



New Zealand Government Bond (NZGB) Futures Survey Results

Introduction

Recent changes in the New Zealand market, including the increase in government debt on issue, the RBNZ's current Liquidity Policy Review and the inclusion of NZGBs in the World Government Bond Index have prompted a focus on liquidity in the NZ debt market. In November 2023, ASX surveyed global market participants regarding the possible reintroduction of New Zealand Government Bond futures. This paper discusses the results of the survey supported by the [ASX Market Notice](#).

Background

New Zealand debt capital markets are diverse and highly regulated. Primary New Zealand Government Bond issuance is supported by a panel of eight banks (Registered Tender Counterparties). The secondary market is supported by both local and offshore banks.

As of 31 January 2024, the value of NZGBs outstanding was NZ\$152bn. This is forecast to grow to NZ\$209bn by 2027. There are currently 14 nominal bond maturities on issue*.

Government bond turnover was NZ\$18bn for the week to 2 February 2024, or an annual average of NZ\$28bn in 2023**. A repo market supports secondary market trading, along with the RBNZ's overnight bond lending facility (lender of last resort).

ASX has a long history of provision of listed products to the New Zealand market, including interest rates, OTC, commodities derivative contracts and listed equities. Between 1995 and 2019, New Zealand 3 Year and 10 Year Government Stock Futures were listed on ASX. These contracts were delisted due to a lack of trading and open interest.

Changes to the debt issuance landscape in New Zealand has brought a refreshed focus to liquidity and the need for additional tools to enhance liquidity. Exchange traded Futures contracts benefit participants in the market in many ways, including:

- Providing an efficient and transparent risk transfer mechanism.
- Attracting a diverse investor base.
- Increasing secondary turnover of underlying bonds.
- Facilitating bond arbitrage opportunities.
- Replication of underlying bond baskets when assets unavailable or bonds trading rich/expensive.
- Ease of price discovery
- Ease of trading (e-trading / Direct Market Access).
- Accessibility – day and night trading sessions

*Source: NZDMO NZ Govt Securities Overview 2023/24

**Source RBNZ Statistics

Futures contracts also provide the opportunity to exchange for physical (EFP). The exchange of futures for the physical underlying bonds provides the following benefits to the market:

- Mitigates transactional risk.
- Easier access to physical bonds via EFP mechanism; broadens customer holding base of NZGB.
- Supports competition in the interdealer market (refer to finer pricing) especially when transacting EFP vs outright.
- Greater transparency of bond yields on trading platforms.
- Facilitates efficient transfer of risk between counterparties.
- Issuance support for both tender and syndicate.

Rationale for conducting the survey

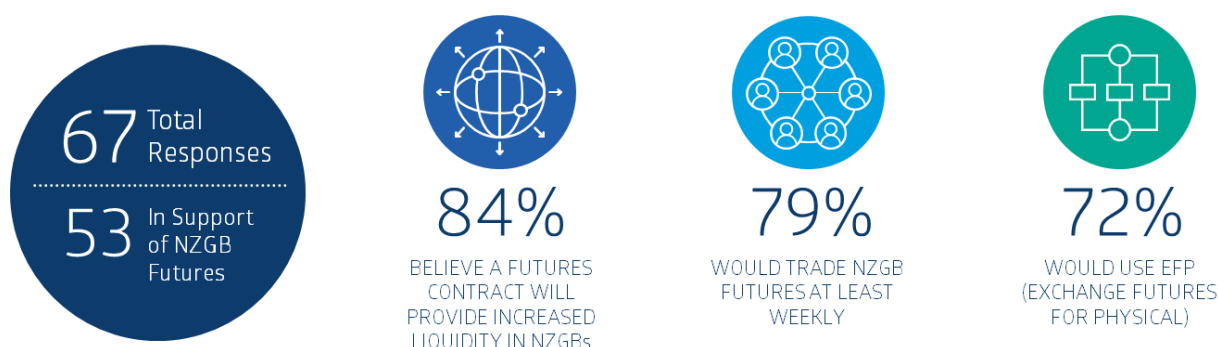
ASX has received an increasing number of inquiries from participants and investors globally regarding the availability of an NZGB futures contract. International interest has grown, particularly since NZGB inclusion in the FTSE World Government Bond Index. NZGBs offer an attractive premium to an expanded pool of risk capital.

