

OFZ Auction **Deep Dive**

Review of primary auctions held on 16 October 2019

Yury Tulinov, CFA
(7) 495 662 13 00 (ext. 14836)
yury.tulinov@rosbank.ru

Evgeniy Vertiporokh
(7) 495 662 13 00 (ext. 14263)
evgeniy.vertiporokh@rosbank.ru

RFLB 7.7 03/39

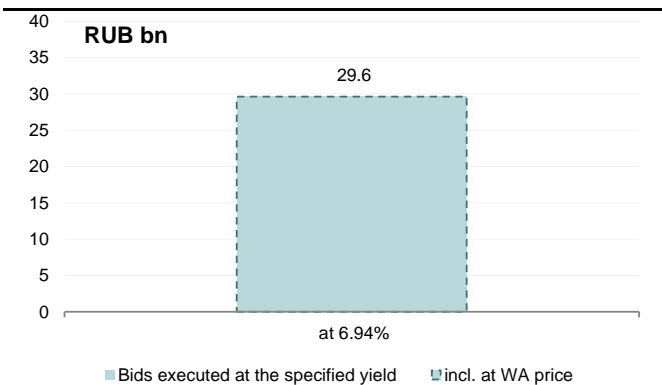
Key figures

Series	Type	Amount outstanding (pre-auction)	Maximum eligible amount	Demand in auction	Placed in auction	Bid /Cover	Cut-off yield	Yield premium
26230	Fixed rate	RUB 60bn	RUB 300bn	RUB 46.0bn	RUB 29.6bn	1.9x	6.94%	-1bp

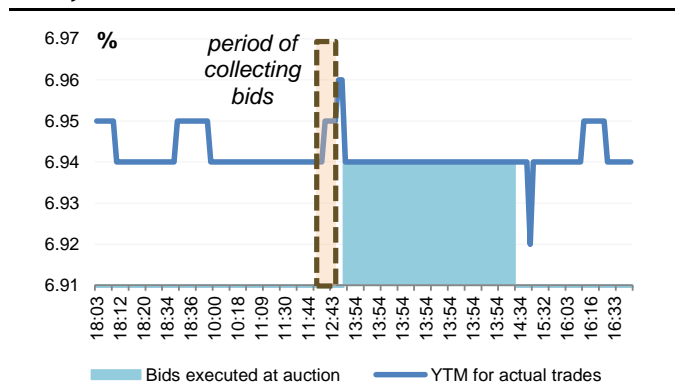
Source: SG Cross Asset Research/EM, Ministry of Finance

- A strong auction against a benevolent market environment.
- The Finance Ministry satisfied 51 bids – the highest number since mid-September – but it still looks like the volume was allocated between a handful of market participants. We see 23 orders with an equal volume of RUB 457mn and 9 bids worth 914mn each.
- Once again, there was no price divergence at auction.

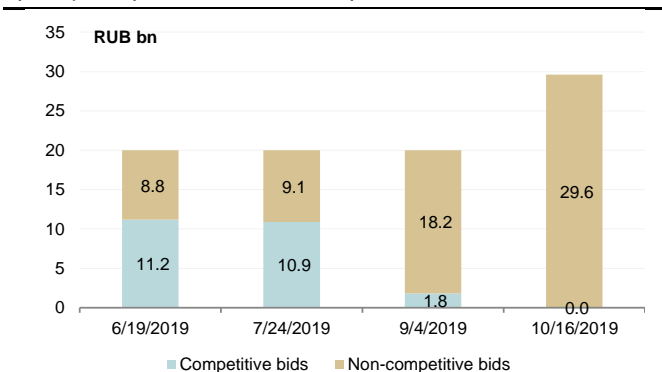
Yield distribution of bids executed at auction



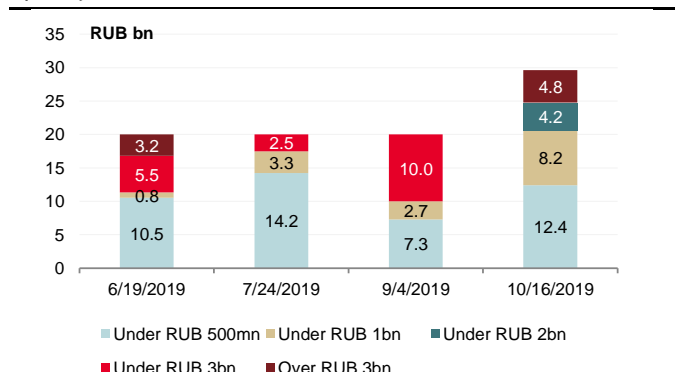
Bond yield evolution over the course of the session



