

Bond Market Insight

Activity from Foreigners increases

Comment on government bond placement

Yesterday's regular primary auction demonstrated that investors are interested in short-term bills up to one year, and three years or longer. There wasn't much interest in the two-year bills the MoF offered last week. This week's offering of three-year notes allowed it to borrow the planned UAH3bn (US\$120m).

Demand for short maturities (up to one year) usually comes from locals. It's usually low and close to the offered amount. Yesterday, demand for six-month bills was UAH507.4m (US\$20.4m), and UAH513.1m (US\$20.6m) for 12-month bills. The MoF rejected two bids for the 12-month bills, selling slightly below the offered amount, just UAH497.7m instead of the offered UAH500m (par value). For six-month bills, the Ministry sold bills to all bidders, but some of them received less than requested.

On the other hand, the three-year note was more than 2x oversubscribed, and received demand of UAH4.1bn (US\$160m) instead the offered UAH2bn (US\$80m) at par value. This demand was 51 bids, and very likely that some bidders could only purchase part of the requested amount. Out of 51 bids received, 38 were accepted.

For this maturity, demand comes mostly from foreign investors, and they allowed the MoF to reduce the cut-off rate by 35bp to 15.15%, and the weighted-average rate by 36bp to 15.06%.

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

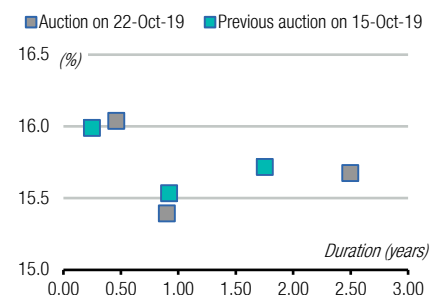
ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000165773	14.30	SA	8-Apr-20	500,000	1,000.60	500.30	500.00	16.04	2,358.07
UA4000202469	17.25	SA	30-Sep-20	497,689	1,030.48	512.86	497.69	15.39	4,084.57
UA4000199210	14.91	SA	12-Oct-22	2,000,000	999.22	1,998.45	2,000.00	15.68	6,945.57
Total UAH				2,997,689	3,011.61	2,997.69			13,388.21

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.

As we expected, demand from foreigners increased when the Ministry offered three-year notes. The amount of demand also rose. So, demand from foreign investors for local-currency bills exists, but due to low needs of the budget for large new borrowings, the Ministry offered limited amounts of these bills. This supports the Ministry's efforts in reducing interest rates for bills and notes.

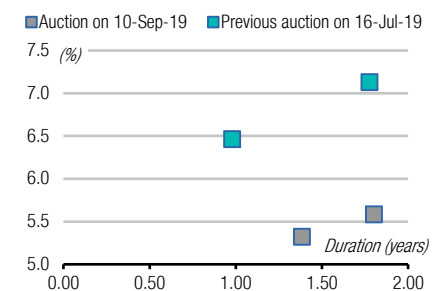
WEDNESDAY, 23 OCTOBER 2019

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



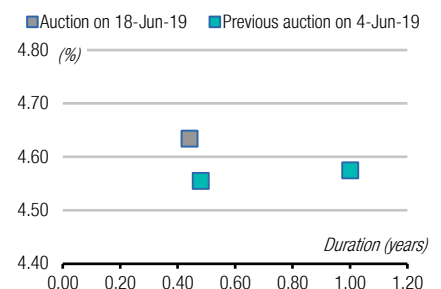
Source: Ministry of Finance of Ukraine, ICU.

