

Fixed Income

CZGB Auction Alert

October's final auction offers well-known bonds

Author



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Issuance activity: Tomorrow, MinFin is scheduled to auction CZK5.0bn of 6y bonds, CZK4.0bn of 9y bonds and CZK3.0bn of 11y bonds. MinFin is thus continuing to issue in the same maturity segment, as all bonds in this auction are also the most offered over the last 90 days.

Bonds on offer in the 18 October auction

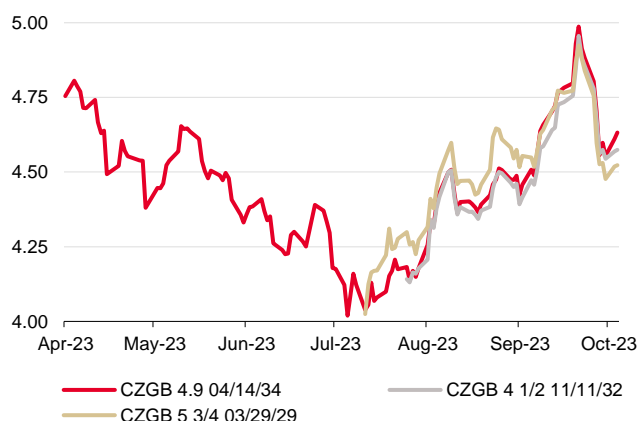
ISIN	Coupon	Maturity	Indicated volume	Mod. Duration	Indicative price, KB IB
CZ0001007025	5.75%	29.03.2029	Max. CZK5.0bn	4.6	105.75-105.95
CZ0001007033	4.50%	11.11.2032	Max. CZK4.0bn	7.3	99.30-99.60
CZ0001006894	4.90%	14.04.2034	Max. CZK3.0bn	7.9	102.25-102.55

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

Market situation: Since last week's auction (11 October), the CZK IRS re-steepened with long-end yields still supported by developments in core markets amid a partial easing of geopolitical escalation risks. Governor Michl's comments left the door open for either a cut or stability at the next two CNB meetings (in Nov. and Dec.), keeping market bets for total rate cuts this year at around 70 bps. Last Friday, S&P affirmed the Czech Republic's rating and stable outlook, highlighting the country's robust external balance sheet, moderate public debt and improved energy security.

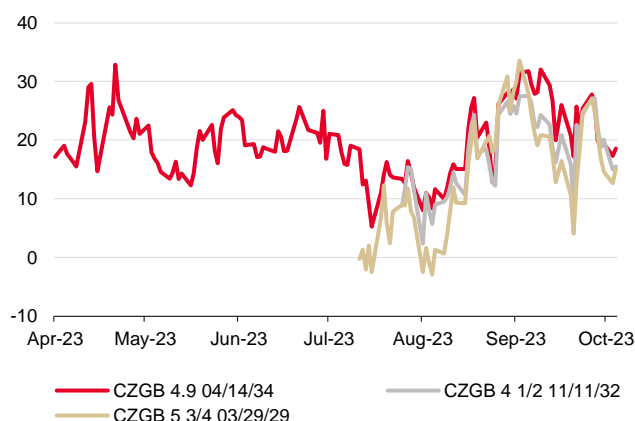
Rates outlook: In our baseline scenario, the CNB is unlikely to adjust interest rates before the end of the year. We expect the CNB to remain cautious, given the challenges posed by the expected acceleration in yoy inflation in October due to the base effect and the increased uncertainty surrounding the upcoming January repricing. We believe that the cuts will have to be quick next year (starting in February), with the repo rate at 4% by end-2024. However, a possible faster decline in inflation and continued subdued domestic demand could lead to earlier and faster rate cuts than we forecast.

Yield of bonds on tap (%)





















































Source: Bloomberg, Economic & Strategy Research, Komerční banka

ASW of bonds on tap (bp)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Government bond overview

