

Bond Market Insight

UAH bills: rates in free fall

Comment on government bond placement

Last's week's decrease of the key policy rate and announcement that the trend would be declining had a positive impact on bond rates. On Tuesday the Ministry of Finance decreased the cut-off rates by 20–75bp, and weighted average rates by 31–69bp. Nonetheless, the MoF received UAH7bn of proceeds for the budget.

Bills with maturities up to one year usually had limited offerings. The offering for one-year bills was decreased to UAH500m, as well as for other short-term bills. This caused a greater decline in rates for these instruments than for the three-year note, which was offered without limit.

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
UA4000204184	0.00	@Mty	16-Oct-19	367,755	963.14	354.20	367.76	16.63	2,788.22
UA4000203244	0.00	@Mty	29-Jan-20	500,000	920.49	460.24	500.00	16.68	2,887.97
UA4000171094	14.30	SA	8-Jul-20	500,000	982.32	491.16	500.00	17.76	5,599.77
UA4000204002	17.00	SA	11-May-22	5,408,440	1,044.12	5,647.08	5,408.44	17.17	9,376.77
Total UAH				6,776,195	6,952.68	6,776.20			20,652.73

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 25.89/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

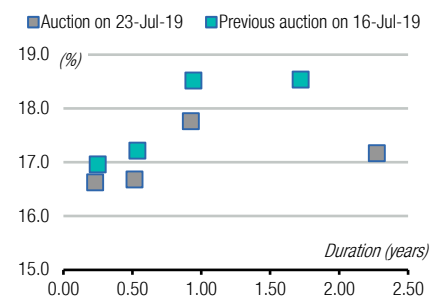
Although demand for the three-month bills was lower than the offered amount, the MoF rejected two bids and set the cut-off and weighted-average rates at 16.63%, which was 37bp and 33bp lower than a week ago.

Two-thirds of demand was rejected for the six-month bills. The cut-off rate was 67bp lower than a week ago at 16.73%; the weighted-average rate was decreased by 53bp to 16.68%. The greatest decline in rates was for the 12-month bills: the cut-off rate was decreased by 75bp, and the weighted-average rate by 69bp. Both these rates declined to 16.69%.

The MoF sold UAH5.4bn of three-year notes (par value) raising budget proceeds of UAH5.65bn. Only three bids were rejected, which amounted to UAH75m. This was the largest issue of three-year bills in recent years. For this maturity, rates declined less significantly: the cut-off rate by 20bp, and the weighted-average rate by 31bp to 16.55% and 16.44%, respectively. A greater decline of the weighted average rate was the result of significant demand with rates lower than what the MoF choose as

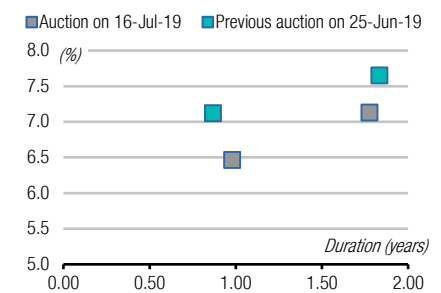
THURSDAY, 25 JULY 2019

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



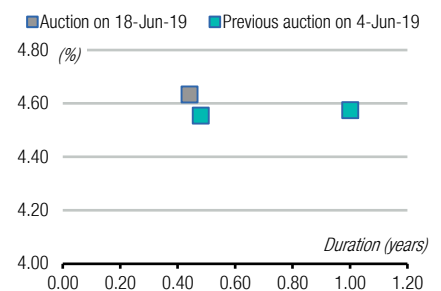
Source: Ministry of Finance of Ukraine, ICU.

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.

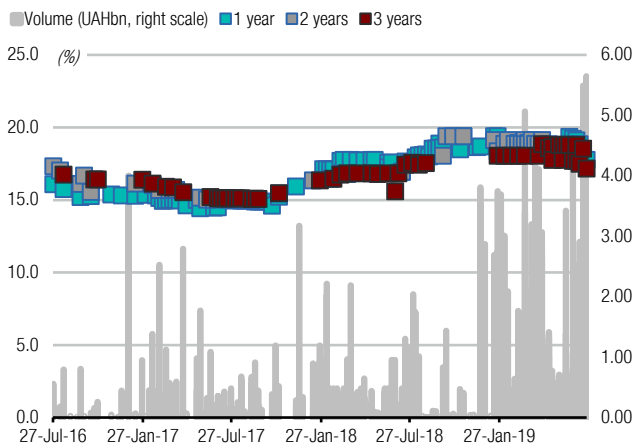
the cut-off level. So, next month rates can decline further.

The Ministry did not refuse longer money, as they accepted most of demand for three-year bills, and rejected the possibility of decreasing rates more substantially. On one hand, it shows that the Ministry needs to borrow more money to have flat financing for the year, while on the other, the MoF used the large demand for longer bills to increase the average maturity of domestic debt. Additionally, an increase in outstanding issues should add attractiveness and make them closer to the index amount.

