3. Domestic Financial Conditions

Since the previous *Statement*, the Reserve Bank has increased the cash rate by 50 basis points to 3.35 per cent and Australian financial conditions have tightened further.

Yields on Australian Government Securities (AGS) have been volatile but have declined over the past three months in line with developments in global bond markets. Short-term money market rates have risen in response to the tightening in monetary policy. Current market pricing implies expectations of an increase in the cash rate to around 4 per cent by mid-2023.

Banks' funding costs increased over 2022, driven by actual and expected increases in the cash rate and the associated increases in market yields. Banks in turn lifted lending rates through the year, although average outstanding variable rates have increased by less than the rise in the cash rate. Most of the largest housing lenders have announced they will pass on the February cash rate increase in full to reference rates for variable-rate housing and business borrowers. Scheduled mortgage payments have increased and will increase further over coming months as more fixed-rate loans roll off onto higher mortgage rates. Meanwhile, commitments for new housing loans have fallen and housing credit growth has eased, consistent with higher interest rates, declining housing prices and lower turnover. Business credit growth has declined from high levels.

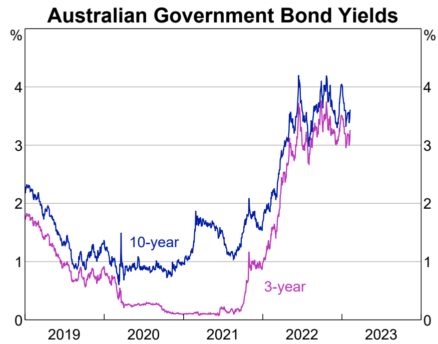
The Australian dollar has appreciated noticeably against the US dollar over recent months alongside a broad-based depreciation of the US dollar and an increase in yields on Australian Government bonds relative to US Treasury bonds. The Australian dollar has also been supported by the reopening of the Chinese economy, including through higher prices for some key commodity exports.

AGS yields have declined

Yields on 10-year AGS are around 35 basis points lower than they were three months ago, having traded in an 80 basis point range (Graph 3.1).

Movements in long-term AGS yields have generally followed international markets. Yields declined in November and early December as lower-than-expected US inflation data saw market participants revise down their expectations of the peak in global policy rates, and US Treasury yields declined. Yields then rose sharply in late December after the Bank of Japan (BoJ) unexpectedly increased the upper bound of its tolerance band for 10-year Japanese Government bond yields by 25 basis points (and also

Graph 3.1



Sources: RBA; Yieldbroker

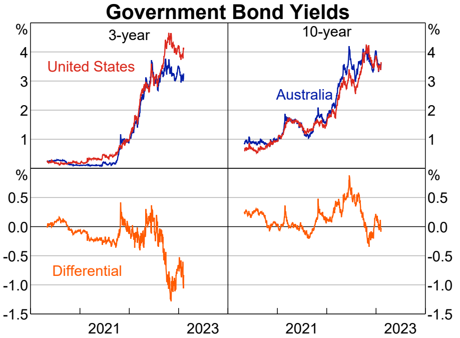
lowered the lower bound by 25 basis points). In early 2023, yields fell again alongside a moderation in European inflation rates, weaker-than-expected US economic data and slightly weaker-than-expected local employment data, before rising a little following higher-than-expected Australian CPI data, stronger-than-expected US employment data and the Reserve Bank Board decision in February.

The differential between yields on 10-year AGS and US Treasuries has risen over the past three months, to be back to around zero (Graph 3.2). This reflects AGS yields rising by more than US Treasury yields following the BoJ policy adjustment, the local CPI data and the Board's February decision. The differential between short-term Australian and US yields has also risen but remains negative, reflecting market participants' expectations that the US monetary policy rate will be higher for longer than the cash rate in Australia.

Movements in longer term AGS yields continue to be largely driven by movements in real yields, which reflect real policy rate expectations and term premia (Graph 3.3). By contrast, break-even inflation rates have remained stable and well anchored, implying that market participants expect the monetary policy tightening to date and in prospect to be sufficient to keep inflation around the target range over the medium term.

Graph 3.2

Government Bond Yields



Sources: Bloomberg; RBA; Yieldbroker

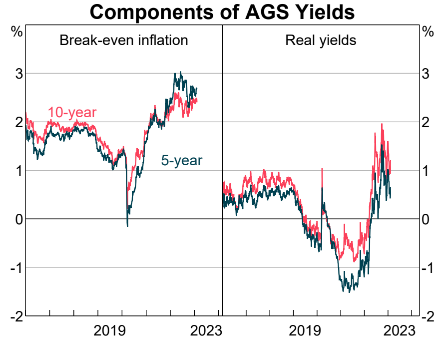
The spread between yields on semi-government securities (semis) and AGS yields has declined, reflecting a narrowing in the spread between swap rates and AGS yields from the highs observed in early November (semis yields tend to closely track swap rates) (Graph 3.4; Graph 3.5). Ongoing strong demand from domestic banks to hold semis as part of their high-quality liquid assets portfolios has also supported the decline in semis spreads.

Australian Government bond issuance over 2022 was similar to the year before

Bond issuance by the Australian Office of Financial Management (AOFM) in 2022 was similar to 2021 (Graph 3.6). In early January 2023, the AOFM lowered its 2022/23 fiscal year

Graph 3.3

Components of AGS Yields

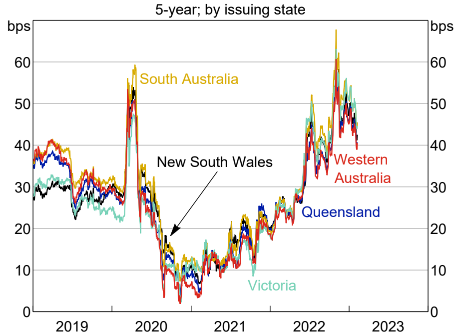


Sources: RBA; Yieldbroker

Graph 3.4

Semi-government Bond Spreads to AGS

5-year; by issuing state



Sources: RBA; Yieldbroker

issuance guidance by $10 billion, to around $85 billion, of which around $48 billion has already been issued. Semis issuance was relatively low in October and early-November 2022 reflecting the volatility in swap markets over that period. However, it picked up at the end of 2022 and has remained strong into early 2023 as the swap market stabilised and alongside strong demand from domestic banks.

