

# Bond Market Insight

## Demand shifted to short-term bills

### Comment on government bond placement

Short-term bills have had low demand in October, and the Ministry was not able to sell all offered bills. However, this week, demand moved to bills with maturities below one year, which allowed the MoF to sell three-month and 12-month bills each for UAH500m (US\$20m) par value.

Demand for the three-month bills was just UAH18.2m larger than the offered amount. The MoF accepted nine out of 11 bids, and rejected bids with the highest rates. The cut-off and weighted-average rates were decreased by 40bp to 15.35%.

Twelve-month bills received larger demand than the three-month paper, UAH654m (US\$26.5m) in 11 bids. All were accepted. However some of them were satisfied partially inside the offered amount. Not-fully satisfied bids could be non-competitive and bids with highest rate. The cut-off rate was decreased by 9bp to 15%, and the weighted-average rate was down 16bp to 14.93%.

The two-year instrument did not receive large demand, only five bids. The competitive demand was for an interest rate of 15.10%. As a result, the cut-off and weighted-average rates were set at this level, 15.10%, which are 29bp and 26bp below the auction two weeks ago.

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

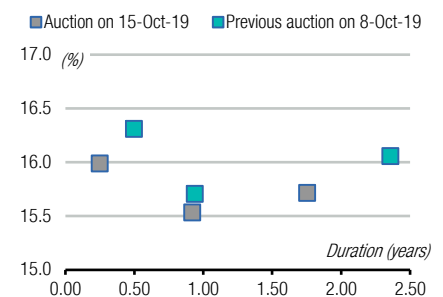
ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m) <sup>4</sup>
UA4000196620	15.74	SA	15-Jan-20	500,000	1,039.54	519.77	500.00	15.99	3,451.47
UA4000202469	17.25	SA	30-Sep-20	500,000	1,026.49	513.25	500.00	15.53	3,586.89
UA4000204986	15.36	SA	29-Sep-21	114,980	1,009.99	116.13	114.98	15.72	157.68
<b>Total UAH</b>				<b>1,114,980</b>	<b>1,149.15</b>	<b>1,114.98</b>			<b>7,196.03</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 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.

After having been active last week, foreigners were not very interested in two-year paper. Therefore, demand was low, similar to previous offerings of these bills at the beginning of October. At the same time, demand rose for shorter maturities, but this could be demand from locals, as they are usually interested in such maturities. This could move demand from longer to shorter maturities, although next week, demand can move back to three-year notes.

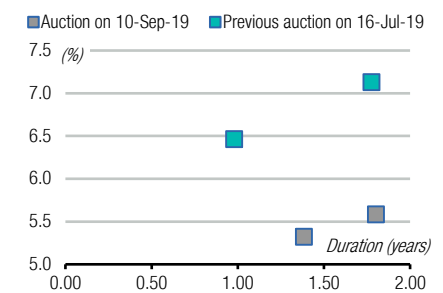
### WEDNESDAY, 16 OCTOBER 2019

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



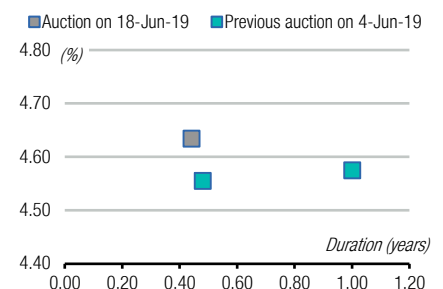
Source: Ministry of Finance of Ukraine, ICU.

#### 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

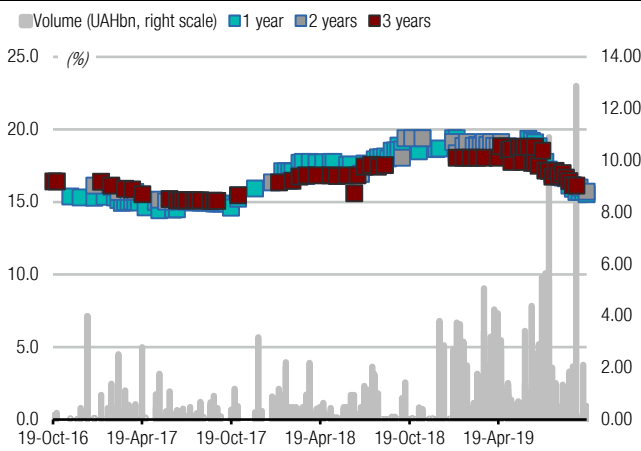


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

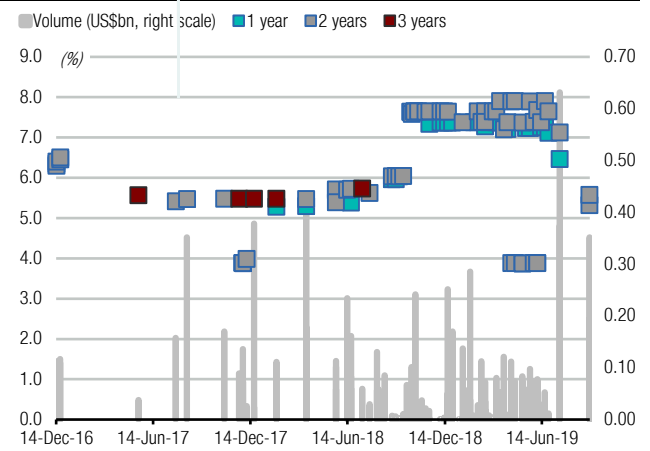
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

