INDEX FUTURES SEEK TO ENHANCE BENCHMARK INVESTOR TOOLS IN AUSTRALIAN CREDIT

Australia's credit market has changed significantly over the past decade, including the participation of a proliferation of investor types and strategies. As well as greater international involvement, superannuation allocations have expanded rapidly and fixed-income exchange-traded funds have attracted growing investor interest. Many of these investors use benchmark-based portfolio construction – with a commensurate need for up-to-date tools to support their approach.

BY STEVE GILMORE

As the market has evolved, so too has the importance of the indices investors use to measure performance, allocate capital and manage risk. Yet while benchmark adoption has accelerated, the tools available to obtain, hedge and manage benchmark exposure have not always kept pace.

A new suite of AusBond index futures contracts can help close this gap. Slated to launch in late August – subject to internal and regulatory approvals – the contracts are designed to allow investors to deploy cash, hedge portfolios and manage benchmark-linked risk without sourcing bonds directly or relying on bespoke OTC solutions.

They are based on Bloomberg's AusBond Composite 0+ Year Index and AusBond Credit 0+ Year Index, benchmarks that have become deeply embedded in the growing Australian capital market ecosystem.

"Widely used by superannuation funds, asset managers, ETF [exchange-traded fund] issuers, insurance and banks, the Bloomberg AusBond indices support benchmarking, portfolio construction and risk management across Australian fixed income markets," says Arisa Mori, APAC head of index product management at Bloomberg Indices in Tokyo.

The central role of these benchmarks to Australian credit investment has highlighted a challenge for investors seeking to manage benchmark exposure efficiently. Investors can buy and sell physical bonds, while some also use OTC instruments such as total-return swaps (TRS), credit default swaps and other bespoke structures. While these solutions can be tailored to closely track a benchmark, they are not always liquid, cost-efficient or accessible for all investors.

"The case for index futures contracts is coming from several parts of the market at once," says Nita Kong, rates product manager at ASX in Sydney. "There is demand from

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FATEEN SHARABY BLOOMBERG INDICES

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The new contracts will sit alongside ASX's existing Treasury bond futures franchise. Treasury futures remain widely used for managing sovereign yield exposure and interest-rate risk. But the index futures are intended to provide a more direct and standardised way to manage exposure to the AusBond benchmarks.

As of May 2026, the AusBond Composite Bond Index includes almost 900 underlying securities with a market value of approximately A$1.8 trillion (US$1.2 trillion), while the AusBond Credit Index comprises 550 constituents with around A$230 billion outstanding. Advocates of the new index futures contracts argue that listed derivatives linked directly to these benchmarks will provide a more targeted way to manage index exposure.

"The introduction of futures on Bloomberg Ausbond indices is an important step in developing a broader benchmark ecosystem," says Fateen Sharaby, head of index derivatives at Bloomberg Indices in New York. "These types of contracts are designed to support a range of institutional use cases, including asset allocation, hedging, liquidity management and potential margin offsets where permitted by the relevant clearing framework."

OUTCOMES IN PRACTICE

The most immediate applications are likely to emerge among large domestic fixed-income investors, particularly superannuation funds and the asset managers that invest on their behalf. These investors receive regular inflows and may not always be able to immediately deploy capital into specific cash bonds that align with their benchmark.

IFM Investors, which manages credit strategies on behalf of superannuation funds and other institutional clients, says futures could help investors put cash to work and maintain credit exposure while underlying assets are sourced.

"We are predominantly credit investors so the primary use case would be when we have excess cash that has not yet been deployed into the assets we ultimately want to own," says Hiran Wanigasekera, executive director and co-head of APAC diversified credit at IFM in Melbourne. "At present, the alternative is often to hold interim securities – which might not have the right duration match or the full market profile of the benchmark. They are also unlikely to be what we want to hold for the long term."