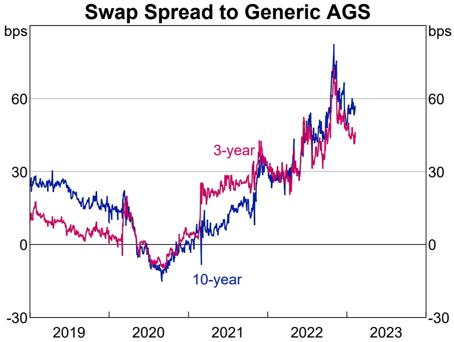
Bond markets are functioning well

Bond markets continue to function well. Bid-offer spreads on AGS and semis remain around their lowest levels in recent years, and volatility has declined following a period of heightened volatility caused by dislocations in the UK gilt market in late September and early-October 2022 (Graph 3.7).

Demand to borrow AGS from the Reserve Bank has remained elevated, with an average of around $7 billion of bonds per day borrowed over recent months (Graph 3.8). Demand remains focused on bonds with a residual maturity of one to two years, and particularly those where the stock available in private markets is limited due to the Bank's earlier purchases. Bond dealers borrow these bonds to help settle their own transactions and the transactions of their clients. By lending these bonds back into the market for short periods, the Bank supports the functioning of government bond markets.

Graph 3.5

Swap Spread to Generic AGS



Sources: Bloomberg; RBA

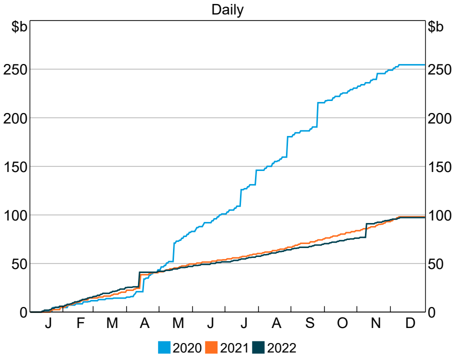
Expectations for the peak in the cash rate have declined a little in recent months

Market pricing suggests that expectations for the level of the cash rate in the near term are little changed. However, the implied expectation for the peak in the cash rate has declined a little since the last *Statement*. Prices for overnight indexed swap (OIS) contracts imply that market participants expect the cash rate to be increased further over 2023, reaching a peak of around 4 per cent. This is broadly similar to the cash rate

Graph 3.6

Cumulative AGS Issuance*

Daily



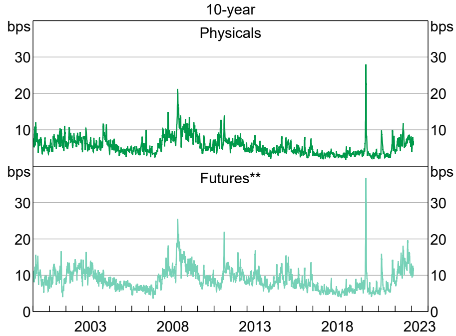
* Cumulative value for each year.

Sources: AOFM; RBA

Graph 3.7

Bonds Intraday Range*

10-year



* Ten-day moving average.

** Include overnight session.

Sources: Bloomberg; RBA

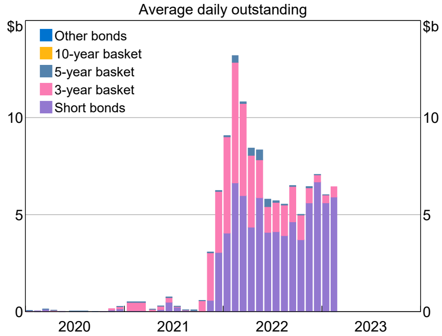
expectations of most market economists, with the median forecast suggesting a cash rate of around 3.85 per cent by mid-2023 (Graph 3.9).

Transaction volumes in the cash market have declined in recent months, though the cash rate has continued to be determined by market transactions on the majority of days. The cash rate was 4 basis points below the cash rate target for most of 2022; however, recently this spread has narrowed slightly, with the cash rate at 3 basis points below the cash rate target over 2023 to date.

Graph 3.8

RBA and AOFM Securities Lending*

Average daily outstanding

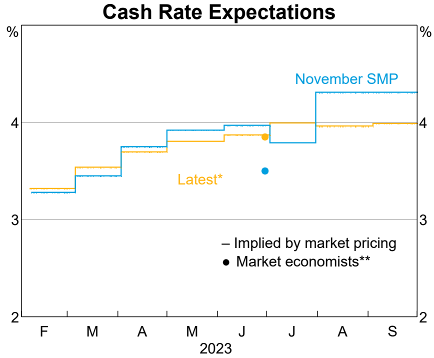


* Face value; last bar indicates month-to-date.

Source: RBA

Graph 3.9

Cash Rate Expectations



* Latest market economists' projections as at February 2023.

** 2023 dots are median of peak rates from market economists at indicative date; peak rate timing ranges mostly from March Quarter 2023 to September Quarter 2023.

Sources: Bloomberg; RBA

Money market rates have continued to rise

Short-term money market rates have continued to increase, including bank bill swap rates (BBSW), consistent with the tightening in monetary policy (Graph 3.10). The cost of Australian dollar funding from offshore short-term issuance (via the foreign exchange swap market) has also moved higher over the past three months.

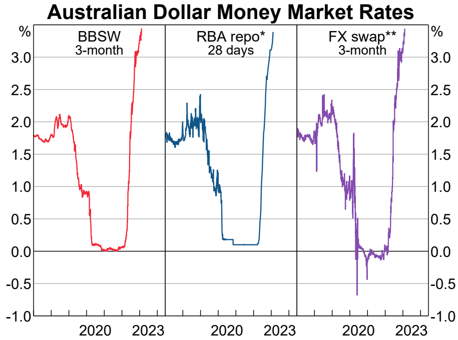
Repurchase agreement (repo) rates at the Bank's regular open market liquidity operations (OMO) have also increased, with the OMO hurdle rate continuing to be set at term-matched OIS plus a modest spread. Demand for short-term liquidity obtained at OMO remains low by historical standards, although volumes increased a little for borrowing over the end of 2022.

