4. Domestic Financial Conditions

In recent months, the Reserve Bank's comprehensive package of policy measures has kept funding costs low across the economy and continued to support the availability of credit for households and businesses. Financial market functioning remains much improved from the period of upheaval in March. Australian banks' funding costs have declined to historically low levels. This has flowed through to interest rates on housing and business loans, which are also at historic lows. Lenders have taken steps to ease loan payment obligations for households and businesses whose incomes have been adversely affected by the COVID-19 disruptions. About half of eligible authorised deposit-taking institutions (ADIs) have accessed the Bank's Term Funding Facility (TFF) and, on average, those ADIs have used around two-thirds of their initial allowance.

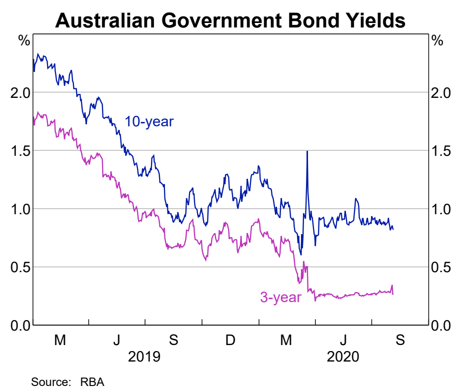
Conditions in government bond markets have normalised and yields on 3-year government bonds have been consistent with the target

Following a large rise in volatility and severe impairment in market functioning in March, market conditions have improved noticeably in recent months. This improvement has been supported by the Bank's comprehensive policy actions, including the purchase of both Australian Government Securities (AGS) and bonds issued by the states and territory borrowing authorities (known as semi-government securities, or semis). Also, the yield on 3-year AGS has been consistent with the target of around 25 basis points. Meanwhile, yields on longer-term bonds have stabilised in a narrow range, alongside a reduction in volatility in overseas financial markets (Graph 4.1). The differential between 10-year AGS yields and the yield on 10-year US Treasury bonds has been steady at around 20–30 basis points (Graph 4.2).

With government bond markets functioning well and the 3-year AGS yield consistent with the target of around 25 basis points, the Bank had not needed to purchase government bonds for much of May, June and July; this followed purchases of AGS and semis from March to early May that had amounted to around $50 billion. However, the 3-year AGS yield had been a little higher than 25 basis points over recent weeks. Accordingly, in early August the Bank purchased AGS in the secondary market to ensure that the yield on 3-year bonds remains consistent with the target. Further purchases of AGS will be undertaken as necessary to meet the yield target. The Bank continues to stand ready to purchase AGS and semis to address dysfunction in government bond markets were it to reoccur.

The improvement in market conditions since March is evident in the narrowing in bid-offer

Graph 4.1



spreads on both AGS and semis, which have returned to their pre-crisis levels in recent months (Graph 4.3). Conditions in semis markets took a little longer than for AGS to return to a more normal state, reflecting a slower return of demand for semis (from longer term investors) and the usual approach of dealers to hold fewer semis on their balance sheet relative to AGS. Spreads between yields on semis and AGS are around or below the levels seen in late 2019 and early 2020 (Graph 4.4). Another indicator of the improvement in market conditions is the considerable narrowing in the bond-futures basis – the difference between the yield on a futures contract and the yield on the bonds underlying the contract, adjusted for the cost of financing the bonds (Graph 4.5). In addition, the ability to trade in bond futures without moving the price has recovered from the lows reached in mid March.

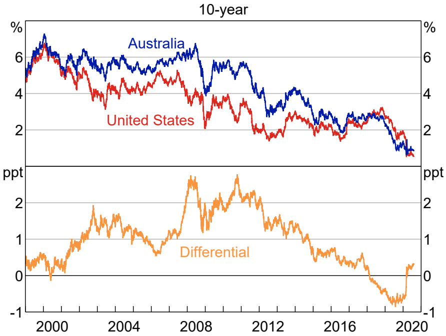
Financial markets have absorbed a large amount of government bond issuance

The improvement in market conditions has occurred amid significant issuance of government bonds (Graph 4.6). The Australian Office of Financial Management (AOFM) has issued around $105 billion of AGS and $48 billion of Treasury Notes since the beginning of May, a significant step-up in issuance reflecting the increased funding requirement for the COVID-19-related fiscal support. The increase in government debt expected for 2020/21 and the associated stock of debt outstanding are the

Graph 4.2

Government Bond Yields

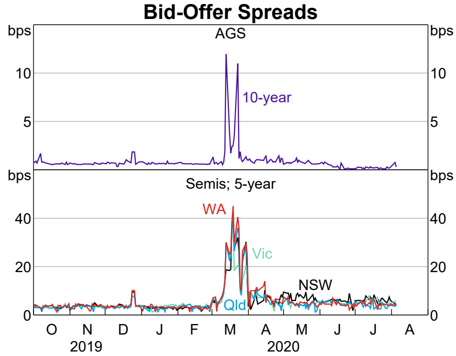
10-year



Sources: Bloomberg; RBA

Graph 4.3

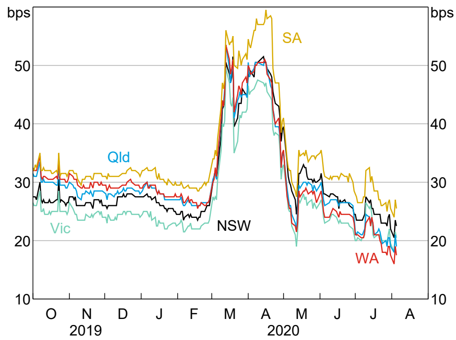
Bid-Offer Spreads



Sources: RBA; Yieldbroker

Graph 4.4

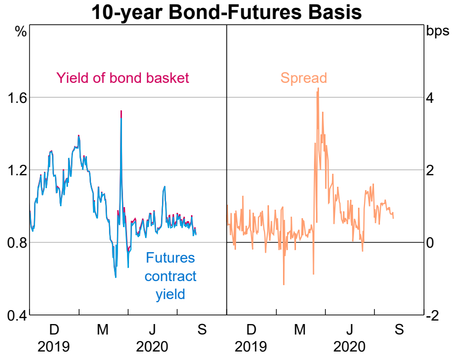
5-year Semi-government Bond Spreads to AGS



