

## Australia Rates Alpha

# Close BOB steepener, constructive on XCCY basis

### We close our Mar/ Sep '25 BOB steepener

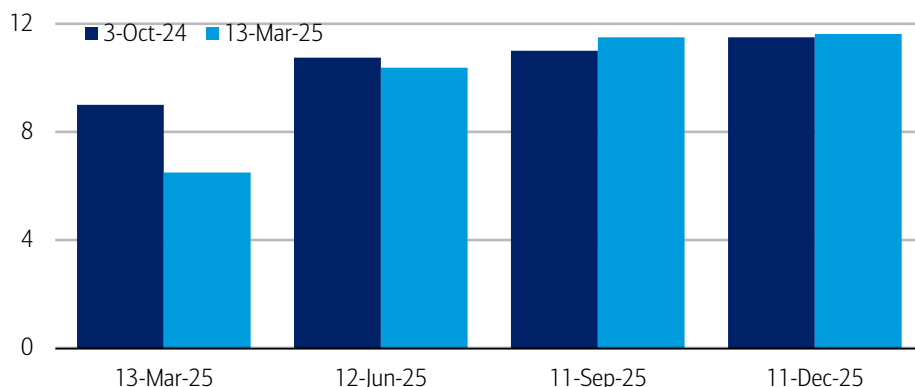
Our recommendation to receive Mar '25 bills-OIS basis (BOB) and pay Sep '25 bills-OIS basis (BOB) (i.e. Mar/ Sep BOB steepener) expired last Thursday. We close the trade at 4bps (entry 2bps, target 6bps, stop 0bps).

### BOB has moved closer to fair value...

When we entered the trade recommendation in October, BOB had widened alongside a global widening of money-market spreads around the Q3 '24 quarter-end turn. BOB has subsequently tightened alongside a fall in bank bill volumes traded in the daily rate set window, which we use as a rough proxy for bank bill supply (Exhibit 1, Exhibit 2, Exhibit 4). We see bills-OIS basis trading around longer-run fair value (c. 5-10bps), consistent with our forecast for bank reserves and structural increase in demand for cash products from Australia's superannuation funds. See note: [Liquid Insight 03 October 2024](#).

#### Exhibit 1: 3m bills-OIS basis (BOB)

Basis has tightened year-to-date



Source: Bloomberg

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### ... and near-term risks skew to wider basis spreads

In the near term, a drain on system liquidity poses an upside risk to BOB. Typically, government deposits rise fastest between April and July, and there is an inverse relationship between government deposits and ES balances at the RBA because governments raise cash by issuing T-notes which drains non-government deposits held in the commercial banking system (Exhibit 6, Exhibit 7). The RBA also owns AUD 20bn/ 41.5bn of a bond line maturing on 21 April and it will remove this liquidity from the system when the bond matures.

Although the relationship between ES balances is tenuous post-pandemic, lower balances have typically coincided with higher BOB spreads in a conventional operating regime, which we believe we are approaching (Exhibit 3). *Continued over page...*

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**Refer to important disclosures on page 4 to 6. Analyst Certification on page 3.**

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18 March 2025

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For a complete list of our open trade recommendations, as well as our trade recommendations closed over the last 12 months, see the most recent [Global Rates Weekly](#).

