

27 June 2024

Interest rate swap curve is a key factor in pricing corporate bond curves

By Victor Gugger

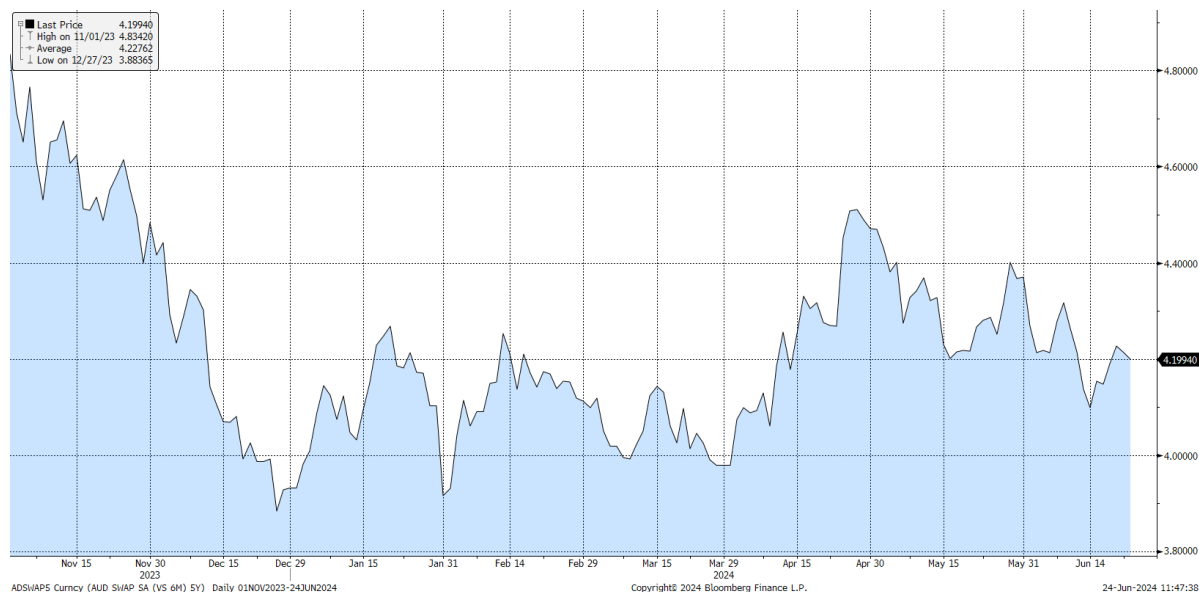
The interest rate swap curve serves as a key benchmark for pricing the corporate bond curve, making it the best indicator of yield opportunities. While the price of credit (or the credit curve) also plays a role, the swap curve is the primary indicator in the current market conditions.

Corporate bond pricing is closely aligned with the swap curve, so it's essential to remain vigilant in these market dynamics. Below, we highlight the 5-year and 10-year swap curves, which are the most popular maturities, particularly in the corporate bank bond markets. These curves have been relatively stable, reflecting the Reserve Bank of Australia's current stance of maintaining rates.

In late November 2023, there was a spike in rates, with the 5-year swap reaching approximately 4.60% and the 10-year around 4.90%. During this period, bank corporate bonds were trading in the 6.30% to 6.55% range. Similar spikes in yields occurred in late April and late May, providing bond investors with opportunities to secure returns of 6.20% to 6.30%. Notably, NAB issued a 10-year bond at 6.34%, which included a slight new issue premium. With the subsequent fall in yields, this bond has added a \$2 capital gain to its 6.34% coupon, offering investors an outstanding safe investment-grade return.

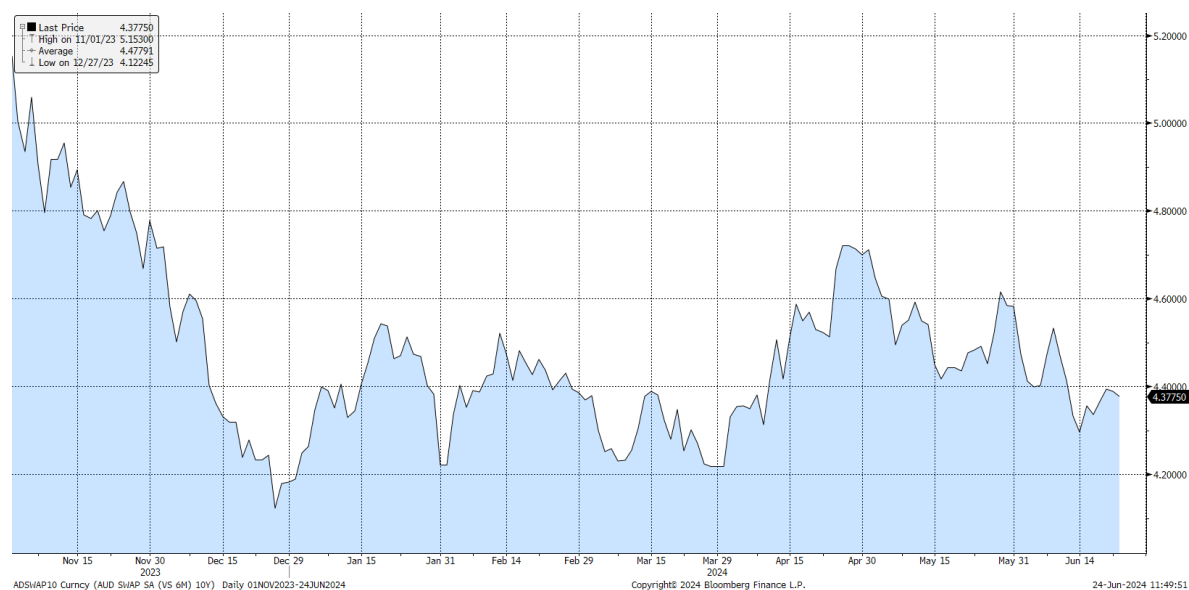
These charts illustrate that a savvy bond investor can potentially achieve 6%+ returns in the investment-grade bond market but should be prepared to act when these opportunities arise.

5 YEAR SWAP CHART



Source: Bloomberg

10 YEAR SWAP CHART



Source: Bloomberg

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