NZ debt issuance has steadily increased over the last five years and is forecast to remain elevated, reaching \$209bn by 2027. Additionally, the NZ Debt Management Office has a commitment to maintaining a minimum level of supply of NZGBs on issue (not less than 20% GDP over time*).

The RBNZ is currently conducting a comprehensive review of their liquidity policy (the Liquidity Policy Review 'LPR'). This has brought focus to the topic of liquidity broadly within the NZ market and resilience of the market in times of stress and the role that exchange traded futures contracts could play in covering duration risk.

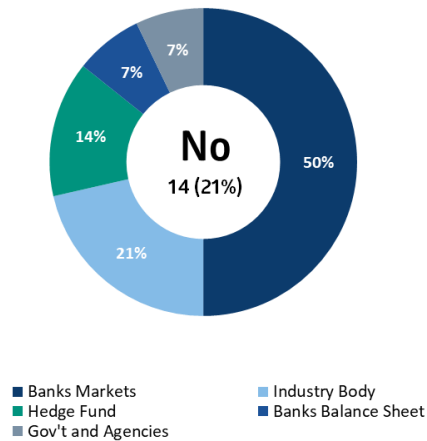
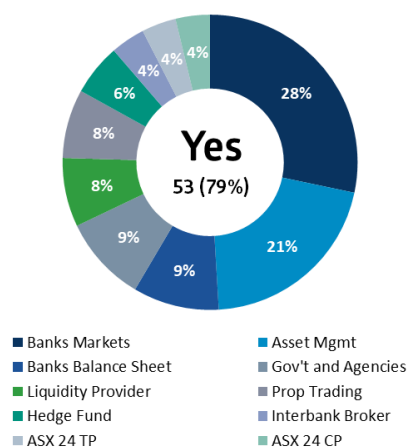
Survey Results

We received 67 responses from a broad range of participants across the market which showed 79% support for futures in the New Zealand market.

