

# Bond Market Insight

## Interest rates continue to decline

### Comment on government bond placement

Cutting the key policy rate and the increased attractiveness of short-term bills caused a decline in interest rates at the primary market for all bills, but the amount of borrowings also declined.

This week, the Ministry of Finance limited their offerings for four and six-month bills to UAH1.5bn each. The largest demand was received for the four-month bill – UAH4.5bn in 43 bids with interest rates in the range of 18.25–19.00%. Demand was lower for the six-month bill, UAH2.3bn, which received 22 bids with rates ranging between 18.2% and 19%. But due to limits, the MoF accepted only part of this demand, setting cut-off rates at 18.5% for both issues.

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

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m) <sup>4</sup>
UA4000202295	0.00	@Mty	4-Sep-19	1,500,000	943.60	1,415.40	1,500.00	18.33	2,559.34
UA4000202667	0.00	@Mty	6-Nov-19	1,500,000	915.94	1,373.91	1,500.00	18.41	3,741.45
UA4000203921	0.00	@Mty	6-May-20	1,372,733	845.79	1,161.04	1,372.73	18.28	1,372.73
UA4000202469	17.25	SA	30-Sep-20	255,000	1,007.12	256.82	255.00	18.86	1,389.08
UA4000194468	16.75	SA	16-Jun-21	1,251,153	1,046.79	1,309.70	1,251.15	18.59	2,761.15
UA4000173371	10.00	SA	23-Aug-23	1,201,873	837.01	1,005.98	1,201.87	16.69	4,734.27
<b>Total UAH</b>				<b>7,080,759</b>		<b>6,522.84</b>	<b>7,080.76</b>		<b>16,558.03</b>
UA4000203939	3.85	SA	6-Aug-20	73,000	1,009.68	1,938.85	1,920.27	3.88	1,920.27
UA4000203947	3.85	SA	20-Aug-20	83,000	1,008.21	2,201.24	2,183.32	3.88	2,183.32
UA4000202568	7.50	SA	15-Oct-20	8,207	1,007.82	217.57	215.89	7.37	1,125.28
<b>Total USD</b>				<b>164,207</b>		<b>4,357.67</b>	<b>4,319.47</b>		<b>5,228.86</b>

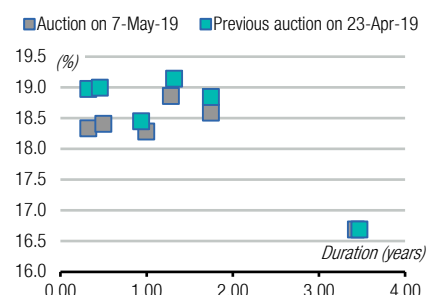
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.31/USD, 30.32/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For 12-month bills, the MoF kept the same cut-off rate, but because part of the demand was submitted with lower rates, the weighted-average rate slid 17bp. The amount of proceeds from these bills rose more than twice compared with the previous auction.

The Ministry decided to decrease rates for medium-term bills, too. For 1.5-year bills, the rate was moved down by 25bp, and for two-year bills by 5bp. The weighted-average rate declined more, by 26bp and 25bp, respectively. In total, these two issues provided the budget with UAH1.5bn of proceeds. The Ministry rejected part of demand

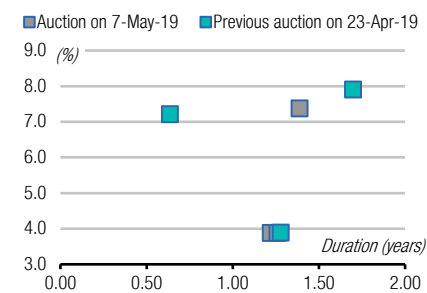
### WEDNESDAY, 8 MAY 2019

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



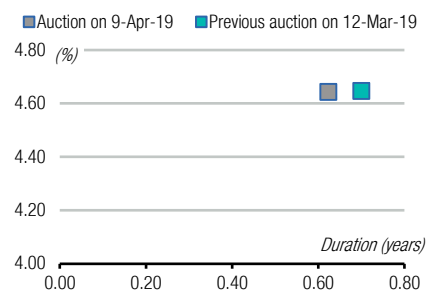
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

for these maturities, but with insufficient impact to proceeds.

Rates remained unchanged only for the four-year bills. Three bids were submitted with 16% interest rates, but in lower amounts than two weeks ago. Bids amounted to UAH1.2bn (par value), and provided the budget with UAH1bn of funds.

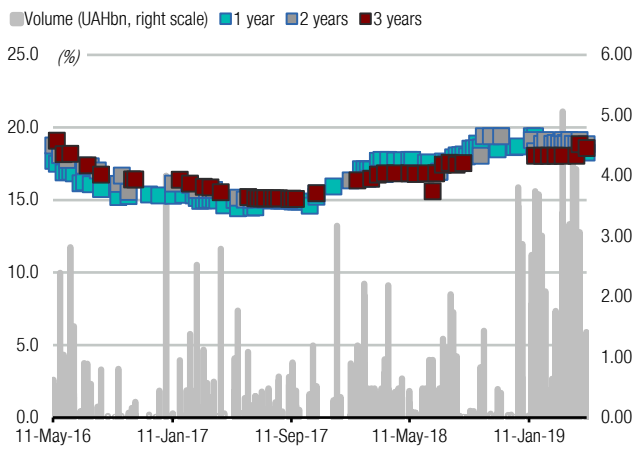
For FX-denominated bills offered yesterday, as expected, demand was concentrated in bills with put options. In total, proceeds in FX amounted to US\$165.6m at the usual rates: 7.25% for the 1.5-year bullet bills and 3.85% for puttable bills.