Split by competitive and non-competitive bids



Split by the size of bids



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

RFLBI 2.5 02/28

Key figures

Series	Type	Amount outstanding (pre-auction)	Maximum eligible amount	Demand in auction	Placed in auction	Bid /Cover	Cut-off yield
52002	CPI-linker	RUB 115bn	RUB 160bn	RUB 20bn	RUB 5.4bn	4.01x	3.47%

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

- A surprisingly competitive placement of the CPI-linker, in spite of the disinflation trend in the economy and a narrow range of potential investors.
- The demand volume is habitually close to RUB 19-20bn. But the bids were more diversified than in previous auctions. A total of 11 orders, with the maximum size of RUB 1bn, at different prices.
- It's interesting to note that the orders were placed within a rich 93.29-93.36% price range. At the time bids were submitted, the paper was trading at 93.17-93.25% of par.

Key thoughts

- The strategy of the Finance Ministry to go for the best available price at auctions seems to work out quite nicely.
- The MinFin likes to propose the 20-year benchmark right before the CBR policy meetings. Previous auctions in the 26230 series took place on September 4 and July 24, days before an expected key rate cut. This time, the MinFin acted even earlier, as the market in recent days got agitated by the prospects of yet another rate cut. And you don't want to wait till the sentiment changes.
- By now, the Finance Ministry has already covered 58% of the quarterly borrowing plan in the 'over 10 years' bracket. As long as the positive sentiment lasts, the Ministry will retain its focus on the far end of the curve.
- According to the draft amendments to the 2019 federal budget law, disclosed earlier this week, the MinFin sees annual net borrowings lower by RUB 189bn, at RUB 1.37tn now vs. RUB 1.56tn previously. Our estimates show that, based on this volume, the Ministry need to place RUB 312bn until the end of the year, i.e. RUB 31bn per week.
- Looking at the target volume of net foreign borrowings in 2019, the amendments to the budget law must also encompass Eurobonds redemption worth USD 4bn. Should the Finance Ministry delay the transaction and review domestic borrowing needs accordingly, the OFZ volume yet to place this year will plunge to tiny RUB 45bn.
- Looking at the borrowing pace in recent weeks, the MinFin doesn't mind raising more funds that it may actually need in the end. We all know, it's best to take the opportunity, if it's there.

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	6.31	12/11/2019	150	150	100%	
26214	6.4	6.32	5/27/2020	350	232	66%	
26205	7.6	6.29	4/14/2021	150	150	100%	
26217	7.5	6.32	8/18/2021	290	290	100%	
25083	7	6.32	12/15/2021	350	350	100%	
26209	7.6	6.34	7/20/2022	404	294	73%	107
26220	7.4	6.33	12/7/2022	350	350	100%	
26211	7	6.37	1/25/2023	150	150	100%	
26215	7	6.42	8/16/2023	261	250	96%	
26223	6.5	6.45	2/28/2024	350	326	93%	24
26227	7.4	6.46	7/17/2024	400	371	93%	29
26222	7.1	6.47	10/16/2024	350	350	100%	
26229	7.15	6.55	11/12/2025	450	107	24%	343
26219	7.75	6.59	9/16/2026	350	350	100%	
26226	7.95	6.59	10/7/2026	350	327	93%	23
26207	8.15	6.61	2/3/2027	350	350	100%	
26212	7.05	6.61	1/19/2028	359	350	97%	
26224	6.9	6.67	5/23/2029	350	350	100%	
26228	7.65	6.69	4/10/2030	450	98	22%	352
26218	8.5	6.80	9/17/2031	250	250	100%	
26221	7.7	6.89	3/23/2033	350	350	100%	
26225	7.25	6.92	5/10/2034	350	350	100%	
26230	7.7	6.95	3/16/2039	300	90	30%	210
Total				7 464	6 234		1 088

* 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 Q4'19 target, RUB bn	Execution quarter-to-date, RUB bn	% of target	Potential extra supply, RUB bn
Under 5 years	100	11	11%	89
5 to 10 years	160	5	3%	155
Over 10 years	160	93	58%	67
Total	420	108	26%	312

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 1st auction are accepted till 12:30pm, for the 2nd, till 3:00pm (or 2:15pm, if there are 3 auctions on a given day), for the 3rd, 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.

