

# Bond Market Insight

## Expectations for rates stability

### Comment on government bond placement

After a recent key policy review, the Ministry of Finance twice moved rates lower. This week, it was expected that rates for the two shortest bills will move down. However, demand has declined significantly with rates correction brought about by domestic investors. Further rates decline won't happen without significant support from foreign investors.

Total demand for local-currency bills amounted to UAH2.7bn, a quarter of what was collected last week, with rates similar to last week's auction. Cut-off rates for local-currency bills remained unchanged except for the three-year bills, where cut-off rate declined 25bp since this was the first offering after the key policy rate review.

A correction was seen in the weighted average rates. For four-month bills, the weighted-average rate rose 4bp, for the six-month bill, it slid 1bp, while for the one-year and two-year bills, it rose 6bp.

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

ISIN	Coupon rate (%)	Payment frequency	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>
UA4000202295	0.00	@Mty	4-Sep-19	442,454	946.63	418.84	442.45	18.37	3,001.80
UA4000202667	0.00	@Mty	6-Nov-19	842,198	918.94	773.93	842.20	18.40	4,583.65
UA4000203921	0.00	@Mty	6-May-20	798,829	847.91	677.33	798.83	18.34	2,171.56
UA4000194468	16.75	SA	16-Jun-21	476,110	1,049.15	499.51	476.11	18.66	3,237.26
UA4000204002	17.00	SA	11-May-22	90,000	1,000.00	90.00	90.00	17.78	90.00
<b>Total UAH</b>				<b>2,649,591</b>	<b>2,459.61</b>	<b>2,649.59</b>			<b>13,084.27</b>
UA4000203764	0.00	@Mty	2-Apr-20	61,277	940.04	1,508.33	1,604.54	7.21	1,896.89
<b>Total USD</b>				<b>61,277</b>	<b>1,508.33</b>	<b>1,604.54</b>			<b>1,896.89</b>

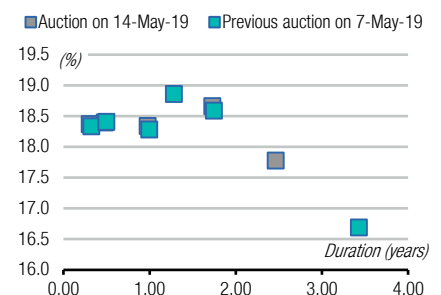
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.19/USD, 30.32/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Also unchanged were rates for USD-denominated bills, which remained at 7.25%, but demand rose significantly to US\$62.3m on 21 bids. Only one bid was rejected with a rate of 7.5% in the amount of US\$1m, so this decision did not have an impact on the amount of borrowings.

From yesterday's auction, it looks as though foreign investors comprised only a small part of demand or did not participate at all, which resulted in lower proceeds. At the same time, the Ministry set the cut-off rate for three-year bills at the mid-point between

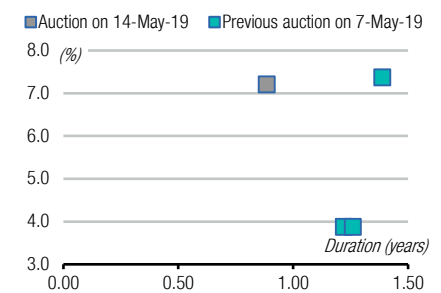
### WEDNESDAY, 15 MAY 2019

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



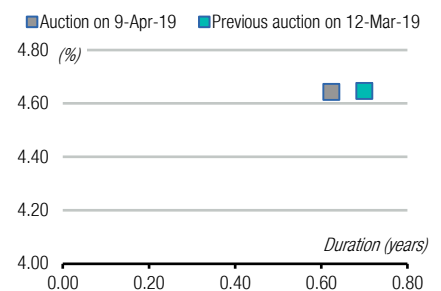
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

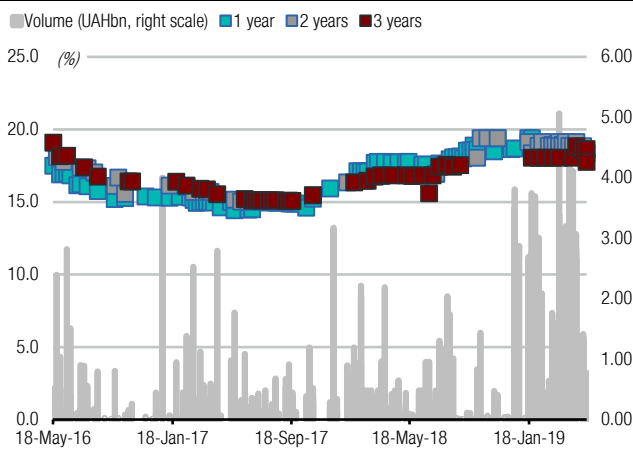
the two-year and four-year bills, smoothing the yield-curve.

Current levels of cut-off rates should remain steady over the following weeks, while demand, including from foreign investors, will depend on expectations of movements of the key policy rate and the UAH/US\$ exchange rate.

