

# Bond Market Insight

## Ministry rejected just one bid

### Comment on government bond placement

This Tuesday, the MoF rejected just one bid out of 29 received for the auction. However, this bid was 97% of demand for local-currency bills. With this decision, the Ministry refused nearly half a billion of proceeds to keep the cut-off rate for three-month bills at the same level as at previous October auctions.

Eight accepted bids for local-currency bills amounted to UAH15.6m, and were probably from small, possibly private investors. More than a third submitted non-competitive bids, while other accepted bids were at the usual 19% level. So, only one bid in the amount of UAH500m at par value was rejected, a refusal of a quite sufficient amount of proceeds.

But for FX-denominated bills, there were no surprises. USD-denominated bills were sold at the usual 7% cut-off rate. For bills denominated in euro, investors realized that the MoF will not increase rates without competitive bids, and they submitted bids at 4.6%, the same as other bills in euro. So, with this demand, the MoF could not set the rate manually, and had to accept this demand.

After the Eurobonds placement last week, the Ministry of Finance is not in a hurry to change rates, especially after the NBU kept its key policy rate unchanged last week. As a result, for the next two months we could see inactive auctions with small amounts of proceeds and expensive bids rejected despite their amounts.

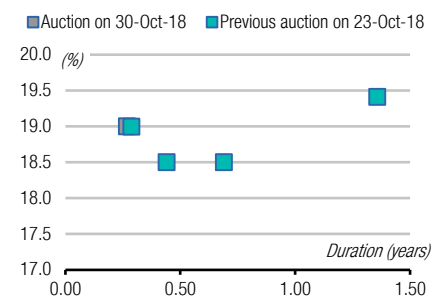
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

| ISIN             | Coupon rate (%) | Payment frequency <sup>1</sup> | Maturity  | Qty of bonds sold | Price (UAH) | Proceeds <sup>2</sup> (UAHm) | Volume <sup>2</sup> (UAHm) | YTM <sup>3</sup> (%) | Outstanding (m) <sup>4</sup> |
|------------------|-----------------|--------------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000200968     | 0.00            | @Mty                           | 6-Feb-19  | 15,584            | 951.46      | 14.83                        | 15.58                      | 19.00                | 443.94                       |
| <b>Total UAH</b> |                 |                                |           | <b>15,584</b>     |             | <b>14.83</b>                 | <b>15.58</b>               |                      | <b>443.94</b>                |
| UA4000201453     | 0.00            | @Mty                           | 19-Jun-19 | 38,641            | 957.75      | 1,040.53                     | 1,086.43                   | 6.97                 | 8,138.71                     |
| <b>Total USD</b> |                 |                                |           | <b>38,641</b>     |             | <b>1,040.53</b>              | <b>1,086.43</b>            |                      | <b>8,138.71</b>              |
| UA4000200711     | 4.12            | SA                             | 27-Nov-19 | 3,017             | 1,012.54    | 97.16                        | 95.96                      | 4.65                 | 8,843.08                     |
| <b>Total EUR</b> |                 |                                |           | <b>3,017</b>      |             | <b>97.16</b>                 | <b>95.96</b>               |                      | <b>8,843.08</b>              |

Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 28.12/USD, 31.8/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

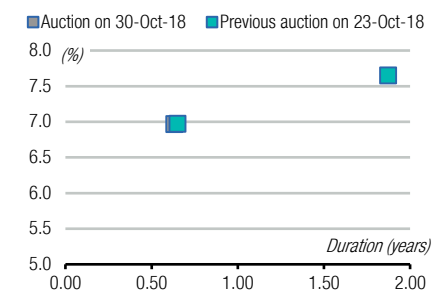
THURSDAY, 1 NOVEMBER 2018

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



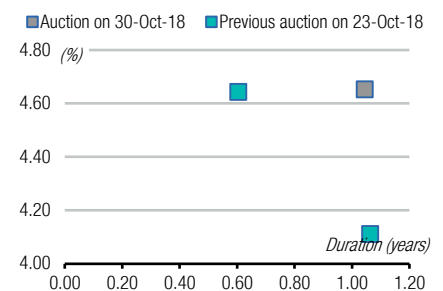
Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

