

Bond Market Insight

Demand concentrated in four-year notes

Comment on government bond placement

Yesterday's offering of four-year notes again saw demand larger than the offered amount, and it seems to have attracted demand that earlier had been seen for shorter maturities.

In total, the four-year notes received UAH7.7bn of demand, more than three times larger than what was offered. The high level of competition resulted in a cut-off interest rate of 12.64%, while the weighted-average rate was set at 12.4%. These rates are 74bp and 90bp lower than at the beginning of November.

At the same time, demand for shorter maturities was insufficient. Only one non-competitive bid was submitted for the five-month bills, and the MoF accepted it at the same level as two weeks ago, 14.1%.

The 10-month bills did not receive any bids at all yesterday. It was the first time since the end of February when an issue was ignored, then the nine-month bills, which also did not see any demand.

So, now most potential demand is concentrated in the longer maturities, and, most likely, not only from foreigners. Anticipating ongoing NBU monetary policy and monetary easing, and expectations of a continuing decline in rates for local-currency bonds is inducing investors to prefer longer maturities. The MoF may decide to review its auction schedule and offer more long instruments, and perhaps larger amounts, instead of offering short-term bills.

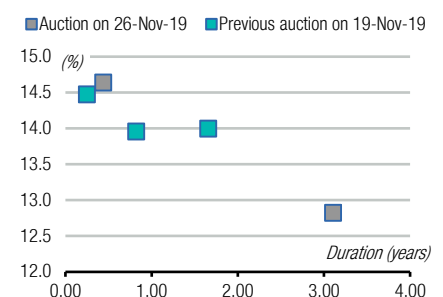
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000166805	14.30	SA	6-May-20	2,375	1,008.83	2.40	2.38	14.64	2,317.04
UA4000173371	10.00	SA	23-Aug-23	2,500,000	954.31	2,385.78	2,500.00	12.82	10,401.48
Total UAH				2,502,375	2,388.17	2,502.38			12,718.52

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.

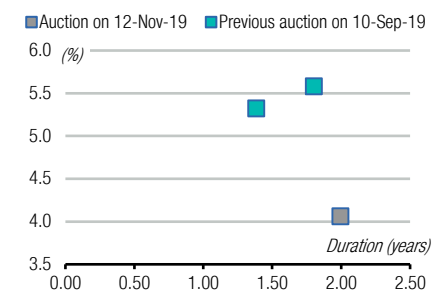
WEDNESDAY, 27 NOVEMBER 2019

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



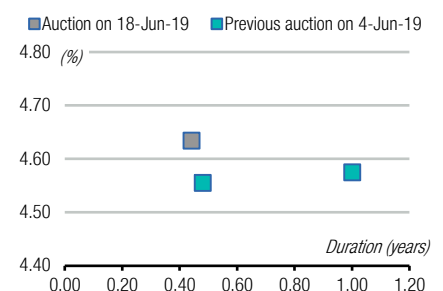
Source: Ministry of Finance of Ukraine, ICU.

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

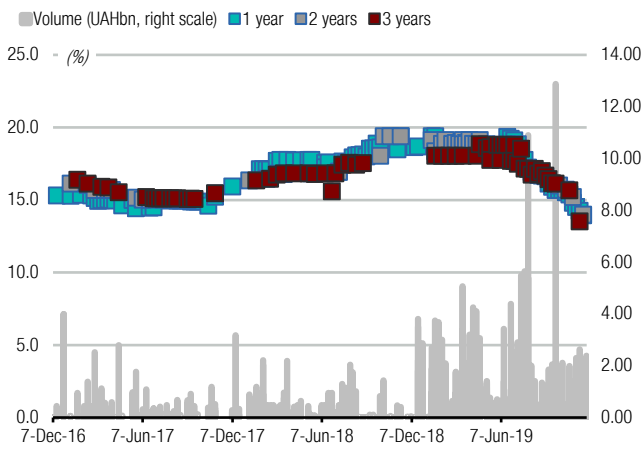


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

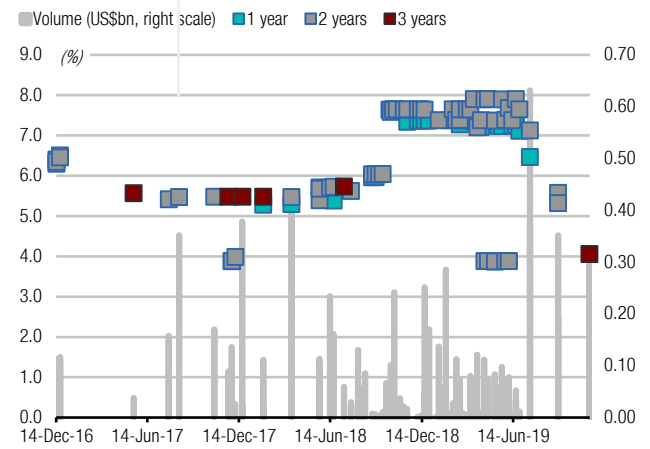
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