Appendix: Yields-to-maturity, repayments

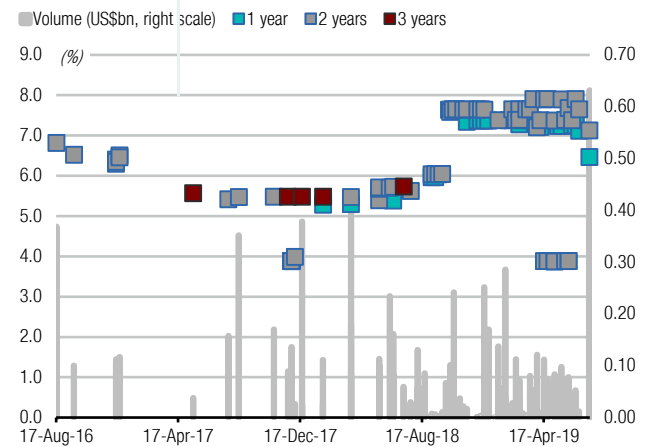
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

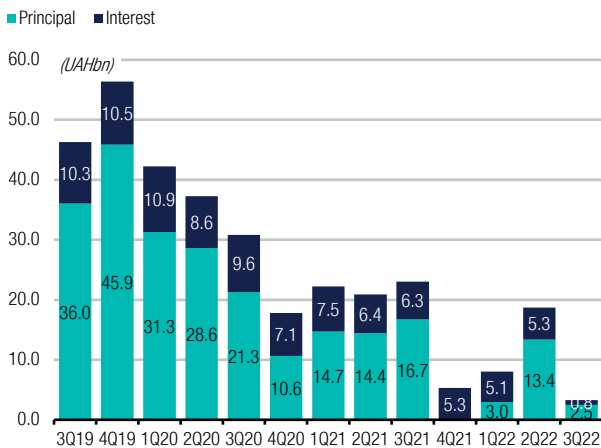
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

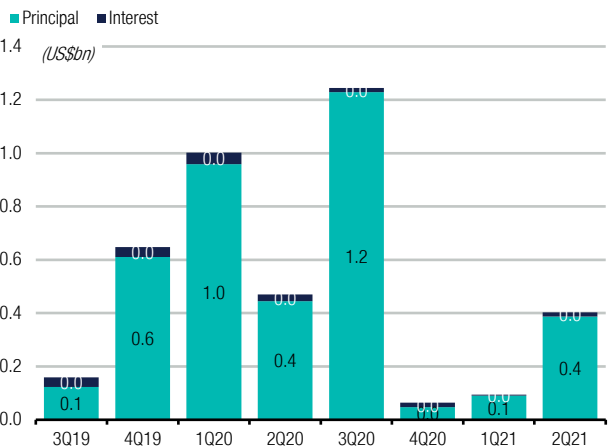
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

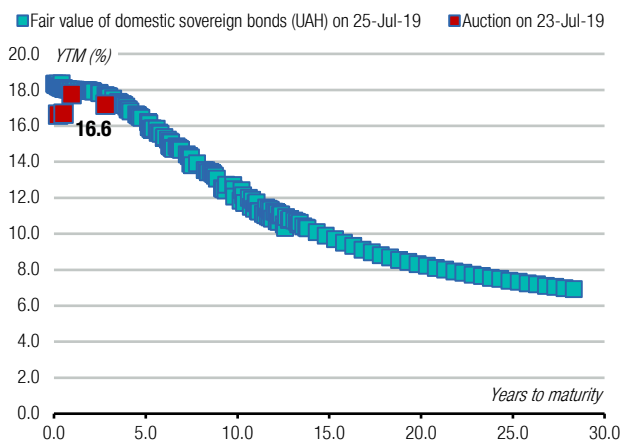
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

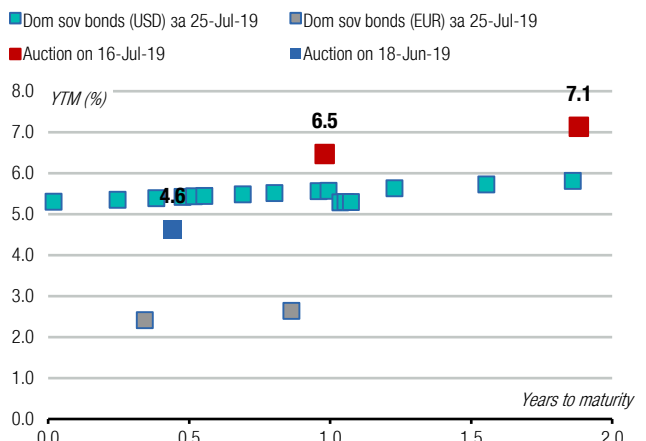
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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