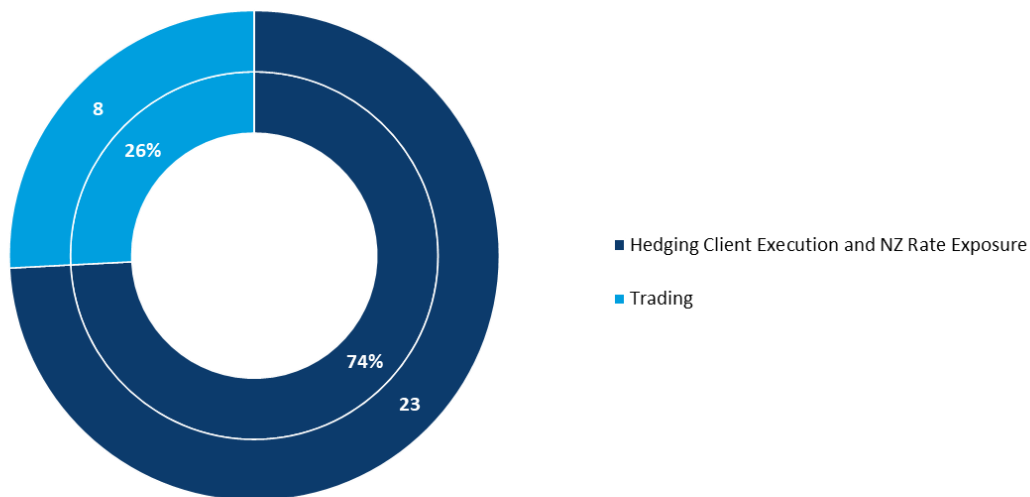


*Source NZDMO: New Zealand Government Securities Fund Strategy 2018/19

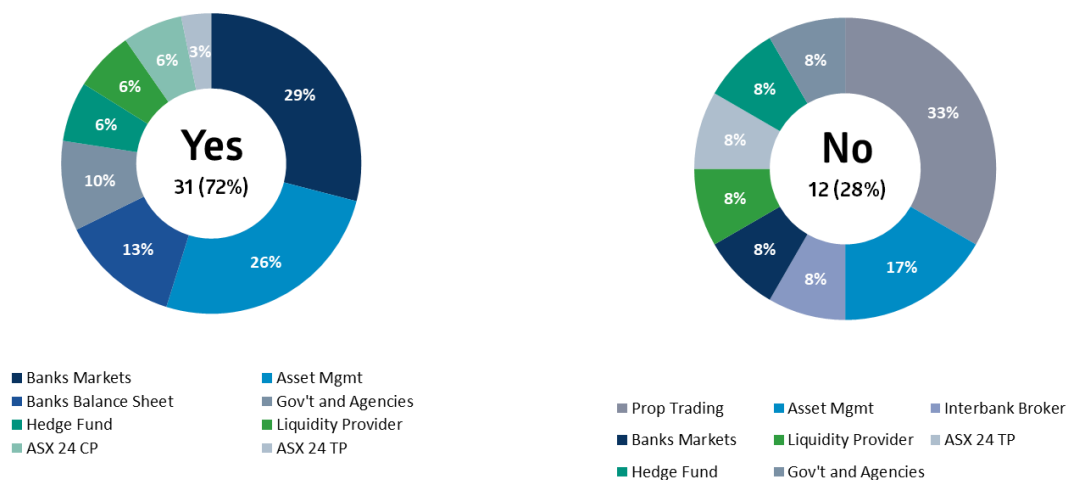
Would you use NZGB futures?



How would you use NZGB futures?

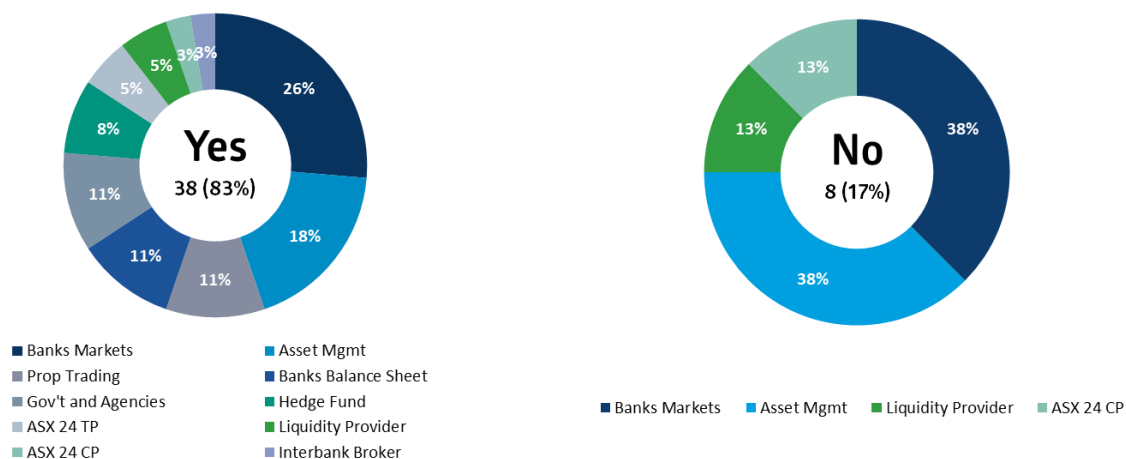


Would you use EFP?