IMM = International Money Market

MBS = mortgage-backed securities

OIS = overnight indexed swaps

AONIA = AUD Overnight Index  
Average

SOFR = secured overnight financing  
rate

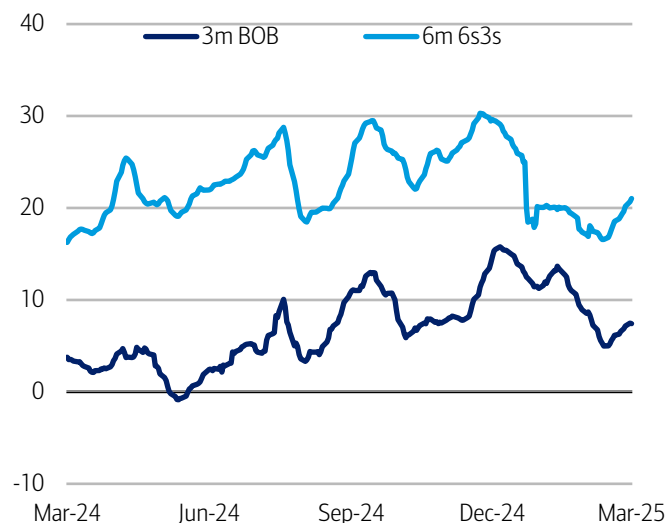
## More constructive on XCCY basis

Cross-currency basis has not tightened as much as BOB and 6s3s (i.e. single-currency basis) and the 1y-2y segment of the AONIA/SOFR curve remains quite steep.

Receiving AUD basis, paying JPY basis is typically popular trade for investors we speak to because of its attractive carry profile and multi-year trends towards tighter basis (Exhibit 5). Also, client feedback suggests receiving 6m6m AONIA/SOFR has become a popular structure (c. 2.5bps/ quarter). While we see tighter basis over the coming months, there are two very short-term headwinds for the structure: (1) tomorrow-next (T/N) AONIA/SOFR basis is rising into this week's IMM roll; (2) our US colleagues expect a more dovish Fed QT announcement (i.e. MBS reinvestments across the UST curve) than the market (see note: [US Rates Watch 11 March 2025](#)).

### Exhibit 2: BOB vs 6m 6s3s

Spreads have tightened since late 2024

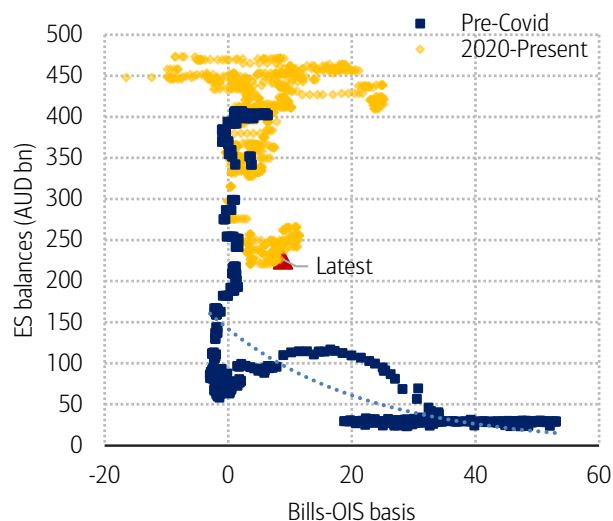


Source: Bloomberg

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### Exhibit 3: ES balances (AUD bn) vs BOB (bps)

We see BOB stabilizing c. 5-10bps, ES balances c.100-150bn



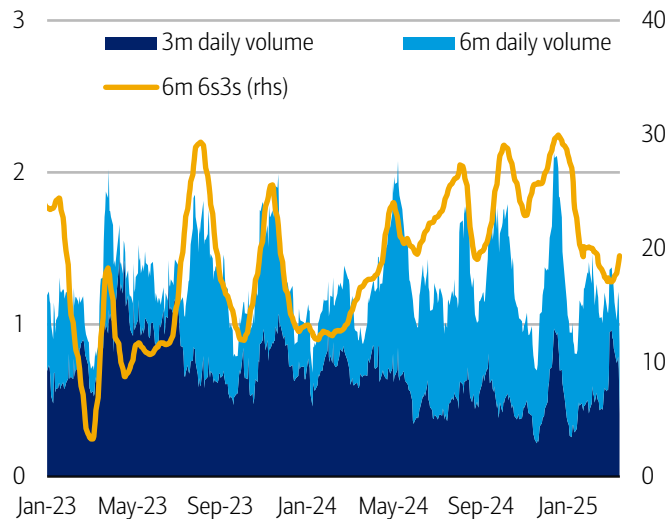
Source: Bloomberg, RBA

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**Exhibit 4: BBSW daily volumes (AUD bn) vs 6m 6s3s (bps)**