The Bank's balance sheet remains large but will decline noticeably over the course of this year

The Bank's balance sheet remains large by historical standards, reflecting the monetary policy measures introduced in response to the COVID-19 pandemic (Graph 3.11; Graph 3.12). Since the previous *Statement*, the size of the balance sheet has been little changed at around $626 billion. On the liabilities side, Exchange Settlement balances rose and government

Graph 3.10

Australian Dollar Money Market Rates



* Weighted average rate for morning open market operation repos.

** Implied AUD rate based on covered interest parity.

Sources: ASX; Bloomberg; RBA; Tullet Prebon; US Federal Reserve deposits declined, owing to an increase in net government spending and the maturity of the November 2022 AGS. The Bank's balance sheet will decline over the coming years as funding provided to banks under the Term Funding Facility (TFF) and the Bank's government bond holdings mature. Over the course of 2023, $84 billion of TFF funding and $14 billion of the Bank's bond holdings will mature.

Bank bond issuance continues to be strong

Bank bond issuance was high in 2022 (Graph 3.13). Banks raised $140 billion in bond markets over the year, evenly split between domestic and offshore markets, with an average tenor of 4.2 years. Covered bond issuance was $42 billion in 2022 – the highest level since the introduction of covered bonds in 2011. Some of this issuance reflected a preference among some investors for secured rather than unsecured debt during a time of somewhat heightened financial market volatility. More recently, banks raised $18 billion in January, which is historically a month of both strong issuance and a high level of maturities to be funded.

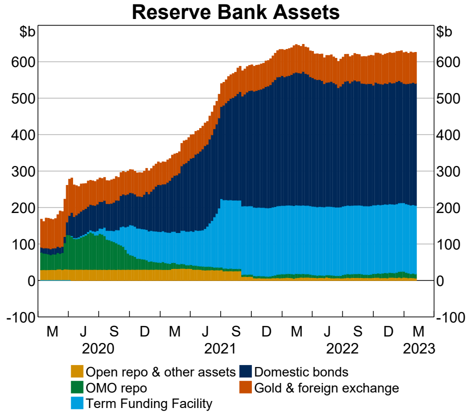
Yields on three-year bank bonds have been within a range of 4–5 per cent since early 2022, having increased sharply from historical lows (Graph 3.14). Movements in recent months have largely tracked the swap rate (a reference rate for the pricing of fixed-income securities). As a result, the spread to the swap rate has been steady at around 60 basis points, a little above the average of years prior to the pandemic.

Issuance of RMBS by non-banks increased and spreads widened

Issuance of residential mortgage backed securities (RMBS) in 2022 was higher than in most of the past 15 years (Graph 3.15). Non-bank lenders, which are more dependent on wholesale funding than banks, accounted for

Graph 3.11

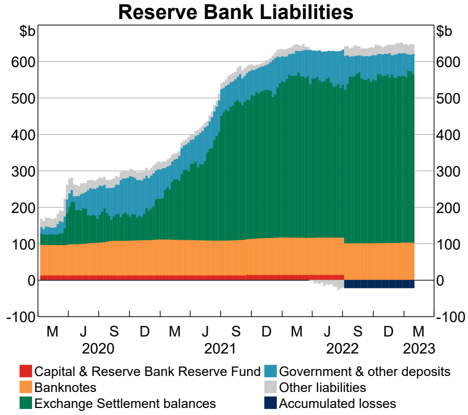
Reserve Bank Assets



Source: RBA

Graph 3.12

Reserve Bank Liabilities

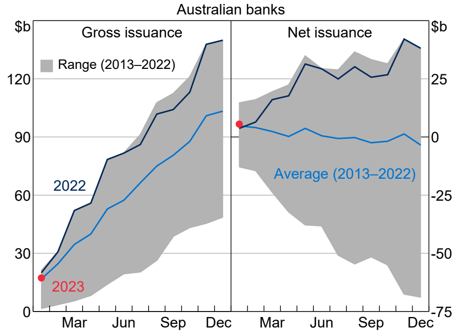


Source: RBA

Graph 3.13

Cumulative Bank Bond Issuance

Australian banks



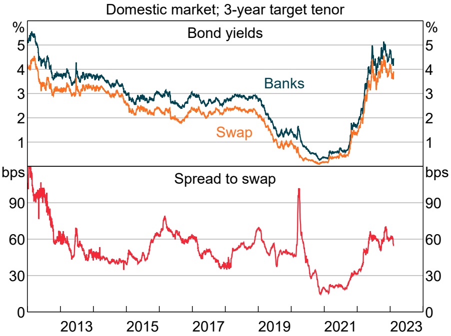
Sources: Bloomberg; Private Placement Monitor; RBA

$28 billion of the $36 billion issued. This is similar to the previous two years but represents a higher share of issuance than was typical before the pandemic. Spreads on RMBS rose over 2022 from historically low levels to be slightly above the pre-pandemic average, making it more costly to issue mortgages, particularly for non-bank lenders. Similarly, liaison with banks suggests this spread widening has made RMBS issuance less appealing for banks compared with senior unsecured and covered bond issuance.

Graph 3.14

Major Banks' Bond Pricing

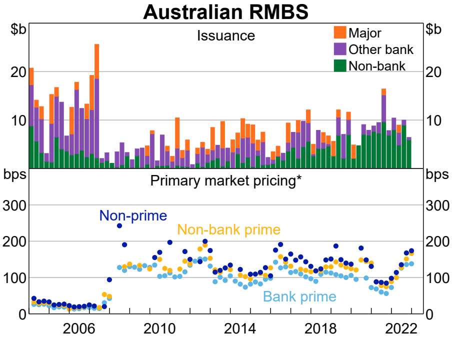
Domestic market; 3-year target tenor



Sources: Bloomberg; RBA

Graph 3.15

Australian RMBS



* Face-value weighted quarterly average of the primary market spread to bank bill swap rate for AAA-rated notes. Non-resident RMBS pricing not included.

Sources: Bloomberg; KangaNews; RBA

Banks' wholesale funding costs have increased

Banks' overall funding costs rose from historical lows over 2022 underpinned by higher BBSW rates (Graph 3.16). In turn, BBSW rates were driven by both actual and expected increases in the cash rate. Much of banks' wholesale debt and deposit costs are linked to BBSW rates either directly or through banks' hedging practices. This includes banks swapping foreign-currency denominated and fixed-rate liabilities into floating-rate exposures that reference BBSW. The increased cost of new long-term debt is also adding to funding costs as banks' issued a large amount of bonds over the past year, as noted above.

