

Bond Market Insight

Increase in demand pushing rates down

Comment on government bond placement

The total amount of demand continued to grow, and yesterday, it exceeded UAH5bn. However, due to the limited offering, a large portion was rejected, which allowed the MoF to decrease rates once more.

The shortest maturity, with redemption on 4 December 2019, received low demand, only UAH202.6m in 14 bids, significantly less than the offered UAH500m. Competitive demand had one rate — 16% — which was set the cut-off and weighted-average rates. This is 25bp and 24bp less than two weeks ago, respectively. All bids for this tenor were accepted.

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 |
|------------------|-----------------|--------------------------------|-----------|-------------------|-----------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000203632 | 0.00 | @Mty | 4-Dec-19 | 202,571 | 967.35 | 195.96 | 202.57 | 16.00 | 4,387.37 |
| UA4000198873 | 14.50 | SA | 19-Aug-20 | 500,000 | 1,004.24 | 502.12 | 500.00 | 15.92 | 4,387.94 |
| UA4000204572 | 16.06 | SA | 3-Aug-22 | 2,000,000 | 1,030.16 | 2,060.33 | 2,000.00 | 16.17 | 5,695.97 |
| Total UAH | | | | 2,702,571 | 2,758.41 | 2,702.57 | 2,702.57 | | 14,471.28 |

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

The other two instruments offered likely did not satisfy all bidders. The 11-month bills were capped at UAH500m, and the three-year at UAH2bn, similar to all auctions since August. So, demand was accepted only inside these limits, despite being at UAH717m and UAH4.14bn, respectively.

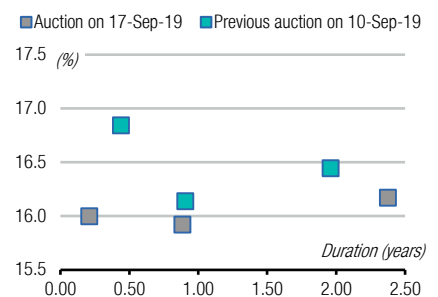
Since demand exceeded the offering for 11-month bills, the Ministry rejected three bids with rates that were between 15.29% and 15.48%. The cut-off rate and weighted-average rate were set at 15.29%.

At the same time, more than half of demand for the three-year bills was rejected. Rates in bids ranged from 15.44% up to 16%, but the highest accepted bid was 15.7%. Accepted bids were mostly with lower rates, as the weighted-average rate was set at 15.52%.

This auction shows that demand is still concentrated in the longer maturities. It's anticipated that demand will be high next week since some of this week's demand was rejected. Likely, it will be distributed between the two-year and five-year instruments, with larger demand for five-year note since the offering isn't capped.

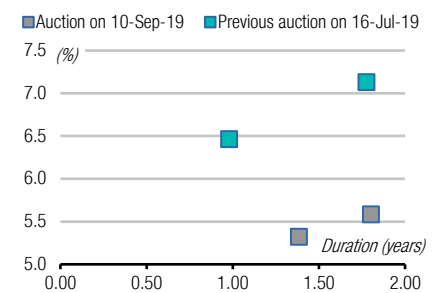
WEDNESDAY, 18 SEPTEMBER 2019

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



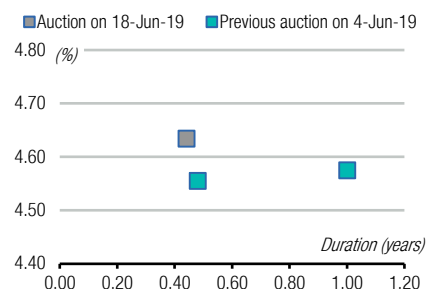
Source: Ministry of Finance of Ukraine, ICU.