6m 6s3s is trading

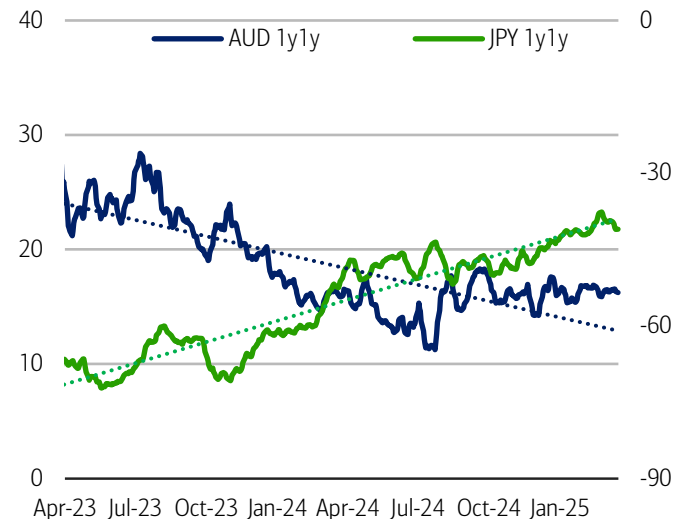


Source: ASX

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**Exhibit 5: 1y1y OIS/ SOFR basis**

We prefer receiving cross-currency basis vs single-currency basis

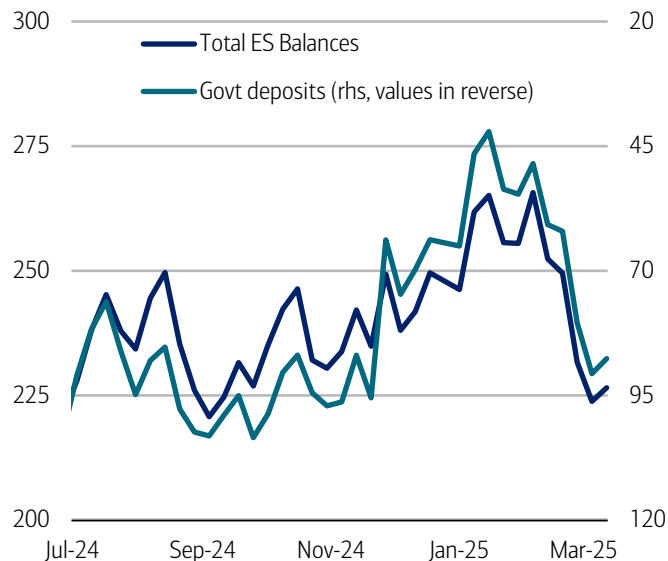


Source: Bloomberg

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**Exhibit 6: ES balances vs government deposits**

Govt T-note issuance tends to drain private-sector deposits

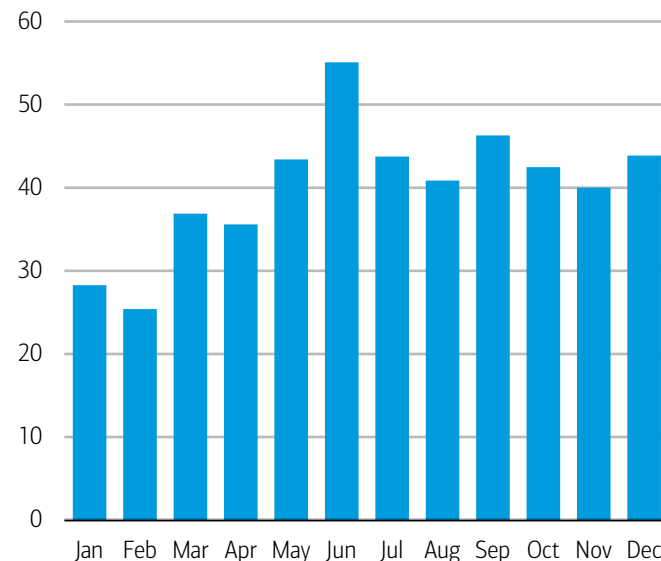


Source: RBA

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**Exhibit 7: Avg govt deposits (AUD bn) by month (2014-present)**

Government deposits typically rise fastest between March and June



Source: RBA

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