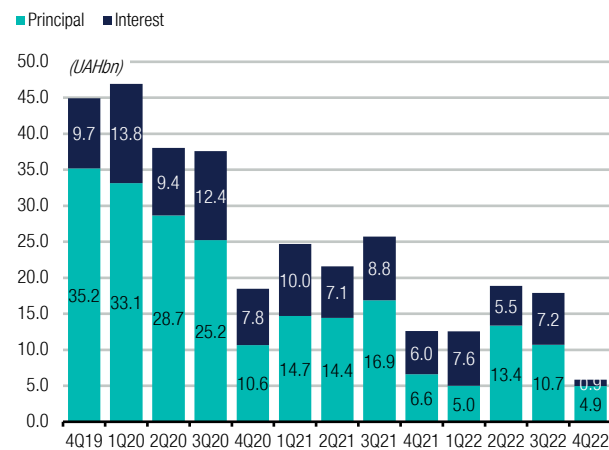
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

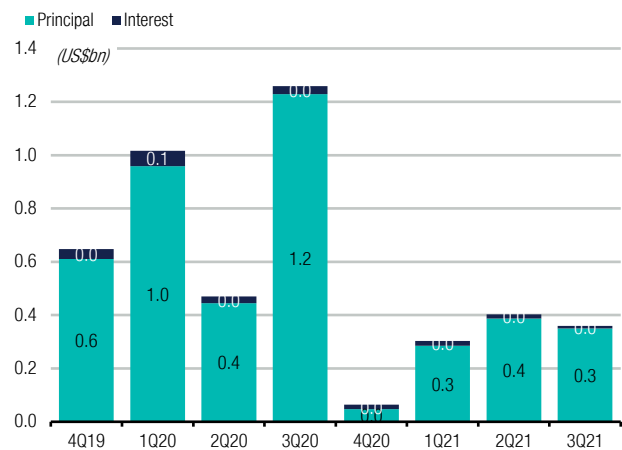
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

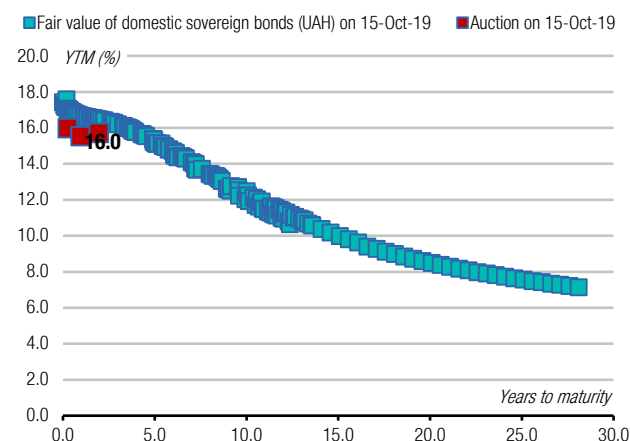
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

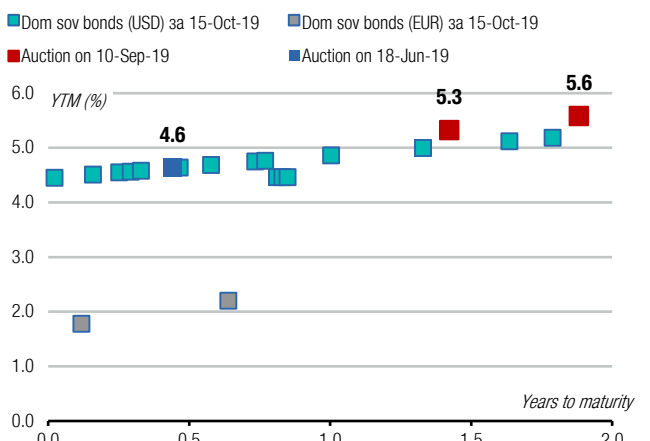
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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.

This page is intentionally left blank.



11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kyiv, 01030 Ukraine  
Phone/Fax +38 044 3777040

**WEB** [www.icu.ua](http://www.icu.ua)



## RESEARCH

**Alexander Martynenko**

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Mykhaylo Demkiv**

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Taras Kotovych**

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Dmitriy Dyachenko**

Junior financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

**Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).**

---

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

**Additional information is available upon request.**