Fund managers building, rebalancing or transitioning portfolios also face periods when benchmark exposure needs to be maintained while underlying positions are sourced or adjusted. This can be particularly relevant in credit markets, where liquidity conditions and bond availability may differ substantially between issuers and sectors.

"The practical issue is timing," Kong says. "Cash comes in regularly but the right bonds are not always available at the right time, size or level. Index futures give investors a way to obtain benchmark exposure quickly while they decide how and when to move into underlying securities."

ETF issuers face a related challenge. Fund flows can require managers to obtain benchmark exposure quickly, even when purchasing the underlying bonds is slower, more expensive or operationally complex.

Chamath De Silva, Sydney-based head of fixed income at Betashares, says futures contracts could improve the efficiency of this process. "Having access to futures gives us added flexibility in how we manage cash and index exposures," he tells *KangaNews*. "The index contract also gives ETF market makers a cleaner hedge than the three- and 10-year [government bond] futures

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Having a benefit for market makers is especially important, market users say, because these firms carry risk while quoting ETFs on exchange. A market maker that sells ETF units to investors is exposed to movements in the value of the underlying portfolio until it can offset or hedge the position. If an ETF is benchmarked against, or closely aligned with, one of the AusBond indices, listed futures may offer a more direct way to manage this inventory risk.

"As a market maker in ETFs benchmarked to the AusBond indices, we are already managing exposures linked directly to these benchmarks," says Aras Ali, co-head of ETF trading at Nine Mile in Sydney. "Listed futures will provide a natural extension to this activity. They serve as a more efficient way to hedge inventory and manage risk within a transparent, standardised framework."

A SIGN OF MATURITY

Banks that provide TRS and other synthetic forms of index exposure to clients are another potential user group. In larger markets, including the US and Europe, investors already have access to well-established OTC tools for obtaining bond and credit-index exposure.

But Australia's TRS market is less developed, with fewer active price makers and more limited liquidity. This creates a clear role for listed futures as a more accessible way to hedge and manage index exposure.

Market participants say listed futures should be viewed as complementary to the existing TRS market rather than as a replacement for it. OTC solutions are likely to remain important for investors with specific structuring, financing or customisation requirements.

"But listed futures provide a standardised, centrally cleared alternative that can support access and balance sheet efficiency," says Nicholas Allen, Sydney-based head of structured products trading at Westpac Institutional Bank. "Over time, we expect the two markets to develop alongside each other, with futures also helping to bring additional transparency and price discovery to index-linked risk."

More active investors may also use the contracts to express views on relative value within fixed-income markets. Potential applications could include trades between sovereign bond and benchmark exposure, or between the composite and credit indices themselves.

As well as the significance of index futures contracts to individual use cases, the growing need for market infrastructure products of this type speaks to the development of Australia's credit market. It has grown substantially in size and sophistication over recent years, and as such it is starting to support and require tools beyond straightforward issuance of cash bonds to buy-and-hold investors.

The launch of listed futures linked directly to widely used bond benchmarks mirrors developments that have already occurred in other major markets. Whether the contracts achieve widespread adoption will depend on factors including liquidity, market-maker participation and the breadth of institutional support.

Like any exchange-traded product, their long-term success will ultimately be determined by the extent to which investors incorporate them into day-to-day portfolio management and risk-management activity. Early users should promote liquidity, in turn attracting more activity to the futures complex.

"Credit index futures have become an integral part of how investors manage and express credit exposure," Antony Harden, head of APAC futures execution at Goldman Sachs in Hong Kong, tells *KangaNews*. "In the Australian market, listed futures can play an important role in broadening access, enhancing efficiency and introducing greater standardisation, while enabling a more flexible and scaleable approach to managing and transacting risk."

Against this backdrop, the launch of AusBond futures reflects an evolution in market structure. Rather than simply adding another instrument to the available toolkit, the contracts seek to provide listed-market infrastructure for exposures that many investors already manage and measure every day. •

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