

# Bond Market Insight

## Decline in rates continues

### Comment on government bond placement

The regular primary auction with capped offerings caused a further decline in interest rates for domestic bonds, both for local-currency and FX-denominated instruments.

Only the six-month bills received demand lower than the offered amount. Out of five bids, the MoF accepted only three, rejecting just UAH13m of demand. This decision allowed the MoF to decrease rates by 155bp compared with last month's auction, when a similar maturity was sold.

The decrease in rates was less aggressive for the 11-month bills, as this paper is offered every week. The cut-off rate was decreased by 25bp to 13.75%, and the weighted-average rate was cut by 26bp to UAH13.74%. Demand was just UAH181m larger than the offered amount, but supported the decrease in rates.

There was aggressive demand from foreign investors for the three-year notes, which allowed the MoF to decrease the cut-off rate by 205bp to 13.12%. Demand was nearly four times larger than the cap for this offering. Out of 54 bids, 31 were rejected, and from accepted bids, some bidders received only part of requested amount.

The placement of FX-denominated, 2-year bills was similar. This kind of bills offering is unusual, and local investors had built up demand for it. They submitted US\$664m of bids, more than twice the cap for this auction. As a result, the cut-off rate declined to 4.25%, and the weighted-average rate fall to 4.02%.

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

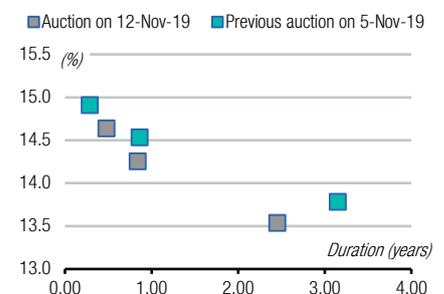
ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000166805	14.30	SA	6-May-20	263,058	1,003.57	264.00	263.06	14.64	2,314.67
UA4000202469	17.25	SA	30-Sep-20	500,000	1,047.73	523.87	500.00	14.25	5,228.05
UA4000199210	14.91	SA	12-Oct-22	2,500,000	1,054.69	2,636.72	2,500.00	13.54	9,445.57
<b>Total UAH</b>				<b>3,263,058</b>	<b>3,424.58</b>	<b>3,263.06</b>			<b>16,988.29</b>
UA4000205736	4.02	SA	16-Dec-21	300,000	1,016.27	7,454.36	7,335.00	4.06	7,335.00
<b>Total USD</b>				<b>300,000</b>	<b>7,454.36</b>	<b>7,335.00</b>			<b>7,335.00</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 24.45/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Capped offerings and large demand from foreigners together caused a decline in rates to the level significantly below the NBU key policy rate. This demand indicates expectations of a further decline in the key policy rate. Further, it induces investors to

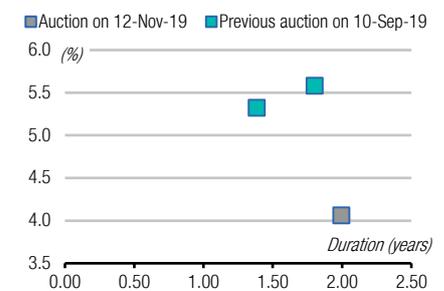
**WEDNESDAY, 13 NOVEMBER 2019**

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



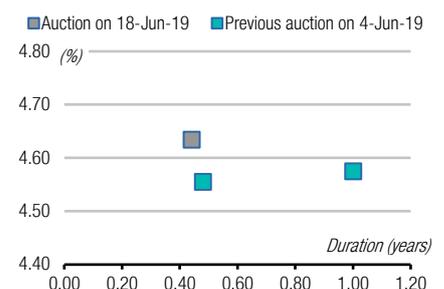
Source: Ministry of Finance of Ukraine, ICU.

### 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



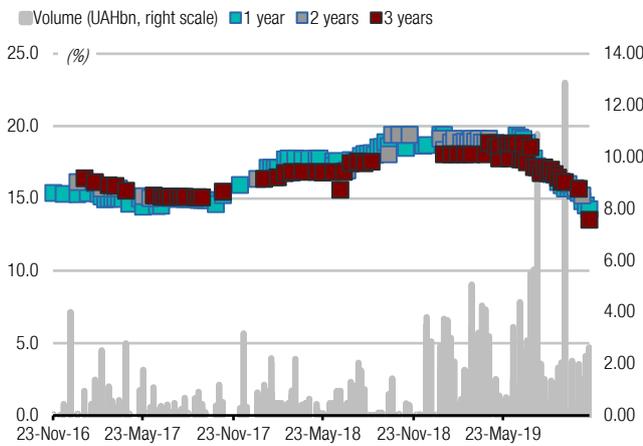
Source: Ministry of Finance of Ukraine, ICU.

reinvest funds in longer maturities, which was seen recent weeks with larger demand for longer paper. So, next week we expect to see demand for two-year bills lower than yesterday and also for the four-year note. However, at the end of month, demand can once more be greater and concentrated in the four-year note offering.