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

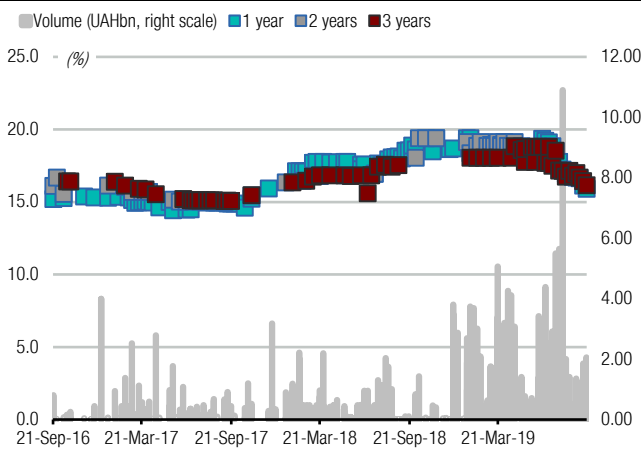


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

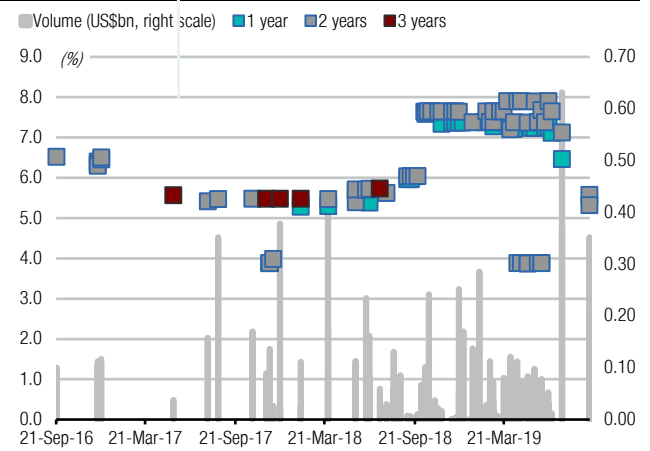
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

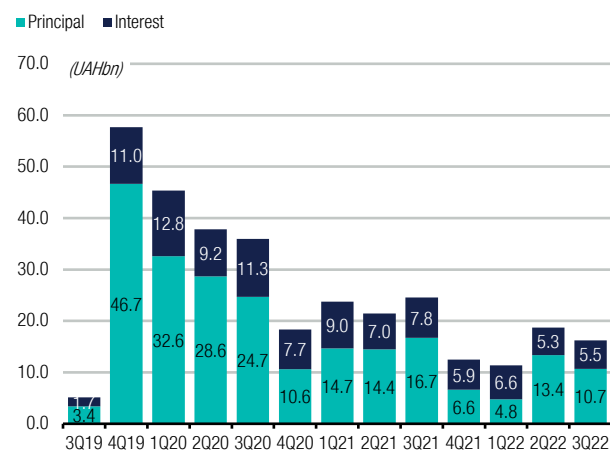
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

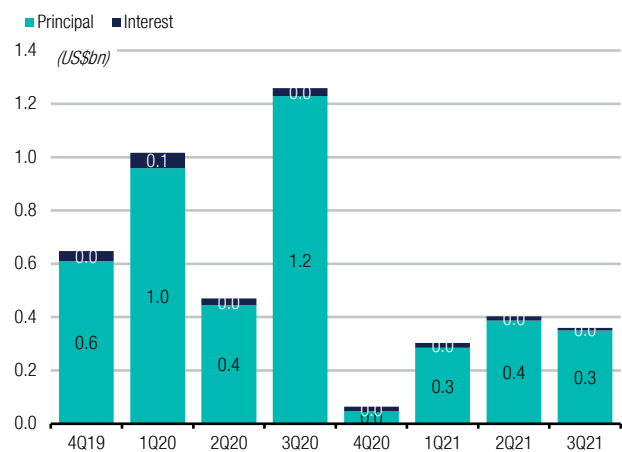
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

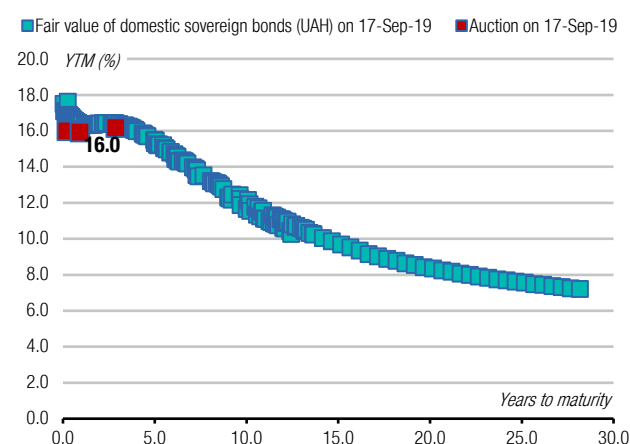
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

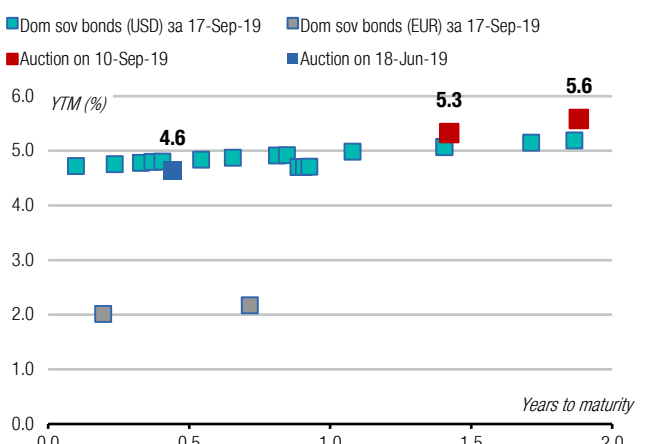
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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