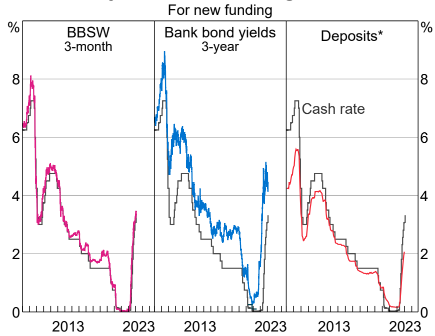
Banks' deposit rates have risen, but by less than the cash rate overall

Banks' deposit funding costs also increased over 2022, but by less than the cash rate in aggregate. This divergence was underpinned by limited pass-through to some interest-bearing at-call deposit accounts (Graph 3.17). By contrast, average rates on new term deposits increased by more than the cash rate, in line with larger movements in BBSW and longer term swap rates, which are the key benchmarks used to price these products. At-call deposits (including

Graph 3.16

Major Banks' Funding Costs

For new funding



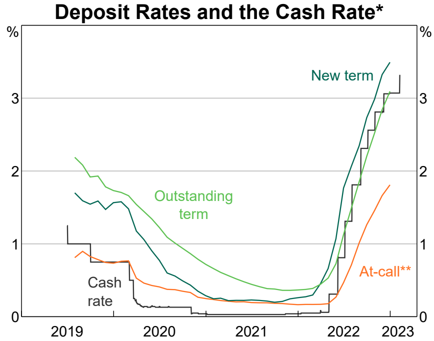
* RBA estimates to December 2022; excludes deposits in housing loan offset accounts.

Sources: AFMA; APRA; ASX; Bloomberg; major banks' websites; RBA; Refinitiv loan offset balances) account for around 80 per cent of banks' deposits on average. This includes around 15 per cent of at-call balances on which banks pay no interest to depositors, although banks often hedge such deposits so their effective cost to banks increases with BBSW rates. Banks have passed on larger rate increases to wholesale depositors than households. This different treatment is likely, in part, to reflect wholesale depositors having a wider range of market-based alternatives in which to place cash.

The total stock of deposits rose over 2022, driven by term deposits (Graph 3.18). Depositors have shifted into term deposits as the spread between new term deposit rates and at-call rates has increased. Rising term deposit pricing partly reflects banks seeking to take advantage of the favourable treatment in liquidity ratios of term deposits compared with at-call deposits. The focus on liquidity ratios increased over the year as banks sought term funding to replace Committed Liquidity Facility allowances, which were reduced to zero on 1 January 2023. Banks are also preparing for TFF maturities, beginning in April 2023. In addition, in an environment of rising interest rates depositors tend to demand a higher return for locking away funds for a period of time.

Graph 3.17

Deposit Rates and the Cash Rate*



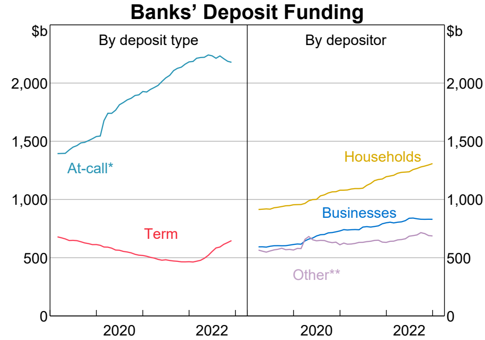
* Deposit rates to December 2022, cash rate to 8 February 2023.
** Excludes deposits in housing loan offset accounts; includes non-interest bearing deposits.
Sources: APRA; RBA

Growth in total credit has decreased

Total credit growth has decreased in recent months, but remains elevated relative to recent years (Graph 3.19; Table 3.1). Business credit growth has declined from its recent peak and housing credit growth has also eased further in recent months. By contrast, growth in personal credit (4 per cent of total credit) increased slightly over the quarter, largely driven by increases in outstanding credit card balances and consistent with strong nominal consumption growth.

Graph 3.18

Banks' Deposit Funding

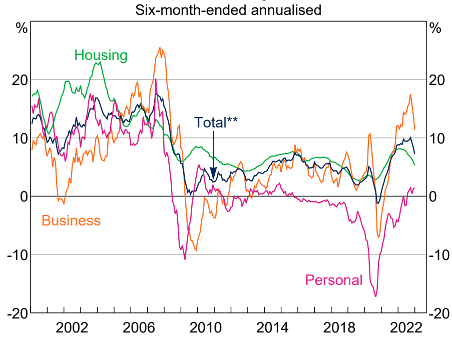


* Includes deposits in housing loan offset accounts and non-interest bearing deposits.
** Includes deposits from the government and financial institutions, including superannuation funds.
Sources: APRA; RBA

Graph 3.19

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

Table 3.1: Growth in Financial Aggregates

Percentage change[(a)]

	Three-month annualised		Six-month annualised	
	Sep 22	Dec 22	Jun 22	Dec 22
Total credit	9.1	5.4	9.4	7.2
– Household	5.8	4.4	7.0	5.1
– Housing	5.8	4.8	7.6	5.3
– Owner-occupier	6.5	5.5	7.8	6.0
– Investor	4.9	3.3	7.0	4.1
– Personal	4.0	–1.1	–1.5	1.4
– Business	15.6	7.3	14.4	11.4
Broad money	3.1	9.0	7.2	6.0

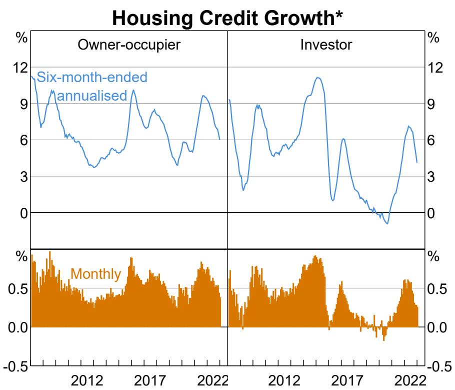
(a) Seasonally adjusted and break-adjusted.

