

OFZ Auction Alert

Preview of primary auctions to be held on 14 October 2020

Issuance activity

Last week, the Finance Ministry delivered a miraculous hole-in-one shot by borrowing the record-high RUB 346bn over a single auction day. As the market sentiment has improved since, the authorities decided it was good time to get more aggressive duration-wise. So, for today the new 29017 08/32 RUONIA-floater and the 26233 07/35 fixed-rate notes are on the offer.

Bonds offered in the 14 October 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	Relative valuation*
29017	RUONIA	08/25/2032	-	RUB 450bn	-	12:30	94.3-94.9%	-
26233	Fixed	07/18/2035	RUB 60bn	RUB 450bn	-	15:00	98.64-98.82%	neutral, +1bp

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

* Cheap = bonds that satisfy (1) positive spline spread greater than or equal to 3 or (2) z-score of spread greater than or equal to 1.5
Rich = bonds that satisfy (1) negative spline spread lower than or equal to -3 or (2) negative z-score of spread less than or equal to -1.5

Market sentiment

The tides seem to have finally turned in favour of the MinFin on its preposterous quest of borrowing RUB 2tn (or more) over the last quarter of 2020. With global markets still torn between Mr Trump's speedy recovery from covid-19 and woeful data on new cases globally, domestically, buyers are dominating the OFZ space once again. The latest geopolitical headlines are far less concerning than before and the prodigious results of primary auctions last week have caused quite a stir.

Over the last 2 weeks, yields across the fixed-rate OFZ curve have gone down by 10-40bp. Oh, what a (fort)night.

Yields outlook

If one were to use the experience of the previous months in pricing of the new 29017 08/32 RUONIA-floater, they would expect investors to target 95.25% of par at auction. At that price, discount to par (4.75pp) divided by term to maturity (11.9 years) gives 40bp of 'rule-of-thumb' annual premium over RUONIA, same as for the nearest 29013 09/30 RUONIA-floater.

However, last week's ground-breaking auction in the 29013 note saw 95.24% of par cut-off. So, this week auction participants would be odds-on to target a lower price for a longer benchmark. We would expect auction cut-off somewhere in the wide 94.3-94.9% range.

As far as the 26233 07/35 fixed-rate series is concerned, the Finance Ministry likes to borrow at the long-end of the curve - but usually doesn't like to overpay too much there.

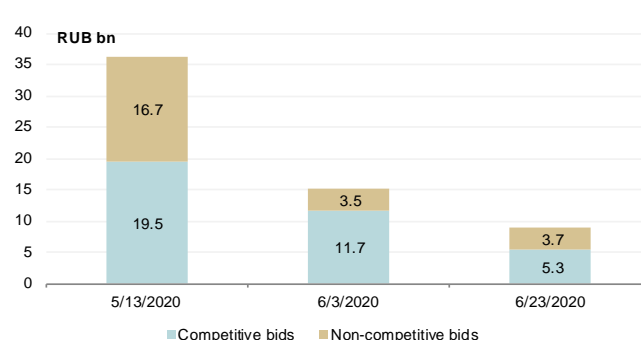
On Tuesday, the last trades of the day went at 99.1% of par (6.29% ytm), whereas the first trades of the day went at 99.5% of par (6.25% ytm). We would expect that on Wednesday the Finance Ministry will disregard all orders yielding more than 6.32-6.34% ytm which corresponds to 98.64-98.82% of par.

Price dynamics for the RFLB 6.1 07/35 series



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

Results of previous auctions for the RFLB 6.1 07/35 series



Russian macroeconomic forecast overview

	Current	Q4 20	Q1 21	Q2 21	2020	2021	2022
GDP (% yoy)	-8.0	-2.1	-0.7	7.0	-4.3	3.0	2.0
Inflation (% yoy)	3.7	4.3	4.3	4.1	4.3	3.8	3.9
Fiscal balance (% GDP)					-3.8	-1.5	-1.4
Public debt (% GDP)					19.0	18.6	19.4
Key rate (%)	4.25	4.25	4.25	4.25	4.25	4.50	4.50
USD/RUB	77.1	76.0	72.0	69.5	76.0	68.0	68.5
EUR/RUB	90.6	89.7	86.4	84.8	89.7	85.0	91.1
10Y OFZ	5.95	5.20	5.00	5.20	5.20	5.20	5.30

