


# OFZ Auction Deep Dive

## Review of primary auctions held on 25 September 2019


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### RFLB 7.15 11/25

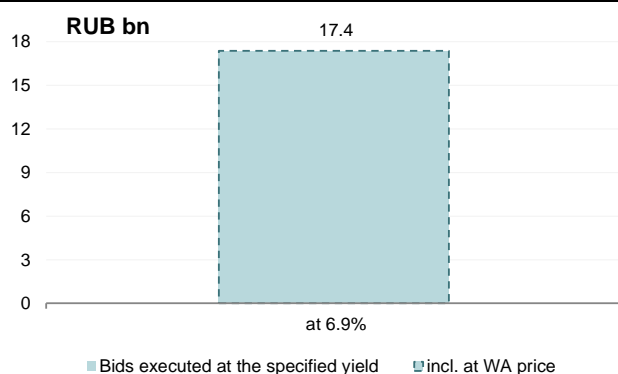
#### Key figures

Series	Type	Amount outstanding (pre-auction)	Maximum eligible amount	Demand in auction	Placed in auction	Bid /Cover	Cut-off yield	Yield premium
26229	Fixed rate	RUB 90bn	RUB 450bn	RUB 84.8bn	RUB 17.4bn	4.9x	6.90%	-2bp

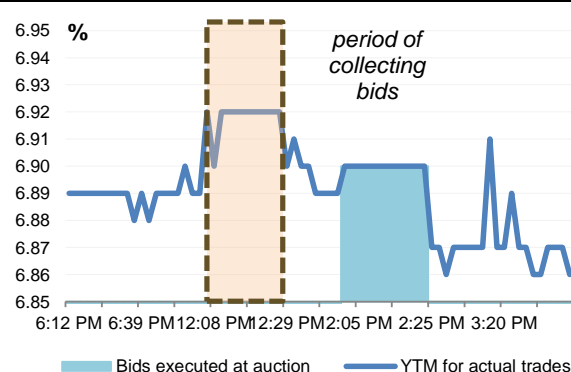
Source: SG Cross Asset Research/EM, Ministry of Finance

- In the end, there was no need for market participants to get scared of the Finance Ministry dropping the placement cap for auctions this week. Once again, the Ministry went for pricing rather than volume.
- With this goal in mind, the Ministry decided to place a moderate volume into a few hands at a single price. Consequently, RUB 14.5bn were allocated to 3 bids: a 'jumbo' order of RUB 10.6bn and two orders worth RUB 2bn and 1.9bn, respectively.
- The MinFin also didn't need to pay anything extra, with cut-off yield (6.90%) set 2bp below the market at the time when bids were submitted.

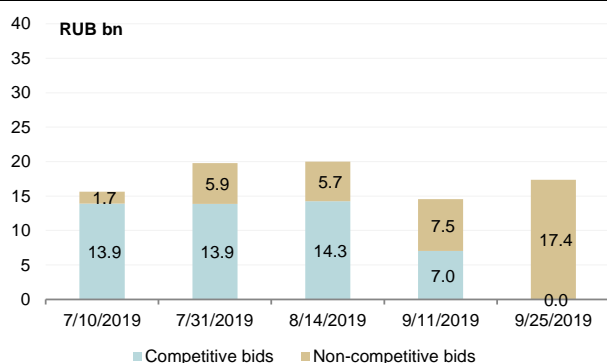
#### Yield distribution of bids executed at auction



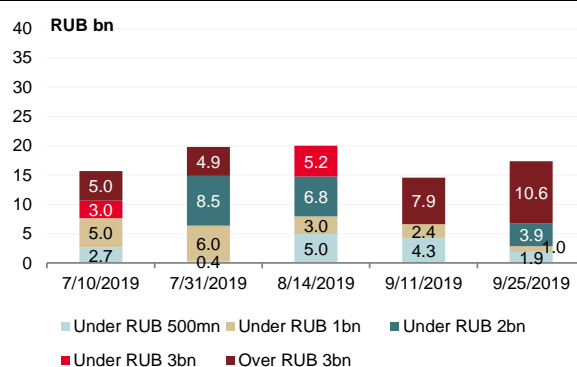
#### Bond yield evolution over the course of the session



