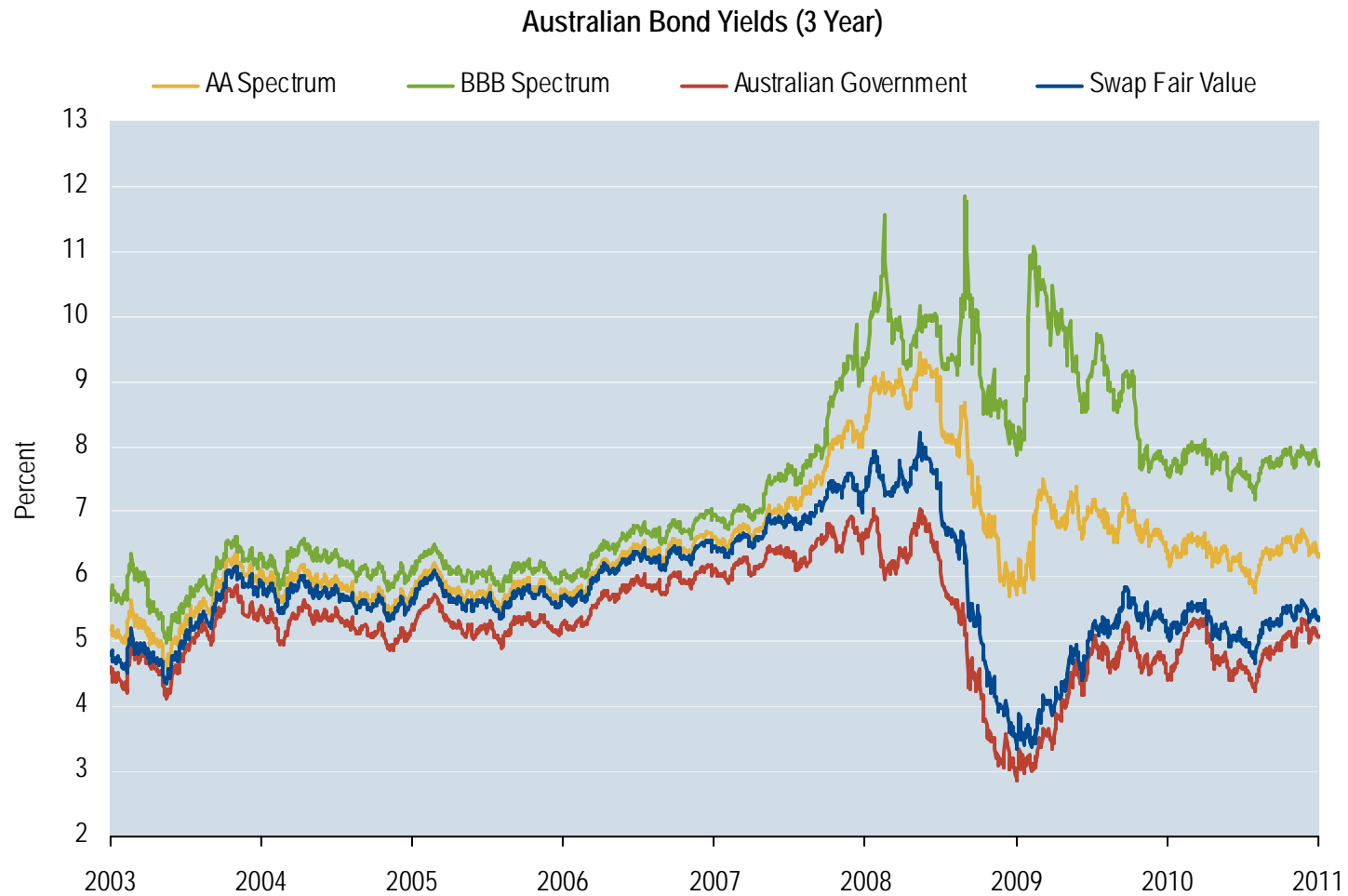
\*\*Includes the debt of the Belgium National Railways Company (SNCB) from 2005 onwards

\*\*\*Includes the debt of the Inherited Debt Fund from 1995 onwards

\*\*\*\*From 1995 onwards housing corporation shares are no longer classified as financial assets

