



Market Brief: June 2021

Demand for Government Securities (GS) continued its trend towards extreme ends of the yield curve during Q2, as market participants demonstrated preferences for very short and very long tenors in the offering distributions. The average Bahamas Registered Stock (BRS) offering absorption rate decreased to 82 percent during Q2, a notable decline from the 110 percent observed in Q1. In contrast, the 91-day Treasury Bill (T-Bill) delivered an average absorption rate of 110 percent in Q2—up from 82 percent in Q1. These outcomes reveal moderate investor shift in interest from BRS to T-Bills.

The 91-day T-Bill yield—which rose steadily since May 2020—showed signs of flattening during Q2. As at May 2021, the yield, which closed Q1 at 2.566 percent, increased by a modest three basis points during Q2—a reduction

in the growth rate observed during Q1, when the rate increased by 11 basis points over the three-month period. Demand for the 182-day T-Bill remained low, with absorption rates ranging from 50 percent to 90 percent and the yield constant at 2.75 percent.

Similar investor demand behavior was observed for the one-year BRS. In contrast to Q1 offerings, which were oversubscribed by 17 percent on average, one-year BRS offerings returned a 27 percent average undersubscription during Q2.

Figure 1 illustrates the progression of T-Bill yields since June 2018, and Figure 2 depicts the steady growth of benchmark coupons across all tenors since Q3 2020.



Treasury Bills

Treasury Bill Yield

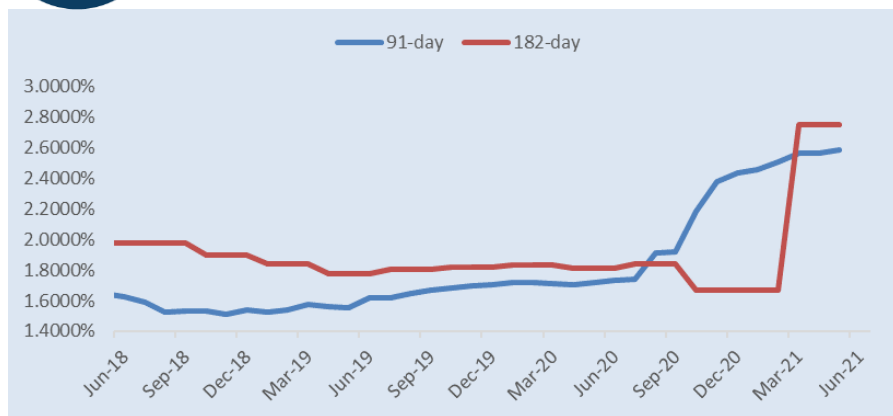


Figure 1.

Government Bonds

BRS Coupons

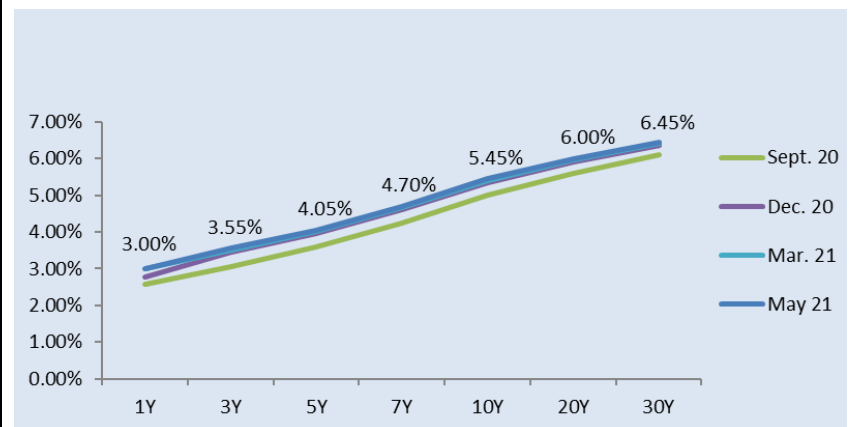


Figure 2.

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

Month	Issue	Type	Issue Size (\$Mill)	Subscriptions (\$Mill)	Absorption Rate (percent)
April 2021	BGR1422	Reopening	25.47	31.54	124%
May 2021	BGR1440	IPO	58.00	42.21	73%
	BGR1450	IPO	15.00	6.87	46%
June 2021	BGR1451	Reopening	17.13	13.09	76%

Market demand for the three- and five-year BRS experienced the most notable changes during Q2. After closing Q1 with net subscriptions of -\$3.966 million and \$11.772 million, respectively, these outcomes shrank to -\$0.251 million and \$1.098 million by the end of Q2. Further, demand for the ten-year BRS spiked during Q2, as this tranche was the only one to return oversubscriptions on a month-to-month basis, yielding an average absorption rate of 180 percent.

Comparitively, the historically favored 30-year tranche experienced demand fluctuations throughout Q2. After garnering a 116 percent absorption rate to start the quarter, subsequent offerings yielded absorption rates of 62 and 94 percent, respectively. Similarly, the 20-year tranche's net subscription was -\$5.4379 million during Q2. The BRS absorption rates tapered towards the end of Q2, with the 'grow/shrink' provision being applied to align offerings with demand.

Overall, market behavior during Q2 suggests that demand for government paper is trending towards the shorter end of the yield curve, as investors continue to adjust risk-reward perspectives.