

Bond Market Insight

Bond rates down

Comment on government bond placement

Demand for local-currency paper rose, significantly exceeding the amount offered by the Ministry of Finance. The MoF accepted only part of demand, and was able to significantly decrease interest rates.

Three instruments were offered in this auction: three-month, 11-month, and four-year maturities, which were capped at UAH300m, UAH500m, and UAH2.5bn respectively. The rest of demand was rejected.

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

ISIN	Coupon rate (%)	Payment freq 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	300,000	1,038.88	311.66	300.00	14.91	925.61
UA4000202469	17.25	SA	30-Sep-20	500,000	1,042.86	521.43	500.00	14.53	4,728.05
UA4000173371	10.00	SA	23-Aug-23	2,500,000	922.71	2,306.78	2,500.00	13.78	7,901.48
Total UAH				3,300,000		3,139.87	3,300.00		13,555.14

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.

Thirteen bids were submitted for the three-month bills, which amounted to UAH707.7m. Three were fully rejected; the other 10 were partially accepted. The Ministry sold only UAH300m (par value). For this instrument, both the cut-off and weighted-average rates were decreased to 14.35% or by 105bp. This was 5bp more than NBU's key policy rate, which was decreased two days after the previous auction for a similar maturity.

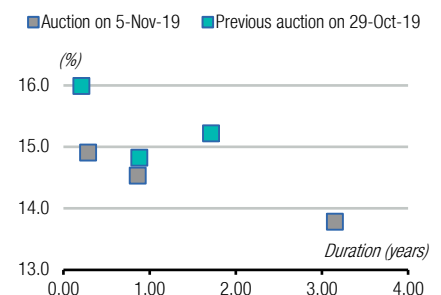
Placement of the 11-month bills had similar results. Out of demand for UAH708.8m, the MoF accepted only UAH500m, but accepted all bids partially. The cut-off rate was down 30bp, and weighted-average rate was decreased by 27bp compared with last week's auction. Compared with the auction prior to the key policy rate revision, rates were down by 80bp.

The greatest demand yesterday was seen for four-year notes, which haven't been offered since May of this year. This note received demand for UAH12.5bn or five times larger than the offered amount. There were 78 bids with rates from 13.13% to 14.60%. Accepted bids were limited to those with rates up to 13.38%, and the weighted-average rate was set at 13.30%.

Taking into account the amount of demand and the level of rates, likely most of bidders

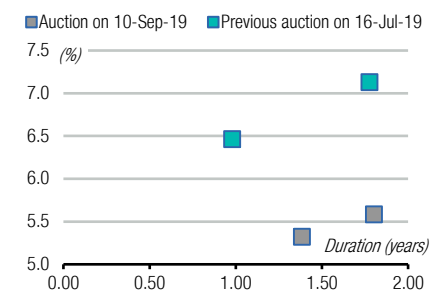
WEDNESDAY, 6 NOVEMBER 2019

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



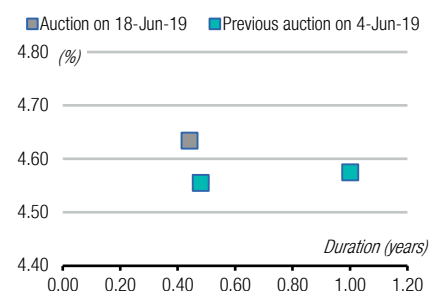
Source: Ministry of Finance of Ukraine, ICU.

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



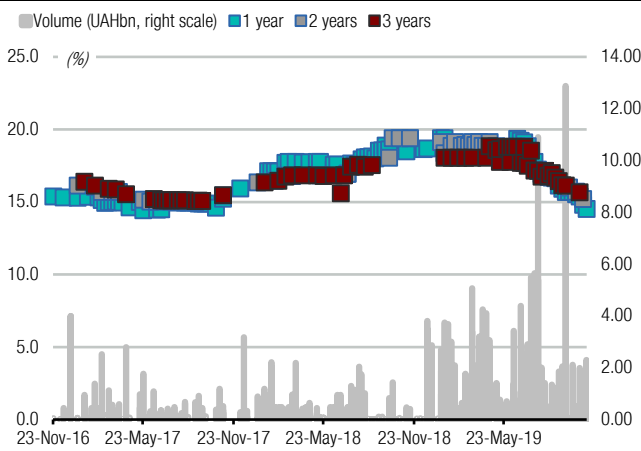
Source: Ministry of Finance of Ukraine, ICU.

were foreigners, and they played key role in lowering rates, especially for the four-year notes. Since some of this demand was rejected, it may move to the three-year notes to be offered next week. Otherwise, interested bidders can purchase notes in the secondary market or wait for the next offering of four-year notes scheduled for the end of this month. Based on the results of this auction, we could see rates decline further due to an increase in competition in the primary auctions.