Sources: ABS; APRA; RBA

Demand for new housing loans declined sharply while refinancing activity reached new highs

Housing credit growth declined in December to 5.3 per cent on a six-month-ended annualised basis (Graph 3.20). Housing credit growth is expected to decline further, as commitments for new housing loans have fallen of late. Commitments are now around 30 per cent below their peak in January 2022, consistent with higher interest rates, lower housing turnover and declines in housing prices.

Graph 3.20



* Seasonally adjusted and break-adjusted.

Sources: APRA; RBA

Commitments for external refinancing – that is, switching to a new lender – remain very high (Graph 3.21). Borrowers with variable-rate loans have been seeking better deals on their mortgages as interest rates and the cost of living increase. At the same time, many fixed-rate loans taken out during the pandemic have been reaching the end of their terms and many of these borrowers have been shopping around for the best possible rates, which often entails switching to a new loan at a different lender. Borrowers who negotiate a lower rate on their existing loan with their current lender are not captured in the external refinancing data but are reflected in the average interest rate on outstanding loans (see below).

Variable housing loan interest rates have increased further

Housing lenders have passed on cash rate increases up to December in full to their reference rates for variable-rate loans (Graph 3.22). At the time this *Statement* was finalised, most of the largest housing lenders had announced they would also pass through the February increase in the cash rate in full to their housing reference rates.

Table 3.2: Average Outstanding Housing Rates

December 2022

	Interest rate in Dec 2022 Per cent	Change since Apr 2022 Basis points	Change since Feb 2020 Basis points
Cash rate	3.10	300	235
Variable-rate loans			
– Owner-occupier	5.49	263	192
– Investor	5.85	264	188
– All variable-rate loans	5.61	263	190
Fixed-rate loans			
– Owner-occupier	2.48	25	–124
– Investor	2.78	19	–123
– All fixed-rate loans	2.58	23	–127
Loans by repayment type[a]			
– Principal-and-interest	4.58	190	96
– Interest-only	5.25	202	103

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

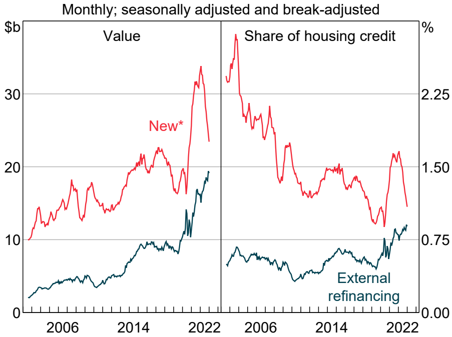
Sources: APRA; RBA

Very few borrowers pay the reference rate, however, and instead are offered products at a discount relative to these reference rates.[1] These discounts have tended to increase since last May. Indeed, the rate on outstanding variable-rate loans has increased by around 35 basis points less than the cumulative increase in standard variable reference rates (and hence the cash rate) up to December (the latest available data) (Table 3.2). Much of this difference reflects borrowers securing lower variable interest rates by refinancing their loans with another lender or renegotiating the terms of their loans with their current lender.

Graph 3.21

Housing Loan Commitments

Monthly; seasonally adjusted and break-adjusted



* Excludes refinancing.

Sources: ABS; APRA; RBA

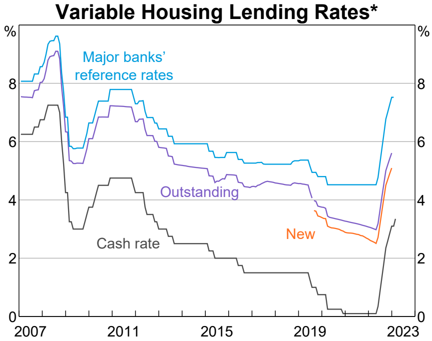
The average outstanding variable rate is now around 2013 levels, which coincides with the last time the cash rate was above 3 per cent (Graph 3.22). Interest rates on new variable-rate loans remain around 50 basis points lower than rates on outstanding variable-rate loans.

Fixed-rate housing loans are repricing at higher rates

The average rate on all outstanding fixed-rate loans has edged only slightly higher in recent months (Graph 3.23). While there has been a gradual roll-off of existing fixed-rate loans, relatively few borrowers are taking out new fixed-rate loans at higher rates. Currently, just under one-third of total housing credit is on a fixed interest rate. Over the next year, around half of all those fixed-rate loans outstanding will reach the end of their terms and transition to new interest rates. Since most of these loans were issued around record low rates during the pandemic, and rates have risen since that time, expiring fixed-rate loans are expected to continue to reprice at significantly higher interest rates. See 'Box A: Mortgage Interest Payments in Advanced Economies – One Channel of Monetary Policy', which compares the pass-through of policy rates to mortgages in Australia with pass-through in other advanced economies.

Graph 3.22

Variable Housing Lending Rates*

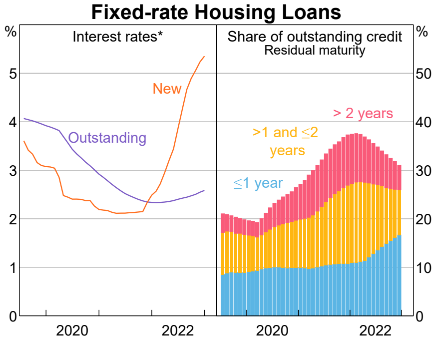


* Reference rates to end January 2023; new and outstanding rates to end December 2022. Series break for new and outstanding loans in July 2019.

Sources: APRA; banks' websites; CANSTAR; Perpetual; RBA; Securitisation System

Graph 3.23

Fixed-rate Housing Loans



* Weighted average across all fixed-rate terms.

Sources: APRA; RBA

Housing loan payments have increased and will increase further over coming months

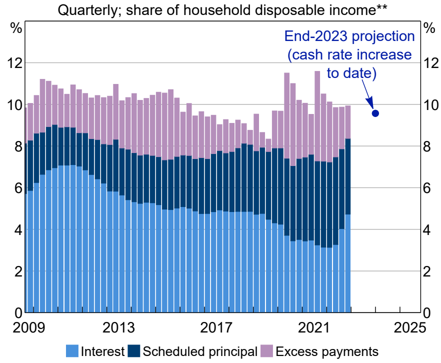
Scheduled mortgage payments increased further over the December quarter to reach around 8¼ per cent of household disposable income.[2] Interest payments have increased by 1¾ percentage points of disposable income since the Bank started increasing the cash rate in May 2022, while total scheduled payments have increased by slightly less than this (because scheduled principal payments decline as interest rates rise).

