

OFZ Auction Deep Dive

Review of primary auctions held on 29 April 2020



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

Evgeniy Koshelev, CFA
 (7) 495 662 13 00 (ext. 14838)
 evgeniy.koshelev@rosbank.ru

RFLB 6.0 10/27

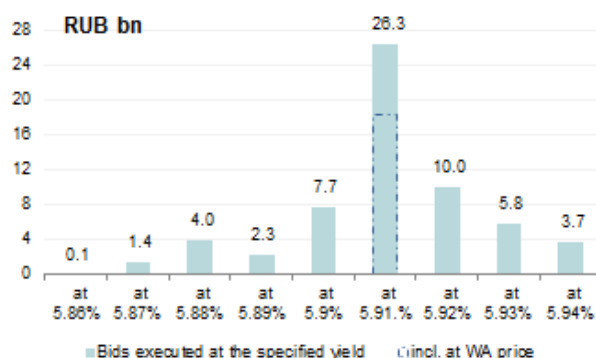
Key figures

Series	Type	Amount outstanding (pre-auction)	Maximum eligible amount	Demand in auction	Placed in auction	Bid / Cover	Cut-off yield	Yield Premium
26232	Fixed rate	RUB 106bn	RUB 450bn	RUB 66bn	RUB 61.3bn	1.1x	5.94%	0-6bp

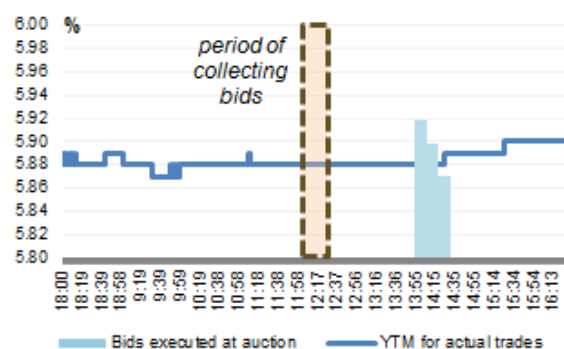
Source: SG Cross Asset Research/EM, Ministry of Finance

- Another successful auction helped to execute the quarterly plan in the bucket 'from 5 to 10 years'.
- Demand at the auction was well-diversified with 182 orders, of which 76% were under RUB 1bn. The largest order (RUB 3bn) was non-competitive.
- Very low bid/cover ratio was likely prompted by MinFin's willingness to place the residual volume in the paper. The suggestion is confirmed by a 2bp premium in the WA yield to pre-auction yield levels.

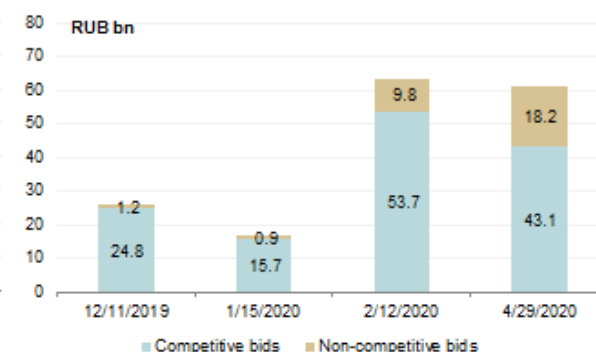
Yield distribution of bids executed at auction



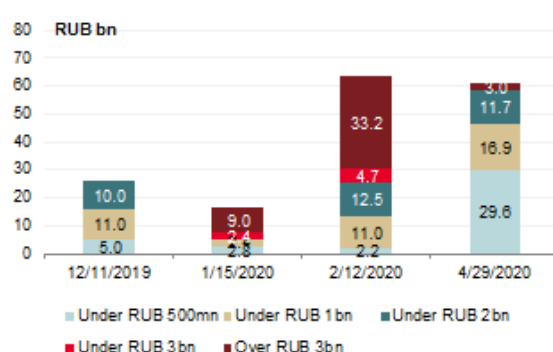
Bond yield evolution over the course of the session