Generally, demand tightened as the result of active auctions prior to the review of the key policy rate. But the total amount of demand was sufficient, above UAH11bn for local-currency bills, and allowed the MoF to borrow UAH6.5bn in local currency. In our view, a large portion of bills was purchased by foreign investors, most likely with longer maturities from offered yesterday.

# Appendix: Yields-to-maturity, repayments

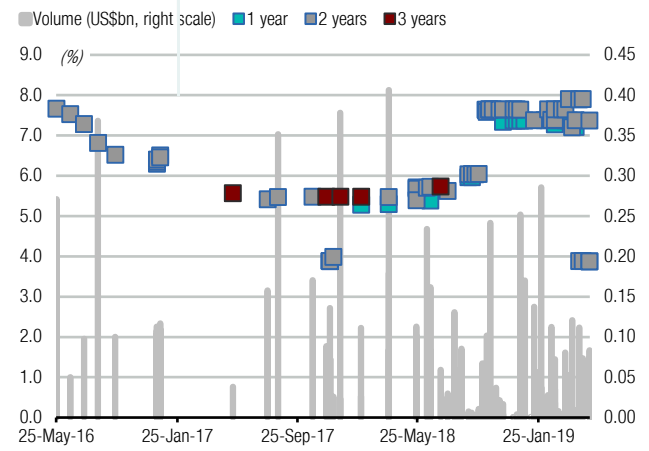
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

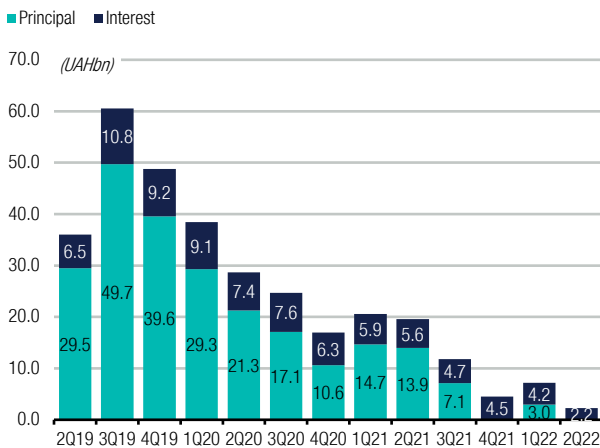
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

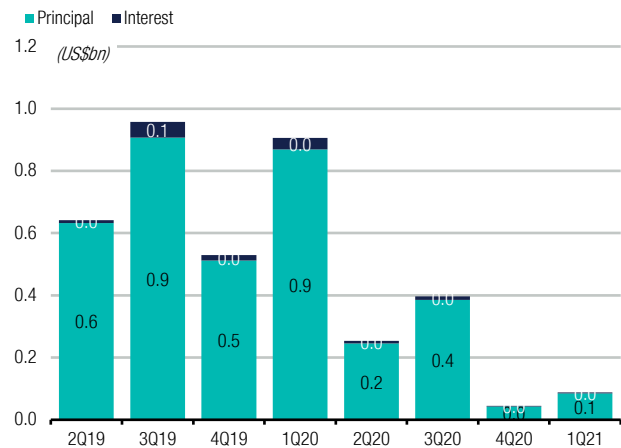
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

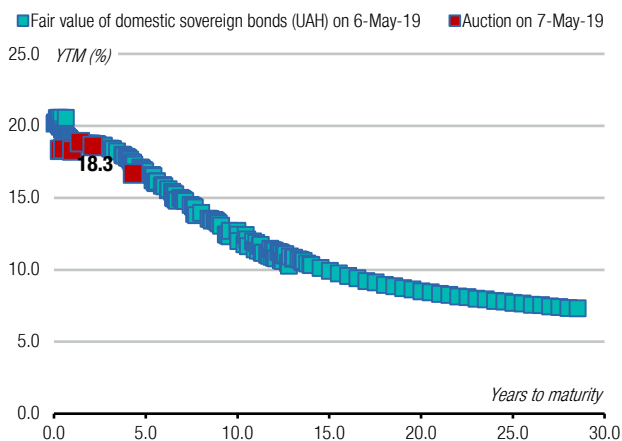
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

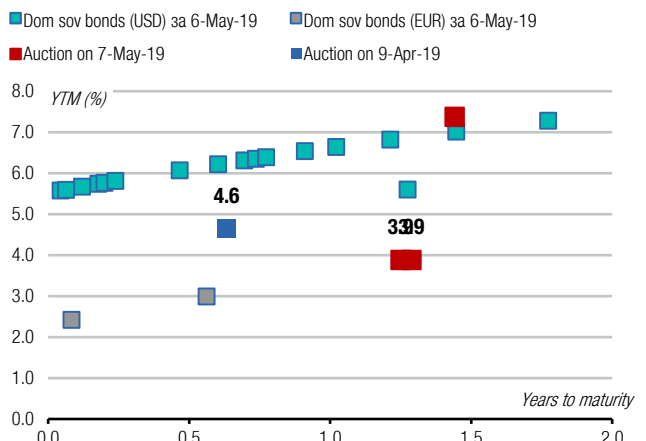
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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