Source: Yieldbroker

Graph 4.5

10-year Bond-Futures Basis



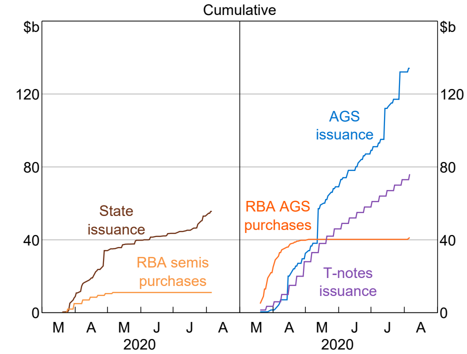
Sources: RBA; Thomson Reuters

largest as a share of GDP in decades, although they are not unprecedented (Graph 4.7). The stock of debt as a share of GDP also remains low compared to other advanced countries. Demand at the AOFM's tenders has been consistently strong, including for the three largest AOFM syndications on record, which raised $19 billion, $17 billion and $15 billion of the December 2030, November 2025 and June 2051 bonds, respectively. The pace of semi issuance has slowed in recent months, after having stepped up noticeably in April. Notwithstanding the marked increase in issuance, yields on AGS and semis are at historically low levels (Graph 4.8).

Graph 4.6

Government Issuance and RBA Purchases

Cumulative

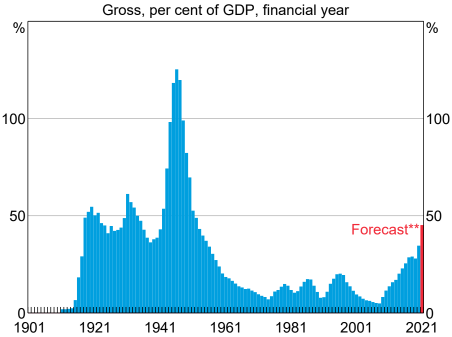


Sources: RBA; Yieldbroker

Graph 4.7

Australian Government Debt*

Gross, per cent of GDP, financial year



* Historical series contain structural breaks and adjustments

** 2020 July Economic and Fiscal Update

Sources: ABS; Australian Treasury; Barnard (1986); Butlin (1985)

Liquidity in the banking system is high

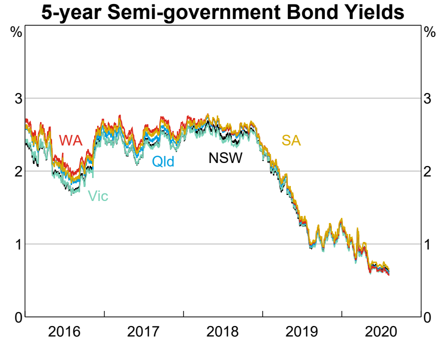
Liquidity in the banking system – as measured by banks' exchange settlement (ES) balances held at the Reserve Bank – remains elevated. The substantial increase in liquidity in March and early April arose from the additional provision of liquidity via the Bank's daily open market operations and purchases of government bonds. Since then, the Bank has changed how it conducts open market operations, moving from targeting a particular level of ES balances (and using price to allocate the funds), to meeting the demand of financial institutions at a steady repo rate. In doing so, the Bank has allowed ES balances to vary with changes in government spending and issuance, as well as financial institutions' demand for liquidity (Graph 4.9). While bank demand for liquidity through open market operations has eased in recent months, use of the TFF has increased, with around $30 billion drawn by early August (Graph 4.10). This has added to liquidity in the financial system in recent months and supported funding conditions.[1]

The cash rate has remained low and market expectations are for this to continue

Reflecting the large increase in ES balances, the cash rate has remained below the 25 basis point target over recent months, at 13–14 basis points.

Graph 4.8

5-year Semi-government Bond Yields

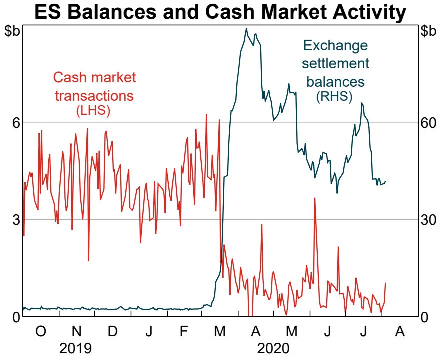


Source: Yieldbroker

The decline in the traded cash rate below the target rate is consistent with the experience of other countries in which there has been a significant increase in cash reserves in the banking system, and was expected when the policies were implemented. Because of high system liquidity, activity in the overnight cash market remained low compared with historical norms (Graph 4.9). In recent months, on some days activity has dropped below the thresholds required to calculate a transaction-based value of the cash rate. The published cash rate on all but one of those days was set as the last cash rate published based on sufficient transactions, in accordance with the published fall-back procedures.[2] On one day, the published cash rate was set at a different rate that, in the expert judgement of the Bank, better reflected current market conditions. Financial market prices for the year ahead imply that participants expect the cash rate to remain little changed from current levels (Graph 4.11).