#### Split by competitive and non-competitive bids



#### Split by the size of bids



Source: SG Cross Asset Research/EM, Ministry of Finance, Bloomberg

## RFLB Float 07/22

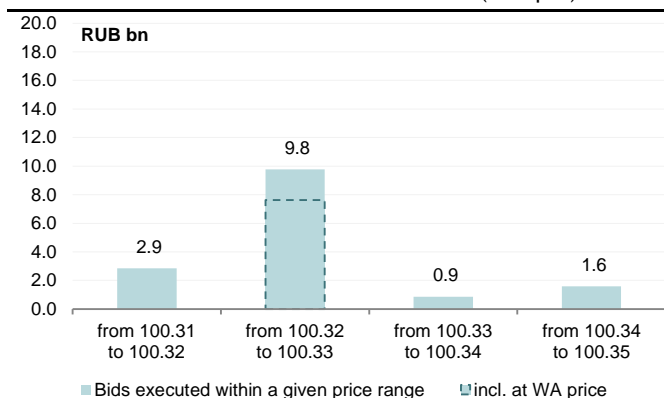
### Key figures

Series	Type	Amount outstanding (pre-auction)	Maximum eligible amount	Demand in auction	Placed in auction	Bid /Cover	Cut-off price	Price discount
24020	RUONIA	RUB 10.1bn	RUB 100bn	RUB 166bn	RUB 15.1bn	11.0x	100.31%	-

Source: SG Cross Asset Research/EM, Ministry of Finance

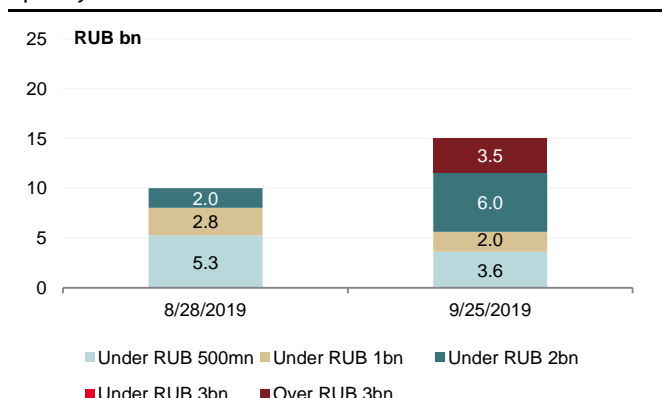
- The second auction in the 'new style' RUONIA-floater wasn't much different from the maiden one, in August, as the Finance Ministry continues to only satisfy bids at an aggressive price level.
- It's interesting to note that the number of executed orders looks rather diversified: 22 bids altogether, only 6 of those are non-competitive (worth RUB 7.6bn).
- To us, the paper continues to look unattractive yield-wise. At the cut-off price, we estimate YTM for the paper at 6.53% (based on the OIS curve, i.e. RUONIA swaps, adjusting it for the term premium) while the yield of the similar-tenor fixed-rate security (26209) is 6.66%.

Price distribution of bids executed at auction (% of par)



Source: SG Cross Asset Research/EM, Ministry of Finance, Bloomberg

Split by the size of bids



## Key thoughts

- The Finance Ministry continues to pursue a relaxed approach to primary debt placements. Given the demand volume today (over RUB 250bn combined), the MinFin could have easily cleared the remainder of the Q3'19 borrowing plan (RUB 71bn). However, preference remains on reaching the most favourable pricing.
- It is clear that, in spite of volatility episodes, demand for the Russian sovereign bonds is in place, and the secondary market move after the auction in the fixed-rate benchmark proves it (i.e. first bids were below the cut-off price).
- To compare, we still see the 'new style' RUONIA-floaters of primary interest to those managing liquidity or believing in an interest-rate shock (for whatever reason). The massive demand should not be misleading as only the most aggressive bids get executed. We still estimate the fair price of the paper close to 100% of par.

## Latest OFZ market research

- Key takeaways from investor trip to Europe ([link](#)),
- OFZ weekly ([link](#)),
- OFZ Auction Deep Dive ([link](#)),
- RFLB curve rich / cheap report (SG, [link](#)).

