

# Bond Market Insight

## Rates continue to nosedive

### Comment on government bond placement

Autumn's debut auction saw an additional decline in interest rates with partially rejected demand for 12-month and three-year bills. In total, the MoF borrowed UAH1.9bn, while demand was UAH2.9bn.

Three-month bills once more received demand below the offered amount. This Tuesday, demand was UAH328.4m (par value) with rates 16.1–16.25%, or 25–40bp below the auction of two weeks ago. All bids were accepted, which provided UAH315.6m of proceeds.

At the same time, longer maturities attracted a wide range of demand, and the Ministry had to decide which bids to accept. Some bids were rejected, resulting in borrowing significantly less than was planned.

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

ISIN	Coupon rate (%)	Payment frequency <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>
UA4000203632	0.00	@Mty	4-Dec-19	328,375	961.08	315.59	328.38	16.24	4,184.80
UA4000198873	14.50	SA	19-Aug-20	366,016	992.91	363.42	366.02	16.64	3,387.94
UA4000204572	16.06	SA	3-Aug-22	1,209,290	1,013.31	1,225.39	1,209.29	16.69	3,695.97
<b>Total UAH</b>				<b>1,903,681</b>	<b>1,904.40</b>	<b>1,903.68</b>			<b>11,268.71</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.

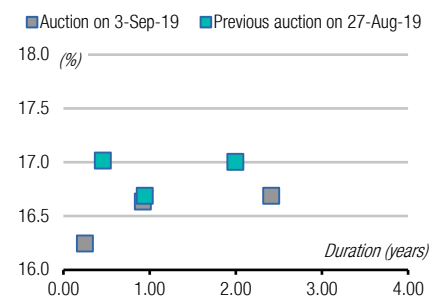
For 12-month bills, demand was too great; it exceeded UAH500m of offered bills. But rates were up to 16.3%, higher than last week's cut-off rate. So, the MoF decided not to accept such high rates, and set a new cut-off rate at 15.95% or 5bp lower than the week before. Budget proceeds amounted to UAH363.4m, one-third of which came from non-competitive bids.

Three-year bills provided the greatest demand and proceeds. Demand was UAH1.9bn, close to the offered amount of UAH2bn. Rates mostly were lower than two weeks ago, between 16% and 16.2%. But the Ministry decided to reject 13 out of 34 bids, selling just UAH1.2bn (par value) with proceeds at UAH1.23bn. The new cut-off rate was set at the lowest level in the bids, 16%, down 19bp from the previous auction. For this maturity, 41% of demand was in non-competitive bids, while in accepted demand, non-competitive bids were 65%.

Prior to the NBU's key policy rate review scheduled for today, participants of

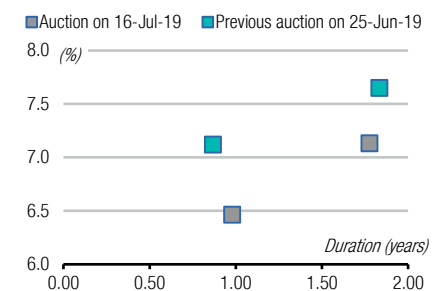
THURSDAY, 5 SEPTEMBER 2019

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



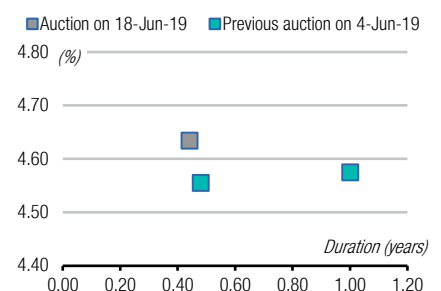
Source: Ministry of Finance of Ukraine, ICU.

### 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



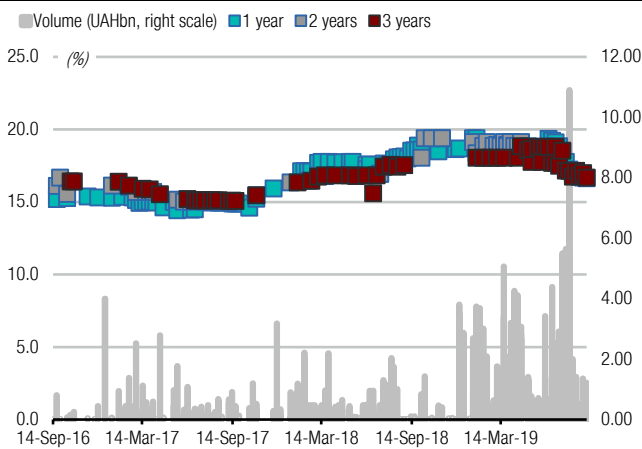
Source: Ministry of Finance of Ukraine, ICU.

this auction did not take risk, and submitted non-competitive bids or with rates below the recent cut-off rates. This was the result of expectations that rates will decrease, which will cause a further decline in rates for local-currency bills. As a result, the next auction should see a greater decline in rates. At the same time, the total amount of demand remains quite low. Next week, budget proceeds can rise thanks to offering FX-denominated bills, which were not scheduled earlier. But this type of bill will also see interest rates lower than before.