Graph 4.9

ES Balances and Cash Market Activity

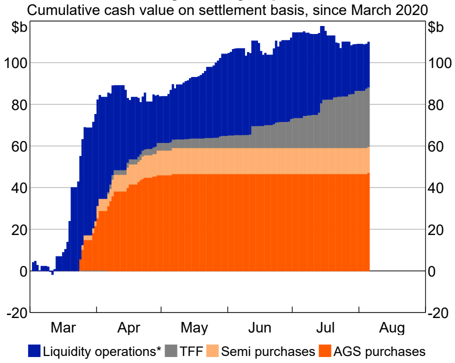


Source: RBA

Graph 4.10

Monetary Policy Operations

Cumulative cash value on settlement basis, since March 2020



* Liquidity injections net of drains and maturities; mainly contracted in OMOs and FX swaps

Source: RBA

Money market rates are very low

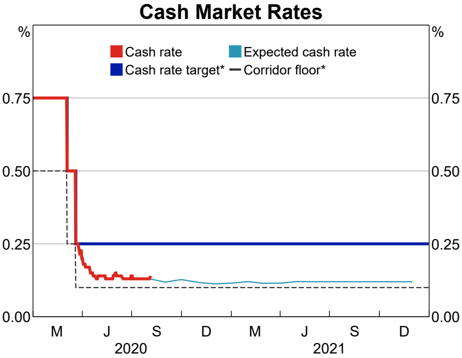
The elevated liquidity in the system is ensuring that short-term money rates are at historically low levels. (Graph 4.12). The rates on three-month bank bills remain at around 10 basis points, a little below the cash rate. These very low rates reflect many alternative sources of funding for the large banks. Repo rates at the Bank's open market operations have been steady at 18 basis points, around 6 basis points above the overnight indexed swap rate. The implied cost of borrowing Australian dollars via the foreign exchange swap market has declined steadily, to be around 15 basis points. This largely reflects a decline in US dollar money market rates.

Banks' overall funding costs have declined to historically low levels

Banks' (non-equity) funding costs have declined further in recent months, as the Bank's package of policy measures has worked to lower

Graph 4.11

Cash Market Rates



* Assumes unchanged future policy settings

Sources: Bloomberg; RBA

wholesale debt costs and wholesale and retail deposit rates (Graph 4.13). Much of the major banks' wholesale debt and deposit costs are ultimately linked (either directly or via hedging) to bank bill swap (BBSW) rates, which have declined by 65–70 basis points since the end of February.

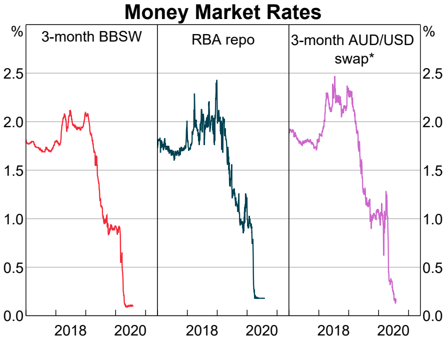
In general, banks have good access to low-cost funding. The share of banks' overall funding from deposits has increased by 2 percentage points since the end of February this year, as the stock of deposits held at banks grew strongly over March and April (see 'Box D: Recent Growth in the Money Supply and Deposits'). Banks have also accessed low-cost funding under the TFF, and many have indicated that they will take up their allowances in full over time. The share of overall funding from wholesale debt has declined.

Deposit rates have fallen further and bank bond yields are at low levels

Banks have responded to the ready availability of low-cost funding by reducing deposit rates further. Interest rates for new deposits have declined by between 40–70 basis points since the end of February. Term deposit rates, which typically pay higher interest rates than at-call deposits, have declined by more than rates on other deposits (Graph 4.14). Lower deposit rates have served to lower bank funding costs, with much of the recent increase in deposits flowing into transaction accounts that typically offer very low rates, often close to zero.

Yields on bank bonds are at historically low levels. This reflects low yields on AGS and swaps as well as low spreads to these reference rates. Indeed the spread of domestic bank bonds to AGS is the lowest it has been in at least the past 15 years (Graph 4.15).

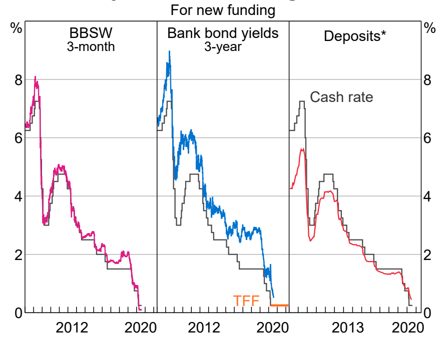
Graph 4.12



* Implied AUD cost via USD LIBOR funding and cross-currency swap

Sources: ASX; Bloomberg; RBA

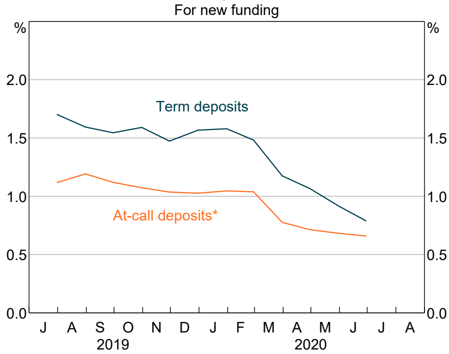
Graph 4.13



* RBA estimates; excludes deposits in housing loan offset accounts

Sources: AFMA; APRA; ASX; Bloomberg; major banks' websites; RBA; Refinitiv

Graph 4.14



* Includes deposits in housing loan offset accounts and non-interest-bearing deposits

Sources: APRA; RBA

Australian bank bond issuance has been low

Net issuance of bonds by the major banks has declined over the year thus far as maturities continue to exceed new issuance (Graph 4.16); this is consistent with strong liquidity positions, slow balance sheet growth, and access to lower-cost term funding through the TFF. By contrast, net issuance by non-major banks, which account for a much smaller share of the market, is within the range of previous years. Overall, Australian banks have issued around $14 billion of senior bonds since March. In April, only covered bonds were issued, but there was some senior unsecured bond issuance after April. Australian non-major banks and local branches of non-resident banks accounted for most of this issuance.

