

Bond Market Insight

Record borrowings; rates nosedive

Comment on government bond placement

Yesterday, the Ministry of Finance borrowed a record UAH17.2bn. And once again, the cost of new borrowings decreased.

Demand for short-term bills continued to decline. Three-month bills received only UAH20m of demand, and for six-month bills, demand was below the offered amount. Nonetheless, cut-off rates for these bills decreased to the highest level of rates within bids—16.4% and 16.52%, respectively.

Out of short maturities, the greatest demand was for 12-month bills, at UAH1.8bn. But despite the low rates bid for this paper, the MoF kept the offering at UAH0.5bn as had been announced. With this size of issue, cut-off and weighted-average rates decreased by 30bp and 48bp, to 16.59% and 16.51%, respectively.

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	20,120	966.89	19.45	20.12	16.23	2,808.34
UA4000203244	0.00	@Mty	29-Jan-20	434,042	924.36	401.21	434.04	16.41	3,322.01
UA4000171094	14.30	SA	8-Jul-20	500,000	989.38	494.69	500.00	17.24	6,099.77
UA4000204556	16.42	SA	17-Nov-21	5,234,292	1,030.80	5,395.49	5,234.29	17.15	5,234.29
UA4000204150	15.84	SA	26-Feb-25	10,112,260	1,077.74	10,898.41	10,112.26	16.10	20,349.99
Total UAH				16,300,714	17,209.26	16,300.71		37,814.41	

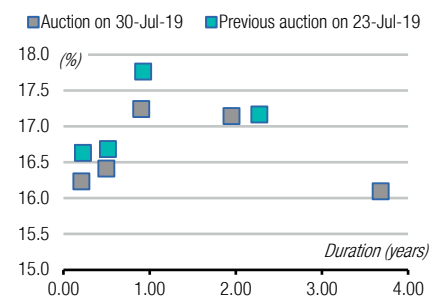
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 25.89/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The biggest decline in rates was for two-year bills. When this instrument was last sold two weeks ago, it was prior to the NBU's key policy rate revision. Yesterday, the MoF and the market had to include the NBU's decision in its pricing. As the result, the cut-off rate for this paper fell 100bp to 16.75%, and the weighted-average rate fell 128bp to 16.42%. Demand was UAH6bn, and provided nearly one-third of budget proceeds yesterday. The Ministry rejected 13 bids, which amounted to just UAH730m, and received UAH5.4bn of proceeds.

The largest demand and proceeds for the budget came from the six-year notes, as was expected. Demand came from 36 bids, and amounted to UAH11.1bn. The Ministry did not accept all bids, rejecting four bids for UAH1bn. The highest rates bid was the same as the cut-off rate two weeks ago. Yesterday, the cut-off rate decreased

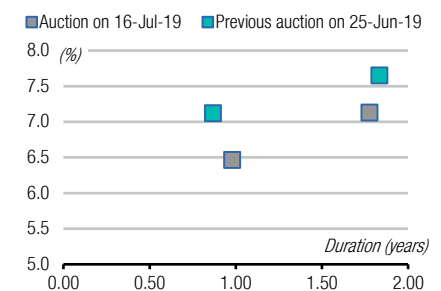
WEDNESDAY, 31 JULY 2019

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



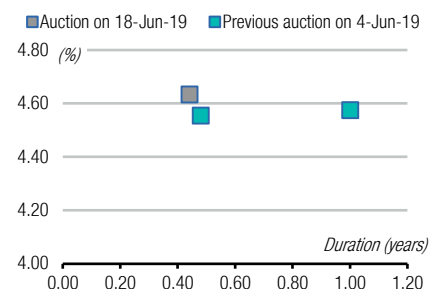
Source: Ministry of Finance of Ukraine, ICU.

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.

by 30bp and the weighted-average rate by 39bp to 15.50% and 15.45%, respectively.

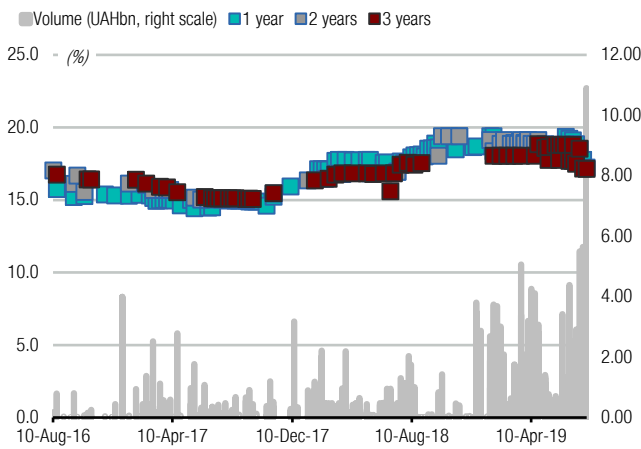
Significant demand for UAH-denominated paper continued to support the decline in interest rates, which each week have offered better conditions for budget financing. As a result, interest rates now are near flat. Yesterday, they moved to the range of 16.4–16.75% for most of maturities. The highest rate was for the two-year (at 16.75%) and the lowest one was for the three-month (16.4%) maturities. The exception was the lowest rate of 15.50% for the six-year note.

