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Yields on Russian Benchmark Bonds Fall as Foreign Demand Rises

OFZ treasury bills are trading near their highest levels for two years.

By Ben Aris for bne IntelliNews

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Bonds are rallying on expectations of a rate cut. **Pixabay**

Russian Ministry of Finance ruble-denominated OFZ treasury bills were trading near their highest levels in nearly two years in the first weeks of May, the Central Bank of Russia (CBR) said on May 23.

Yields on 10-year benchmark OFZ bonds have fallen to under 8 percent after touching 9 percent last autumn during the height of a sell off, and were 7.98 percent as of May 22 — their lowest level since the 7.94 percent recorded in early August 2018. In real terms, OFZ yields are now around 3 percent.

Ruble-denominated OFZ bonds rallied in May on the back of strong foreign demand, supported by expectations of a rate cut by the Russian central bank in the near future

following very weak GDP growth figures in the first quarter of this year, as well as rising oil prices.

The ministry offered OFZ bonds maturing in 2024 and papers maturing in 2030, selling $1.14 billion worth of OFZ bonds on May 22, reports Russia Business Today.

Demand for OFZ bonds is also seen as a barometer for investment sentiment on the international capital market for Russia and that has been rising steadily all year as sanctions fears fade and U.S. interest rate hikes stop, making investors "risk on" once again.

Inflows into the OFZ market are becoming increasingly important as one of the main sources of inbound foreign exchange that is increasingly determining the ruble dollar exchange rate, as ING wrote in a recent commentary.

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