COPUBLISHED FEATURE

DIVERSITY, REGULAR ISSUANCE AND OFFSHORE DEMAND

Strong momentum in the Australian securitisation market over 2024 meant primary issuance eclipsed the 2023 post-financial-crisis record issuance volume, of A$52.4 billion, by the end of September. Subsequent activity has now surpassed the previous high-water mark of A$64.1 billion set all the way back in 2006. With numerous active mandates as of the end of October, 2024 will undoubtably set a formidable benchmark for activity.

The year started on a strong note with Westpac Banking Corporation's WST 2024-1 residential mortgage-backed securities (RMBS) deal in late January. At A$2.75 billion (US$1.8 billion), this was the largest major-bank deal since January 2020. It also helped lay a tremendous runway for pricing and relative value in Q1.

Relative undersupply from the major banks over the last few years has seen a rapidly diminishing stock outstanding, which has flow-on effects to secondary benchmark pricing. A deal of this size helped stimulate turnover and secondary price discovery.

A feature of the maturing market has been the diversity of issuers and the rise of nontraditional asset classes across areas such as auto and equipment, personal loans and consumer receivables. In total, 71 per cent of Q1-3 2024 issuance came from the nonbank sector, on par with levels observed over the last few years though head and shoulders above the immediate post-financial-crisis period.

Martin Jacques, head of securitisation and covered bond strategy at Westpac Institutional Bank (WIB) in Sydney, says this has continued the trend of the last decade as nonbank originators have "gone from strength to strength and really built on their investor base".

Jacques adds: "Over the last few years, many ADIs [authorised deposit-taking institutions] have withdrawn from certain segments of the market including standalone auto and equipment finance. This has created an opportunity for nonbanks to get involved, which has not only diversified their product offering but led to a lot of volume coming through primary markets."

As well as the number of originators, the diversity of asset types being offered has continued to grow – including reverse mortgages and medical lease receivables among others. A corollary to this dynamic has been a growing appetite from the investor segment to diversify their holdings and enhance returns.

Demand has continued to grow strongly, built on Australia's relative value and also because offshore investors are well acquainted with nonresidential and other asset-backed securities (ABS) as an asset class. "The rapid growth of other ABS issues in our market has attracted a large amount of offshore investment and Australia looks comparatively cheap from a global relative value point of view," Jacques explains.

Another factor winning the confidence of foreign investors is a more mature market with efficient risk-retention structures and enhanced data and analytics capabilities. Amy Kok, director, structured finance at WIB in Sydney, says the increasing adoption of international data reporting standards has been key to engaging offshore investors and "made it easier to draw their attention and bring them into deals".

She continues: "There will always be peaks and troughs of course, but we are certainly among the favourite markets for foreign investors at the moment." In particular, Kok notes the strong interest from Europe and Japan.

Hugh Norton, WIB's Sydney-based global head of credit trading, adds that "greater availability and quality of information at hand" has changed perceptions about liquidity. "This has also been assisted by expanded active market-making, along with some public displays of liquidity including the LDI [liquidity-driven investment] related BWICs [bids wanted in competition] in late 2022," he says.

Market momentum has also been conducive to the development of a deeper secondary market, which Jacques notes has been important in giving offshore investors more confidence in Australian securitisation. He explains: "If they get involved in primary issuance it is good for them to know there is a robust secondary market should they need to liquidate their holdings at any time. I believe secondary-market liquidity has been a key feature in attracting the rate of investment."

All this has added up to a regular flow of issuance with deal sizes sufficient to retain the engagement of offshore investors. "Until recently, and particularly in the ABS space, deals were smaller and we didn't have regularity of issuance coming through. It is only in recent times that there has been the ability for investors to participate and stay invested in decent sizes," Jacques says.

James Kanaris, head of structured finance at WIB in Sydney, observes that the growth in the Australian securitisation market has been facilitated by a growing number of intermediaries supporting it. He comments: "At WIB, we provide our clients with a comprehensive range of structured finance services to streamline market access efficiently and promptly. It has been rewarding in 2024 to facilitate more than 50 Australian public ABS issuance transactions to date." ■