

# Bond Market Insight

## Five-year notes boost borrowing levels

### Comment on government bond placement

August's final auction resulted in an increase in borrowings and a decline in interest rates. The placement of five-year notes was very important, despite significantly less demand than was a month ago.

The Ministry of Finance took advantage of the interest rate levels received in participants' bids, and decreased rates for all offered instruments. Cut-off rates were decreased by 16-22bp to 16.3% for the six-month and two-year bills, to 16% for the 12-month instrument and to 15.3% for 5-year note. Weighted-average rates also declined, but less significantly, by 4-17bp to the same levels as cut-off rates, except for the two-year bills, where it was set 1bp below the cut-off rate.

**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> (%)	Outstanding (m) <sup>4</sup>
UA4000157671	14.30	SA	12-Feb-20	289,805	996.74	288.86	289.81	17.01	2,141.29
UA4000198873	14.50	SA	19-Aug-20	67,919	989.55	67.21	67.92	16.69	3,021.92
UA4000203236	17.25	SA	5-Jan-22	56,038	1,040.80	58.32	56.04	17.00	521.80
UA4000204150	15.84	SA	26-Feb-25	1,237,487	1,095.71	1,355.93	1,237.49	15.93	21,587.48
<b>Total UAH</b>				<b>1,651,249</b>	<b>1,770.33</b>	<b>1,651.25</b>			<b>27,272.49</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.

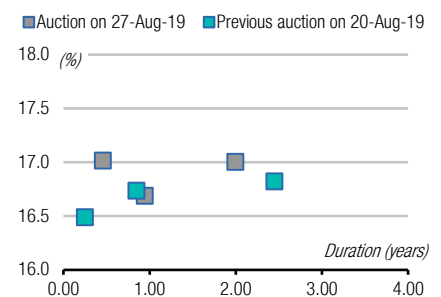
The structure of demand in the type of bids was quite unusual. Sixty-percent of bills were sold by non-competitive bids. The share of non-competitive bids in accepted demand for short-term bills was about 30%; for longer bills, it was above 60%. The largest share of non-competitive demand was for the five-year note, at 69% of accepted demand.

There is still demand for local-currency bills, and despite a decline in amount of demand, in large part, bidders are will accept any conditions set by the issuer that are based on other bids. This demand has been mostly for longer maturities, which attracts foreign investors.

A similar structure for bills is likely in coming weeks, especially since it's expected that the NBU will cut the key policy rate. But the amount of borrowings will remain low, since five-year note offering isn't scheduled until the end of September.

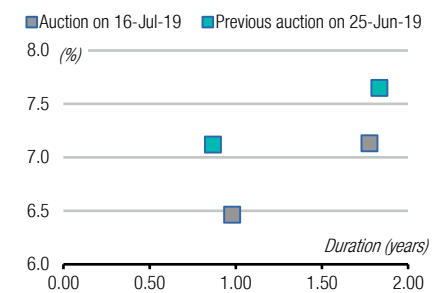
### WEDNESDAY, 28 AUGUST 2019

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



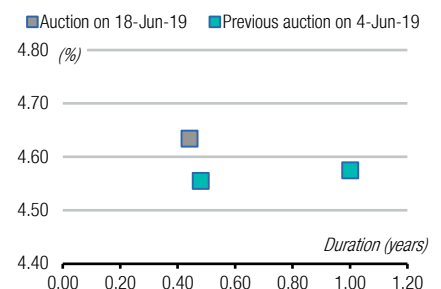
Source: Ministry of Finance of Ukraine, ICU.