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

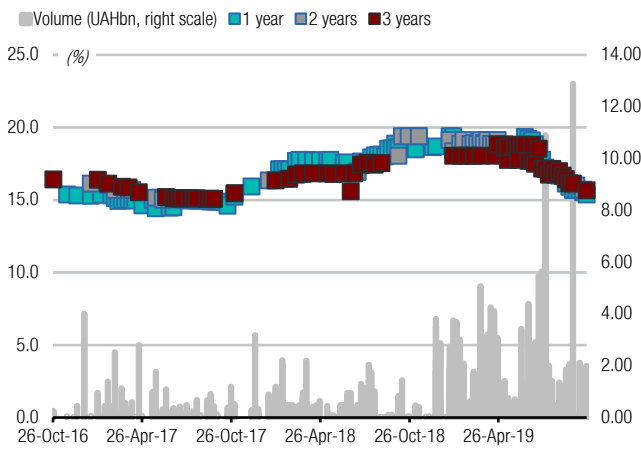


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

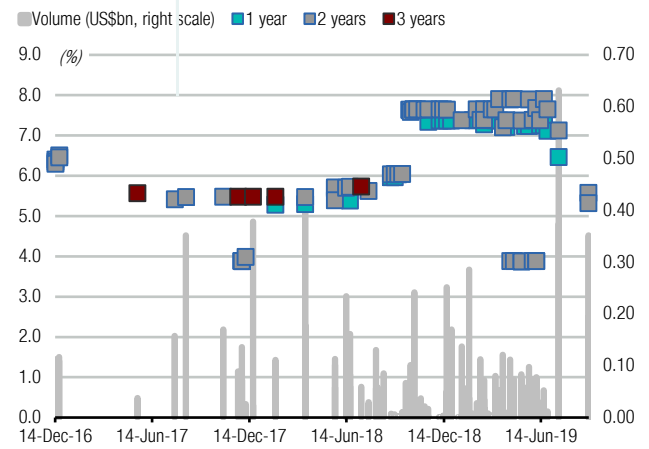
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

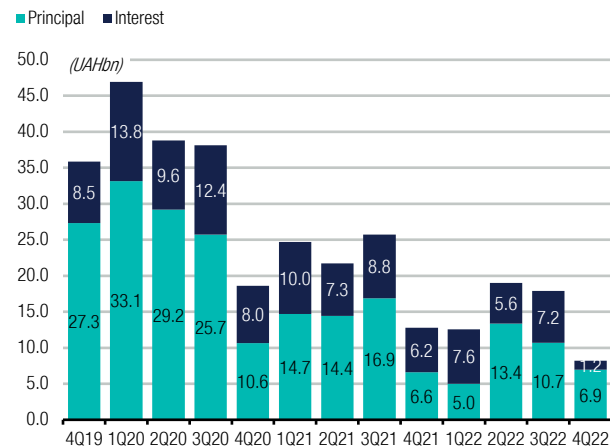
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

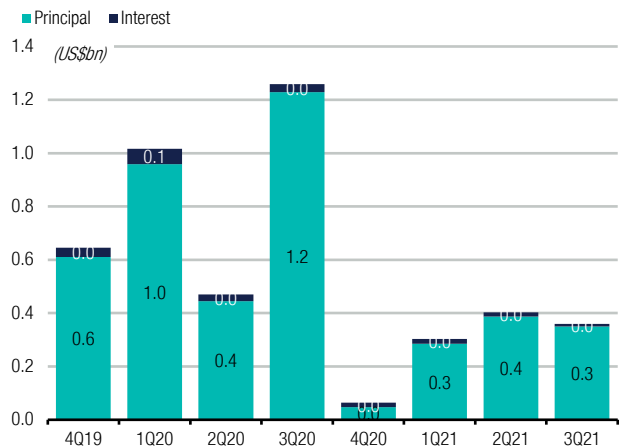
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

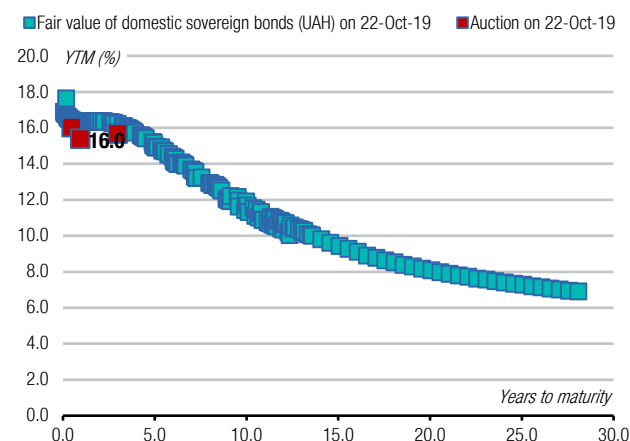
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

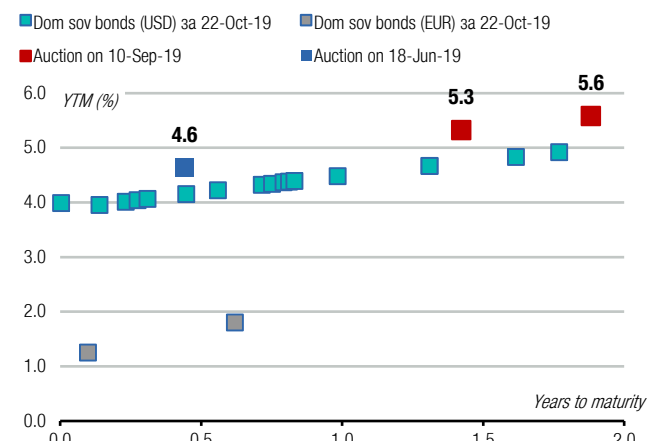
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

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