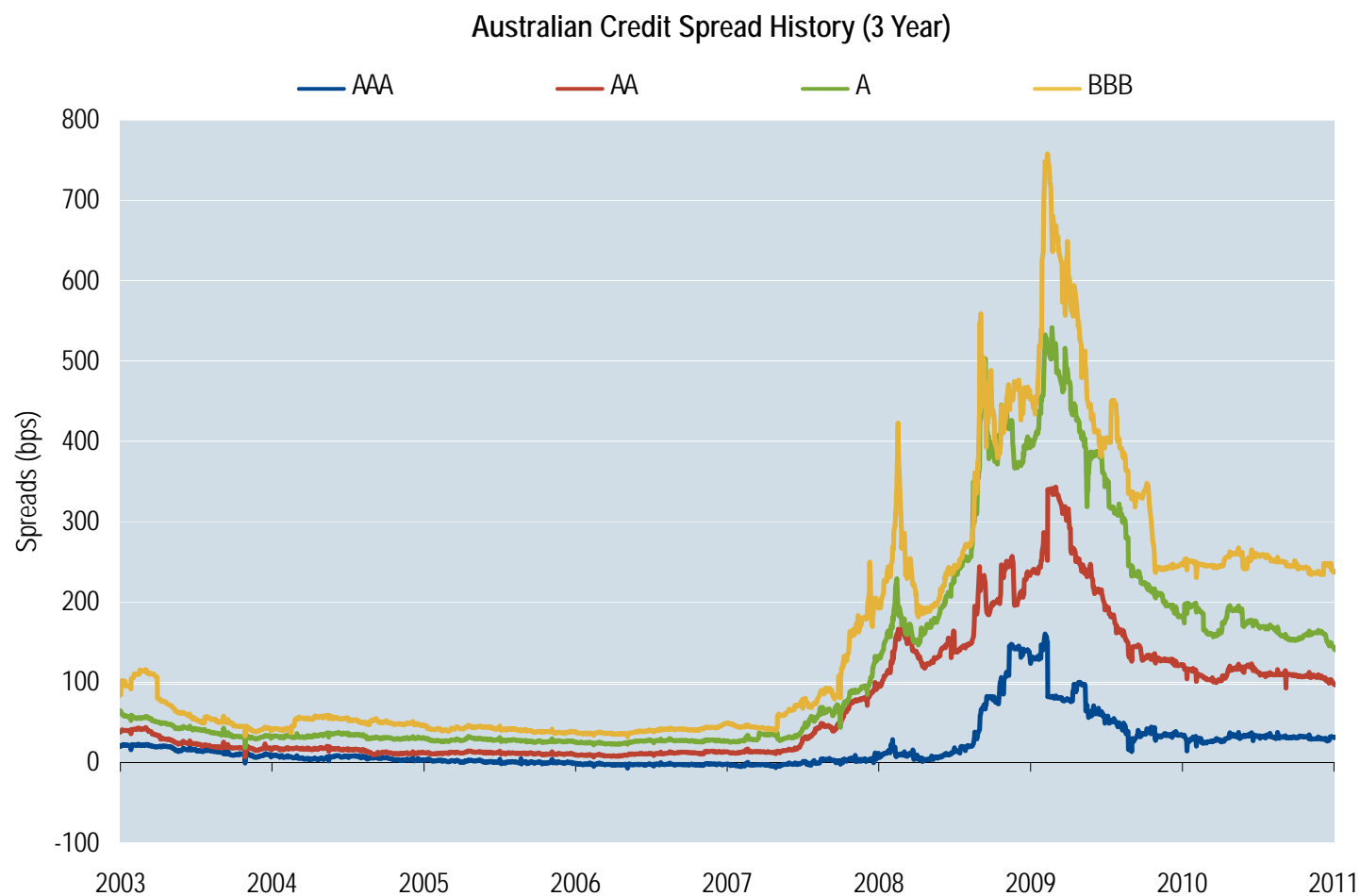
Source : OECD Economic Outlook No.88, OECD Economic Outlook : Statistics and Projections (database). Accessed on 31 Dec 10.