#### 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

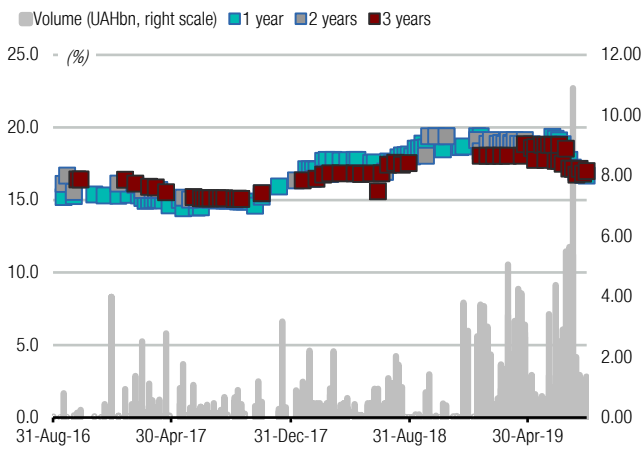


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

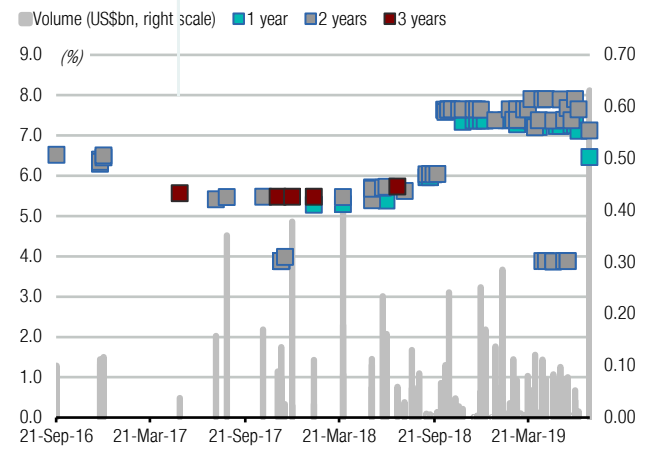
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

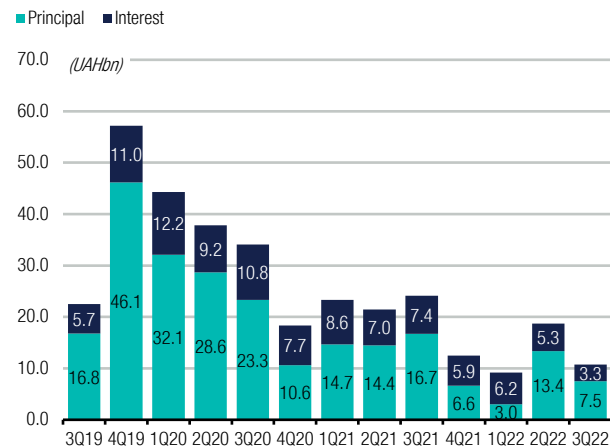
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

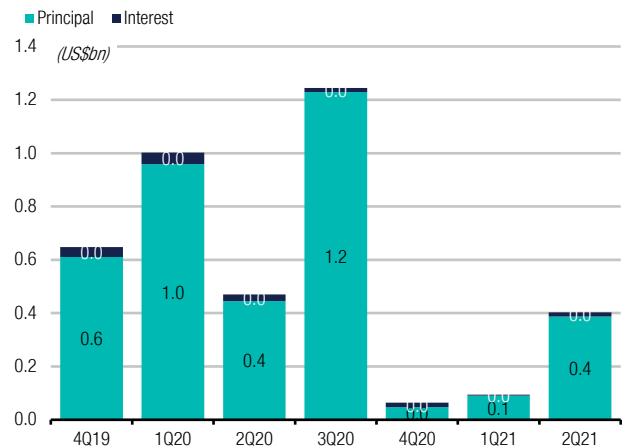
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

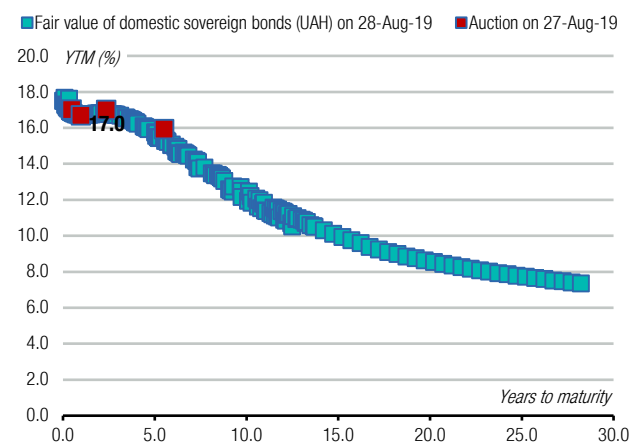
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

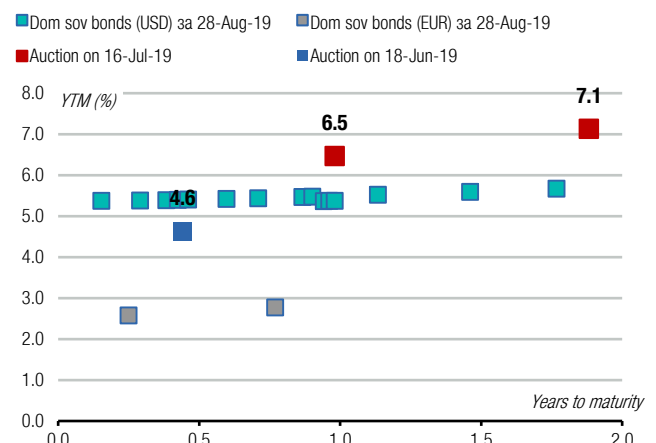
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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