Split by competitive and non-competitive bids



Split by the size of bids



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

RFLB 5.3 10/23

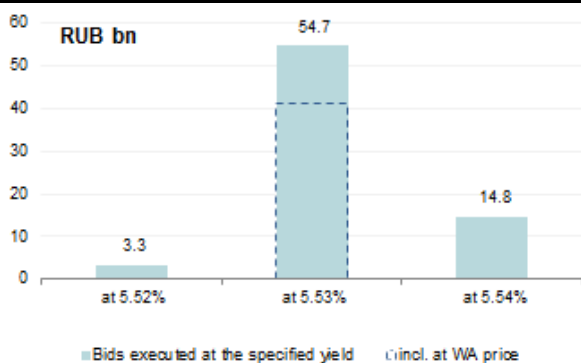
Key figures

Series	Type	Amount outstanding (pre-auction)	Maximum eligible amount	Demand in auction	Placed in auction	Bid / Cover	Cut-off yield	Yield premium
25084	Fixed rate	RUB 37bn	RUB 400bn	RUB 124bn	RUB 72.8bn	1.7x	5.54%	0-1bp

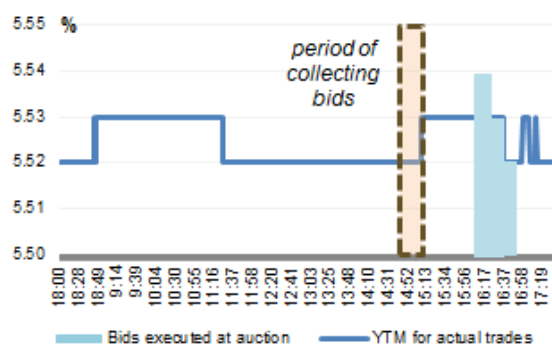
Source: SG Cross Asset Research/EM, Ministry of Finance

- Massive demand on the front end of the curve led to the second largest placement in 2020.
- Only 33 orders were executed with 57% of allocated volume being non-competitive. Nearly 80% of the volume were distributed across orders larger than RUB 3bn and several 'jumbo' orders (the biggest one RUB 12.4bn).
- A tiny premium of 1bp was granted at the auction, but we consider it modest due to low outstanding amount.

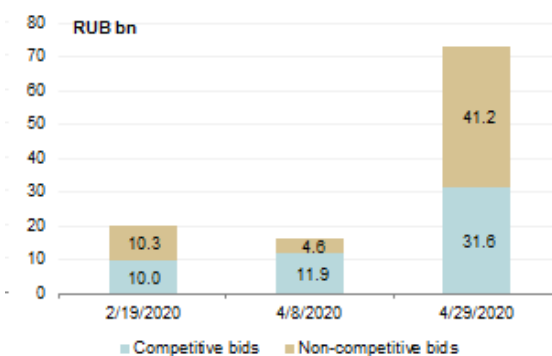
Yield distribution of bids executed at auction



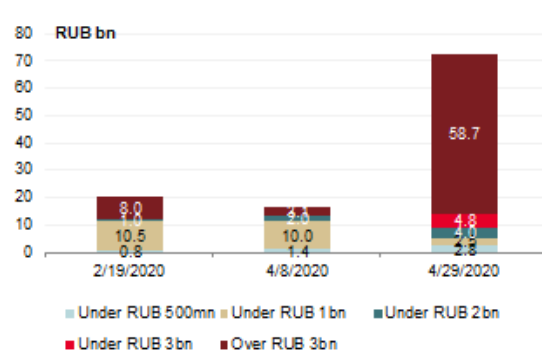
Bond yield evolution over the course of the session