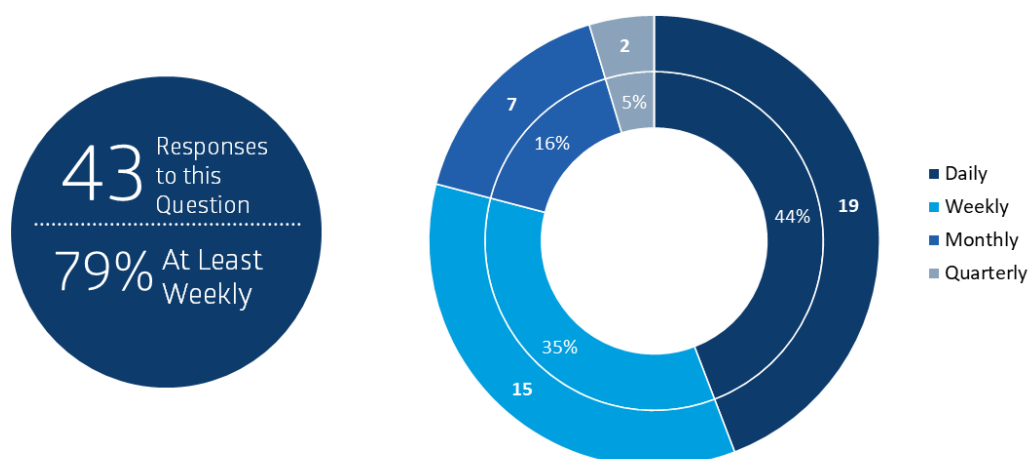
Exchange of futures for physical (EFPs) provide an important mechanism for the transfer of risk between intermediaries and end users.

Should the tenor of NZGB futures be aligned with AGB futures?



Alignment with AGBs would facilitate spreads between NZGB and AGB futures as well as being supportive of cross border trading opportunities.

How regularly would you trade NZGB futures?



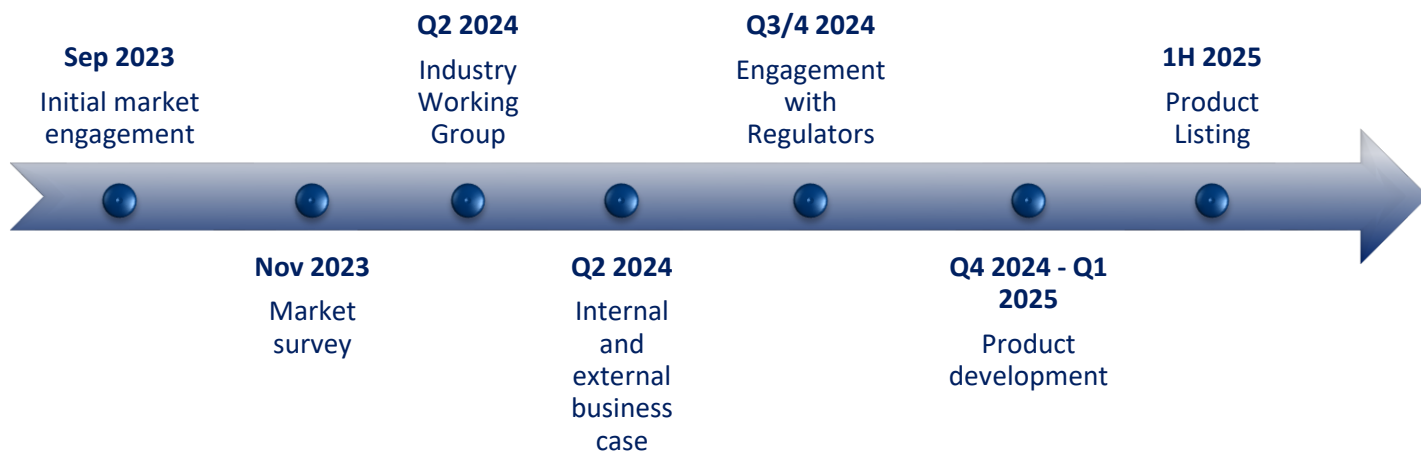
Key messages from Respondents

We asked participants to provide any additional comments. These are the key messages we received:

- Futures could be a game changer for the NZ market adding transparency to the curve.
- The three-year point is likely to be the most liquid on the curve. This would trade as a spread to the Australian 3 Year contract.
- The importance of expiry position limits, at least as the contract is growing, was noted to ensure an orderly expiry and roll process.
- Some respondents mentioned the possibility of Registered Tender Counterparties participating in the contract to support liquidity.
- Some respondents are only supportive if cash-settled, whilst others want physical settlement to provide access to the underlying bonds.
- A diversity of organisations with differing investment and trading functions would be required to support an electronically traded future.



Project progress and indicative next steps (subject to internal and regulatory approvals)



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