

12 December 2017

### OFZ performance



Source: MICEX, VTB Capital Research

### Fixed Income Analytics

-  [Market Colour](#)
-  [Interactive Charts \(Online\)](#)
-  [Bond Map \(PDF\)](#)
-  [Spread Book \(PDF\)](#)

## Periodical

# FX and Rates Comment

12 December 2017

### Market Update

**RUB: slow day; oil flirts with USD 65/bbl.** US equity markets started the week inching higher above Friday's record close, as investors await the FOMC policy announcement on Wednesday, at which a 25bp rate hike is widely discounted. The Fed is the only central bank expected to raise interest rates this week, while the ECB, BoE and SNB (which announce their decisions on Thursday) are all expected to keep policy on hold.

Ahead of the heavy schedule of events in the second part of the week, investors were in wait-and-see mode on Monday. The EM FX markets had a rather dull session, with only the evening's rally in oil bringing some price action. Brent jumped 2.0% yesterday to USD 64.69/bbl on increased geopolitical risk following the explosion in NYC. This morning, news about the shutdown of a major UK pipeline sent Brent further north to USD 65.5/bbl. RUB had been trading in a flattish manner for most of the day at 59.2-59.3 against USD. On the back of stronger oil, RUB firmed to 58.9 in the late evening, though it retreated a bit and closed at 59.01 (-0.2%). Trading activity on the Russian FX market continued to compress and daily turnover printed at USD 3.0bn. In the EM FX complex, ZAR kept on rising (+0.5%), while MXN gave up 0.7%.

**Money market: deposits above RUB 2.1tn.** The volume of correspondent accounts spiked to RUB 2.7tn at the end of the last week, the highest in recent months. In order to absorb excess liquidity and alleviate potential downward pressure on the money market, the CBR held a two-day 'fine-tuning' deposit auction. Banks offered RUB 579bn of liquidity against the limit of RUB 630bn. The full amount was sterilised at a weighted average rate of 8.19%. Overall, banks are now parking more than RUB 2.1tn on the CBR's deposits. The volume of overnight repo operations with the Treasury was stable at RUB 233bn. At the one-week repo auction, banks secured RUB 78bn (-RUB 20bn). In the meantime, today the Treasury conducts a 70-day deposit auction, offering a total of RUB 150bn.

The overnight FX swap was trading slowly at 7.4-7.5% during the first half of the day. In the afternoon, the rate started to move south and closed at 5.80%, a touch above the CBR's bid. Still, the weighted average remained intact to Friday (7.40%). The rally in longer cross-currency rates run out of steam: NDF/XCCY curves changed  $\pm 1-2$ bp on the day. The IRS market was motionless. The average cost of overnight repo fell 20-30bp (to 7.6%) driven by squeezes in selected belly papers. RUONIA inched down to 8.09% on Friday.

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**Local sovereign debt: idling.** It was another muted day in OFZs, as MICEX turnover again came below RUB 10bn. Price-wise, there was little to report as most bonds stood still to Friday's closes. RFLB 26 (YTM 7.56%; +2bp) eased 0.1pp in price, whilst the longest RFLB 33 (YTM 7.83%) ended a touch stronger, price-wise. RFLB 19s nudged down 1-2bp in yield amid a sporadic foreign bid, so the 2s10s spread widened 2bp to 38bp. In yesterday's [OFZ Navigator](#), we highlighted that extending duration in OFZs looks interesting – we see room for some tactical flattening in 2018 on the back of resumed international inflows. Fundamentally, we think that the CBR will conduct monetary easing in a gradual manner. Floaters and the CPI-linker did not move on the day, with the BEI standing at 3.97% (+1bp). Other EM debt markets traded calm as well, with long rates changing 2-3bp at most. Today, the Ministry of Finance announces auction taps. We expect it to stick to the strategy of the last few weeks: two bullet bonds worth a total of RUB 25-30bn.

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