

Bond Market Insight

Five-year note set new records

Comment on government bond placement

At September's last primary auction, the MoF again decided to accept only part of demand, and continued to decrease interest rates. Nonetheless, the five-year note offering was record-breaking, and provided the state budget with UAH12.9bn (US\$0.53bn) of proceeds.

Bills with maturities from five months up to two years received low demand, just UAH0.62bn (US\$25.5m); this demand was partially accepted. MoF could not use capped offerings to decrease rates, as demand was lower than offerings, so to decrease interest rates, they rejected some bids. From these three bills only UAH0.33bn (US\$13.5m) was collected. With this decision, rates for the five-month bills declined below 16%. For 11-month bills, the rate was slightly above 15% and for two-year, the rate declined to 15.5%.

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
UA4000201727	16.25	SA	19-Feb-20	53,929	1,016.51	54.82	53.93	16.57	625.61
UA4000198873	14.50	SA	19-Aug-20	42,790	1,008.72	43.16	42.79	15.71	4,430.73
UA4000203236	17.25	SA	5-Jan-22	214,485	1,068.39	229.15	214.49	16.15	2,488.26
UA4000204150	15.84	SA	26-Feb-25	12,277,678	1,048.70	12,875.66	12,277.68	15.34	33,865.16
Total UAH				12,588,882	13,202.79	12,588.88			41,409.76

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.

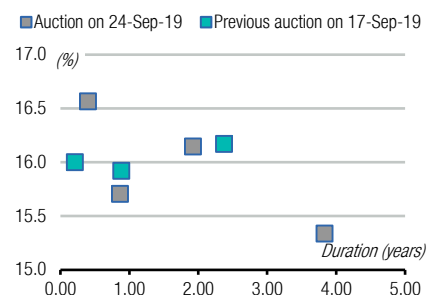
The most active offering was the five-year notes, which the MoF usually offers once per month. Likely, FX sold during recent weeks was in preparation for yesterday's auction.

This issue set a few new records. It collected 77 bids, 55 of which were accepted, while the largest number of bids had been in July, at 36 and 32 bids, respectively. The amount collected also broke July's record, resulting in UAH14.6bn of demand compared with UAH11.1bn in July. The third record was the result of interest rates in bids and the MoF's decision. The Ministry sold UAH12.3bn of notes (par value) and received UAH12.9bn of proceeds, also exceeding amounts seen in July.

Cost of budget borrowings from these notes fell below 15%, as the weighted-average rate fell to 14.75% with the cut-off rate at 15%. The MoF sold UAH5.3bn of notes by

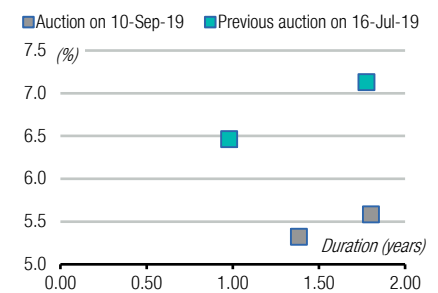
WEDNESDAY, 25 SEPTEMBER 2019

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



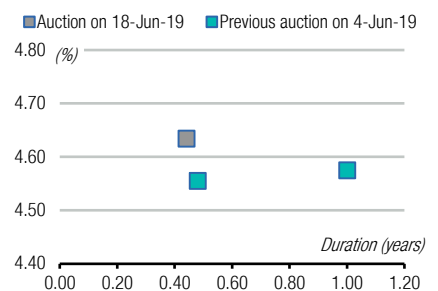
Source: Ministry of Finance of Ukraine, ICU.

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.

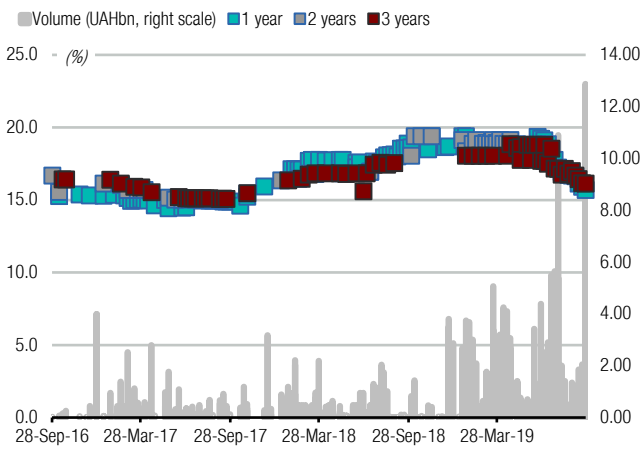
non-competitive bids, which received an interest rate of 14.75%.

Last week's rejected demand was moved to the five-year notes in addition to demand that accumulated during the month. This brought UAH12.6bn into the budget financing, which is very close to the goals for domestic financing set in budget law. The Ministry will have less room to be flexible in amounts and rates as a result.