Government bond overview									Rich-cheap analysis										
Bond	Dur.	Issued last 90D	Issuance limit	Yield	Δ1W	Δ1M	FX hedged	ASW	Δ1W	Δ1M	Min		Max	Z-Score	Rank		Rank	Carry Roll 90D	Rank
5.70 May-24	0.6	0.0	100%	5.04	23	-15	3.05	-154	7	-11	-220		-105	-0.2	10		20	-164.1	24
0.00 Dec-24	1.1	0.0	34%	5.13	-12	-31	3.92	-77	-12	-14	-86		-27	-1.3	22		2	-66.8	23
1.25 Feb-25	1.2	0.0	100%	5.29	-14	-22	4.25	-30	-9	3	-73		-9	1.1	1		1	-53.0	22
2.40 Sep-25	1.8	0.0	85%	4.80	2	-17	4.07	-25	-6	-16	-50		-10	0.5	6		16	-42.8	21
6.00 Feb-26	2.1	0.0	67%	4.41	-3	-14	3.70	-42	-5	-13	-67		-33	0.7	4		24	-40.8	20
1.00 Jun-26	2.5	0.0	100%	4.52	-9	-25	3.83	-20	-10	-25	-33		1	-1.1	21		23	-32.4	19
0.25 Feb-27	3.2	0.0	90%	4.51	-7	-15	3.81	-5	-8	-18	-19		15	-0.4	14		22	-25.4	18
2.50 Aug-28	4.4	0.0	94%	4.50	-11	0	3.72	5	-5	-15	-9		20	0.1	8		14	-17.3	16
5.50 Dec-28	4.2	0.0	68%	4.41	-10	-7	3.64	-3	-6	-20	-24		15	0.7	5		19	-17.7	17
5.75 Mar-29 *	4.6	35.8	82%	4.51	-10	-5	3.74	8	-7	-23	-12		27	0.1	7		8	-15.8	15
2.75 Jul-29	5.1	0.0	100%	4.50	-9	4	3.67	6	-8	-14	-4		20	-0.2	11		10	-14.0	14
0.05 Nov-29	5.8	0.0	57%	4.50	-10	9	3.61	4	-9	-10	-3		19	-0.6	16		11	-12.0	13
0.95 May-30	6.1	0.0	100%	4.53	-11	10	3.63	8	-7	-11	-3		21	-0.3	13		7	-11.1	11
5.00 Sep-30	5.8	8.5	101%	4.55	-8	15	3.71	12	-8	-8	-9		22	0.8	2		5	-11.4	12
1.20 Mar-31	6.7	0.0	100%	4.57	-7	14	3.65	10	-5	-11	-2		20	-0.1	9		3	-9.4	9
6.20 Jun-31	6.0	5.3	72%	4.55	-9	19	3.72	12	-6	-2	-5		22	0.7	3		6	-10.5	10
1.75 Jun-32	7.6	0.0	100%	4.54	-10	18	3.61	3	-8	-8	-6		17	-0.5	15		12	-7.7	7
4.50 Nov-32 *	7.3	24.1	17%	4.57	-10	16	3.70	9	-8	-9	-3		24	-0.3	12		9	-8.0	8
2.00 Oct-33	8.6	0.0	100%	4.58	-6	14	3.65	4	-6	-15	-4		23	-1.1	20		13	-6.4	4
4.90 Apr-34	7.9	12.0	40%	4.59	-10	14	3.74	7	-8	-13	-2		27	-0.6	17		15	-7.1	6
3.50 May-35	9.1	4.2	48%	4.60	-9	18	3.75	5	-6	-14	-3		23	-0.8	18		17	-6.2	2
4.20 Dec-36	9.5	0.0	100%	4.63	-8	16	3.84	8	-7	-17	0		27	-1.0	19		18	-6.3	3
1.95 Jul-37	11.3	0.0	34%	4.62	-10	13	3.76	3	-7	-20	0		25	-1.5	23		21	-5.7	1
1.50 Apr-40	13.4	0.0	44%	4.66	-10	10	3.78	5	-5	-21	8		30	-2.4	24		4	-7.0	5

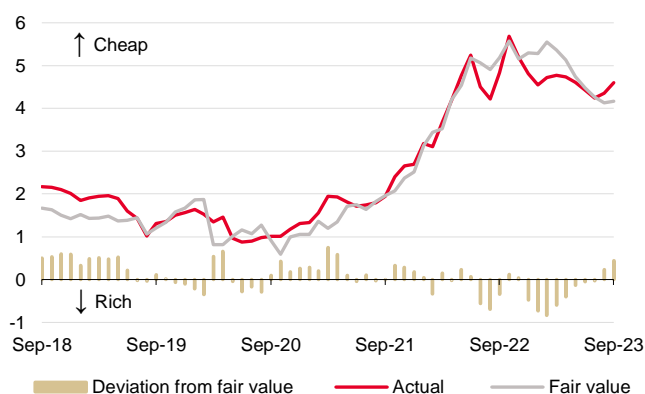
Source: Economic & Strategy Research, Komerční banka, Bloomberg, MinFin

Market-implied policy rates

	Spot rate	+/- bp since last week	
2W Repo Rate	7.00%	0.0	
3M PRIBOR	7.03%	-3.0	
Next CNB meeting	Thursday, 02 November, 2023		
Forward dates	Implied policy rate	Rate change priced in (bp)	+/- bp since last week
1M	6.76%	-24.0	-1.5
2M	6.65%	-35.0	-2.0
3M	6.32%	-68.0	3.5
6M	5.30%	-170.2	6.5
9M	4.34%	-265.7	5.5
12M	3.79%	-320.7	2.5
2Y	3.66%	-334.1	19.4
5Y	4.03%	-297.0	0.5

Source: Bloomberg, Economic & Strategy Research, Komerční banka

10y CZGB yield fair value model



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Issuance calendar of T-bills and T-bonds

