

# OFZ Auction Deep Dive

## Review of primary auction held on 23 October 2019

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### RFLB 7.65 04/30

#### Key figures

Series	Type	Amount outstanding (pre-auction)	Maximum eligible amount	Demand in auction	Placed in auction	Bid /Cover	Cut-off yield	Yield premium
26228	Fixed rate	RUB 98bn	RUB 450bn	RUB 80bn	RUB 30bn	2.7x	6.49%	-2bp

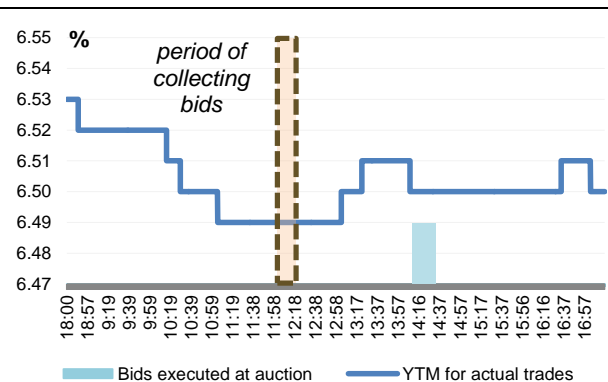
Source: SG Cross Asset Research/EM, Ministry of Finance

- And the award for one of the most uncompetitive primary auctions on record goes to ... It seems that as the Finance Ministry continues to follow the strategy of borrowing cheaply, investors have started to compete for the volume, not for the price.
- In spite of solid demand, the Ministry allocated the offered volume between 3 competitive bids worth RUB 11bn, RUB 9.5bn and RUB 9.5bn, respectively. Apparently, some large investors could not get enough paper from offers on the secondary market and decided to bid for it at auction.
- This helped the MinFin to place the paper with yield discount of 2bp vs. the secondary market. After the auction, however, price action was modest as the market has started to digest the most recent episode of rally.

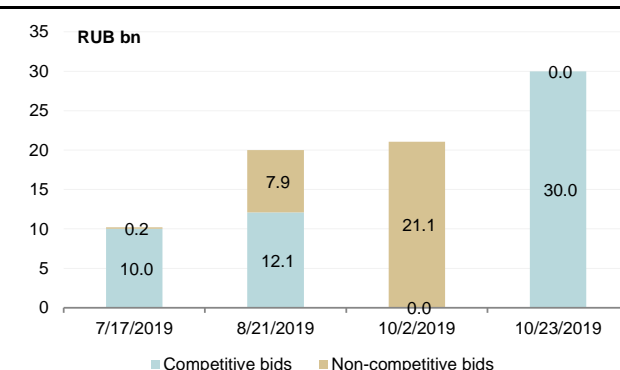
Yield distribution of bids executed at auction



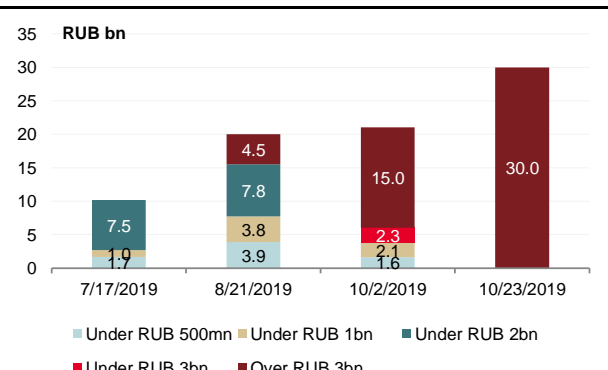
Bond yield evolution over the course of the session



Split by competitive and non-competitive bids



Split by the size of bids



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

## Key thoughts

- One has to pity those investors who have missed the recent rally in the OFZ segment or have stuck to their short positioning. It's next to impossible to buy a decent size of papers on a rallying market. Hence, primary auctions need to be relied upon.
- The Finance Ministry keep covering the quarterly borrowing plan in the maturity bracket of 'over 10 years'. RUB 123bn of the RUB 160bn total (77%) have already been assembled, and the Ministry needs one more successful auction to fill in the rest. Looking at the current market sentiment, it won't be a problem.
- The most interesting question to us is why the MinFin approach to the primary market has changed in recent weeks. We remind that in July – September the Ministry was placing no more than RUB 10-20bn in fixed-rate benchmarks weekly. And this pace fully corresponded to our estimate of the domestic market borrowing needs until the end of 2019, subject to several budget law adjustments.
- Now, in October, all of a sudden, the Ministry is ok to tap the market with RUB 30-50bn in new bonds weekly. In theory, this could mean that before the end of 2019 the Ministry would have assembled more funds from the bond market than it actually needs, in case the Eurobond buyback worth USD 4bn doesn't take place.
- As one hypothesis, we guess the MinFin could be utilizing favourable market environment to speed up formation of the Infrastructure Investment Fund which was announced in 2018. To recap, the Government planned to set up this fund until the end of 2019, replenish it annually and realize direct investments in infrastructure projects until 2024 in partnership with private investors.
- We would be happy to hear the Finance Ministry comments on this change in the approach to borrowings lately.
- As far as the secondary OFZ market trend is concerned, we should enter a period of calm before the CBR MPC meeting on Friday. This time, the regulator's guidance will be scoured for the likelihood of a 50bp rate cut – odds-on decision, in our view – being followed by the move of a similar magnitude in December (blimey!).

## Latest OFZ market research

- Key takeaways from investor trip to Europe ([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	6.10	12/11/2019	150	150	100%	
26214	6.4	6.08	5/27/2020	350	232	66%	
26205	7.6	6.11	4/14/2021	150	150	100%	
26217	7.5	6.11	8/18/2021	290	290	100%	
25083	7	6.09	12/15/2021	350	350	100%	
26209	7.6	6.12	7/20/2022	404	294	73%	107
26220	7.4	6.11	12/7/2022	350	350	100%	
26211	7	6.12	1/25/2023	150	150	100%	
26215	7	6.15	8/16/2023	261	250	96%	
26223	6.5	6.18	2/28/2024	350	326	93%	24
26227	7.4	6.21	7/17/2024	400	371	93%	29
26222	7.1	6.22	10/16/2024	350	350	100%	
26229	7.15	6.31	11/12/2025	450	107	24%	343
26219	7.75	6.34	9/16/2026	350	350	100%	
26226	7.95	6.37	10/7/2026	350	327	93%	23
26207	8.15	6.39	2/3/2027	350	350	100%	
26212	7.05	6.40	1/19/2028	359	350	97%	
26224	6.9	6.47	5/23/2029	350	350	100%	
26228	7.65	6.51	4/10/2030	450	128	28%	322
26218	8.5	6.60	9/17/2031	250	250	100%	
26221	7.7	6.66	3/23/2033	350	350	100%	
26225	7.25	6.69	5/10/2034	350	350	100%	
26230	7.7	6.73	3/16/2039	300	90	30%	210
<b>Total</b>				<b>7 464</b>	<b>6 264</b>		<b>1 058</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 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	123	77%	37
<b>Total</b>	<b>420</b>	<b>138</b>	<b>33%</b>	<b>282</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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