Appendix: Yields-to-maturity, repayments

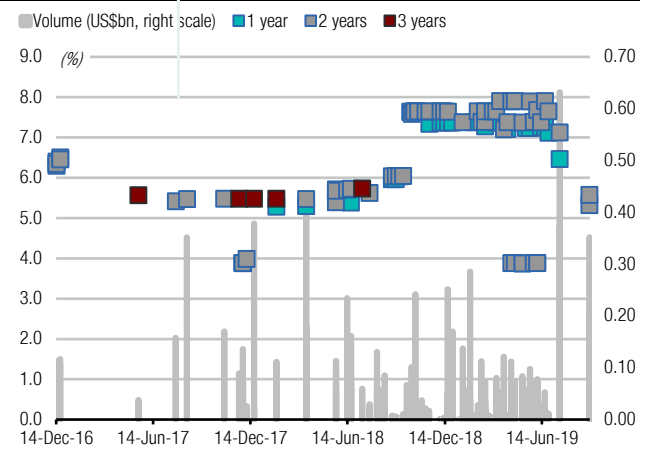
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

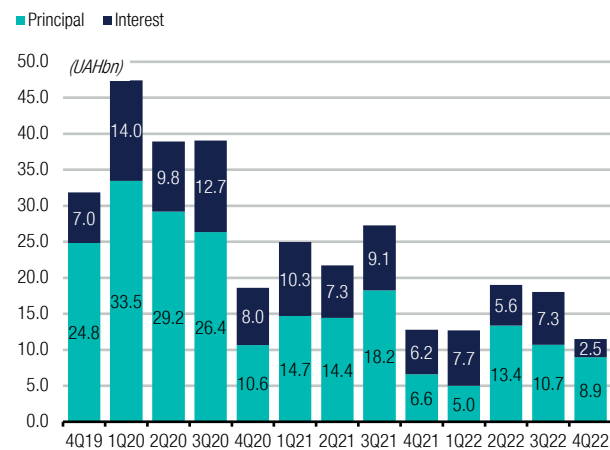
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

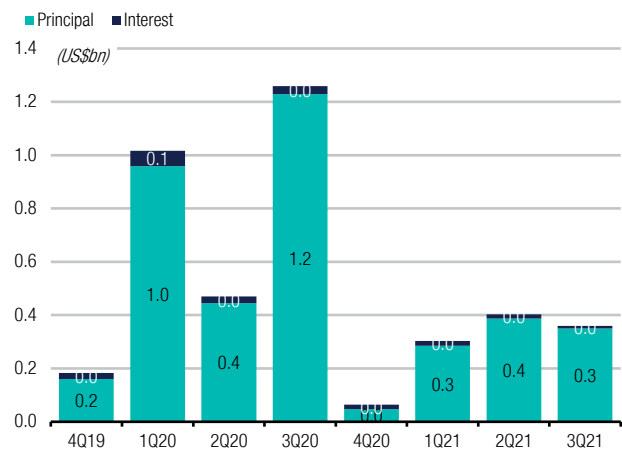
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

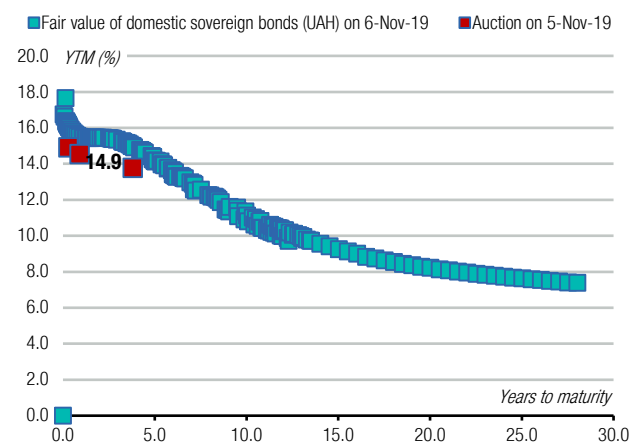
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

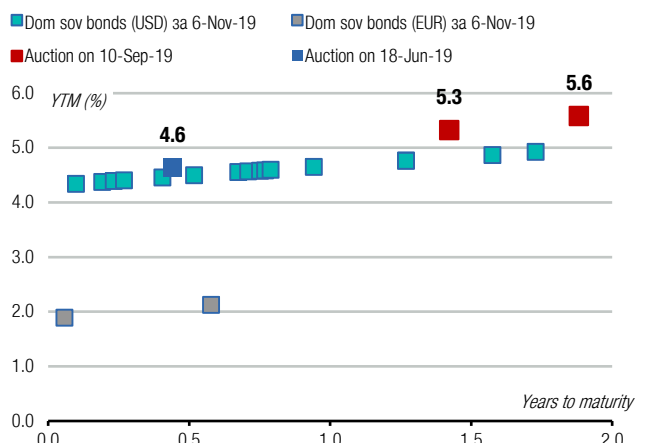
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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

WEB www.icu.ua



RESEARCH

Alexander Martynenko 

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv 

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Taras Kotovych 

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Junior financial analyst
dmitriy.dyachenko@icu.ua

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