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

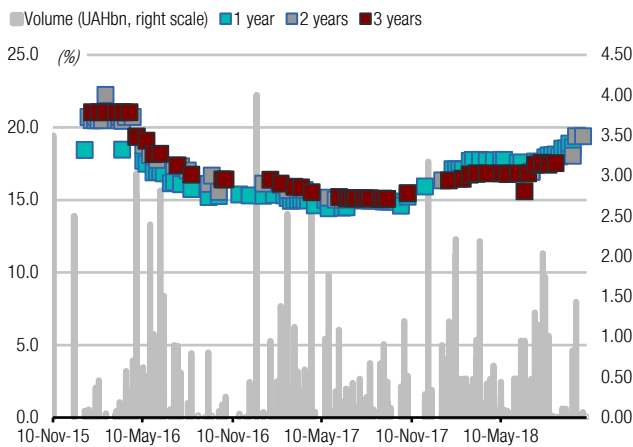


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

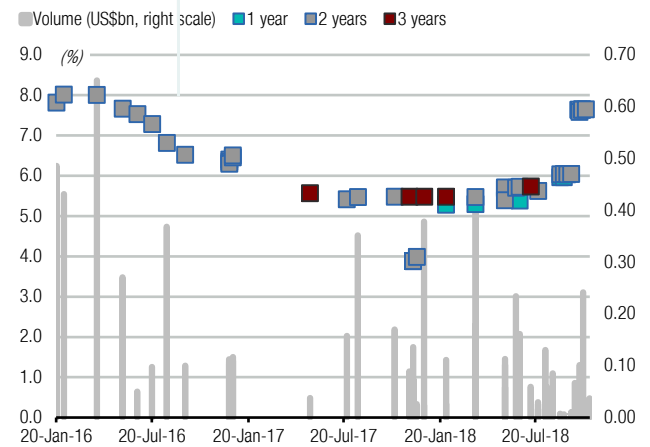
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

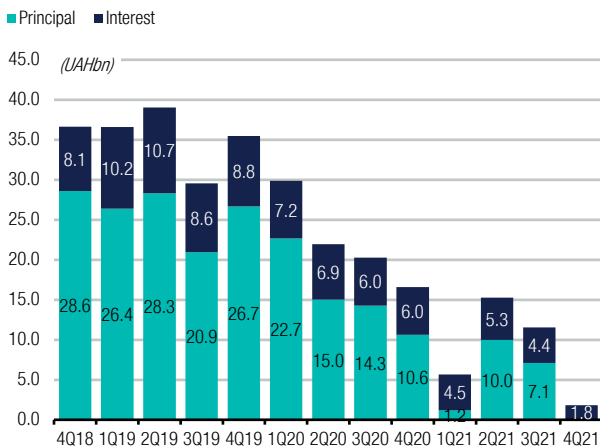
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

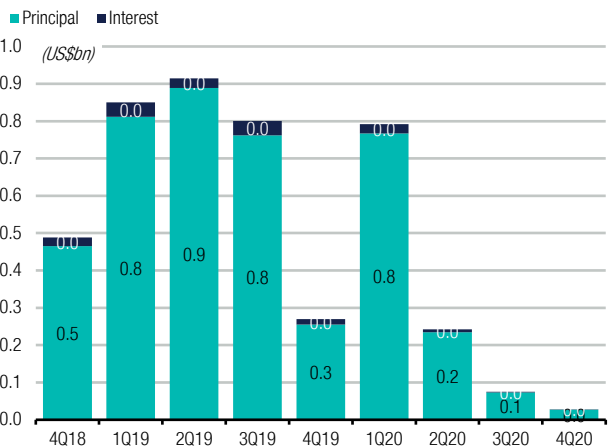
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

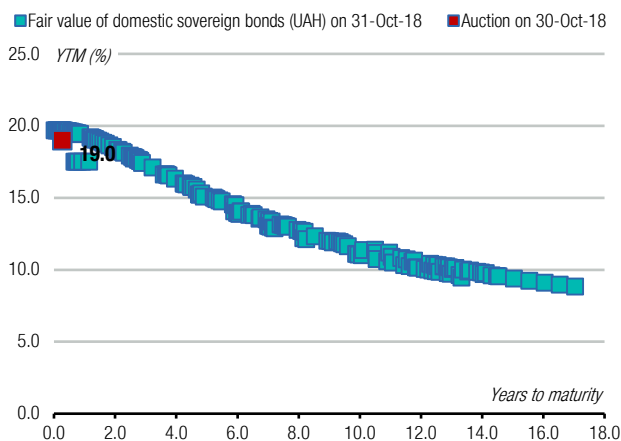
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

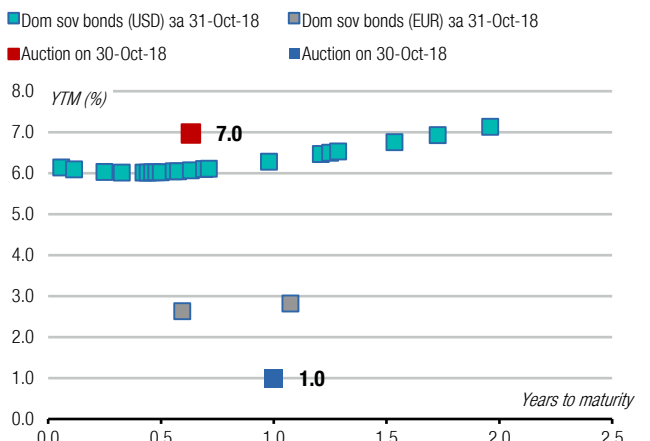
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*UAH-denominated domestic government bonds*



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

*USD- and EUR-denominated domestic government bonds*



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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