## No Bond Bubble Here Either!



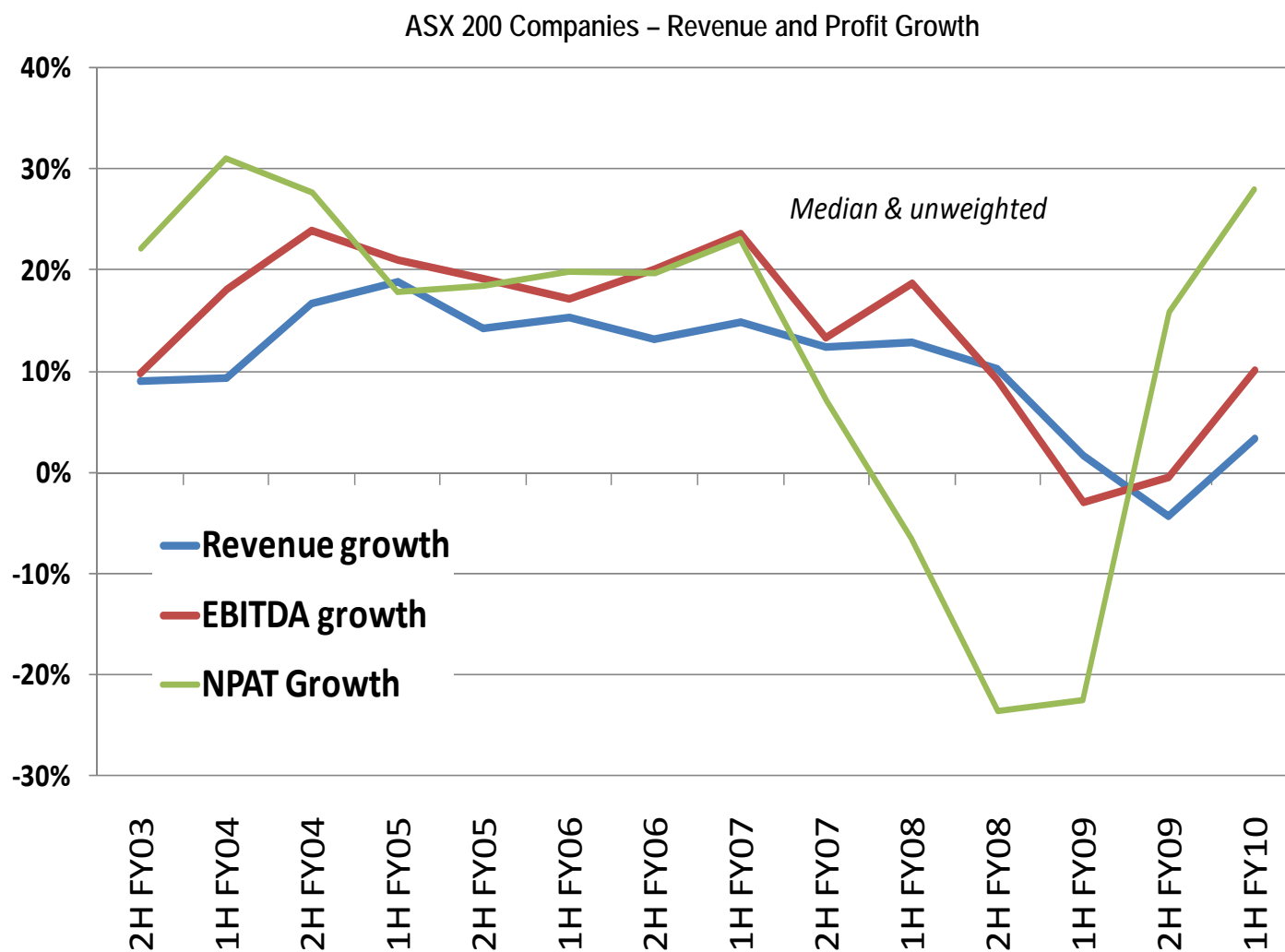
Source : Bloomberg; NAB Wholesale Banking Credit Research. As of 31 Jan 11.

