

Bond Market Insight

Interest rates decline significantly

Comment on government bond placement

The NBU's decision last week to decrease the key monetary rate to 13% caused high demand at the primary auction yesterday, where bidders wanted to buy the longest maturity bonds available at the higher interest rates possible. The zero-coupon bonds received no bids, the 2-year bond received only one non-competitive bid for UAH20m. All three of the aforementioned bond auctions were cancelled.

In contrast, demand for the 3-year bond amounted to UAH2.93bn, the highest demand for one bond seen this year, coming in at UAH0.02bn larger than that for the 2-year bonds at the end of February. Yesterday's demand was combined from seven bids at 14.74-15.04%. The MoF used this situation to decrease the cut-off interest rate as the last time these bonds were sold, the cut-off rate was 15.29%: it was reset to 14.95% yesterday.

The MoF' rejection on only one bid for UAH0.20bn had no significant impact on budget proceeds. This decision moved the weighted average rate down 30bp to UAH14.94% on budget proceeds of UAH2.79bn.

The rates in the primary market will provide impetus at the next rate cut. We expect the yield curve to move down 50bp for all maturities, while demand will be concentrated mostly on 2- and 3-year bonds.

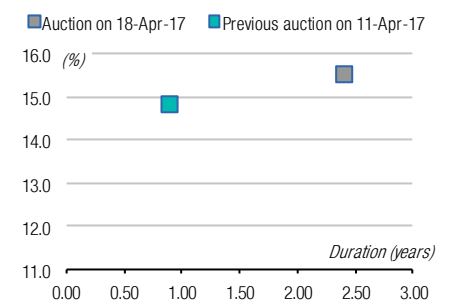
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000197040	15.28	PP	4-Mar-20	2,725,000	1,024.85	2,792.71	2,725.00	15.55	4,178.87
Bcero				2,725,000		2,792.71	2,725.00		4,178.87

Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

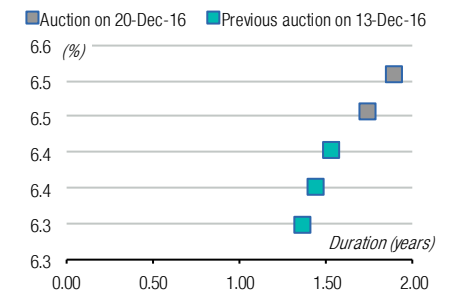
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

USD-denominated domestic gov't bonds: yield curve in past two auctions

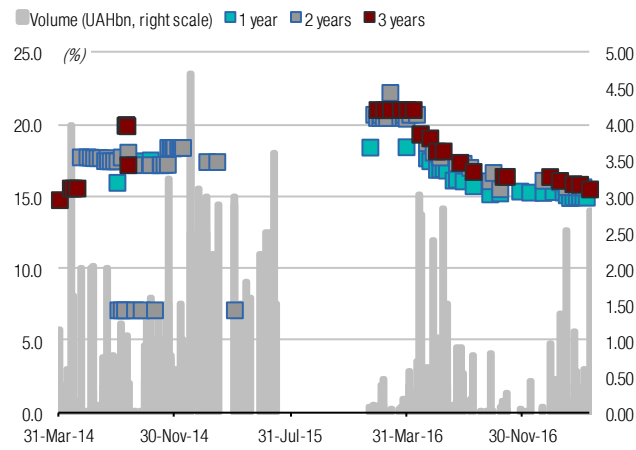


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

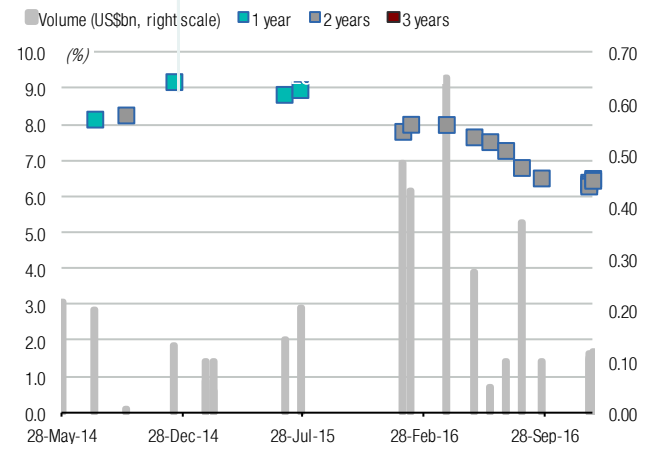
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

