

THOUGHTS ON THE 20-YEAR SGS BOND MINI-AUCTION

Tuesday, April 18, 2017

The 20-year SGS bond auction on 26 April

MAS will announce on 19 April the issue size for the 20-year SGS bond (NZ16100X) maturing in 2036 via a mini-auction on 26 April for issuance on 2 May. The maximum re-opening size for the 20-year SGS bond mini-auction is \$1 billion.

Given the recent rally in longer-dated bonds both domestically and globally, there should be decent demand. The mini-auction also comes ahead of the 30-year SGS bond re-opening on 1 June whose auction will take place on 29 May. The 20-year SGS bond yield is currently trading around the 2.3% handle and is trading some 56bps lower than the 2.86% high recently seen in December 2016. Understandably the recent bull-flattening in the UST bond yield curves have been mainly driven by the unwinding of the Trump trade and the emergence of geopolitical concerns in the Middle East, Korean peninsula and even the upcoming French elections, notwithstanding the FOMC's discussion of trimming its balance sheet later this year. The search for yield and MAS' retaining its neutral policy stance for an extended period had also benefited the SGS bond yield curve.

That said, the back-end of the SGS bond yield curve is too flat, with the 10-30 year spread just yielding 22bps, after touching a record tight spread of 13bps on 27 Feb 2017, vis-à-vis its 5-year average spread of 68bps. Similarly, the 20-30 year SGS bond yield spread is also trading at just 2bps, versus its historical 5-year average of 13bps. Nevertheless, there appears little impetus for a widening back to its historical spreads at this juncture, even though at current yield levels, the bid-cover ratio may fluctuate around 2x. A more plausible scenario is a larger-than-expected issue size for the 30-year SGS bond auction in late May could coincide with more hawkish FOMC rhetoric ahead of the 15 June FOMC to steepen the back-end of the yield curve.

20-year SGS bond auction results

Amount (\$M)	Issue Date	Bid-to-Cover Ratio	Cut-off Yield (%)	Median Yield (%)	Average Yield (%)
2,500	01/03/2007	2.27	3.50	-	3.39
1,300	03/03/2008	1.77	3.39	-	3.30
700	02/03/2009	2.37	2.97	-	2.92
2,000	01/09/2010	2.06	2.91	2.85	2.81
1,100	01/03/2011	1.90	3.35	3.28	3.26
1,700	02/09/2013	1.49	3.40	3.25	3.23
1,400	02/05/2014	2.25	3.04	3.00	2.97
1,500	01/08/2016	1.84	2.25	2.21	2.19

Source: MAS

Treasury Advisory

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Interest Rate Derivatives

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Investments & Structured

Products

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20- and 30-year SGS bond yield spread



Source: Bloomberg

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