

# Bond Market Insight

## Decline in rates halted

### Comment on government bond placement

Yesterday, the Ministry of Finance accepted most demand, and received UAH1.07bn (US\$42m) of proceeds. This time, the cut-off and weighted-average rates were largely unchanged.

For the three-month bills both, cut-off and weighted-average rates remained unchanged at 16.50% and 16.49%, respectively. The MoF accepted all bids for this tenor, which amounted to UAH85.9m (par value); budget proceeds amounted to UAH82.5m (US\$3.3m).

The result for the three-year note was similar. Most of the bids were submitted with rates close to the cut-off rate, and all were accepted. As a result, with the cut-off rate was unchanged at 16.19%; the weighted-average rate rose by 6bp to 16.12%. Bids amounted to UAH486.7m, providing the budget with UAH488.9m of proceeds (US\$19.4m).

**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>
UA4000203319	0.00	@Mty	20-Nov-19	85,864	960.51	82.47	85.86	16.49	1,584.82
UA4000171094	14.30	SA	8-Jul-20	500,000	1,002.15	501.07	500.00	16.74	7,562.81
UA4000204572	16.06	SA	3-Aug-22	486,678	1,004.50	488.87	486.68	16.82	2,486.68
<b>Total UAH</b>				<b>1,072,542</b>	<b>1,072.41</b>	<b>1,072.54</b>	<b>1,072.54</b>		<b>11,634.31</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 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.

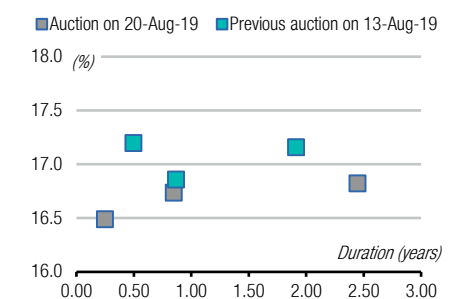
Rates declined slightly only for 11-month bills. The MoF accepted UAH500m (US\$20m) of bids, the same as the offered amount, within UAH692m (US\$27.5m) of received demand. Two bids were rejected with cut-off rates lower by 2bp and the weighted-average rate lower by 12bp, despite the lowest rate in demand being up 29bp to 15.99%.

It appears that the MoF is halting the decline in interest rates. Demand from both domestic and foreign investors is falling off as interest rates have declined.

We expect demand from foreign investors to increase next week when the five-year instrument is offered, and possibly overall, although with unchanged interest rates. However, worsening sentiment in global markets could reduce demand for this issue as well.

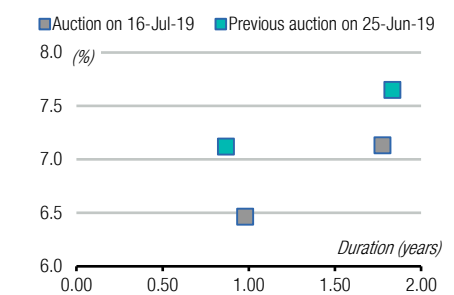
### WEDNESDAY, 21 AUGUST 2019

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



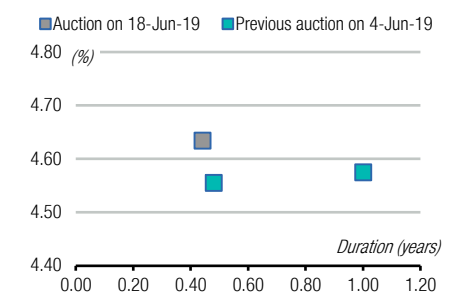
Source: Ministry of Finance of Ukraine, ICU.