# Appendix: Yields-to-maturity, repayments

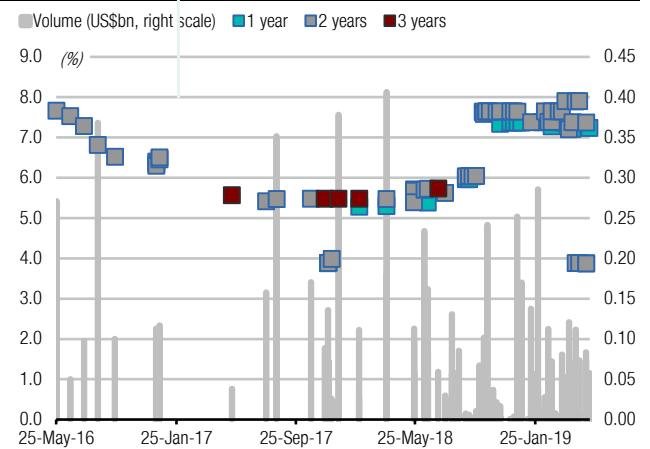
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

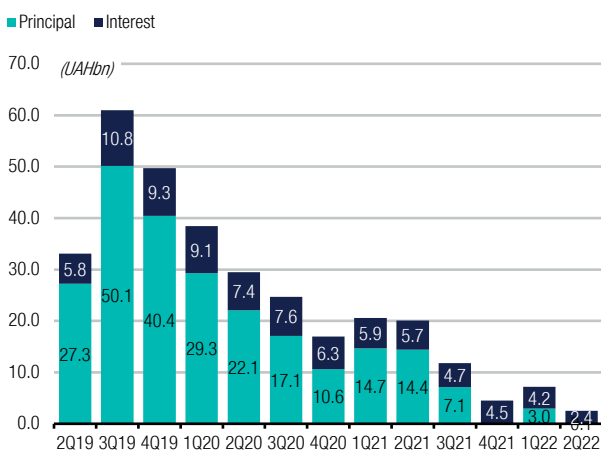
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

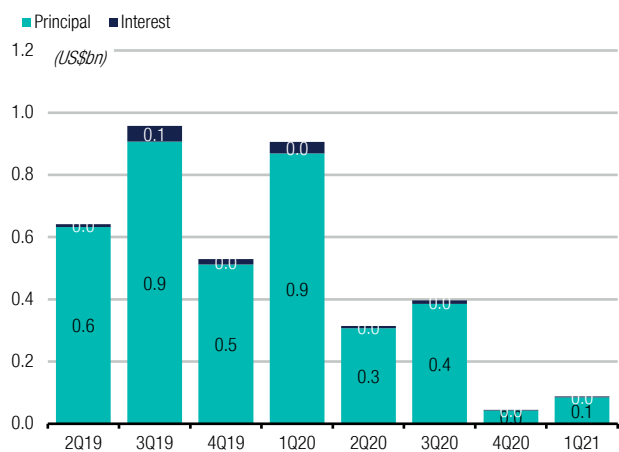
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

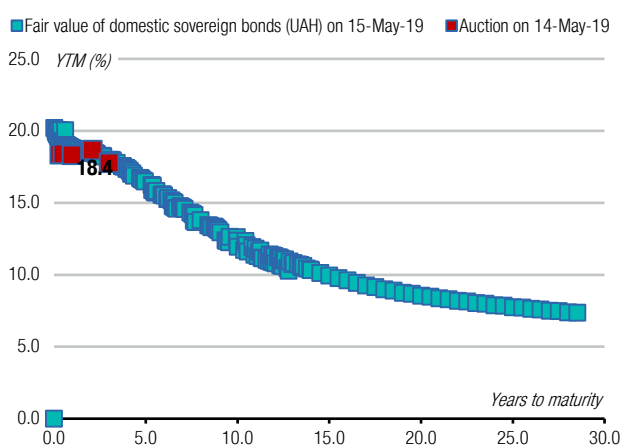
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

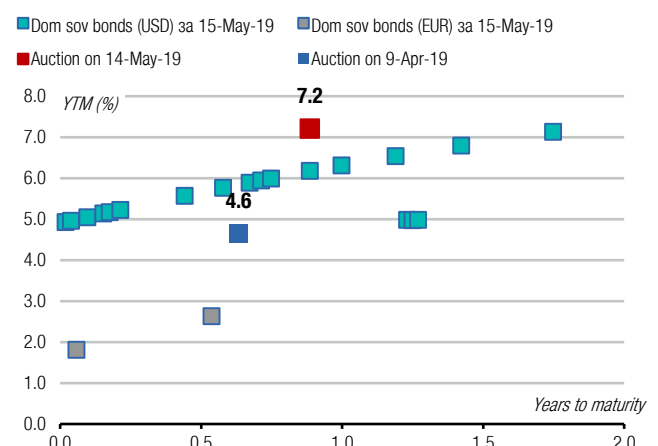
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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