Scheduled mortgage payments are expected to increase further over coming months, as lenders typically take a few months to adjust borrowers' mortgage payments following a cash rate increase, and borrowers with fixed-rate loans will continue to roll off onto higher rates. Scheduled mortgage payments are projected to reach between 9½ and 9¾ per cent of household disposable income by the end of 2023, based on cash rate increases to date. Scheduled mortgage payments are projected to reach levels similar to total payments (principal, interest and excess payments) made by households through 2022.

Graph 3.24

Housing Mortgage Payments*

Quarterly; share of household disposable income**



* Dot shows scheduled payments projection assuming full pass-through to variable-rate loans and fixed-rate loans roll off to variable-rate mortgages.

** Estimated scheduled payments using credit foncier model.

Sources: ABS; APRA; RBA

Borrowers continued to make payments into their offset and redraw accounts in the December quarter. These net payments over 2022 were less than during 2020 and 2021. Households have accumulated a stock of around $120 billion in mortgage offset and redraw accounts since the start of the pandemic, which is around 7¾ per cent of annual household disposable income. Higher income borrowers hold a greater share of these buffers, but lower income borrowers in aggregate continued to contribute to their offset or redraw accounts over 2022. Higher interest rates and other cost-of-living pressures are likely to constrain some borrowers' ability to add further to these buffers. As required housing loan payments increase further in the period ahead, some borrowers may need to reduce non-essential spending, save less overall and/or draw down on accumulated savings to service their mortgages.

Interest rates on business loans are also rising

Interest rates on outstanding variable-rate business loans have increased over recent months, reflecting pass-through of increases in the cash rate and three-month BBSW (which is the standard benchmark rate used to price loans to medium and large businesses). The interest rate on the average fixed-rate loan has increased more slowly, because changes in interest rates only affect outstanding fixed-rate credit as loan terms expire.

Growth in business debt has slowed

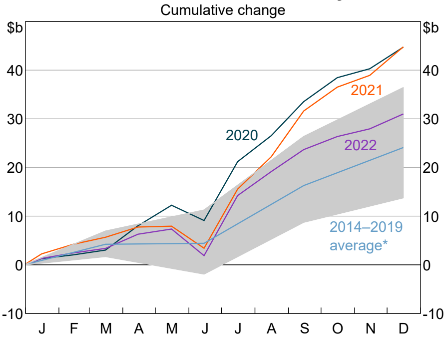
Growth in business debt has declined in recent months, although it remains above the average of the last decade. This decline reflects that growth in business credit has eased from its recent peak and that non-financial corporate bond issuance has been low.

Lending to property services and finance firms contributed about half the growth in business credit over the past year, although credit growth to these industries has eased in recent months. Slower growth in lending to the property services industry reflects a lower volume of commercial property transactions, while lending to finance firms has slowed alongside lower demand for housing finance. Businesses in goods-related industries are also making less use of revolving credit facilities as liquidity challenges abate alongside easing supply chain disruptions. Commitments for new business loans have decreased in recent months, which suggests the growth of business credit is likely to decline further.

Graph 3.25

Offset and Redraw Account Payments

Cumulative change



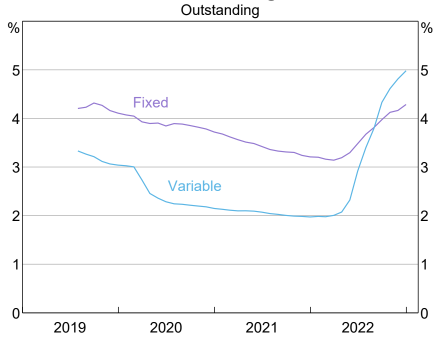
* Available data prior to 2020 is quarterly.

Sources: APRA; RBA

Graph 3.26

Business Lending Rates

Outstanding



Sources: APRA; RBA

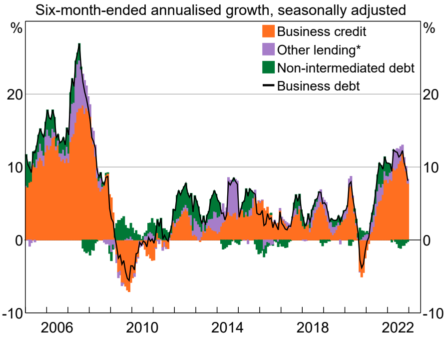
Corporate bond issuance was low in 2022

In contrast to bank bond issuance, non-financial corporate bond issuance in 2022 was at its lowest level in recent years (Graph 3.28). Most issuance was in offshore markets and by non-financial companies in sectors other than resources. Market liaison suggests that after strong issuance in 2021, some companies had no pressing need for funds, while others used bank finance given this was available on more favourable terms than was the case for bond markets.

Graph 3.27

Business Debt

Six-month-ended annualised growth, seasonally adjusted



* Lending to large businesses by institutions that do not report to APRA.

Sources: APRA; Bloomberg; RBA; Refinitiv

Australian equity prices have risen noticeably of late

The ASX 200 index has risen 7 per cent over the year to date. This follows a period of volatility though little net change through 2022 on a total returns basis (Graph 3.29). The result over 2022 as a whole was better than for US and international equity markets, which fell by around 18 and 6 per cent, respectively.

The relative strength of the Australian market over the past year or so reflects the larger weighting of the resources sector. Equity prices in the resources sector increased by around 13 per cent over 2022, driven by a nearly 40 per cent increase in the energy sector, as the war in Ukraine led to higher energy prices (Graph 3.30). Resources have continued to outperform recently as key commodity prices have strengthened in line with the more positive outlook in China.