Source: SG Cross Asset Research/EM, Rosbank

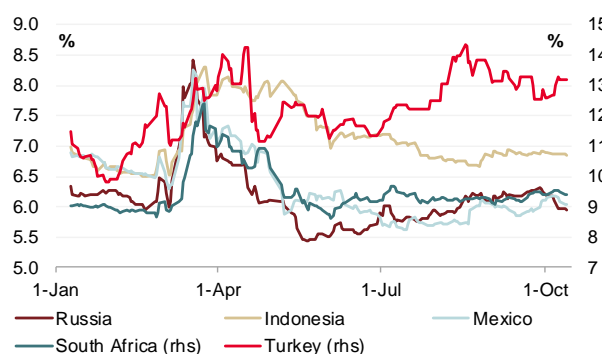
Borrowing plan execution

	Gross plan borrowing, RUB bn	Gross execution to date, RUB bn	% of period target	Gross residual supply, RUB bn
Q4 20 plan:	2 000	346	17%	1 654
Under 5 years	100	30	30%	70
5 to 10 years	1 400	316	23%	1 084
Over 10 years	500	-	-	500
2020 Total	5 204 *	3 190	61%	2 014

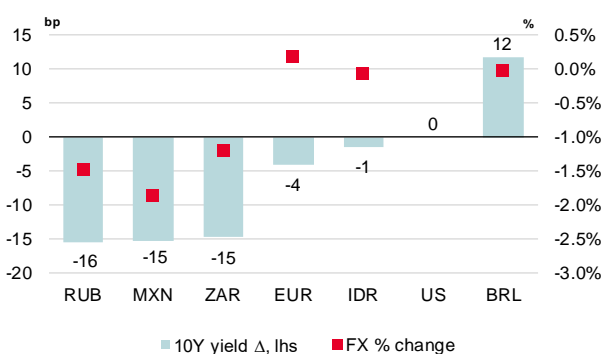
* Rosbank estimates based on the draft 2021-23 federal budget law documentation

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

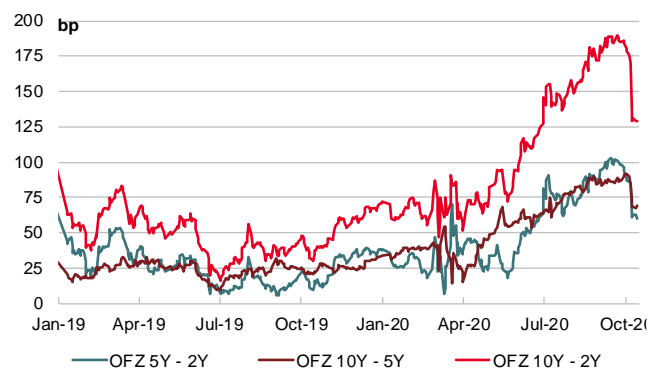
10y EM bond peers to Russia, nominal yield



Change in 10y bond nominal yield & FX, week to 13 October

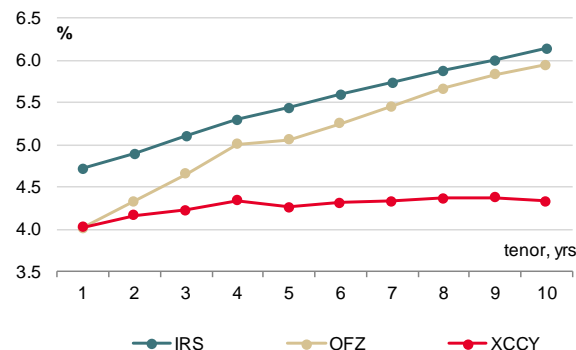


Slope of the OFZ curve (generic benchmarks)



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

OFZ, XCCY and IRS curves as of 13 October



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 TAmbrozhevich@rosbank.ru +7 (495) 956-67-14	Timur Mukhametshin Timur.Mukhametshin@rosbank.ru +7 (495) 234-36-52
Evgeny Koshelev, CFA Evgeny.Koshelev@rosbank.ru +7 (495) 662-13-00, ext. 14-838	Vera Khlynova Vera.Khlynova@rosbank.ru +7 (495) 725-57-13	Alexandre Koutcherov Alexandre.Koutcherov@rosbank.ru +7 (495) 725-57-44	Nikita Reuk Nikita.Reuk@rosbank.ru +7 (495) 662-13-00, ext. 13-120	Aleksandr Ten Aleksandr.Ten@rosbank.ru +7 (495) 234-36-52
Anna Zaigrina Anna.Zaigrina@rosbank.ru +7 (495) 662-13-00, ext. 14-837	Valentina Shonoeva Valentina.Shonoeva@rosbank.ru +7 (495) 662-13-00, ext. 19-105	Evgeny Kurochkin EVKurochkin@rosbank.ru +7 (495) 725-57-44		Sergey Tsoy Sergey.Tsoy@rosbank.ru +7 (495) 234-36-52
Ekaterina Korchagina Ekaterina.Korchagina@rosbank.ru +7 (495) 662-13-00, ext. 15-354		Andrey Galkin AAgalkin@rosbank.ru +7 (495) 725-57-44		
		Maksim Ardatov Maksim.Ardatov@rosbank.ru +7 (495) 662-13-00, ext. 19-107		

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