



Market Brief: December 2020

Market demand for government paper remained strong over the final quarter of 2020 as the COVID-19 pandemic persisted and investors continued to seek safe returns. Treasury bills (T-bills) experienced an average absorption rate of 87 percent from September through December, versus 89 percent for the period ending August. This consistent level of investor participation accompanied the continued rise in the 91-day T-bill yield, which spiked at 2.3816 percent in November, as illustrated in Figure 1.

Institutional investors, which have historically generated the majority of the demand for short-term securities, sustained this position by accounting for 87 percent of the 1-year Bahamas Registered Stock (BRS) subscriptions issued in October.

Further, non-bank subscriptions accounted for 22 percent of the overall allocation—a decrease from 40 percent observed in the previous three-month period. Institutional investors' appetite for short-term paper remained consistent for the 91-day T-bill and the 1-year BRS; however, the 182-day T-bill experienced a stark decrease in demand—with an average absorption rate of only 68 percent for the previous two tenders. The observed change in participation signals an end-of-year shift to the short end of the yield curve, with yields of 2.3816 percent and 2.78 percent for the 91-day T-bill and 1-year BRS, respectively. Securities on the long end of the yield curve, 20- and 30-year tenors, continued to generate substantial market demand, as each tenor experienced 100 percent absorption over the past four months. This absorption is due, in part, to the 'grow/shrink' function embedded in recent initial public offerings (IPOs).



Treasury Bills 91-Day Treasury Bill Yield

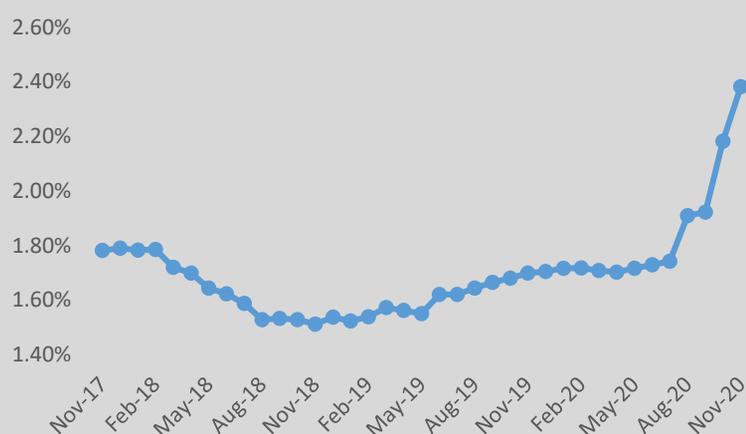


Figure 1.

Treasury Notes & Bonds BRS Coupons

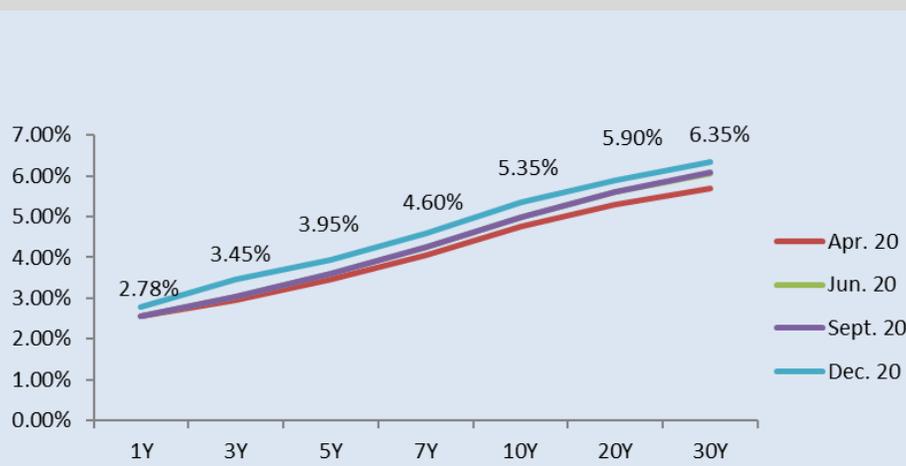


Figure 2.

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

Security	Issue Size (\$Mill)	Subscriptions (\$Mill)	Absorption (\$Mill)	Absorption Rate (percent)
September-October Benchmark Initial Public Offerings				
BGR140021	75.00	73.25	75.00	100.00
BGR139123	3.58	2.18	3.58	100.00
BGR139125	0.97	0.97	0.97	100.00
BGR139127	1.92	1.92	1.92	100.00
BGR139130	1.60	1.60	1.60	100.00
BGR139140	2.68	2.68	2.68	100.00
BGR139150	29.49	29.49	29.49	100.00
November-December Benchmark Initial Public Offerings				
BGR141123	1.15	1.15	1.15	100.00
BGR141125	5.74	5.74	5.74	100.00
BGR141127	0.84	0.84	0.84	100.00
BGR141130	6.48	6.48	6.48	100.00
BGR141140	5.97	5.97	5.97	100.00
BGR141250	33.70	33.70	33.70	100.00

Benchmark coupons experienced an unprecedented uptick in November, driven by buoyant 91-day T-bill yields, as shown in Figure 1. Figure 2 illustrates the downstream impact on the BRS coupons, which continued an upward trajectory.

After a brief stint of increased demand for the 5- and 7-year BRS tenors—matching historical absorption levels for their 20- and 30-year counterparts—market demand regressed towards the mean, and 30-year paper commanded 68 percent of IPO subscriptions over the four-month period from September to December.

From a participation standpoint, institutional investors continued to be the primary subscribers, accounting for 78 percent of total subscriptions; a notable increase from the prior period where institutional investors accounted for only 67 percent of participation. New investor participation decreased slightly from 40 percent in August to 37 percent for the four-month period ending December.