## Annex 1. Primary OFZ issuance

Key stats for fixed rate benchmarks

Series	Coupon	YTM	Maturity	Maximum eligible amount, RUB bn	Amount outstanding, RUB bn	% of maximum placed	Potential extra supply, RUB bn *
26210	6.8	6.51	12/11/2019	150	150	100%	
26214	6.4	6.51	5/27/2020	350	232	66%	
26205	7.6	6.58	4/14/2021	150	150	100%	
26217	7.5	6.66	8/18/2021	290	290	100%	
25083	7	6.66	12/15/2021	350	350	100%	
26209	7.6	6.69	7/20/2022	404	294	73%	107
26220	7.4	6.66	12/7/2022	350	350	100%	
26211	7	6.69	1/25/2023	150	150	100%	
26215	7	6.70	8/16/2023	261	250	96%	
26223	6.5	6.76	2/28/2024	350	326	93%	24
26227	7.4	6.80	7/17/2024	400	371	93%	29
26222	7.1	6.84	10/16/2024	350	350	100%	
26229	7.15	6.88	11/12/2025	450	107	24%	343
26219	7.75	6.88	9/16/2026	350	350	100%	
26226	7.95	6.90	10/7/2026	350	327	93%	23
26207	8.15	6.93	2/3/2027	350	350	100%	
26212	7.05	6.96	1/19/2028	359	350	97%	
26224	6.9	7.01	5/23/2029	350	350	100%	
26228	7.65	7.08	4/10/2030	450	76	17%	374
26218	8.5	7.13	9/17/2031	250	250	100%	
26221	7.7	7.23	3/23/2033	350	350	100%	
26225	7.25	7.27	5/10/2034	350	308	88%	42
26230	7.7	7.25	3/16/2039	300	60	20%	240
<b>Total</b>				<b>7 464</b>	<b>6 142</b>		<b>1 180</b>

\* including time limitations on placement of specific bond series

Source: SG Cross Asset Research/EM, Ministry of Finance, Bloomberg

Quarterly borrowing plan execution

Tenor	Indicative Q3'19 target, RUB bn	Execution quarter-to-date, RUB bn	% of target	Potential extra supply, RUB bn
Under 5 years	45	55	122%	-10
5 to 10 years	155	104	67%	51
Over 10 years	100	103	103%	-3
<b>Total</b>	<b>300</b>	<b>262</b>	<b>87%</b>	<b>38</b>

Source: SG Cross Asset Research/EM, Ministry of Finance, Bloomberg

## Annex 2. OFZ Auctions in Russia - step by step procedure

- The Ministry of Finance runs Russian Federal Loan Bonds (RFLB) auctions on a weekly basis.
- RFLB series and amounts (since recently, the amount is not designated for most auctions) are announced every Tuesday until 4:00 pm Moscow time.
- Every Wednesday bids for the 1<sup>st</sup> auction are accepted till 12:30pm, for the 2<sup>nd</sup>, till 3:00pm (or 2:15pm, if there are 3 auctions on a given day), for the 3<sup>rd</sup>, till 4:00pm Moscow time.
- At 2:00pm and 4:30pm, if there are 2 auctions on a given day (or 1:15pm, 3:00pm and 4:45pm, if there are 3 auctions on a given day), the cut-off price is announced. Results are published promptly after the auction on the Ministry of Finance official website.
- The Ministry of Finance conducts Dutch auctions offering. The issuer sets the cut-off price, then the Bank of Russia, the Issuer's agent, executes bids with prices more or equal to the cut-off price. After the end of the auction, all unsatisfied bids are dropped by the Moscow Exchange.
- Investors can place competitive and non-competitive bids on the Moscow Exchange via market participants who have access to Exchange. Maximum share of non-competitive bids is 90% of all bids from one participant.
- Competitive bids are executed exclusively at the price specified in the bid, with a limit of 4 decimal places.
- Non-competitive bids are satisfied at the weighted average price of the auction if there is at least one satisfied competitive bid and may be satisfied in full or in part, depending on the decision made by the Ministry of Finance.
- The minimum accepted price for RFLBs is set by the Ministry of Finance, depending on the auction demand and market environment.

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