Team

Research	Financial Institutions Sales	Corporate Sales	Debt Capital Markets	Brokerage
Yury Tulinov, CFA Yury.Tulinov@rosbank.ru +7 (495) 662-13-00, ext. 14-836	Pavel Malyavkin PMalyavkin@rosbank.ru +7 (495) 725-57-13	Vladimir Matsko Vladimir.Matsko@socgen.com +7 (495) 725-57-44	Tatyana Ambrozhevich TVAmbrozhevich@rosbank.ru +7 (495) 956-67-14	Aleksandr Ten Aleksandr.Ten@rosbank.ru +7 (495) 234-36-52
Evgeny Koshelev, CFA Evgeny.Koshelev@rosbank.ru +7 (495) 662-13-00, ext. 14-838	Vera Shapovalenko VShapovalenko@rosbank.ru +7 (495) 725-57-13	Alexandre Koutcherov Alexandre.Koutcherov@rosbank.ru +7 (495) 725-57-44		Timur Mukhametshin Timur.Mukhametshin@rosbank.ru +7 (495) 234-36-52
Anna Zaigrina Anna.Zaigrina@rosbank.ru +7 (495) 662-13-00, ext. 14-837	Ivan Perstkov Ivan.Perstkov@rosbank.ru +7 (495) 662-13-00, ext. 19-141	Evgeny Kurochkin EVKurochkin@rosbank.ru +7 (495) 725-57-44		Sergey Tsoy Sergey.Tsoy@rosbank.ru +7 (495) 234-36-52
Evgeniy Vertiporokh Evgeniy.Vertiporokh@rosbank.ru +7 (495) 662-13-00, ext. 14-263		Andrey Galkin AAGalkin@rosbank.ru +7 (495) 725-57-44		
		Maksim Ardatov Maksim.Ardatov@rosbank.ru +7 (495) 662-13-00, ext. 19-107		

This report is intended for informational purposes only.

Any information presented by PJSC ROSBANK (the 'Bank') in this report shall not be considered either as the delivery of incomplete or inaccurate information, in particular, as a non-disclosure or a representation on the circumstances that are of the importance for execution, performance or termination of a transaction, or as a promise or obligation to execute transaction on terms and conditions specified in this report, or as an offer, unless otherwise is expressly specified in this report.

The Bank shall not be liable for any losses (damages and/or lost profit) due from the usage of this report and/or information contained herein.

All rights to and arising from this report are reserved to the Bank. The information contained herein cannot be reproduced or distributed without prior written consent of the Bank.

Any information (including information about currency exchange rates, indices, prices on various underlying assets, etc.) contained in this report, is indicative and is subject to change at any time, including due to the change in market conditions. Information about currency exchange rates, indices, prices on various underlying assets, etc. is specified in accordance with data, received by the Bank from external sources. The Bank does not guarantee the correctness, accuracy, completeness or relevance of information received from external sources, although these sources are reasonably assumed by the Bank as reliable.

This report under no circumstances shall constitute either a consultation or individual investment recommendation. Financial instruments, trades or transactions, specified in this report may not correspond with your investment profile and investment goals (expectations). This report does not take into consideration your personal investment goals, financial conditions or needs. Prior to entering into transaction with financial instrument or making an investment into financial instrument you should obtain your own assessment thereof; its correspondence with your investment goals, investment horizon and risk tolerance; its advantages, specifically related to its taxation, not relying exclusively on information provided to you, such assessment obtained upon legal, tax, financial, accounting and other professional advices in order to ensure that the financial instrument is suitable for your needs. The Bank shall not be liable for your possible investor's losses in case of a transaction with, or investment to financial instruments, specified in this report. Your responsibility includes, inter alia, an obligation to establish, whether you have the authority to enter into transactions with or invest into any financial instrument.