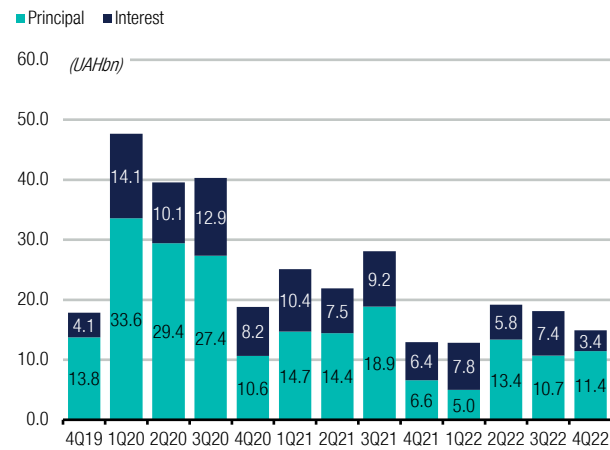
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

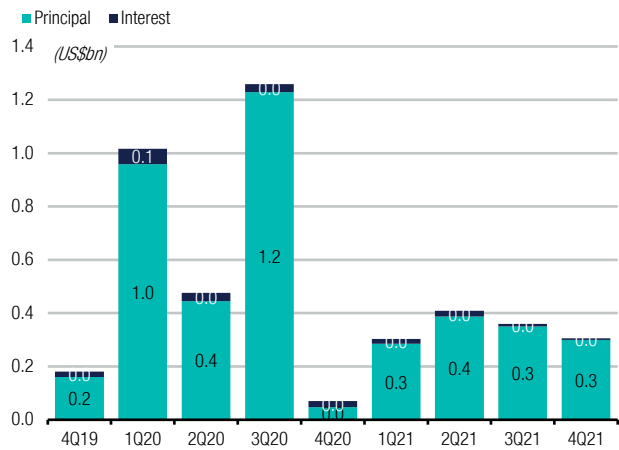
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

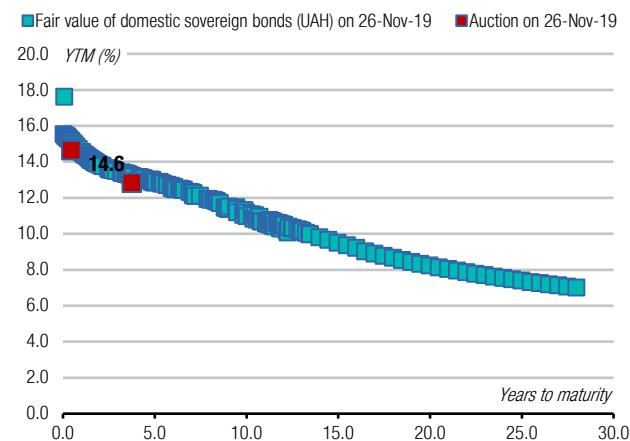
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

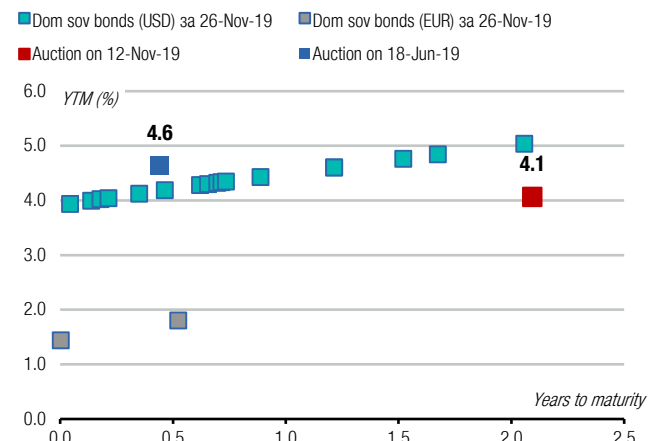
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

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