Date	ISIN/Issue number	Coupon	Maturity	Indicated volume
04.10.2023	CZ0001007025	5.75%	29.03.2029	Max. CZK5.0bn
04.10.2023	CZ0001006894	4.90%	14.04.2034	Max. CZK2.0bn
11.10.2023	CZ0001007041	VAR%	18.08.2043	Max. CZK5.0bn
12.10.2023	T-BILL 896		15.12.2023	Max. CZK10.0 bn
18.10.2023	CZ0001007025	5.75%	29.03.2029	Max. CZK5.0bn
18.10.2023	CZ0001007033	4.50%	11.11.2032	Max. CZK4.0bn
18.10.2023	CZ0001006894	4.90%	14.04.2034	Max. CZK3.0bn
18.10.2023	T-BILL 897		19.01.2024	Max. EUR0.5bn
26.10.2023	T-BILL 898		29.12.2023	Max. CZK10.0bn

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

Note: Bonds included in the sample are non-callable bullet bonds issued by the Czech Government with a maturity greater than 3 months and less than 20 years, bonds excluded are zero-coupon bonds, inflation linked bonds and floating bonds; * insufficient time series; issuance in CZKbn, the issuance limit includes a possible extension according to the issuance terms; FX-hedged vs EUR using xccy; ● actual ASW; ◆ average ASW over the last 90D; Z-score means the number of std. deviations from the average; spline spread = actual yield - estimated yield indicates richness/cheapness vs fair value; estimated yield is derived from the estimated curve using on-the-run bonds for each maturity bucket and cubic spline interpolation; CarryRoll - the carry is calculated as the bond's forward yield at horizon data minus today's yield, the roll is calculated as the bond's spline fitted yield at maturity minus the spline-fitted yield at maturity, less the horizon period; ranks sort bonds from the cheapest to the most richest according to a given method; 10y CZGB yield fair value model = five-year rolling regression incorporating growth (IP), inflation (CPI), FX and 10Y EUR yield

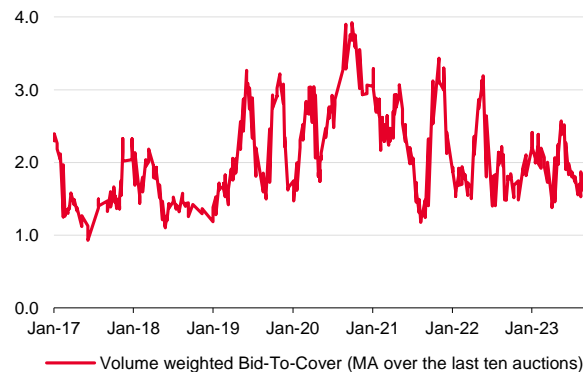
Sovereign rating overview

	Local currency	Outlook	Foreign currency	Outlook	Next rating review
S&P	AA	STABLE	AA-	STABLE	
Moody's	Aa3	NEGATIVE	Aa3	NEGATIVE	24 November 2023
Fitch	AA-	NEGATIVE	AA-	NEGATIVE	

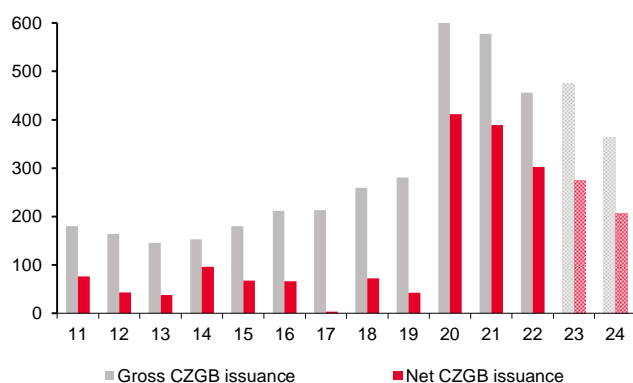
Source: Bloomberg, Economic & Strategy Research, Komerční banka

Average maturity of newly issued bonds (years)

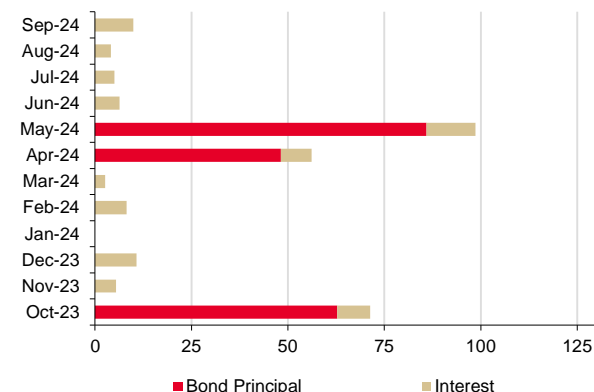

Source: Bloomberg, Economic & Strategy Research, Komerční banka

Primary market demand (b/c)


Source: Bloomberg, Economic & Strategy Research, Komerční banka

CZGB issuance on the primary market (CZKbn)


Source: Finance Ministry, Economic & Strategy Research, 2022 is KB forecast, as of 25/07/2023

Maturity of bonds and interest in the next 12 months (CZKbn)


Source: Bloomberg, Economic & Strategy Research, Komerční banka

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SG CROSS ASSET RESEARCH – FIXED INCOME & FOREX GROUPS

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