Take-up of low-cost funding available from the TFF has increased

The TFF provides a guaranteed source of low-cost funding to ADIs, and an incentive to support lending to businesses, particularly to small- and medium-sized enterprises (SMEs) (Box E: The Reserve Bank's Term Funding Facility). Through the TFF, ADIs have access to three-year funding at a fixed interest rate of 0.25 per cent. The maximum size of the facility has increased from about $90 billion at its inception to $154 billion in August, reflecting business credit growth since the commencement of the scheme. The bulk of the allowance (the initial allowance of $84 billion distributed across all ADIs) must be drawn by the end of September 2020, with the remainder (the additional allowance available to ADIs that have expanded lending to businesses) to be drawn by the end of March 2021.

In aggregate, the pace of drawdowns of the TFF has picked up in recent months (Graph 4.10). ADIs have drawn down around $30 billion or 35 percent of initial allowances, up from around $4 billion three months ago. Around half of eligible ADIs have accessed the TFF and, on average, those ADIs accessing the facility have used around two-thirds of their initial allowance.

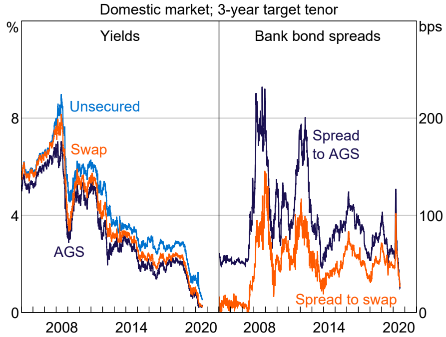
Interest rates on business loans have declined to historically low levels

The cash rate reductions and other policy measures announced in March have flowed through to interest rates on outstanding business loans. Interest rates on variable rate loans to large businesses have declined by 75 basis points since the end of February. For small and medium sized businesses, variable rates have declined by 60–70 basis points over the same period (Graph 4.17).

Graph 4.15

Major Banks' Bond Pricing

Domestic market; 3-year target tenor

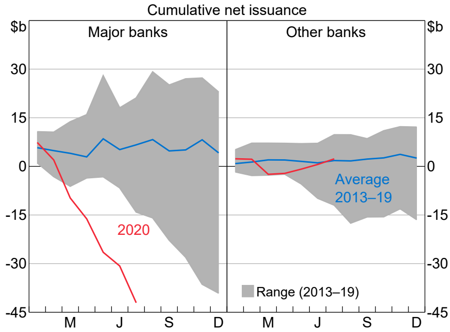


Sources: Bloomberg; RBA

Graph 4.16

Australian Bank Bond Issuance

Cumulative net issuance



Sources: Bloomberg; Private Placement Monitor; RBA

The average interest rate on unsecured loans extended through the government's guarantee scheme to SMEs is close to the average interest rate on secured small business loans (most loans to SMEs are secured). Despite the generally low cost of these funds, take-up of the scheme-backed loans has remained low (see below).

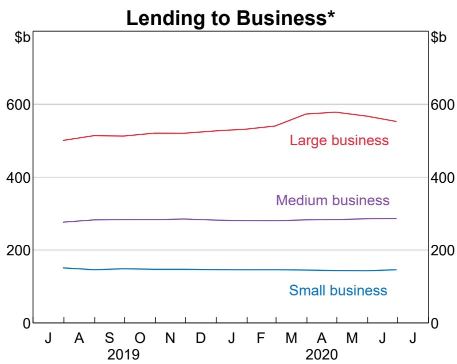
Lending to businesses has decreased, largely reflecting weak demand for new loans

Lending to businesses decreased in recent months, unwinding about half of the substantial increase over March and April (Graph 4.18). The recent decline reflected large businesses repaying most of the lines of credit that had been drawn upon earlier as a precaution to shore up liquidity positions in response to the pandemic (Graph 4.19). Lending to SMEs was little changed over this time.

Demand for new loans appears to be low. This is likely to reflect businesses' reluctance to take on debt, given considerable uncertainty about the economic outlook. Indeed, an ABS survey conducted in mid May showed that only 5 per cent of businesses identified access to credit as a requirement to return to normal trading conditions. A follow-up survey conducted in mid July showed that one in three businesses that received additional funds through a tax credit reported using some of the funds to repay debt and a similar proportion reported putting funds into savings. The need for debt finance is likely to have been lessened by the various short-term initiatives that are helping many businesses (particularly SMEs) to cover operating costs. This includes the government's income support measures, loan payment deferrals offered by banks and flexibility on rental payments for commercial tenants that have been significantly affected by COVID-19.