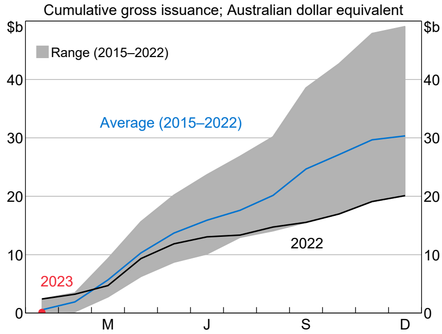
The ASX 200 price-to-earnings ratio fell in 2022

The price-to-earnings ratio for the ASX 200 – a popular measure of stock valuations comparing current share prices to projected earnings – fell to be a little below its long-term average in 2022 (Graph 3.31). The decline last year reflected an increase in aggregate earnings expected by market participants amid little change in share

Graph 3.28

Non-financial Corporate Bond Issuance

Cumulative gross issuance; Australian dollar equivalent

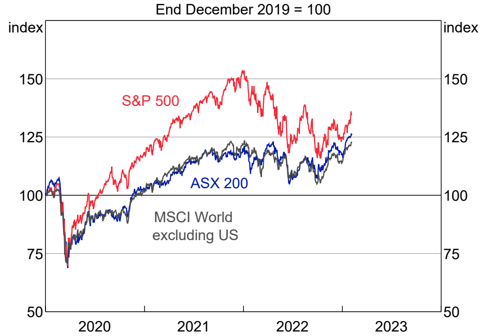


Sources: Bloomberg; Private Placement Monitor; RBA

Graph 3.29

Total Return Indices

End December 2019 = 100



Source: Bloomberg

prices over the year. This continues a trend to lower ratios across most sectors over the past few years. The ratio is now well below its long-term average for the resources sector, where analysts' earnings forecasts have increased substantially against a comparatively more modest increase in share prices.

Mergers and acquisitions activity was above average in 2022

Mergers and acquisitions (M&A) activity was above average in 2022, although it was around 40 per cent below 2021's record level and slowed in the second half of the year (Graph 3.32). There were over 900 deals announced with a total value of around $200 billion during 2022. These include: the takeover of Australia's Origin Energy by a consortium led by Canadian company Brookfield Asset Management; the takeover of American IT company Switch by a consortium including Australian fund manager IFM Investors; and the acquisition of a controlling stake in the Chicago Skyway by Atlas Arteria (an Australian operator of private toll roads).

Equity raisings declined in 2022

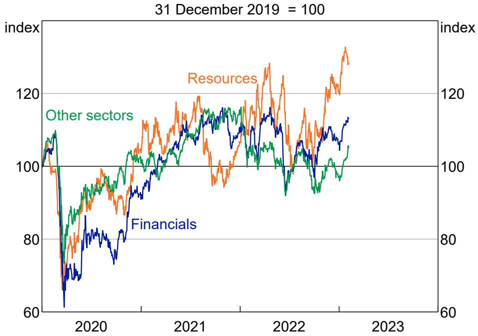
Listed companies raised around $35 billion in equity over 2022 (Graph 3.33). This was slightly lower than the average over the past decade and represents a return to more typical levels of equity raising after the elevated period around the pandemic. By contrast, buybacks were at record levels in 2022. Companies returned $20 billion to shareholders, with about two-thirds of this completed by financial companies. Buybacks included Westpac's $3.5 billion off-market buyback in February and Qantas's $400 million buyback in August.

Around $1.1 billion was raised through initial public offerings (IPOs) in 2022 (Graph 3.34). This was the lowest annual value raised from IPOs in the past two decades. While the value of IPOs was very low, their number was broadly in line with pre-pandemic levels. The resources sector

Graph 3.30

Australian Share Prices

31 December 2019 = 100

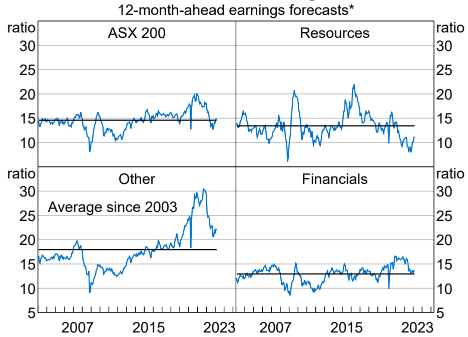


Source: Bloomberg

Graph 3.31

ASX 200 Price-to-earnings Ratios

12-month-ahead earnings forecasts*



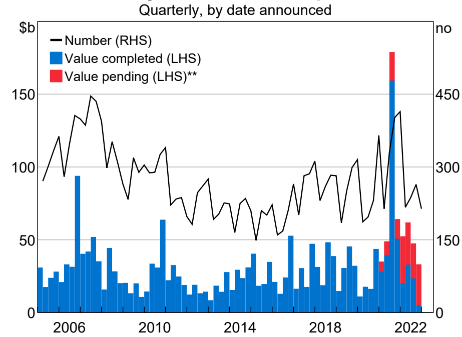
* Earnings forecasts obtained from IBES aggregates.

Sources: RBA; Refinitiv

Graph 3.32

M&A by Australian Companies*

Quarterly, by date announced



* Does not include BHP Limited's acquisition of BHP Plc.

** Includes transactions announced in the past two years but not completed.

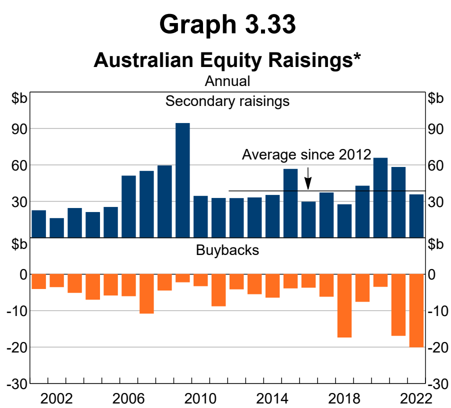
Sources: RBA; Refinitiv

had the most new listings by number, with 68 companies raising $680 million, mostly smaller miners. By contrast, there were just three listings completed by financial companies.