#### 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

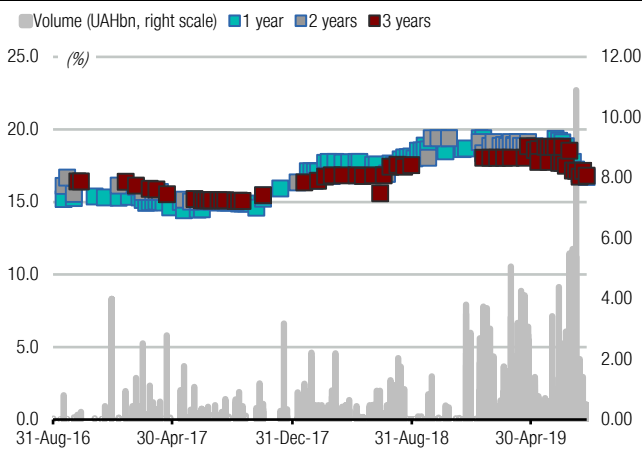


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

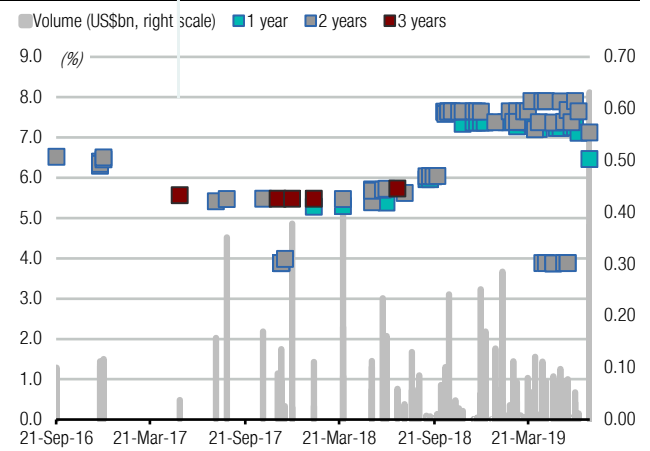
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

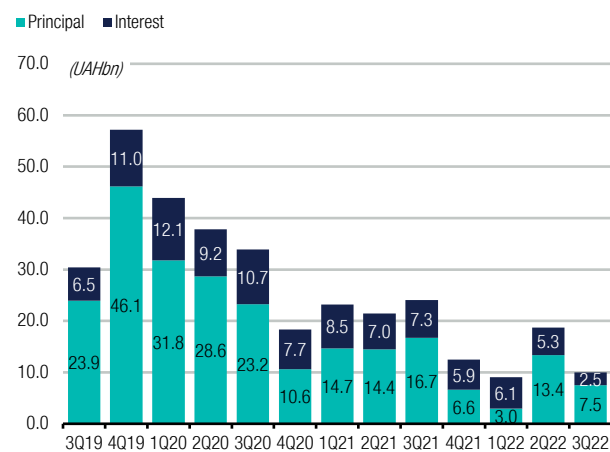
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

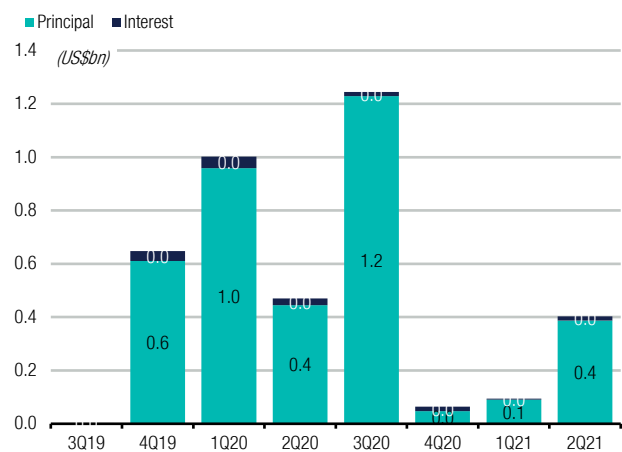
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

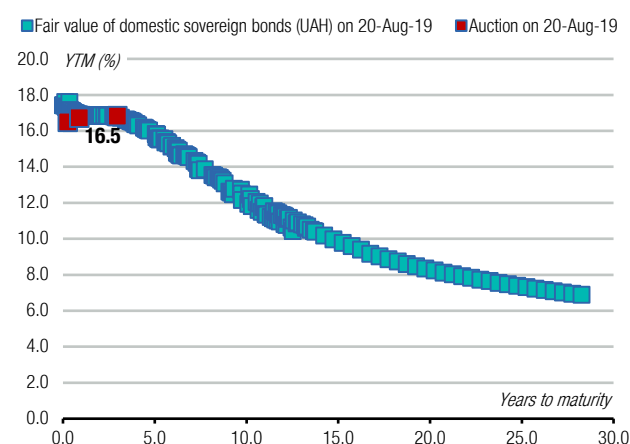
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

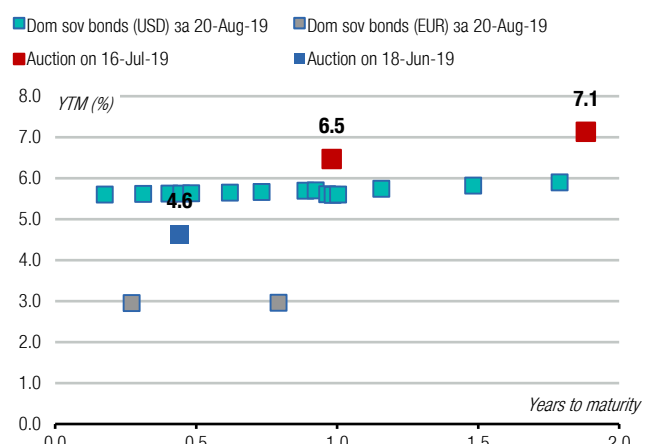
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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