## Excellent Value Still Here!



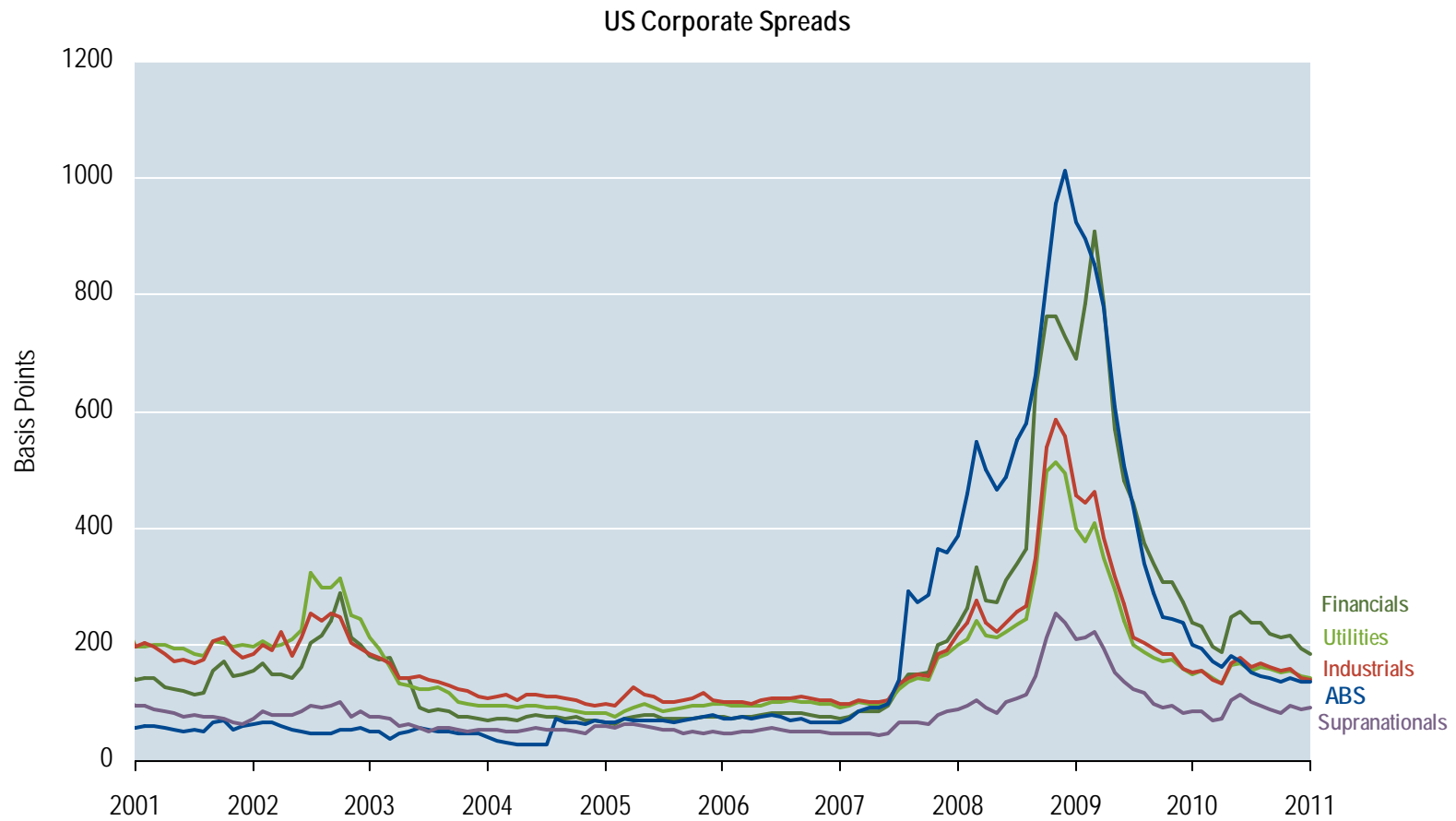
Source: NAB Wholesale Banking Credit Research. As of 31 Jan 11.

## Australian Profits Rising and Revenues Rebounding



Source: NAB Wholesale Banking Credit Research. As of Jan 11.

## Less Value Here!



Source: Bloomberg using Merrill Lynch Indices. As of 31 Jan 11.

# 2011 Global Outlook

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## Outlook

- Systemic risk is abating in the US but concerns remain in Europe
- Economic recovery ongoing
- Secular headwinds remain in developed countries
- Inflation to remain benign but longer term risks exist following QE2
- Central bank policy supportive of capital markets/economy

## Risks

- Growth disappoints
- European sovereign debt problems and impact on financial institutions
- State and local fiscal imbalances
- Chinese growth and inflation concerns
- Policy issues
  - QE2
  - Financial regulation
  - Basel III
  - Global trade restrictions

*The above reflects current opinions of Western Asset.*

# 2011 Domestic Outlook

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## Outlook

- GDP growth around trend ~ 3.0-3.5%
- Inflation to remain within target band of RBA
- RBA to continue to tighten monetary policy in 2H 2011

## Risks

- Consumer caution
- RBA too aggressive
- Chinese policy failure

## Strategy

- Active duration management
- Overweight to corporate securities, concentrated in financials, property trusts and utilities
- Underweight to Commonwealth Government securities and selective supranationals
- Overweight to government guaranteed bank securities

*The above reflects current opinions of Western Asset Management.*

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