The supply of credit to businesses appears to have tightened a little but weakness in lending growth, particularly to SMEs, appears to be mostly driven by weak demand. To date, the tightening in supply mostly reflects a greater

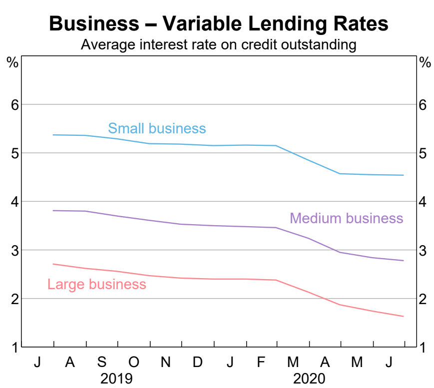
Graph 4.18



* Data covers financial institutions with $2 billion or more in business credit

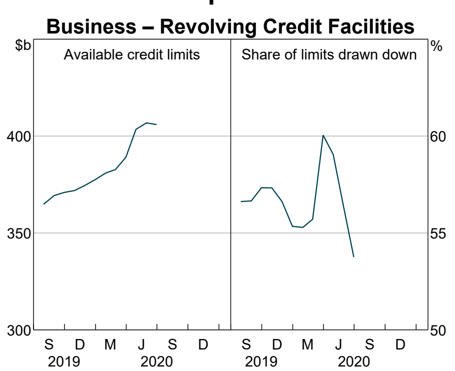
Sources: APRA; RBA

Graph 4.17



Sources: APRA; RBA

Graph 4.19



Sources: APRA; RBA

degree of verification of borrowers' information rather than a tightening in lending criteria. However, some banks have indicated in liaison that they are more cautious about lending to new customers and to sectors significantly affected by the pandemic, such as smaller retailers, tourism and commercial property.

Take-up of the government's $40 billion SME loan guarantee scheme has remained low. Around $1.6 billion of loan commitments have been made under the scheme, equivalent to around ½ per cent of SME lending outstanding. The low take-up is consistent with a lack of demand for credit in general. The government has announced changes to the scheme that will make it more flexible and extend its availability until June 2021 (it was previously due to end 30 September 2020). From October, under the new rules, the loans can be used for a variety of investment purposes (rather than limited to working capital), loans can be secured (but not against commercial or residential property) and SMEs will be able to borrow up to $1 million for up to five years (up from $250,000 and three years previously). In addition, a repayment deferral period will no longer be required. The quantity of funds potentially available at low cost through the scheme remains supportive of new lending should demand from businesses pick up.

About a fifth of SME loans (or around 10 per cent of all business loans) have been granted payment deferrals for up to six months. Banks recently announced that on a case-by-case basis, borrowers will be able to extend the deferral period by four months, but those businesses that have been severely impacted by the pandemic face the prospect of being placed on hardship programs.

In July, the Reserve Bank hosted the annual Small Business Finance Advisory Panel – drawn from small businesses across Australia – which provided valuable perspectives on the financial conditions small businesses currently face.

Conditions in the Australian corporate bond market have improved …

The pace of non-financial corporate bond issuance picked up in the June quarter. Gross corporate bond issuance for the year to date is comparable to the average of recent years (Graph 4.20). At the peak of the market dislocation in March and April the only issuance by non-financial corporations was in the offshore market. In May, however, there was one large issuance into the domestic market, followed by further issuance more recently.

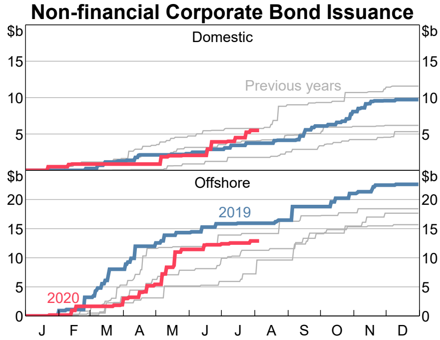
To assist with the smooth functioning of Australian capital markets, in May, the Reserve Bank broadened the range of corporate bonds eligible to be used as collateral in repurchase agreements (repos) with the Bank. Since the announcement, the Bank has had applications for more than 200 securities from around 75 issuers to be considered as eligible collateral. Over 120 applications have already been approved.

… and more Kangaroo bond issuers accessed the domestic market

Highly rated non-resident companies were the main issuers of bonds in the Australian non-government debt market during March and April. Around $9.5 billion of Kangaroo bonds were issued in the June quarter of 2020, above the average quarterly issuance over the past few

Graph 4.20

Non-financial Corporate Bond Issuance



Sources: Bloomberg; Private Placement Monitor; RBA years (Graph 4.21). Moreover, since mid May, more issuers (mostly non-resident banks) have been able to issue bonds with ratings below AAA in the Kangaroo bond market.

The market for asset-backed securities has benefited from ongoing government support

Since the March announcement of the Structured Finance Support Fund (SFSF), the AOFM has invested directly in the primary and secondary asset-backed securities (ABS) market and provided funding to securitisation warehouses. These measures contributed to the improvement of conditions in the ABS market. Accordingly, after low issuance of ABS in March and April, activity in the ABS market has increased more recently. This has been most noticeable for residential mortgage-backed securities (RMBS), with around $8 billion of RMBS issued since the beginning of May (Graph 4.22). All these deals were issued by non-authorised deposit-taking institutions (non-ADIs) with varying degrees of support from the AOFM.

