

Bond Market Insight

Investors took a break

Comment on government bond placement

Yesterday's auction did not bring in much in terms of demand nor budget proceeds, not even close to previous weeks. But that did not stop the MoF from continuing to lower interest rates for local-currency paper.

Only bills with maturities of 10.5 months received demand higher than what was offered in yesterday's auction. Out of UAH579.6m of demand, only UAH79.6m was not accepted to meet the cap for this auction. The cut-off rate was set at the maximum bid level, so some participants received only part of the requested volume. Both the cut-off and weighted-average rates were reduced at the request of investors: by 25 bp to 13.55%, and 28 bp to 13.46%, respectively.

For three-month bills, demand was less than half from cap, just UAH133.8m. The MoF rejected two bids amounting to UAH12.3m, decreasing both the cut-off and weighted-average rates by 40bp to 13.95%.

However, two-year bills did not receive enough demand, which came in almost three times less than the offered volume. It was also significantly less than the three-year and four-year notes offered earlier this month. However, this did not prevent the MoF from reducing the cut-off and the weighted-average rates to 13.5%, by 119 bp and 114 bp respectively compared with the end of October.

Foreigners have not been interested in two-year bills ahead of the expected issue of four-year notes next week and similar instruments in December. So this time, they took a pause in submitting demand for the auction, which allowed the MoF to only partially refinance today's domestic debt payments.

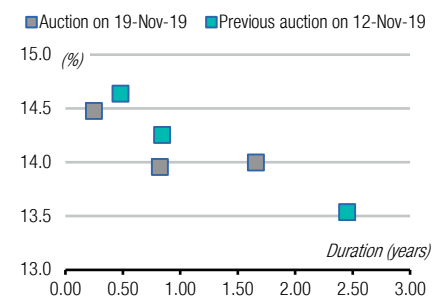
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

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	121,555	1,045.41	127.08	121.56	14.48	1,047.17
UA4000202469	17.25	SA	30-Sep-20	500,000	1,052.68	526.34	500.00	13.96	5,728.05
UA4000204986	15.36	SA	29-Sep-21	632,941	1,049.98	664.58	632.94	14.00	2,150.64
Total UAH				1,254,496		1,317.99	1,254.50		8,925.86

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 24.32/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

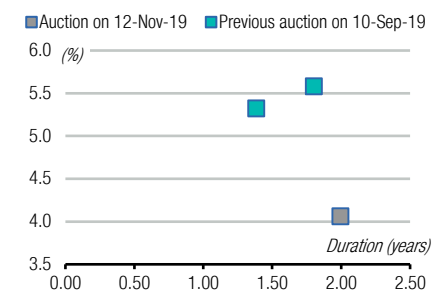
WEDNESDAY, 20 NOVEMBER 2019

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



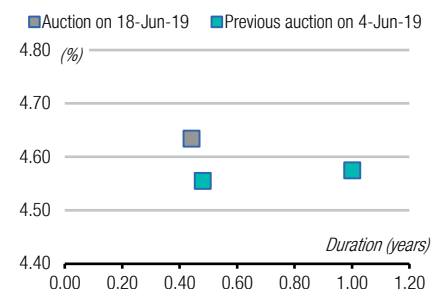
Source: Ministry of Finance of Ukraine, ICU.

