

OFZ Auction Alert

Preview of primary auctions to be held on 2 December 2020

Issuance activity

In principle, for today's primary auctions, the Finance Ministry could have picked one of many routes. But after comments last week from P.Kazakevich, head of debt department, cancelling today's placements wasn't one of them. To recap, Mr Kazakevich stated that the federal-level borrowing needs until the end of 2020 stand at 'no more than RUB 350bn'.

To make it nice and familiar to the market, the Ministry picked for auctions the same fixed-rate papers as 2 weeks ago. The 26235 03/31 series is offered without a placement cap and the 26234 07/25 series will be sold with volume of RUB 30bn or less.

Bonds offered in the 2 December auctions (to learn the procedure follow the [link](#))

Series	Type	Maturity	Amount outstanding	Maximum eligible amount	Indicated volume	Deadline for placing bids (Moscow time)	Forecast cut-off price
26235	Fixed	3/12/2031	RUB 13bn	RUB 500bn	-	12:30	99.61-99.75%
26234	Fixed	7/16/2025	RUB 280bn	RUB 500bn	RUB 30bn	15:00	97.22-99.30%

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

Market sentiment

These days, OFZ traders must feel almost the same as HGB or POLGB traders. Every 1-2bp of yields moving higher is 'profit-taking' and every 1-2bp of yields moving down is a 'rally'. Just of color, yesterday trading volume in none of the OFZ papers topped RUB 1bn. Zzzzz.

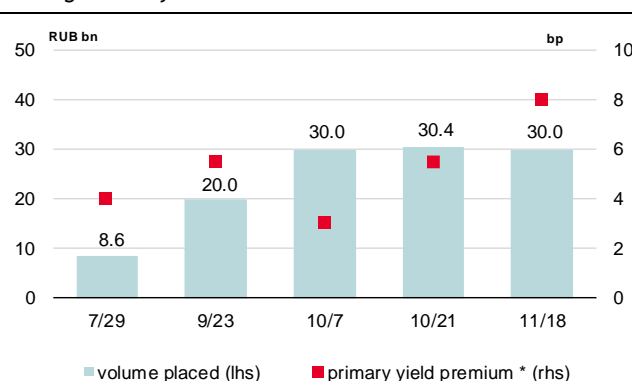
Yields outlook

To date, we have witnessed 2 primary auctions in the 26235 03/31 series - and the paper still has the lowest amount outstanding of all fixed-rate OFZ securities, at RUB 13bn. The Finance Ministry just wasn't willing to overpay extensively in previous iterations of the paper being on the offer.

Yield-wise, in recent weeks, the paper has been trading almost flat to the off-the-run 26218 09/31 series. The latter benchmark finished Tuesday at 6.02% ytm, and we doubt the MinFin would be ready to go far beyond this mark. So, at the 26235 auction we see auction cut-off at 6.02-6.04% ytm (price 99.61-99.75%).

Recent auctions in the shorter 26234 07/25 series were different in most key aspects. The authorities were able to print a more sizeable volume of debt - but at expense of sizeable yield premiums (see chart below). Yesterday before the auction announcement, the paper was quoted at 5.19% ytm. The year being almost over and the MinFin not needing to push for volume, we expect auction cut-off to land at no more than 5.23-5.25% ytm (price 97.22-97.30%).

MinFin generosity in recent auctions for the 26234 07/25 series



* calculated as auction cut-off minus secondary market level as of pre-auction announcement

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

Russian macroeconomic forecast overview

	Current	Q1 21	Q2 21	Q3 21	2020	2021	2022
GDP (% yoy)	-3.6	-1.1	5.4	2.7	-4.3	2.7	2.0
Inflation (% yoy)	4.0	4.3	4.1	4.0	4.3	3.8	3.9
Fiscal balance (% GDP)					-3.7	-1.5	-1.4
Public debt (% GDP)					18.8	18.5	19.4
Key rate (%)	4.25	4.25	4.25	4.25	4.25	4.50	4.50
USD/RUB	75.8	72.0	69.5	68.5	76.0	68.0	68.5
EUR/RUB	91.5	86.4	85.5	85.6	89.7	86.4	91.1
10Y OFZ	5.83	5.20	5.00	5.20	5.30	5.30	5.50