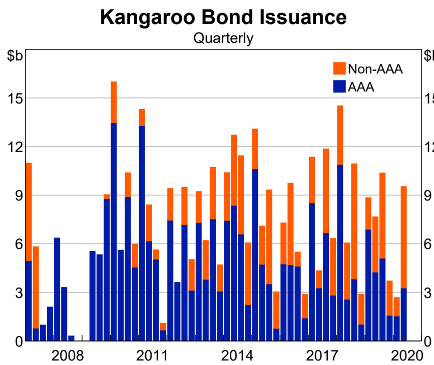
Housing interest rates have declined to new lows …

Interest rates on variable- and fixed-rate housing loans have declined substantially in response to reductions in the cash rate and other measures to ease financial conditions earlier this year. Standard variable rates (SVRs) have declined by an average of 28 basis points over that period (Graph 4.23; Table 4.1). While lenders have not made further changes to SVRs since the reduction in the cash rate target on 20 March, some have been offering lower variable rates on various products under promotion. Interest rates on outstanding variable-rate housing loans have declined by around 35 basis points since the end of February.

Rates for fixed-rate housing loans have declined sharply since the end of February this year, alongside a decline in the fixed interest rates derived from interest rate swaps (the benchmark for pricing fixed-rate loans; Graph 4.24). Most lenders have reduced their fixed interest rates across all maturities. Consistent with this, interest rates on new fixed-rate loans have declined by around 65 basis points over that period. The average outstanding fixed rate has declined by less than this, given the usual delays associated with the expiry of existing fixed-rate loan periods.

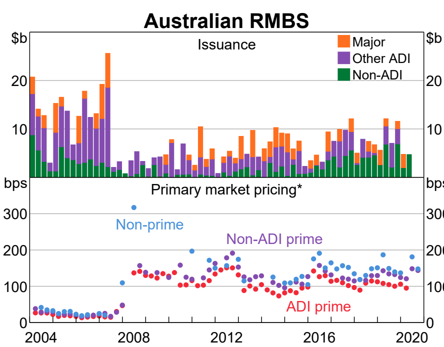
The interest rates on new fixed-rate loans are around 60–70 basis points below new variable interest rates. The recent decline in fixed rates relative to variable rates has contributed to an increase in the share of housing loan applications that are for fixed-rate loans, as

Graph 4.21



Sources: Bloomberg; RBA

Graph 4.22



* Face-value weighted quarterly average of the primary market spread to bank bill swap rate for AAA rated notes

Sources: Bloomberg; KangaNews; RBA

Table 4.1: Average Outstanding Housing Rates
June 2020

	Interest rate Per cent	Change since February 2020 Basis points
Variable-rate loans		
– Owner-occupier	3.24	–33
– Investor	3.61	–35
All variable-rate loans	3.37	–34
Fixed-rate loans		
– Owner-occupier	3.28	–45
– Investor	3.64	–37
By repayment type[(a)]		
– Principal-and-interest	3.28	–35
– Interest-only	3.88	–33

(a) Weighted average across fixed- and variable-rate loans

Sources: APRA; RBA

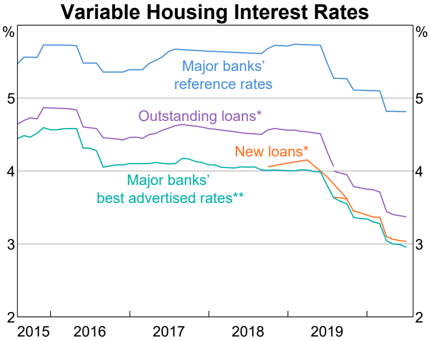
borrowers are refinancing from variable- to fixed-rate loans. As a result, there has been an increase in the share of the stock of outstanding loans that are fixed-rate, which now account for around 25 per cent of housing credit outstanding.

… partly reflecting strong competition and refinancing activity

The continued drift down in interest rates paid on outstanding housing loans over the past few months partly reflects the effects of competition for high-quality borrowers. This includes new customers and those willing to refinance their existing mortgages. External refinancing has risen sharply since March, consistent with the very low level of interest rates and offers of cash back to borrowers for refinancing an existing loan previously held with another lender (Graph 4.25).

Graph 4.23

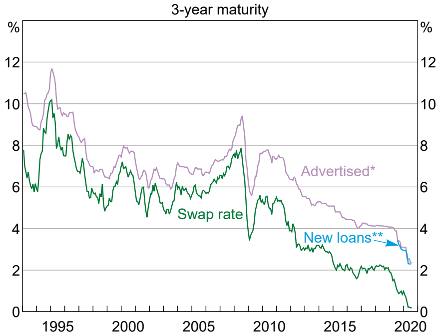
Variable Housing Interest Rates



* Series break in July 2019; thereafter, data based on EFS collection
** Including low-cost brands
Sources: APRA; banks' websites; CANSTAR; RBA; Securitisation System

Graph 4.24

Fixed Housing Interest Rates
3-year maturity



* Available to owner-occupiers
** Data based on EFS collection; 2-3 years' residual maturity
Sources: APRA; Banks' websites; Bloomberg; CANSTAR; RBA

Balances in housing loan offset accounts increased significantly in the June quarter

The reductions in housing loan interest rates following the reductions in the cash rate and the comprehensive policy package have been flowing through to borrowers by reducing interest payments on variable-rate mortgages (which account for around 80 per cent of the stock of outstanding housing credit; (Graph 4.26)). Reductions in interest payments in recent months are also consistent with the recent declines in fixed interest rates and an increasing share of borrowers refinancing to lower rate products.

By contrast, balances in mortgage offset and redraw accounts increased significantly in the June quarter. Over much of this period, most of the additional payments were into offset accounts (which are a type of deposit account and so do not reduce measured credit outstanding). This was consistent with many mortgage holders saving for precautionary reasons and reduced opportunities for spending as containment measures were introduced to limit the spread of the virus. Consistent with this, the increase in funds in offset accounts was particularly strong in April and May. Cash inflows from the early release of superannuation and social assistance payments may also have contributed to more funds being placed in offset accounts.

