



Market Brief: August 2020

Despite the domestic economy facing unprecedented fallouts, as a result of the COVID-19 pandemic, non-bank demand for government paper remained relatively strong over the past four months. After experiencing a quarter-over-quarter decline in early 2020, the 91-day Treasury Bill (T-Bill) yield rebounded during the period May to August 2020, as institutional investors focused on the short end of the yield curve. The 91-day T-Bill yield, which closed April 2020 at 1.7024 percent, peaked in August 2020 at 1.9096 percent, as shown in Figure 1 below.

Although institutional investors continued to account for over 75 percent of subscriptions in the one-year note, this investor segment tempered participation to the extent that gross subscrip-

tions declined by 32 percent to \$53 million, on average, during 2020, compared to \$78 million in 2019. Despite this, individual investor demand for one-year paper increased marginally, accounting for 0.77 percent of total participation—up from 0.55 percent in previous offerings.

After months of tepid demand, securities on the shorter end of the yield curve recovered, with the three- to five-year tenors experiencing 100 percent market absorption rates over the past three months. Securities on the longer end of the curve continued to experience robust investor interest—suggesting the market’s growing demand, overall, for government paper.



Treasury Bills 91-Day Treasury Bill Yield

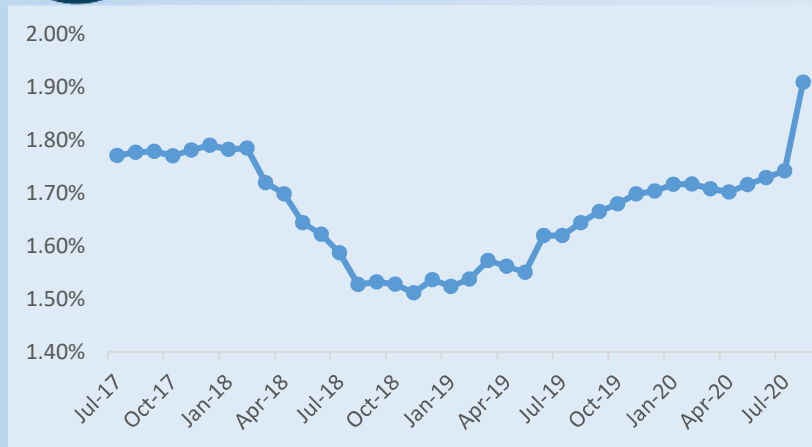


Figure 1.

Treasury Notes & Bonds BRS Coupons

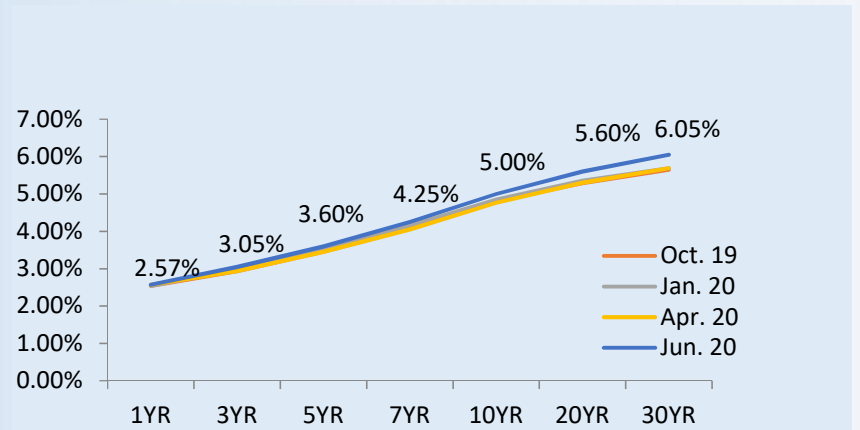


Figure 2.

Short-, Intermediate-, and Long-Term Market Outcomes

Securities on the short end of the yield curve, which have historically experienced low market demand, demonstrated gross absorption rates of more than 90 percent. The largest uptick was noted in the seven-year tenor—increasing from an average absorption rate of 45 percent as at April 2020 to 93 percent over the past four months.

Overall, the recent trends hint to a shift in market sentiment. The demand for government paper, which has historically concentrated around the very short (T-Bills) or very long (20- and 30-year BRS) ends of the yield curve, has shown some migration to the medium-term tranches.

New investor participation continues to grow, representing 40 percent of total subscriptions—the majority of which were for bids of \$1,000 or less. Despite this, however, the nominal value of subscriptions continued to be driven by institutional investors at an approximate 2:1 ratio.

Security	Issue Size (\$Mill)	Subscriptions (\$Mill)	Absorption (\$Mill)	Absorption Rate
May Initial Public Offerings				
BGR137021	58.00	57.89	57.89	99.81%
BGR136140	2.50	2.25	2.25	90.00%
BGR136150	5.57	5.57	5.57	100.00%
June-July-August Benchmark Initial Public Offering				
BGR138223	1.86	1.87	1.86	100.00%
BGR138225	2.31	2.32	2.31	100.00%
BGR138227	1.39	1.39	1.39	100.00%
BGR138230	10.92	10.97	10.92	100.00%
BGR138240	20.56	20.63	20.56	100.00%
BGR138250	61.69	62.27	61.69	100.00%