Source: SG Cross Asset Research/EM, Rosbank

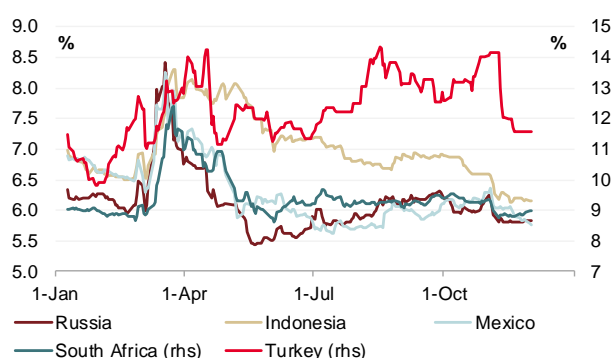
Borrowing plan execution

	Gross plan borrowing, RUB bn	Gross execution to date, RUB bn	% of period target	Gross residual supply, RUB bn
Q4 20 plan:	2 000	2 317	116%	-317
Under 5 years	100	90	90%	10
5 to 10 years	1 400	1 395	100%	5
Over 10 years	500	831	166%	-331
2020 Total	5 204 *	5 161	99%	43

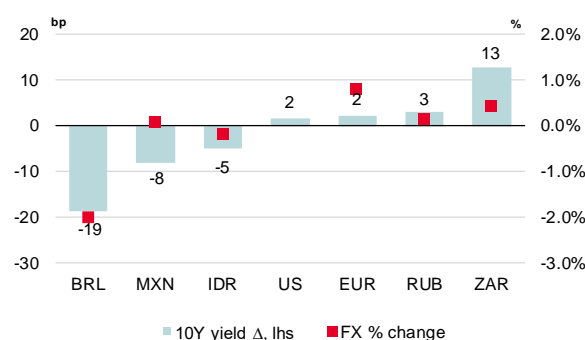
* Rosbank estimates based on the draft 2021-23 federal budget law documentation

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

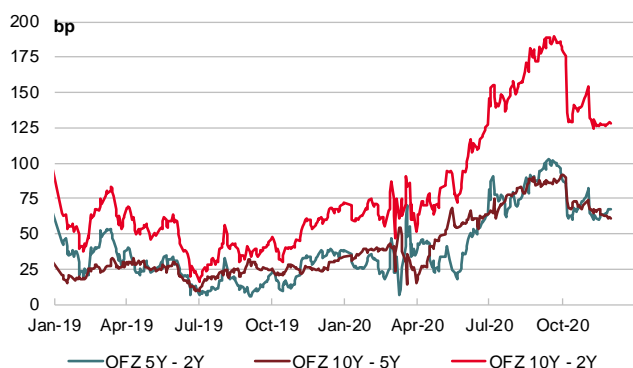
10y EM bond peers to Russia, nominal yield



Change in 10y bond nominal yield & FX, week to 1 December

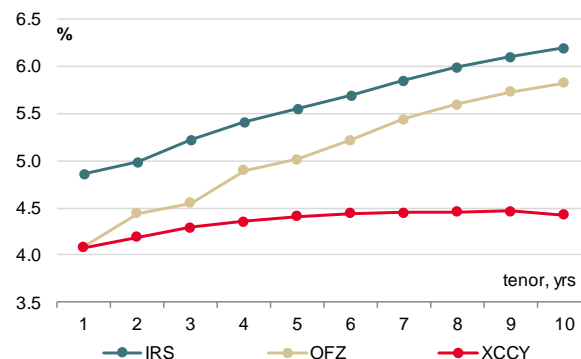


Slope of the OFZ curve (generic benchmarks)



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

OFZ, XCCY and IRS curves as of 1 December



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