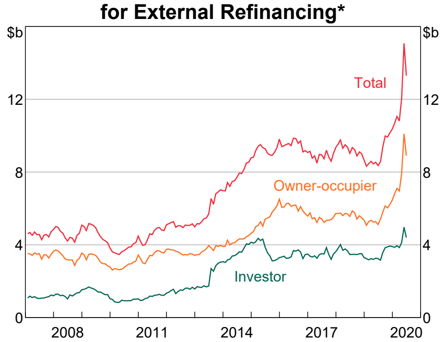
Banks have announced that the six-month loan payment deferrals scheme, most of which were due to expire over the period September to October, can be extended by an additional four months on a case-by-case basis. As of June, 12 per cent of borrowers had been granted loan payment deferrals. However, one in five of those borrowers continued to make mortgage payments.

Commitments for new housing loans have declined and housing credit growth has slowed …

In contrast to refinancing activity, new housing loan commitments have declined since the end of March this year (Graph 4.27). This follows the weaker housing market activity observed over that period. In liaison, some banks have indicated that demand for new housing finance has weakened. Uncertainty about the economic outlook associated with the pandemic, low turnover and the softer housing price outlook has reduced the demand for credit. In the month of June, housing loan commitments increased a little in most states (other than Victoria), alongside the easing of restrictions that

Graph 4.25

Housing Loan Commitments for External Refinancing*



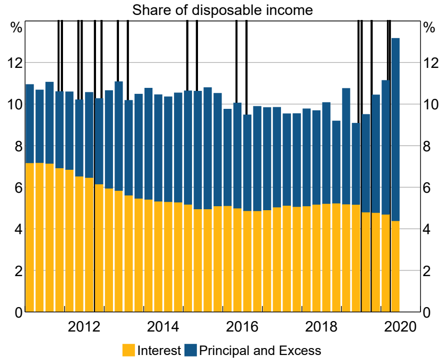
* Seasonally adjusted and break-adjusted

Sources: ABS; RBA

Graph 4.26

Housing Loan Payments*

Share of disposable income



* Seasonally adjusted and break-adjusted; vertical lines show cash rate cuts

Sources: ABS; APRA; RBA

were put in place in response to COVID-19, as well as an improvement in some housing market activity indicators observed in May and June.

While the decline in loan commitments since March this year has been driven by a slowing in demand, lending standards have also tightened a little. Lenders are closely scrutinising the capacity to service loans for borrowers whose employment prospects or rental incomes have been impacted by COVID-19, and are requiring more recent verification of income than previously. Some banks have adjusted interest rates to make new loans with high loan-to-valuation ratios (LVRs) less attractive than new loans with low LVRs or lowered the maximum LVRs on new loans for customers that are self-employed and those residing in tourism-reliant regions. Overall, however, lenders have indicated in liaison that approval rates for housing loans remain high, even though the time to approve loans increased in recent months for some banks due to operational reasons amid high volumes of refinancing activity.

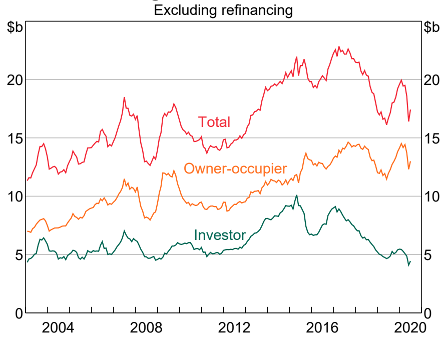
Growth in housing credit extended to owner-occupiers has slowed, reflecting the recent slowdown in housing market activity and the sharp decline in loan commitments (Graph 4.28). At the same time, owner-occupier credit has been boosted by loan payment deferrals and increased refinancing activity that has seen some borrowers increase the size of their mortgages a little. Investor housing credit has continued to decline and the pace of decline is now ¾ per cent in six-month-ended annualised terms.

… contributing to a broad slowing in total credit growth

Growth in the stock of total credit outstanding has slowed in recent months (Graph 4.29; Table 4.2). This has largely reflected a decline in the stock of business credit outstanding, which fell by 4¾ per cent on a three-month annualised basis in June. Growth in total housing credit has slowed a little in recent months to 2¾ per cent on a three-month annualised basis. The stock of personal credit outstanding has fallen by 6½ per cent since February, driven by declines in outstanding balances on credit cards and fixed-term loans. As discussed above, the slowing in credit growth for businesses and households mostly reflects softer demand for financing in the uncertain economic environment, although some ADIs have tightened lending standards for borrowers most adversely affected by COVID-19. Broad money growth rose sharply in March and April, reflecting strong growth in deposits (see

Graph 4.27

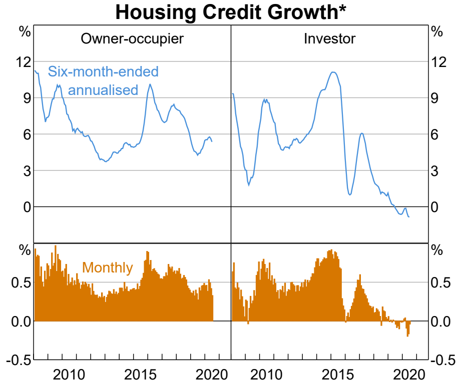
Housing Loan Commitments*
Excluding refinancing



* Seasonally adjusted and break-adjusted
Sources: ABS; RBA

Graph 4.28

Housing Credit Growth*



* Seasonally adjusted and break-adjusted
Sources: APRA; RBA

Table 4.2: Financial Aggregates

Percentage change[(a)]

	Three-month annualised		Six-month annualised	
	Mar 2020	Jun 2020	Dec 2019	Jun 2020
Total credit	7.4	–1.1	2.7	3.1
– Household	2.3	0.9	2.3	1.6
– Housing	3.5	2.7	3.2	3.1
– Owner-occupier	5.6	5.1	5.5	5.4
– Investor	–0.1	–1.6	–0.6	–0.9
– Personal	–9.8	–18.5	–6.5	–14.3
– Business	18.5	–4.8	3.5	6.2
Broad money	14.8	17.2	4.7	16.0

(a) Seasonally-adjusted and break-adjusted

Sources: ABS; APRA; RBA

'Box D: Recent Growth in the Money Supply and Deposits').