# Appendix: Yields-to-maturity, repayments

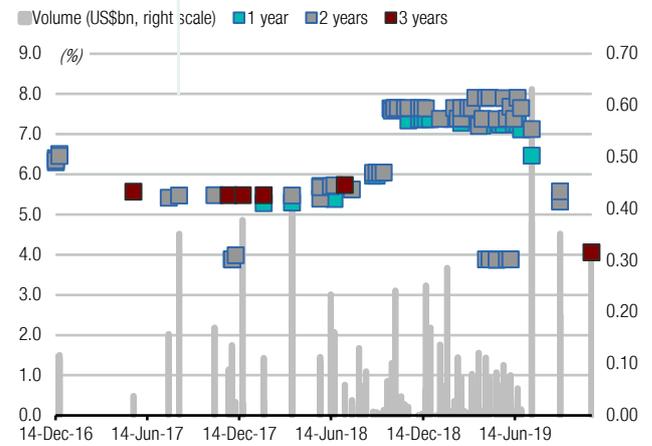
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

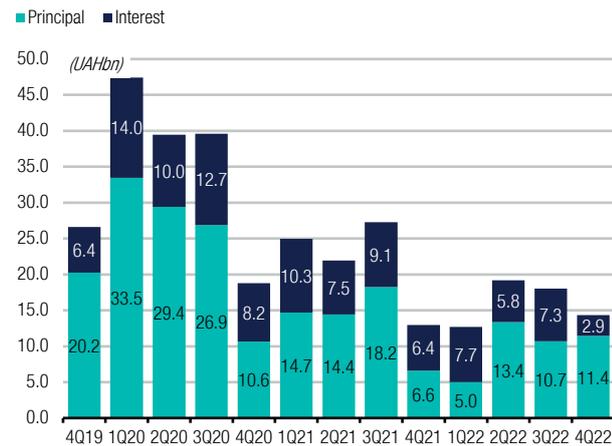
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

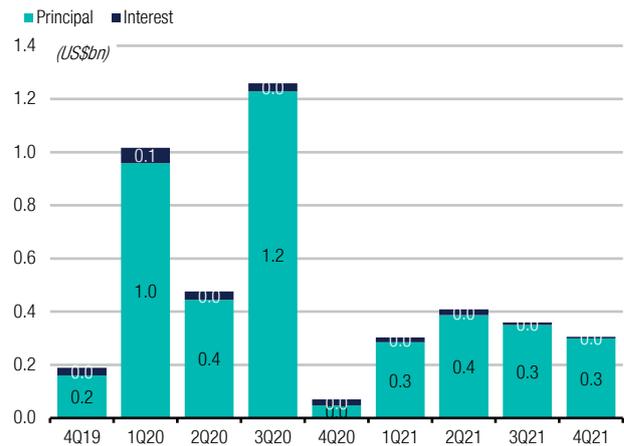
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

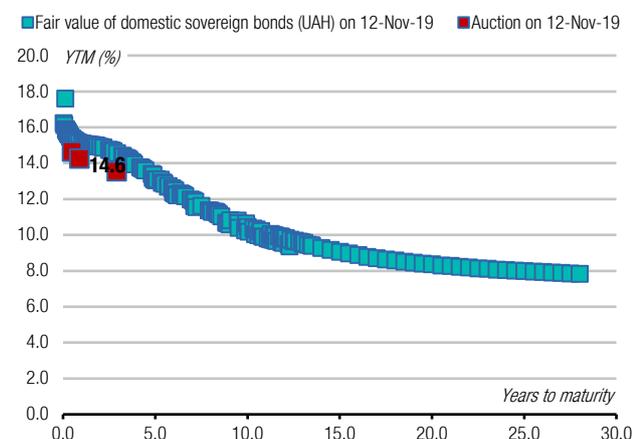
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

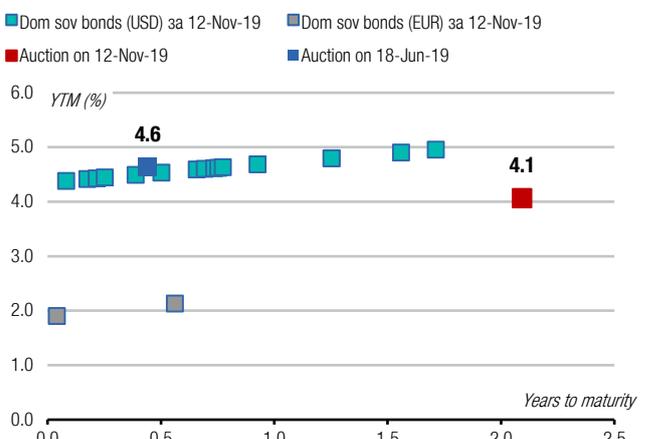
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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