Next week, the MoF will offer only three tenors: three and 12-months bills, and a three-year note. Likely, only the three-year note will not have limits on the amount being offered. Therefore, we expect rates will continue to decline with demand concentrated in the three-year note. Total demand is expected to be lower, at about UAH6-7bn.

Appendix: Yields-to-maturity, repayments

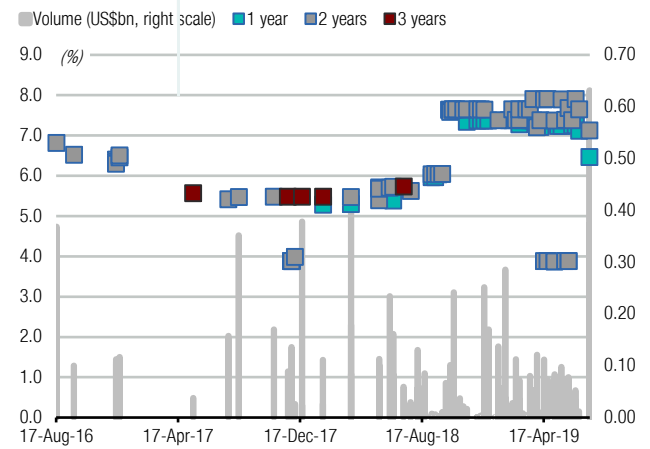
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

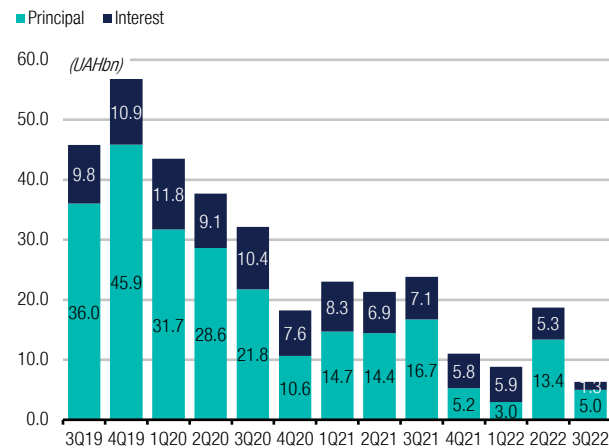
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

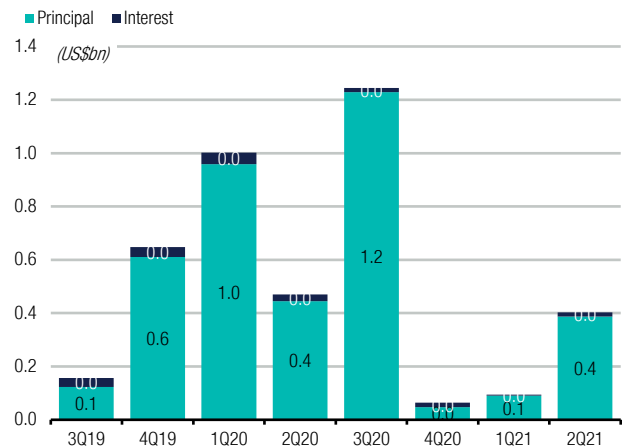
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

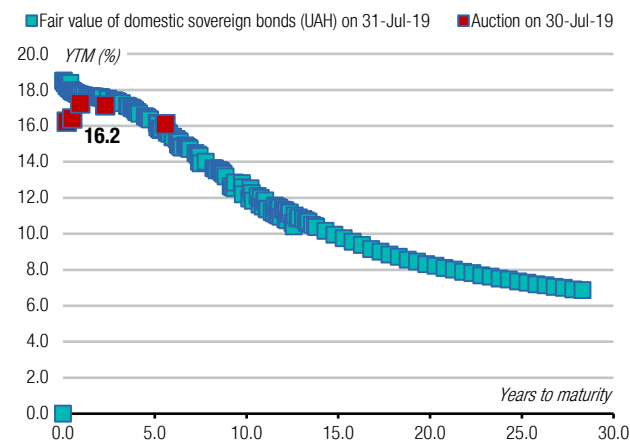
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

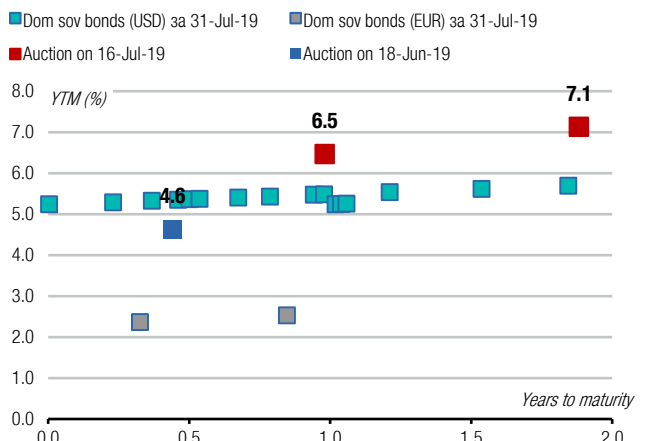
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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