Australian equity prices remain below the mid-February peak

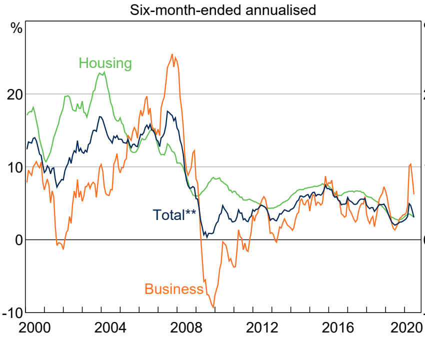
Australian equity prices have increased but remain around 15 per cent below the mid-February peak. This is broadly in line with overseas markets (other than the United States) when dividend payments are taken into account. The broad US equity index (S&P 500) has retraced most of its declines and is only a little below its mid-February peak, owing to the strong growth in the equity prices of a range of IT related companies that have a large weight in the overall index (Graph 4.30).

Most sectors experienced a recovery in their share prices since the start of May, amid slightly more positive global sentiment buoyed by fiscal and monetary support, and positive news on the development of COVID-19 vaccines (Graph 4.31). Prices in the resources sector have increased by around 20 per cent, on the back of higher gold and iron ore prices. While share prices of energy companies have somewhat recovered following the stabilisation in oil prices, write-downs of properties and exploration

Graph 4.29

Credit Growth by Sector*

Six-month-ended annualised



* Seasonally adjusted and break-adjusted; including securitisation

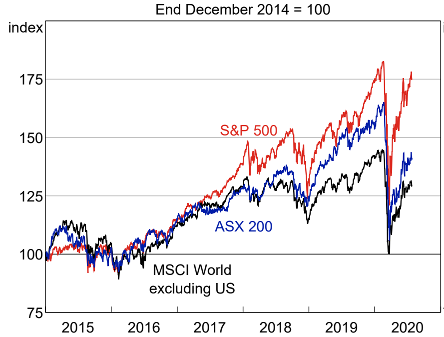
** Includes housing, personal and business credit

Sources: ABS; APRA; RBA

Graph 4.30

Total Return Indices

End December 2014 = 100



Source: Refinitiv

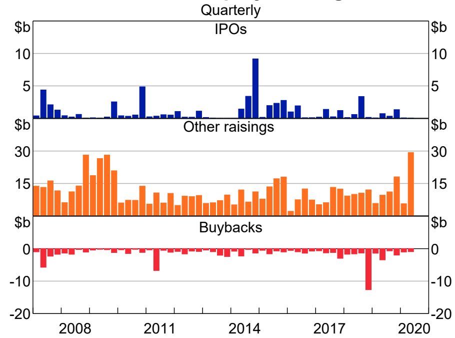
assets have accelerated, amid outlook uncertainty. Prices in the 'other' sector are around 5 per cent above their levels at the start of May. Within this sector, the information technology sector has outperformed, which is a common trend overseas, to be around 30 per cent higher.

The volume of equity raised by listed companies over recent months has been one of the highest globally. In total, listed entities have raised around $29 billion from April to June 2020 (Graph 4.32). Sectors that were more heavily affected by the economic disruption due to COVID-19 raised the most capital as a proportion of their market capitalisation (Graph 4.33). Of note here were the industrial (e.g. airlines), consumer discretionary (e.g. travel services), and real estate (e.g. owners of commercial properties) sectors. The information technology sector was the exception, with companies conducting raisings more so for strategic growth opportunities than for liquidity purposes.

Graph 4.32

Australian Equity Raisings*

Quarterly



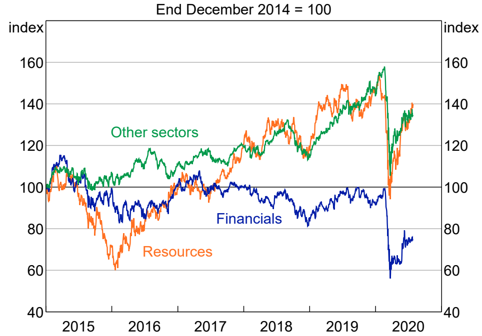
* All listed companies

Sources: ASX; RBA

Graph 4.31

Australian Share Prices

End December 2014 = 100



Source: Bloomberg

Graph 4.33

Capital Raising by Sector

Percentage of sector market capitalisation, April-June 2020

Sources: ASX; Bloomberg; RBA

Endnotes

[1] Reserve Bank liquidity operations are described in more detail in Kent C (2020), 'The Reserve Bank's Operations – Liquidity, Market Function and Funding', Online speech to KangaNews, Sydney 27 July. Available at <https://www.rba.gov.au/speeches/2020/sp-ag-2020-07-27.html>

[2] Kent C (2020), 'The Reserve Bank's Operations – Liquidity, Market Function and Funding', Online speech to KangaNews, Sydney 27 July. Available at <https://www.rba.gov.au/speeches/2020/sp-ag-2020-07-27.html>