

Bond Market Insight

Yield curve stabilizes

Comment on government bond placement

The MoF made one step toward the market last week, which this week resulted in a tightened range of rates in demand, and stabilization of cut-off rates for most bills.

Demand for UAH-denominated bills was similar to what was seen last week, rising by only UAH0.5bn. However, the share of accepted demand rose to 95%, which provided the state budget with UAH9.8bn of proceeds. For most offered bills, the cut-off rates remained unchanged. For the three-month and six-month bills, all bids came in with rates not higher than the cut-off rate. As the result, all bids for these bills were fully accepted.

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
UA4000203228	0.00	@Mty	1-May-19	2,562,911	950.29	2,435.52	2,562.91	19.48	2,562.91
UA4000201768	0.00	@Mty	3-Jul-19	2,983,347	922.67	2,752.65	2,983.35	19.00	4,185.81
UA4000202667	0.00	@Mty	6-Nov-19	612,726	873.02	534.92	612.73	18.50	712.66
UA4000199913	15.70	SA	8-Jan-20	3,812,000	982.24	3,744.29	3,812.00	19.40	5,765.53
UA4000200174	15.70	SA	20-Jan-21	309,165	970.07	299.91	309.17	18.36	1,231.65
UA4000203236	17.25	SA	5-Jan-22	11,000	1,006.38	11.07	11.00	18.05	11.00
Total UAH				10,291,149		9,778.35	10,291.15		14,469.57
UA4000203202	0.00	@Mty	18-Apr-19	53,153	985.26	1,461.78	1,483.65	6.42	5,386.14
UA4000199244	5.40	SA	23-Oct-19	56,241	1,000.43	1,570.52	1,569.84	7.36	9,562.20
Total USD				109,394		3,032.30	3,053.49		14,948.34
UA4000202972	0.00	@Mty	11-Apr-19	20,909	990.60	657.98	664.23	4.44	2,049.01
UA4000199665	3.95	SA	5-Jun-19	3,033	1,003.07	96.65	96.35	4.63	6,656.76
Total EUR				23,942		754.63	760.58		8,705.77

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 27.91/USD, 31.77/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

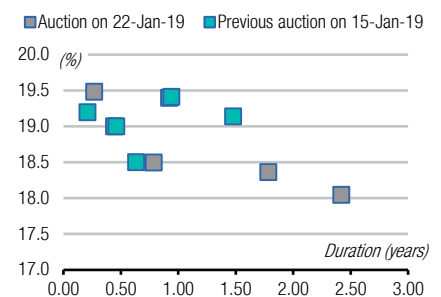
For 12-month bills, the cut-off rate also remained steady; the MoF rejected just one small bid, which amounted to UAH10m. Accepted demand rose nearly two times compared with last week's auction.

In addition, two-year and three-year bills were sold, which recently have not seen sufficient demand. Cut-off rates for these maturities rose by 45-75bp, which could increase the attractiveness of these bills at future auctions.

Additionally, the MoF sold FX-denominated bills, which provided the budget with

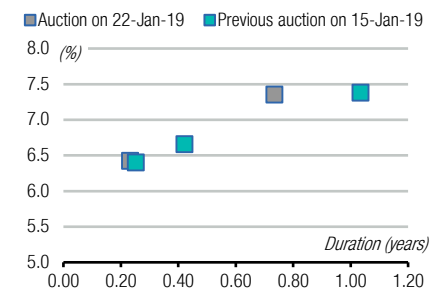
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



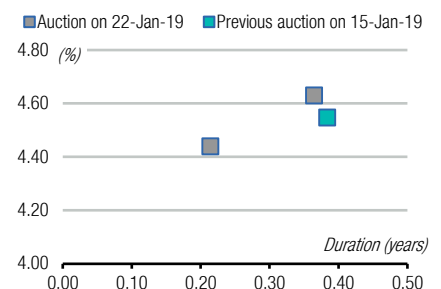
Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

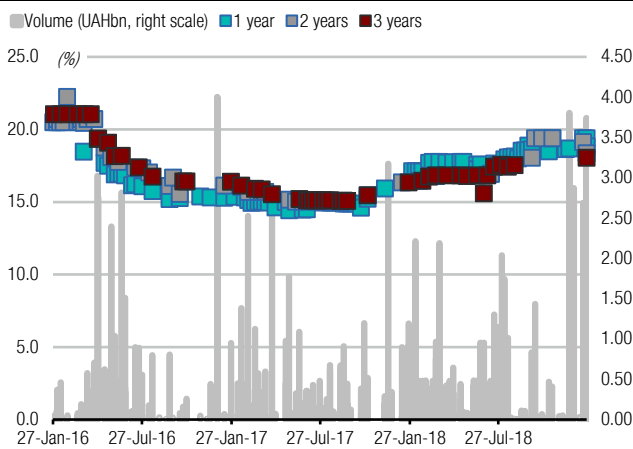
FX and increased FX reserves in the government's accounts. This is very important after last week's partial refinancing of FX-denominated bills at redemption.

