

25 June 2018

Periodical

OFZ performance



Source: MICEX, VTB Capital Research

FX and Rates Comment

25 June 2018

Market Update

RUB: OPEC+ cheers the market. Oil prices surged 3.5% on Friday after OPEC+ agreed to only modest crude output increases in response to rising global demand and falling supply from Iran and Venezuela. The crude market was looking for countries participating in the production cut deal to boost output by around 1 million barrels per day, as was indicated by the Saudi Arabia Energy Minister before the meeting. However, in the joint statement following the two-day negotiations, OPEC+ gave opaque targets for the increase, saying it would go back to 100% compliance with previously agreed output cuts. According to the Iraq representative, the real increase is only going to be around 770,000b/d. The rally in oil prices helped risk sentiment in general, and commodity-linked currencies in particular. MXN and COP surged 1.5% and 1.3%, respectively; NOK gained 0.4% on the day. The average EM FX index (ex-Asia) improved 0.7%. RUB also enjoyed the momentum provided by the crude market and stronger appetite for risk, ending Friday's session 1.1% in the black at 62.99. Apart from external factors, the Russian FX market also enjoyed support from the local side, as we are at the end of the tax period – companies pay VAT and MET today and profit tax (the last one) on Thursday. Trading activity in USDRUB was slightly above the historical average, with MOEX turnover at USD 4.9bn.

Money market: overnight rates stable. The overnight FX swap opened near 5.8% and climbed higher during Friday's session, reaching 6.7% at one point. However, the rate dropped in the final trades, and the market scratched the CBR's bid. Banks borrowed USD 5.4mn from the regulator. The weighted average rate, though, remained unchanged at 6.00%. The NDF curve traded mixed: rates up to 3M widened 5bp, while longer tenors moved 5-6bp downward. The XCCY segment was motionless; the IRS curve tightened 3-5bp on average. Overnight RUB rates traded sideways at the end of the week, with the average cost of repo borrowing against OFZs standing at 6.7%. Volatility might increase this week due to tax-related liquidity outflows, though the large margin of free reserves already accumulated in this averaging period will mitigate the pressure, we expect. Meanwhile, banks secured RUB 400bn in overnight repo with the Treasury on Friday, hitting the auction limit vs. taking RUB 100bn in the two previous sessions. The bid likely stems from a liquidity miscalculation by a large credit institution, as only two banks borrowed on the auction. We expect the situation to return to normal in coming days.

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Local sovereign debt: a bit steeper. Activity in the OFZ segment continued to decline on Friday, with the total turnover printing RUB 25bn, or only half the average volume last week. In the bullet space, belly tenors saw moderate bid tightening 2-3bp on average, while RFLB 24s posted the strongest performance, declining 5-6bp in yield. The long end traded flat; RFLB 33 (YTM 7.76%; +1bp) closed a touch into the red. Among short bonds, RFLB 19 6.70 (YTM 6.92%) and RLFB 20 (YTM 7.07%) outperformed, their yields dropping 6bp and 10bp, respectively. Overall, the curve steepened a bit, with the 2s10s spread inching up 3bp to 57bp. We believe the bid for the belly and front end was driven mainly by dealers short-covering amid recovery of the FX spot, as the curve had bear flattened visibly over the last week. However, it is our view that more flattening is likely in coming weeks. Floaters edged slightly into the negative area, stepping back 0.1-0.2pp in price. CPI-linkers ended the session without change. The EM debt space traded mixed: the 10Y local rate in Brazil widened 9bp, whereas the Turkish benchmark narrowed 8bp on the day.

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