

Australia's Moment? De-dollarisation gains momentum



AUGUST 2025

The global credit market is being quietly but fundamentally re-priced. There are signs the long, comfortable era in which the US dollar's reserve status has helped to inflate the size, depth and relative pricing of US corporate credit, is beginning to fray.

The global credit market is being quietly but fundamentally re-priced. There are signs the long, comfortable era in which the US dollar's reserve status has helped to inflate the size, depth and relative pricing of US corporate credit, is beginning to fray.

Much like the eighty years it took to entrench US dollar dominance in the world's economy, the shift away from it won't happen overnight. It's more like turning an ocean liner than flipping a switch – slow-moving but hard to reverse once underway. Nonetheless, it marks a clear change in direction and is part of a long-term, capital flow story already unfolding – one that will produce both winners and losers.

This is not a disorderly rush for the exits. But even modest and sustained outflows from an over-allocated US investment-grade (IG) market can be a powerful tailwind for non-US\$ markets – particularly those like where spreads still offer fair compensation for risk.

And Australia, with investment grade (IG) spreads still sitting at, or above, long term averages while US spreads sit materially below, is looking increasingly like one of the winners. The features of our credit market – a AAA rated economy (one of only a few left), stable political and legal system and a transparent regulatory environment – are all strong drawcards for global investors seeking diversification beyond the US dollar.



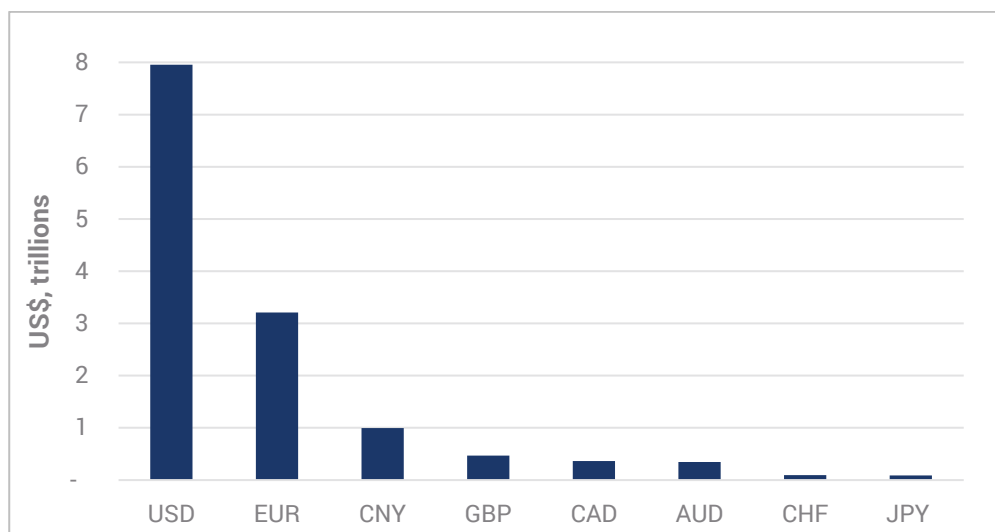
**Phil Strano,
Head of Australian
Credit Research**

The world is over-allocated to US\$ and investors are re-evaluating

A number of powerful dynamics are converging to create the 'de-dollarisation' investing theme emerging in credit markets.

The fact remains that investors have been structurally over-allocated to US dollar assets for decades. Recent research from Deutsche Bank estimates the US investment-grade credit market is ~US\$3 trillion larger than fundamentals would suggest, with outstandings at ~30% of GDP. Contrastingly, Australia's sits alongside Canada as the fifth or six largest public credit market globally (refer Chart 1), but its outstandings represent ~20% of GDP. Investment in US IG corporate credit has long outpaced the size of the US economy. That imbalance is a function of history: the US dollar's reserve currency status has long supported demand for US\$ credit, irrespective of valuation.

Chart 1 – Face Value of IG Corporate Debt (US\$)



Source: Deutsche Bank, Bloomberg, YCM Jun 2025.

But the drivers of that status - liquidity, depth, geopolitical dominance - are now being re-evaluated. Foreign investors, central banks and sovereign wealth funds are gradually diversifying away from US\$-denominated credit, often by reinvesting maturing capital into other markets rather than engaging in outright selling.

This orderly approach is reflected in Deutsche Bank's analysis which suggests average monthly outflows of around US\$9.3 billion from the US investment-grade credit market¹ - roughly 15% of average monthly net supply since 2020. In other words, not a disorderly rotation, but still directionally significant.

The political backdrop is contributing to the shift. A more inward-looking US policy stance – characterised by rising tariffs and ballooning deficits – weakens the rationale for concentrated \$US exposure. If the US is less willing to import, fewer dollars circulate globally. That naturally reduces the need for other countries to hold US\$ assets. In turn, demand for currency diversification increases, with a portion of those additional flows then allocated to \$A assets.

