



## Media Release

### Australia's Financial Markets Prove Effective in Challenging Times

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The 2011 Australian Financial Markets Report released today demonstrates the strong ongoing capability of Australia's financial markets to serve the needs of the economy, notwithstanding continued uncertainty and volatility in world financial markets.

While outcomes were inconsistent across markets, overall turnover - comprising the over-the-counter (OTC) and exchange-traded financial markets - grew by 23.5% during the 2010-11 financial year.

Cash equities market turnover was subdued despite the global turmoil, with volumes still at 2006-07 levels and prices at 2005 levels, creating margin pressures for participant firms. Competition in these markets remains intense, costs are rising and together with ongoing high volatility this presents a challenging commercial environment for traders, brokers and other market participants.

The OTC markets reversed their trend from prior years, growing overall by 16.1% as financial institutions, corporates, governments and others traded between each other to manage their financial risk and investments against an uncertain global outlook.

Overnight Index Swaps (OIS) reported the largest percentage increase - up 120% - while aggregate interest rate derivatives volume increased 38.5% as the market anticipated RBA cash rate increases before seeing sentiment turn towards prospects for an easing bias.

On the OTC debt markets:

- Turnover in government debt securities increased by 59.8%, reaching significant new highs, influenced largely by increased debt issuance by the Commonwealth and state governments;
- Turnover of non-government debt, including bank, corporate bonds and the foreign "kangaroo" securities rose by 34.4% reflecting greater liquidity and overall confidence by domestic and foreign investors alike; and
- In contrast, and continuing the trend from prior years, turnover in short-dated debt instruments, predominantly banks bills and Certificates of Deposits (CDs), fell by 10.6% as banks focused on and positioned themselves for implementation of the Basel Committee's liquidity reforms.

OTC electricity derivatives volumes rose 42.3% with the main driver being a significant increase in options activity, reflecting a market which is becoming more sophisticated in its management of risks, including those associated with carbon pricing. Electricity swaps now represent 51% of activity

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as compared to 74% in 2009-10, options products increasing year-on-year from 26% to 49% of aggregate volumes.

Foreign exchange volumes increased 7.6% from 2009-10, breaking a three year downward trend underpinned by a 22.2% increase in FX swap volumes and being reflective of the growing risk appetite of the markets.

Efficient financial markets are central to the success of the economy, directly enabling companies to raise capital and grow their business, finance governments, manage liquidity across the economy and facilitate financial and commodity risk management. The Report is produced by the Australian Financial Markets Association (AFMA) in association with Austrade and the Australian Securities Exchange (ASX). It is the only annual report with comprehensive coverage of, and statistics on, Australia's OTC market and the equity and futures exchanges.

**Notes for Editors:**

Australian Financial Markets Association (AFMA):

The Australian Financial Markets Association is the industry association for Australia's wholesale banking and financial markets. These markets enable Australian financial institutions and companies to raise and manage their capital efficiently, control their financial risks and conduct financial transactions with counter-parties in Australia and overseas.

AFMA represents industry participants in the wholesale banking and financial markets, including Australian and foreign banks, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.

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