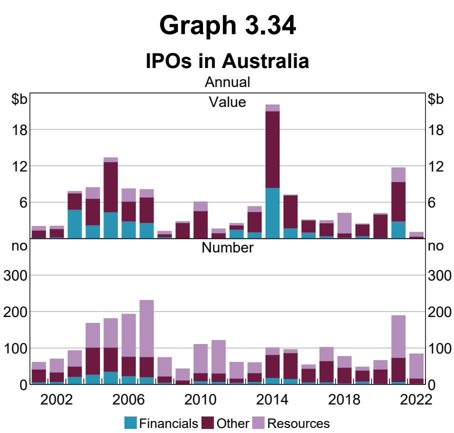
The Australian dollar has appreciated

The Australian dollar has appreciated 7 per cent against the US dollar since early November, to be around US$0.69. This has occurred alongside a broad-based depreciation of the US dollar, partly reflecting a moderation in inflation in the United States and a tempering of market expectations about how restrictive the US policy rate will need to be (see chapter on 'The International Environment'). The appreciation is also consistent with an increase in yield differentials between Australian Government bonds and US Treasury bonds, while the yield differential against government bonds of other major advanced economies has declined (Graph 3.35). The reopening of the Chinese economy has also provided support for the Australian dollar, including through higher prices for some key commodity exports. Despite this, the RBA Index of Commodity Prices is little changed since early November, with higher prices for iron ore, coking coal and base metals offset by a decline in the prices of energy-related commodities.

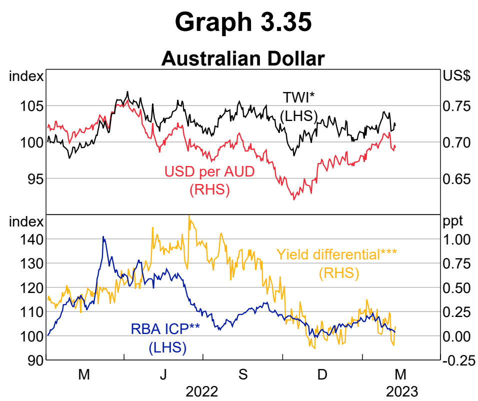
Despite the 7 per cent appreciation against the US dollar, the Australian dollar is only around 1 per cent higher on a trade-weighted (TWI) basis since early November. This largely reflects the 1 per cent appreciation of the Australian dollar against the Chinese renminbi, which has the highest weight in the TWI, and the fact that the Australian dollar has depreciated against some currencies, including the Japanese yen and South Korean won (Graph 3.36).[3]



* All listed companies.
Sources: ASX; RBA



Sources: ASX; RBA



* Trade-weighted index, 3 January 2022 = 100.
** Index of Commodity Prices (USD terms), 3 January 2022 = 100.
*** Three-year Australian sovereign yield less yields of the United States, Japan and Germany, weighted by GDP.
Sources: Bloomberg; RBA; Yieldbroker

Australia's financial account balance returned to a small surplus in the September quarter

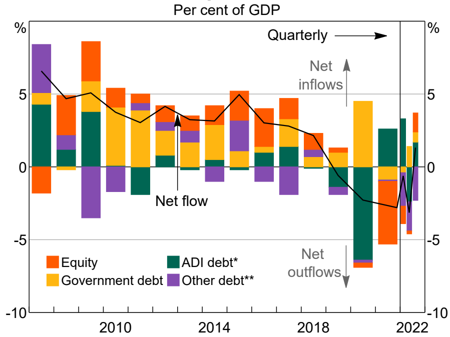
Australia experienced a net capital inflow in the September quarter. This resulted in the financial account balance returning to a small surplus, after being in deficit for more than three years. The net inflow of capital was associated with foreign direct equity investment into Australia, driven by reinvested earnings, as well as banking sector transactions involving financial derivatives (Graph 3.37). There was a record value of financial derivative assets and liabilities settled in the September quarter, reflecting an increase in the market value of derivative contracts associated with heightened volatility in foreign exchange and bond markets.

Australia's net foreign liability position was little changed over the September quarter at around 35 per cent of GDP (Graph 3.38). The net income deficit – the net payments made to service the net foreign liability position – widened considerably to a record high level of around 5½ per cent of GDP, which contributed to the current account balance shifting back to a deficit. This was largely driven by increased dividend payments to non-residents on their Australian equity holdings, reflecting high operating profits and significant foreign investment in the resource sector. ✠

Graph 3.37

Net Capital Flows

Per cent of GDP



* Includes derivative settlement, adjusted for the US dollar swap facility in 2008–2009 and 2020.

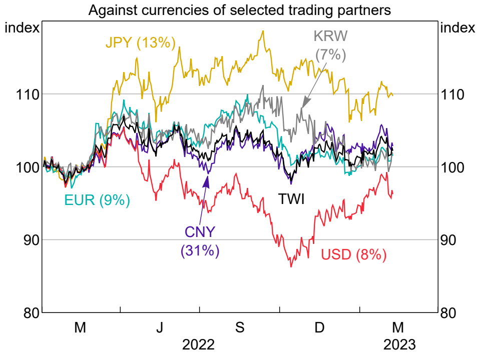
** Includes public corporations and private sector.

Sources: ABS; RBA

Graph 3.36

Australian Dollar*

Against currencies of selected trading partners



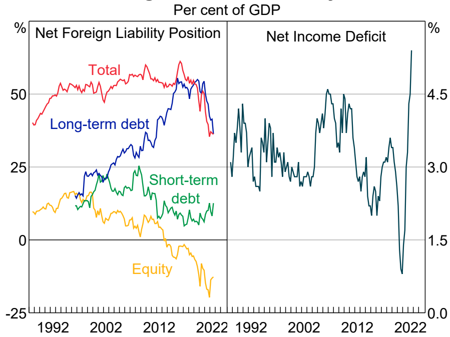
* Indexed to 3 January 2022 = 100, TWI weights in parentheses.

Sources: Bloomberg; RBA

Graph 3.38

Net Foreign Position and Payments

Per cent of GDP



Sources: ABS; RBA

Endnotes

[1] See RBA (2019), 'Box D: The Distribution of Variable Housing Interest Rates', *Statement on Monetary Policy*, November. Available at <https://www.rba.gov.au/publications/smp/2019/nov/box-d-the-distribution-of-variable-housing-interest-rates.html>

[2] Data on housing loan payments are now available in Statistical Table E13.

[3] The weights for the Australian dollar TWI were updated in December 2022 based on the composition of Australia's merchandise goods and services trade for the 2021/22 financial year. For more information, see RBA (2022), 'Weights for the TWI', 20 December. Available at <https://www.rba.gov.au/statistics/frequency/weights-twi.html>