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

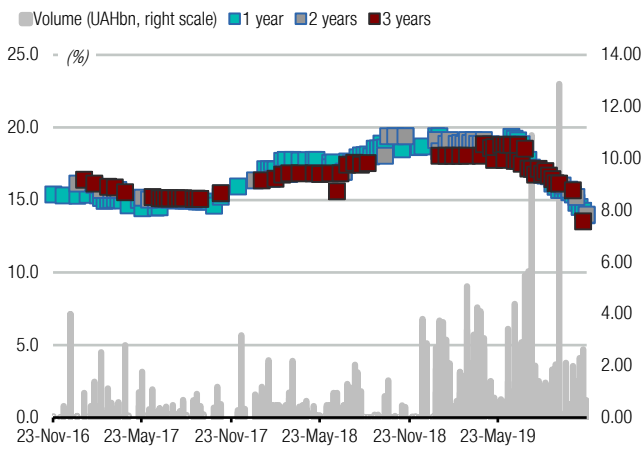


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

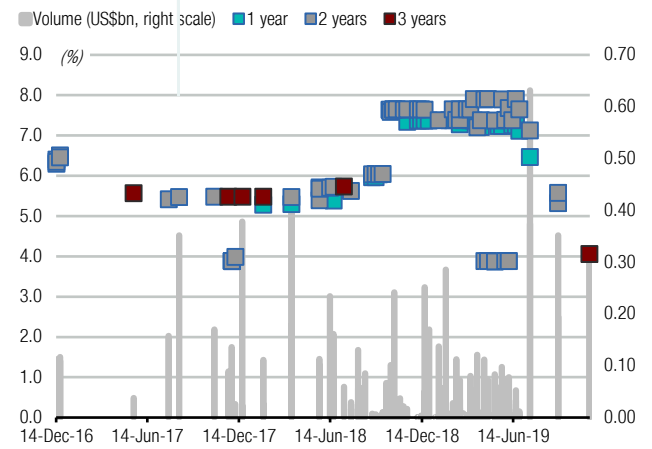
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

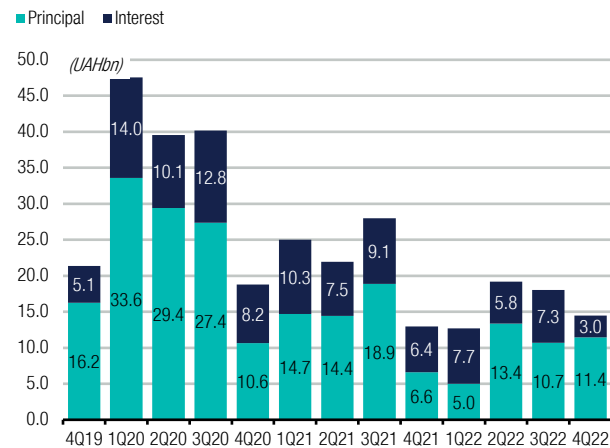
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

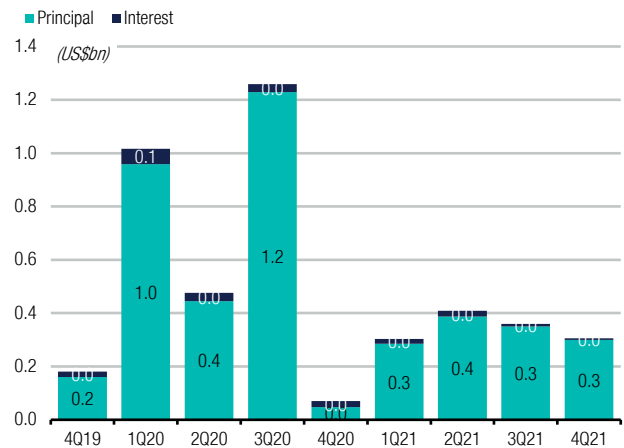
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

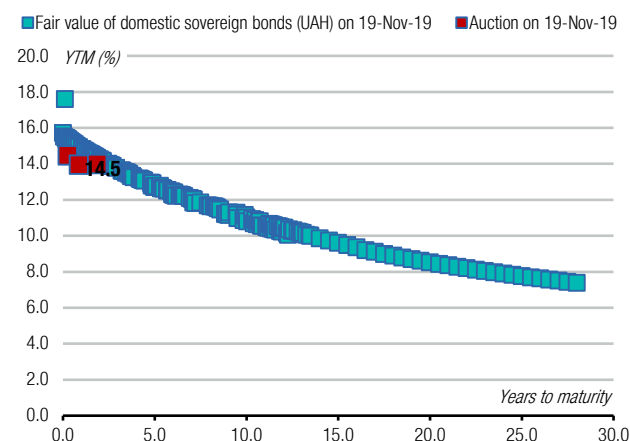
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

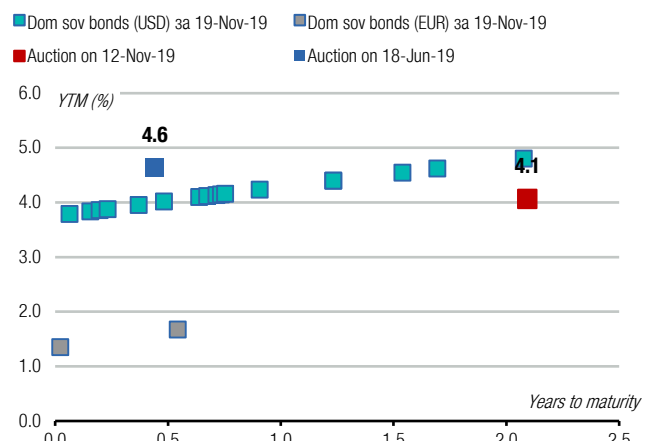
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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



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

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.

