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INDEPENDENT NEWS FROM RUSSIA

$3Bln Bond Planned for Fall, Pankin Says

By The Moscow Times

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Deputy Finance Minister Dmitry Pankin listening during a panel discussion at a UBS forum Wednesday.
Vladimir Filonov

Improved openness on yield prospects helped Russia sell the most domestic treasury bonds since January on Wednesday, while an outlook upgrade from Fitch boosted prospects for a planned issue on foreign markets.

Fitch raised the outlook on Russia's investment-grade BBB rating to "positive" from "stable," saying the economy and the banking sector are recovering well from the crisis. Fitch promised an upgrade if the budget deficit is cut, the business climate improves, and the ruble exchange rate remains flexible.

The upgrade came as Deputy Finance Minister Dmitry Pankin said Russia planned to issue ruble bonds worth up to $3 billion on international markets and hoped to be technically ready for the placement by mid-November.

Domestically, the Finance Ministry's attempts at greater openness on yield premiums seem to be bringing results, as seen by the success of Wednesday's auctions. Russia sold more OFZs at its weekly bond auction than at any time since January, placing nearly 40 billion rubles ($1.3 billion) worth of the treasury bonds.

The success came after the Finance Ministry took an unprecedented step Tuesday, telling the market what yields it was willing to offer at the auctions and making it clear that it would be ready to accept only a small premium to the market, in a bid to increase openness and improve relations.

The Finance Ministry sold 19.6 billion rubles of 2016 OFZs out of the 40 billion rubles on offer at an average yield of 7.43 percent. Additionally, Russia placed 19.76 billion rubles of 2016 bonds out of the 25 billion offered at an average yield of 6.22 percent.

The placement was in stark contrast to other recent offers — last week just 16 percent of the 75 billion rubles on offer was sold.

"This does not look bad compared with recent weeks," said Mikhail Galkin, an analyst at VTB Capital. "Yesterday's publication of the guidelines helped." Plentiful liquidity and the prospects of even more cash following the Sept. 15 redemptions of Central Bank OBR bills were boosting demand, he said.

Analysts had expected an increased interest in the auction following the greater openness from the Finance Ministry, but also said investors were starting to believe the Central Bank's mantra that the current spike in inflation is temporary and will not translate into interest rate hikes.

"The volume made a big impression — about four times more than before. It seems investors have valued the words of the Central Bank that food inflation is not an obstacle," said Vladimir Kolychyov, a senior economist at Rosbank.

The interest in the bonds came even as data on Wednesday showed inflation running at 0.2 percent again this week and food prices continued to surge.

Anton Nikitin, an analyst at Renaissance Capital, said investor interest was further fueled by both bonds offering a premium of about 120 basis points to NDF rates.

Despite clear guidance from the Finance Ministry, some investors chose to try their luck by seeking higher premiums.

Bids at the auctions topped 78 billion rubles — or nearly double the amount placed in the end. Wednesday's auctions take the Finance Ministry's domestic issuance so far this year to about 350 billion rubles out of the 1.2 trillion planned for the whole of 2010. Pankin reiterated that final borrowing needs might be smaller than initially expected.

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