

OFZ Auction Alert

Preview of primary auction to be held on 21 July 2021

Issuance activity

Right now, the Finance Ministry reminds us of a poker player with a very deep stack who doesn't need to amend the style much from one hand (i.e. auction day) to another and comfortably tunes in each week to see the flop. Once again, RUB 20bn in new fixed-rate papers are on the offer, this time, via a single bond series. None of the CPI-linker, or the RUONIA-floater, or the bond exchange business. Let's go check-check-check already and see who wins with King high.

Bond offered in the 21 July 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*
26239	Fixed	7/23/2031	RUB 43bn	RUB 500bn	RUB 20bn	12:30	97.39-97.59%	-

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

* Cheap = bonds that satisfy (1) positive spline spread and (2) z-score of spread greater than or equal to 1.5

Rich = bonds that satisfy (1) negative spline spread and (2) z-score of spread less than or equal to -1.5

Neutral = bonds that do not satisfy either of Cheap or Rich conditions

Market sentiment

It's a rare sight of the Finance Ministry going into an auction day when the secondary market feels comfortable, if not outright strong. Pandemic-induced risk aversion has been balanced by diving US Treasury yields, e.g. -28bp in 10 years over the previous 5 trading sessions (see chart on p.2).

Also investors look generally prepared for the CBR MPC meeting on Friday with market consensus (and RUB FRAs) tilting to the scenario of the key rate topping out over the next 3 to 6 months. We just need to find out where this local peak is going to be. These short-term fluctuations of the key rate are a bigger deal for the front end of the curve anyway. The long end looks content with terminal key rate of 6.25-6.50% priced in.

Yields outlook

In theory, the MinFin should be more generous today, as RUB 20bn in a single bond are on the offer vs. a RUB 10bn individual cap over the previous 2 weeks. However, we don't feel that big of a change. The volume arriving at the market is still very far from heavy, the secondary market is in decent shape and the authorities can afford to stay choosy with bids pricing. Also, liquidity in the bond should improve, if the auctioned amount is placed in a wide number of hands.

Yesterday pre-announcement of auctions, trades in the 26239 07/31 series were going through at 7.35%, i.e. 15bp wider of the 26237 03/29 on-the-run series (7.20%) and 13bp wider of the 26235 03/31 off-the-run series (7.22%). If we were the Finance Ministry, we would conclude the bond is already cheap and would limit primary yield pick-up to 2-5bp, indicating auction cut-off at 7.37-7.40%.

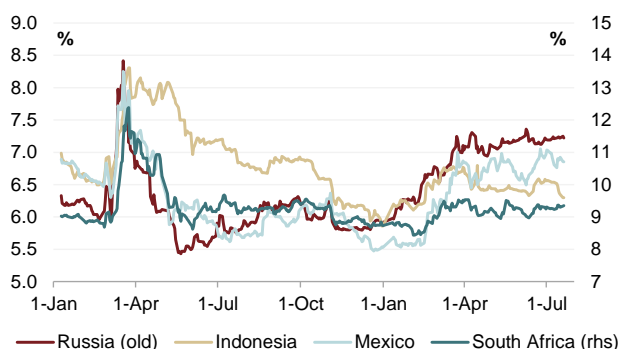
	Current	Q3 21	Q4 21	Q1 22	2021	2022
GDP (% , yoy)	-0.7	2.7	2.2	4.0	3.1	2.3
Inflation (% , yoy)	6.5	6.7	5.5	4.5	5.5	4.0
Fiscal balance (% GDP)					-1.5	-1.4
Public debt (% GDP)					20.4	20.6
Key rate (%)	5.50	6.25	6.25	6.25	6.25	5.50
USD/RUB	74.5	73.0	72.0	72.0	72.0	74.0
EUR/RUB	87.6	91.3	91.4	90.0	91.4	94.0
10Y OFZ (old)	7.20	7.30	7.10	7.00	7.10	6.70

Borrowing plan execution

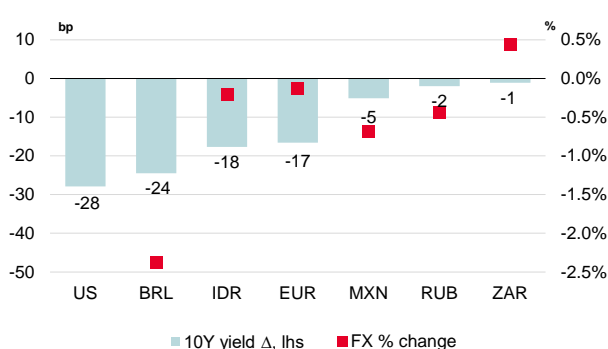
	Gross borrowing plan, RUB bn	Gross execution to date, RUB bn	% of period target	Gross residual supply, RUB bn
Q3 21	700	30	4%	670
Under 5 years	100	-	-	100
5 to 10 years	300	10	3%	290
Over 10 years	300	20	7%	280
2021 Total	2 793*	1 664	60%	1 129

* including announced guidance to cut the 2021 borrowing program by RUB 875bn
 Source: SG Cross Asset Research/EM, Rosbank, Ministry of Finance

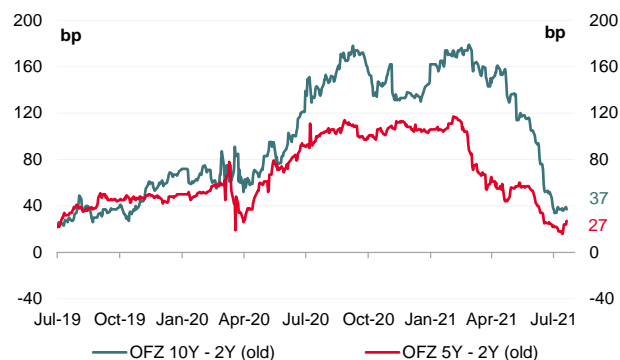
10y EM bond peers to Russia, nominal yield



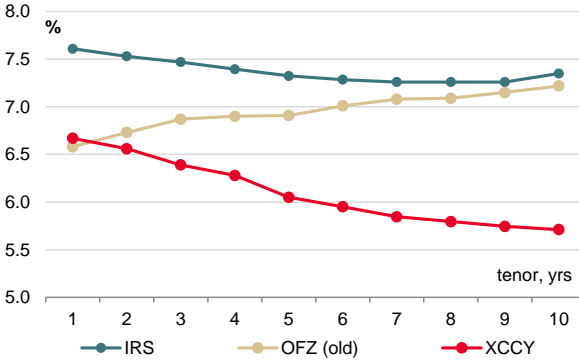
Change in 10y bond nominal yield & FX, week to 20 July



Slope of the OFZ curve (generic benchmarks)



OFZ (old), XCCY and IRS curves as of 20 July



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

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