So, after the unexpected decisions of the MoF at the end of last year, this year started with positive steps in the direction of the market. This allows the MoF to borrow sufficient amounts in local and foreign currencies. Yesterday's demand was partially from foreign investors, who last week purchased US\$50m and this week US\$60m of local-currency bills, getting high interest rates, and with possible gains from hryvnia appreciation. This could support the MoF in budget financing and later in helping interest rates to decrease.

Appendix: Yields-to-maturity, repayments

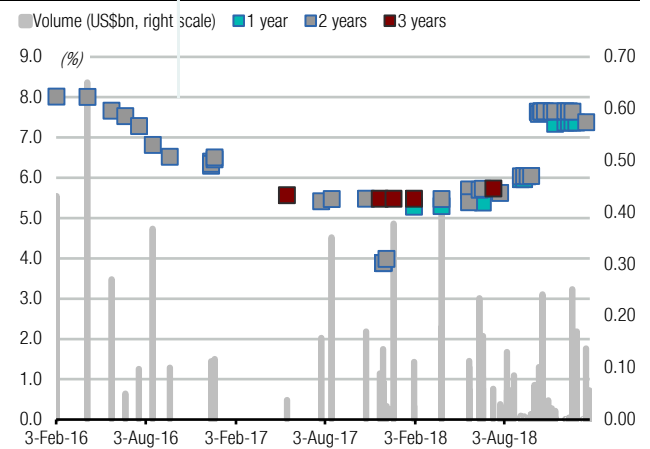
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

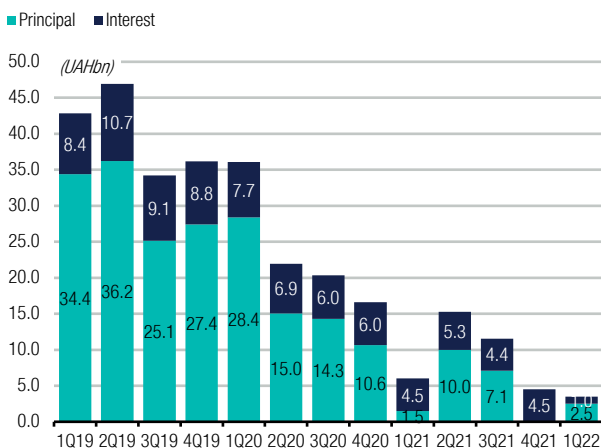
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

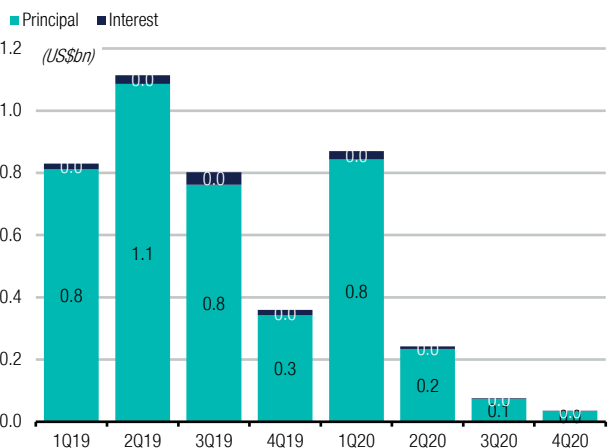
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

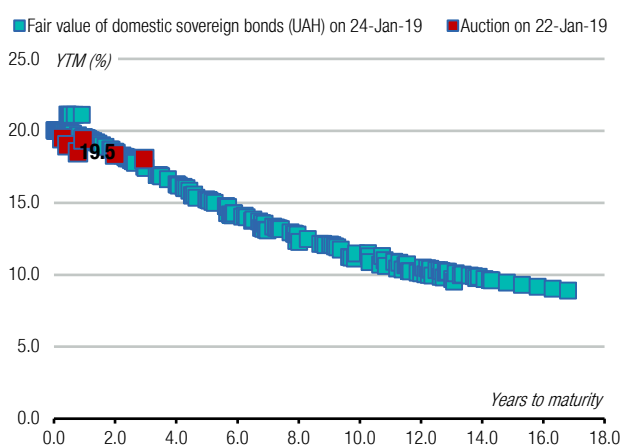
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

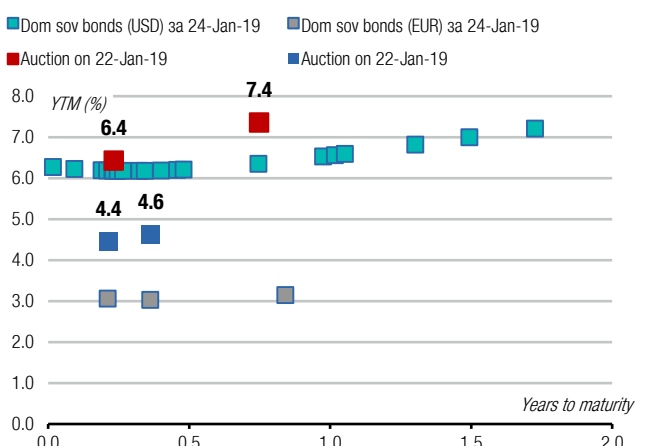
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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