# Appendix: Yields-to-maturity, repayments

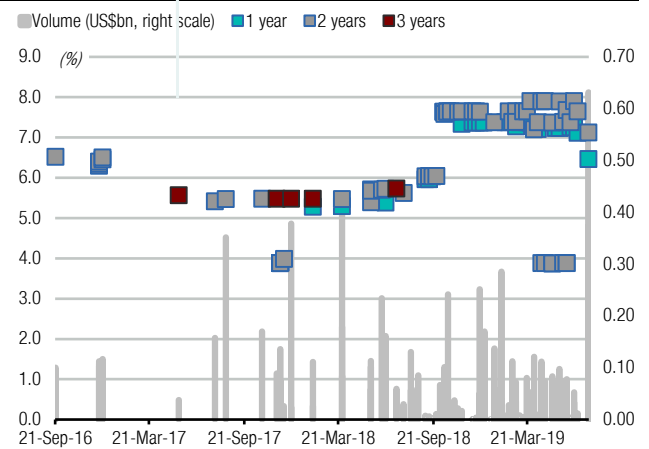
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

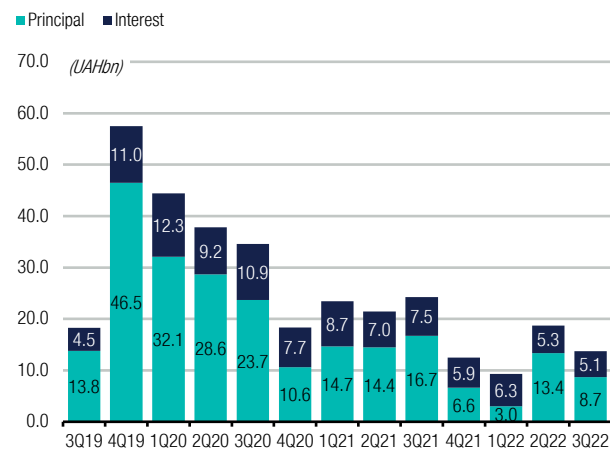
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

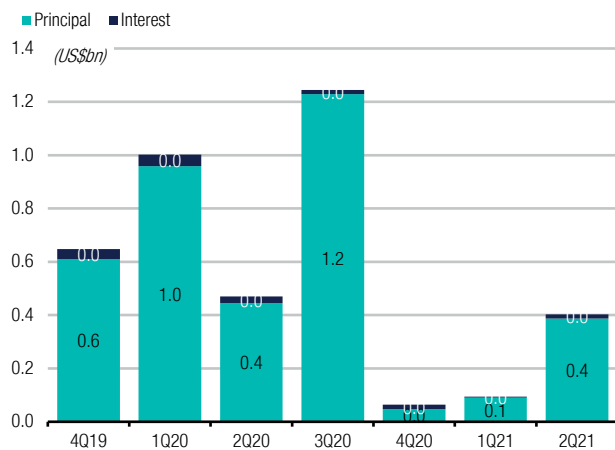
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

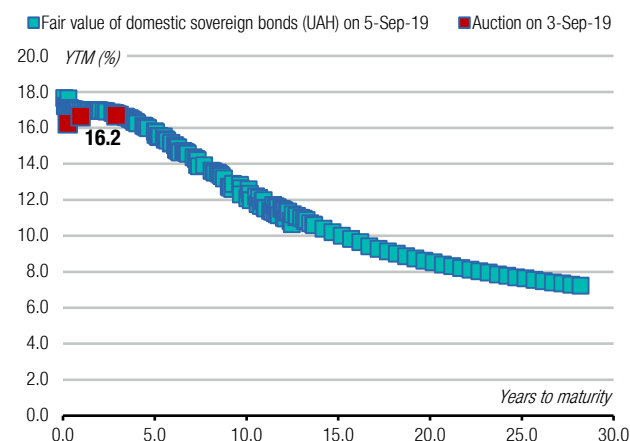
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

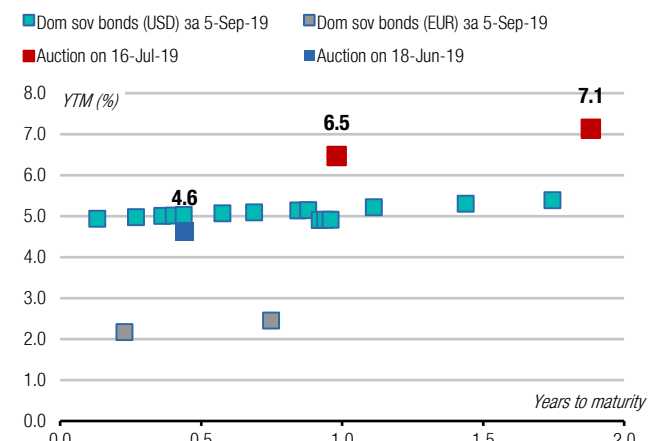
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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