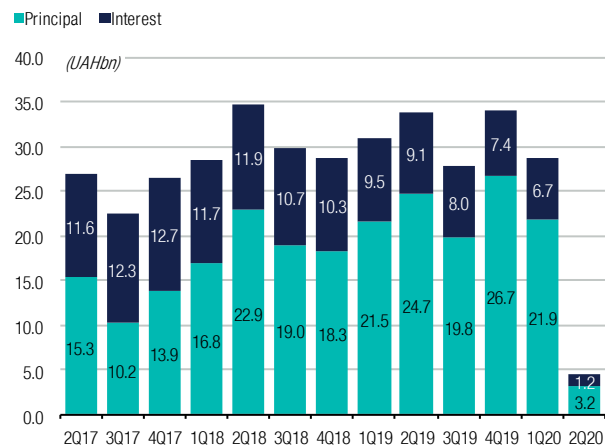
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

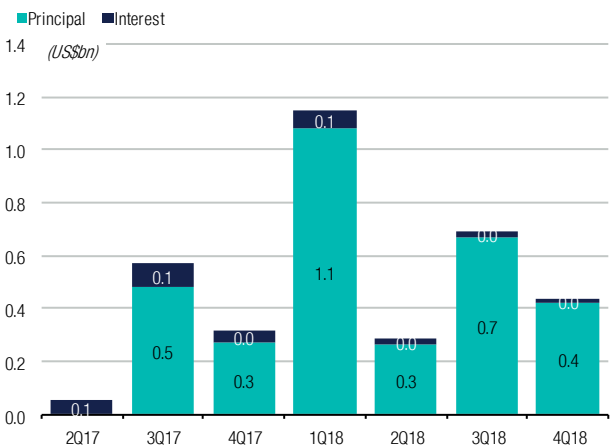
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

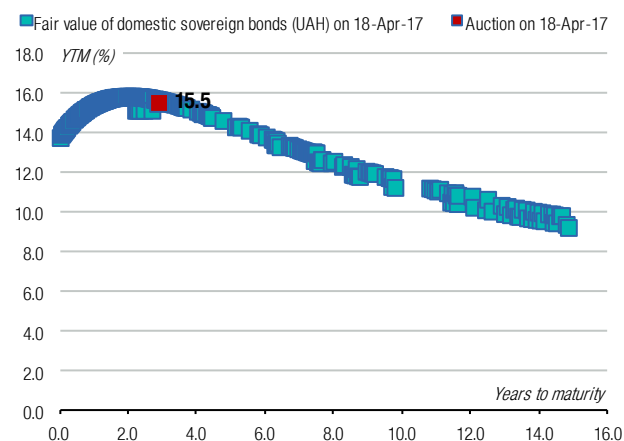
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

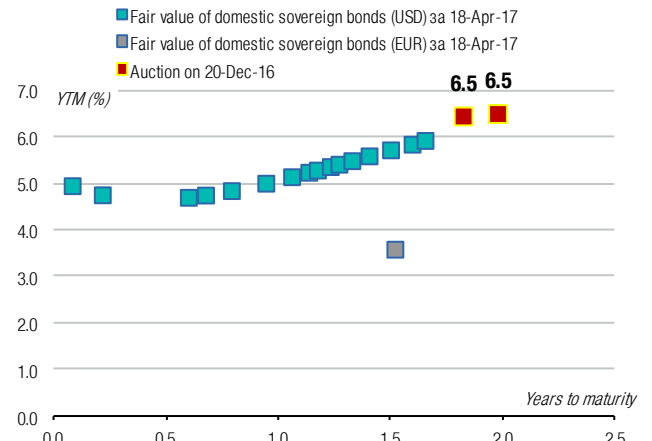
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

USD- and EUR-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

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