NAB leads the return to Eurobonds

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National Australia Bank was the first major local bank to dip its toes back in the Eurobond market with a €1 billion ($1.4 billion) three-year note, the first sizable floating-rate issue in 3½ years.

NAB paid a 47 basis point margin to the three-month Eurolibor rate bond in Tuesday's issue. The margin is equivalent to around 90 basis points over Australian swaps, according to credit analysts.

The spread is a few basis points wider than current domestic levels, perhaps accommodating a "new issue" premium. However ,the euro market offered NAB greater volume, market diversification and an alternative way to structure its liabilities.

"We think NAB's issue priced fairly. It was quite a large issue, and is the first time they've done a floating rate note of that volume in Europe since 2007," said FIIG Securities' director of financial institutions and corporate research, Justin McCarthy.

More than half of the deal was allocated to banks, but it also attracted demand from fund managers and insurance companies. That helped to price the instruments three basis points tighter than guidance.

"The transaction highlights the opportunities in the FRN markets, available to the Australian banks," said Deutsche Bank's director of debt capital markets, Anita O'Brien.

Deutsche Bank – which along Credit Suisse and NAB managed the issue – said the deal is significant because no such transaction had been launched by an Australian bank since the beginning of the global financial crisis in 2007.

The last benchmark euro floating-rate bond issue was a €1 billion issue by NAB in January 2007. While the 20 basis point credit margins for three-year paper available to Australian banks back then are not expected to be seen again for at least another decade, the re-appearance of the Australian banks in the floating-rate euro market is good news for the big four.

Australian banks rely on offshore investors for about 70 per cent of their total wholesale funding. With healthy balance sheets, high credit ratings, and big market capitalisation, they are among the strongest and safest financial credits globally.

"Investors were attracted to the issue by the high quality of the issuer and the diversification the trade offered versus most of the recent supply in that sector, which has been mainly from European banks," Ms O'Brien said.

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