Appendix: Yields-to-maturity, repayments

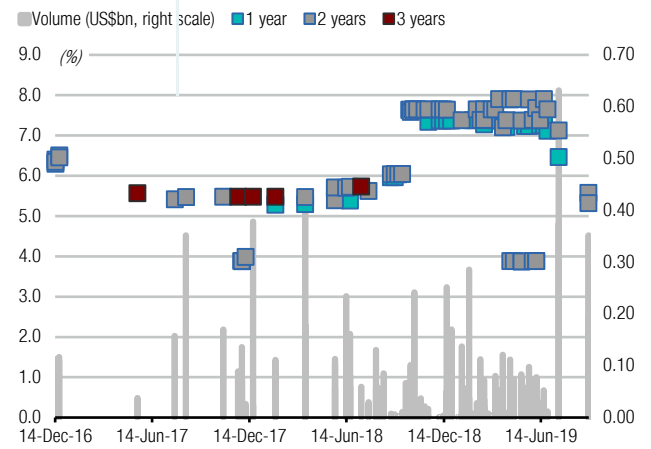
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

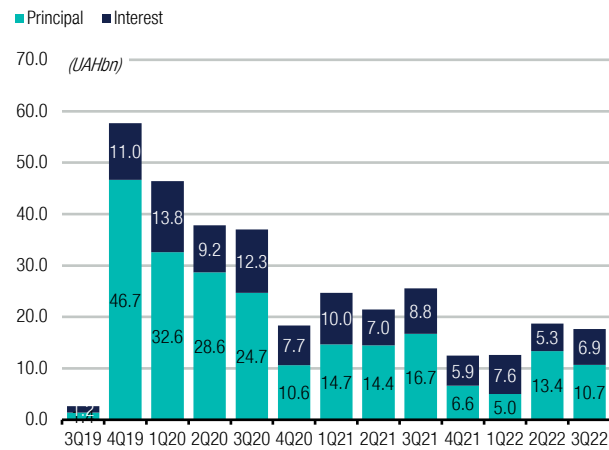
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

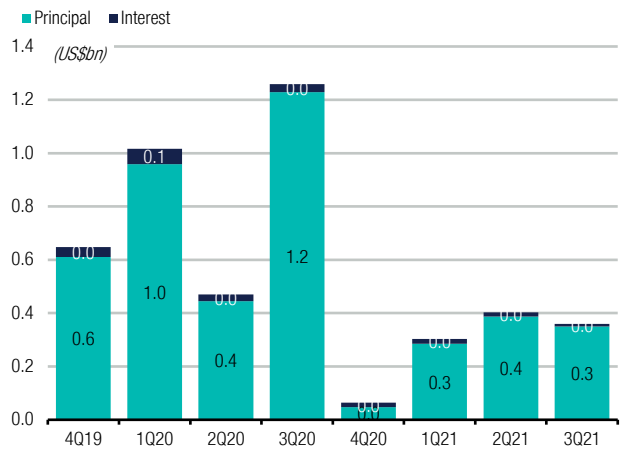
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

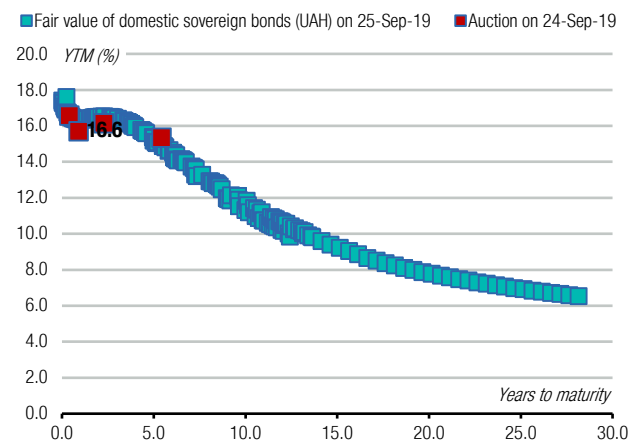
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

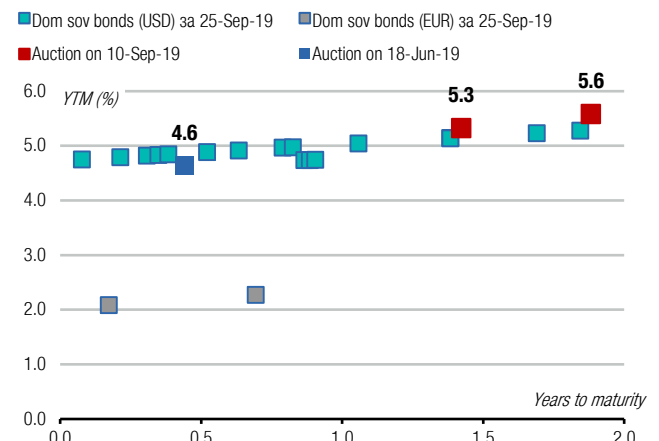
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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