

Fixed Income |

CZGB Auction Alert

Czech hunt for sub-zero yields continues

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On Wednesday, the Finance Ministry will tap the bond market yet again. The coming auction, however, was not scheduled in the first version of the October calendar and was added only later. The ministry likely aims to benefit from the current market conditions with XCCY basis swaps and short-end yields at all-time lows. Yields on the long end of the curve, however, started increasing in early October. This trend is likely to continue slowly, in our view, and to limit demand for CZGBs with long maturities.

Bonds offered in the 26 October auction

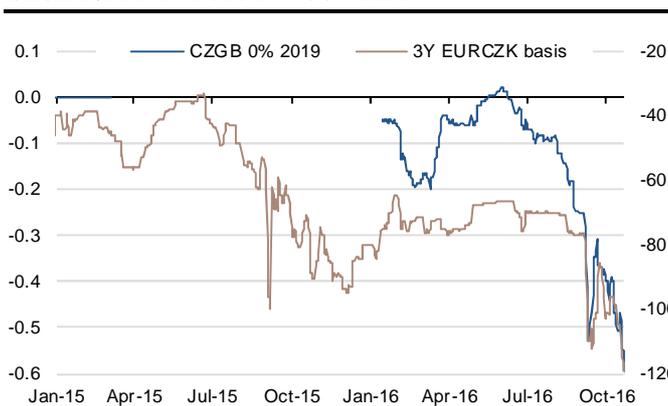
| ISIN | Coupon | Maturity | Indicated volume | Indicative price, KB IB |
|--------------|--------|-------------|------------------|-------------------------|
| CZ0001004717 | 0.00% | 17 Jul 2019 | max CZK 8bn | 101.60-101.70 |
| CZ0001004253 | 2.40% | 17 Nov 2025 | max CZK 3bn | 117.70-118.00 |

Source: Finance Ministry, Economic & Strategy Research, Komerční banka

The ministry is again offering the zero-coupon 2019 paper in the indicated volume of CZK 8bn. With financing via the XCCY basis at historically most favourable levels, **we expect demand will be very strong and prices will print above the secondary market.** The ministry is set to sell the full indicated amount, in our view.

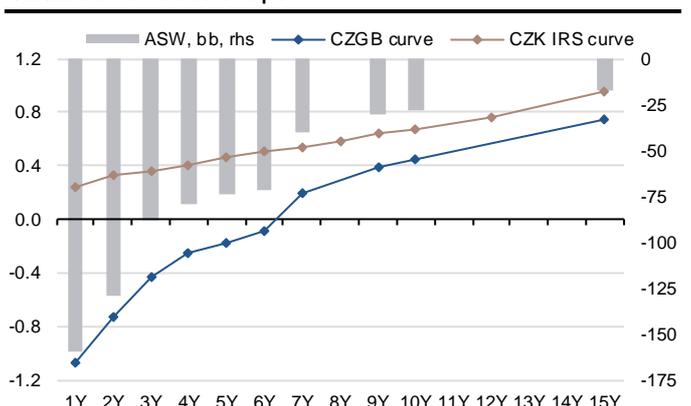
The other paper on tap, the CZGB 2.4% 2025, has not been offered since April. Tomorrow, the ministry is selling the bond in a very limited amount of CZK 3bn. **In our view, demand will be shallow**, as was the case in previous auctions of long-end papers. With inflation expected to accelerate in the coming months, yields are set to rise on the long end, where excessive demand stimulated by secondary effects of the CNB's floor is absent.

CZGB 0% 2019 versus 3Y XCCY basis



Source: Bloomberg, Economic & Strategy Research, Komerční banka

CZGB curve versus swaps



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Today, Finance Minister Babis announced he targets budgetary surplus for 2016. We keep our call for a “positive zero” balance, as the actual outcome will depend on discretionary spending of various ministries by year-end.

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