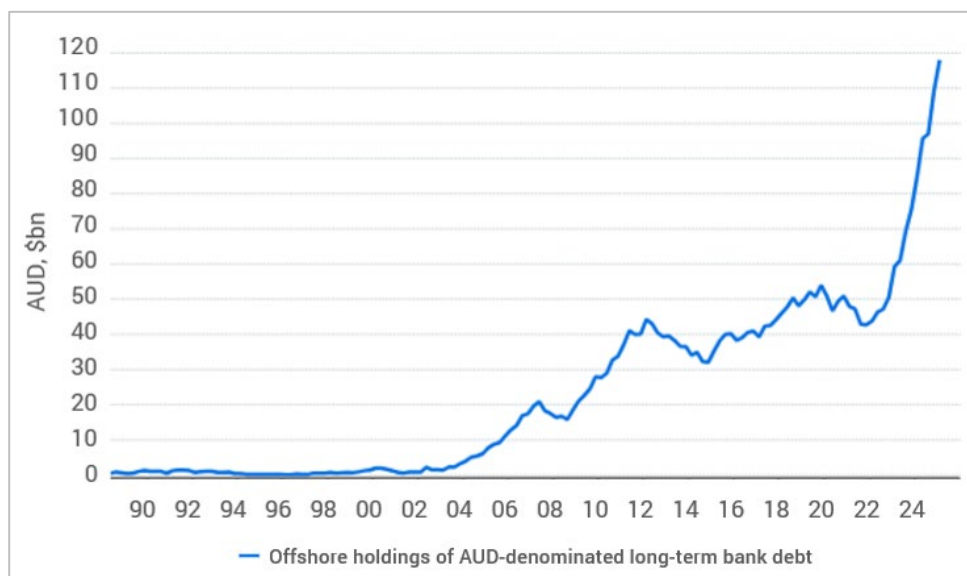
Why Australia stands out on the global credit stage

Importantly, de-dollarisation is not a like-for-like switch from US credit into another market of equal size. While the US market remains enormous at over US\$10 trillion, this creates an opportunity for smaller, fundamentally sound credit markets such as Australia. Despite its smaller corporate bond market, Australia still offers a spread premium while investment-grade spreads, including major bank Tier 2 and BBB corporates, remain at or above their long-term averages. By contrast, US credit spreads are trading below these historical averages.

If even only a modest slice of the global de-dollarisation flow turns up here, two important things will occur to lift both the performance and the profile of the Australian market, which has undergone rapid growth in recent years to become an important destination for foreign capital (refer Chart 2).

¹ Deutsche Bank AG Research, 'Decoding De-dollarization', Published 2 July 2025.

Chart 2 – Offshore Holdings of AUD Bank Paper



Source: ABS, Macrobond, ANZ Research.

Firstly, capital inflows into Australian credit are likely to support relative outperformance, prompting spreads to tighten compared to the US market – delivering investors stronger total returns.

Secondly, and more structurally significant, is market growth. Increased demand will incentivise a broader set of issuers, both domestic and offshore, to come to the \$A market. That means greater diversity, more liquidity, and a deeper, more investable opportunity set.

In the last fortnight, the 8-times oversubscribed A\$500m sale of BBB-rated **Dyno Nobel** bonds is a clarion call to Australian issuers – who have rarely issued in \$A but are frequent issuers in US\$ – to bring some of their funding requirements back home.

As the Dyno Nobel bond sale confirms, the A\$ credit market can now meet the term and volume requirements for a diverse range of issuers. This cohort includes the likes of **Brambles, Orica, CSL, BHP, Rio Tinto, Santos, Woodside, Amcor** and **BlueScope**, as well as increased issuance of A\$ bonds by offshore issuers.

We expect the expansion of the A\$ credit market to occur more independently of the growth rate of the Australian economy – driven not by local funding needs, but instead by foreign demand for exposure to the A\$ and the high quality of our credit market. In this context, the fact that most Australian credit segments (outside of private debt) still offer spreads at or above their long-term averages gives investors an attractive entry point.

Even modest reallocation away from US\$ credit can become a powerful tailwind for those under-owned, and relatively undervalued markets. And unlike the US, where investment-grade spreads are well below long-term averages, Australian credit continues to offer spreads at or above historical norms - meaning investors are still being paid to take risk.

This is a high tide moment. And just as a rising tide lifts all boats, increased global interest in the A\$ credit market driven by de-dollarisation could mark not just a cyclical uplift but an important structural turning point.

For a market often overlooked due to its size, this next phase of global capital reallocation presents a rare opportunity and quite possibly an important moment of maturity for the Australian fixed income landscape on the global stage.

About the Yarra Higher Income Fund

The Yarra Higher Income Fund's flexible and strategic approach to asset allocation and active management enables it to quickly adapt to changing market conditions. It aims to deliver superior risk-adjusted returns and regular, stable income.

[Find out more about the Fund>](#)



Contact us

If you require further information, please contact your relevant [Business Development Manager](#).



Global credit is being quietly – but fundamentally – re-priced.

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) ('YFM') is the issuer and responsible entity of a range of registered managed investment schemes, which includes those named in this document ('Funds'). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the product disclosure statement ('PDS') and target market determination ('TMD') for the relevant Fund by contacting our Investor Services team on 1800 034 494 or from our website at www.yarracm.com/pdsupdates/. The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages the Fund and will receive fees as set out in the PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Fund, including the relevant PDS, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Fund is not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and has not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.

© Yarra Capital Management, 2025.