Split by competitive and non-competitive bids



Split by the size of bids



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

Key thoughts

- The MinFin reached the issuance target in the bucket 'from 5 to 10 years' worth of RUB 250bn just in one month. This pace was helped by dovish forward guidance from the CBR and improved market outlook for the key rate in 2020 (to 4.5-5.0%). It is reasonable for the MinFin to keep an eye on this segment because potential shortage of supply on the belly may tighten yields and open the window of opportunities to borrow. Similar case happened in 2Q19 when massive capital inflow in the OFZ segment enabled to tap the market by RUB 888bn versus the plan RUB 600bn of which RUB 551bn versus the plan RUB 280bn were raised on the belly.
- The government is discussing with local banks more active participation in OFZ auctions. The Izvestia news published an article this week with a couple unnamed officials confirming the discussion. The background is related to potential issuance of RUB 1.5-2.0tn of new debt. The estimate provided by Deputy Prime Minister Andrey Belousov and has not been confirmed by the MinFin.
- Participation in auctions may be compensated by provision of additional liquidity by the CBR, e.g. via a long-term REPO announced recently. However, a regime of participation has not been decided yet – it may become compulsory for banks which attract special liquidity facilities. We suggest this 'bargain' will not necessarily disrupt liquidity and attractiveness of OFZ market as a whole, especially if it addresses a narrow class bonds, e.g. Ruonia-linked series.

Latest OFZ market research

- OFZ Auction Deep Dive ([link](#)),
- EM Trade Idea Monitor (SG, [link](#)).

Annex 1. Primary OFZ issuance

Key stats for the benchmarks

Type of bond	Series	Coupon	YTM	Maturity	Maximum eligible amount, RUB bn	Amount outstanding, RUB bn	% of maximum placed	Potential extra supply, RUB bn *
Fixed-rate series	26214	6.4	5.58	5/27/2020	350	232	66%	118
	26205	7.6	5.17	4/14/2021	150	150	100%	
	26217	7.5	5.28	8/18/2021	290	290	100%	
	25083	7	5.36	12/15/2021	350	350	100%	
	26209	7.6	5.35	7/20/2022	404	294	73%	107
	26220	7.4	5.37	12/7/2022	350	350	100%	
	26211	7	5.44	1/25/2023	150	150	100%	
	26215	7	5.45	8/16/2023	261	250	96%	
	25084	5.3	5.52	10/4/2023	400	110	27%	290
	26223	6.5	5.55	2/28/2024	350	339	97%	11
	26227	7.4	5.59	7/17/2024	400	398	100%	
	26222	7.1	5.63	10/16/2024	350	350	100%	
	26229	7.15	5.74	11/12/2025	450	316	70%	134
	26219	7.75	5.74	9/16/2026	350	350	100%	
	26226	7.95	5.76	10/7/2026	350	350	100%	
	26207	8.15	5.76	2/3/2027	350	350	100%	
	26232	6	5.90	10/6/2027	450	167	37%	283
	26212	7.05	5.88	1/19/2028	350	350	100%	
	26224	6.9	6.01	5/23/2029	350	350	100%	
	26228	7.65	6.09	4/10/2030	450	277	61%	173
	26218	8.5	6.16	9/17/2031	250	250	100%	
	26221	7.7	6.21	3/23/2033	350	350	100%	
	26225	7.25	6.22	5/10/2034	350	350	100%	
	26233	6.1	-	7/18/2035	450	0	0%	450
Floaters	26230	7.7	6.29	3/16/2039	300	238	79%	62
	29012	Ruonia	-	11/16/2022	250	212	85%	38
	24021	Ruonia	-	4/24/2024	300	97	32%	203
	29006	Ruonia	-	1/29/2025	390	390	100%	
	29013	Ruonia	-	9/18/2030	450	0	0%	450
	52001	2.5	2.36	8/16/2023	181	181	100%	0
	52002	2.5	2.58	2/2/2028	267	233	87%	34
Total					10,443	8,075		2,351

* 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 2Q20 target, RUB bn	Execution quarter-to-date, RUB bn	% of target	Potential extra supply, RUB bn
Under 5 years	250	89	36%	161
5 to 10 years	250	251	100%	0
Over 10 years	100	0	0%	100
Total	600	340	57%	261

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

Annex 2. OFZ Auctions in Russia - step by step procedure ([link](#))

- 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@soggen.com +7 (495) 725-57-44	Tatyana Ambrozhevich TAmbrozhevich@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 AGalkin@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 of 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.