

Bond Market Insight

Hype lower, but so are bond rates

Comment on government bond placement

Yesterday, the MoF borrowed UAH11.4bn, which should significantly improve budget financing and replace most of funds not received from privatization of state property.

Not seen for a month, there was large demand for short-term bills, and a significant decline in interest rates. For two-month bills, the cut-off rate declined by 185bp to 11.95%, while the weighted-average rate declined by 128bp to 11.78%. There was a similar decline in rates for the 10-month bills. The cut-off rate declined by 155bp and weighted-average by 158bp to 11.45% and 11.42%, respectively. In total, these two bills provided the budget with 1/6 of proceeds in hryvnia.

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
UA4000201727	16.25	SA	19-Feb-20	500,000	1,060.04	530.02	500.00	12.16	1,599.75
UA4000202469	17.25	SA	30-Sep-20	500,000	1,078.68	539.34	500.00	11.78	6,440.99
UA4000204572	16.06	SA	3-Aug-22	886,000	1,169.15	1,035.87	886.00	11.43	7,581.97
UA4000206460	11.67	SA	22-Nov-23	4,000,000	1,030.74	4,122.97	4,000.00	11.23	7,000.00
Total UAH				5,886,000		6,228.20	5,886.00		22,622.71
UA4000204085	4.60	@Mty	4-Jun-20	200,000	989.90	5,179.83	5,232.70	2.20	5,702.72
Total EUR				200,000		5,179.83	5,232.70		5,702.72

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 23.93/USD, 26.16/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

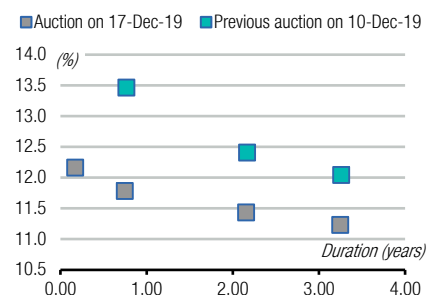
Participation in the UAH-denominated notes with 2.6-year and four-year maturities was active, although it did not result in the same level of decline in rates as was seen in the two-month and 10-months notes. This likely was due to large demand and highly active foreign participation seen in weeks prior. Investors were prepared for the NBU's key rate decrease. As a result, for the 2.6-year note, the cut-off rate slid by only 30bp, and the weighted-average rate by 91bp to 11.75% and 11.10%, respectively.

The four-year note crossed 11%, setting a new record low. The decline could have been larger, but demand was just UAH6bn, while the cap for this offering was UAH4bn. So, the cut-off rate slid by 35bp to 11.35% while the weighted-average rate crossed 11%, declining by 77bp to 10.9%.

Also active was the placement of bills denominated in euro. After repayment of

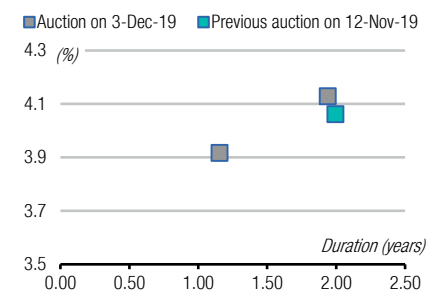
WEDNESDAY, 18 DECEMBER 2019

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



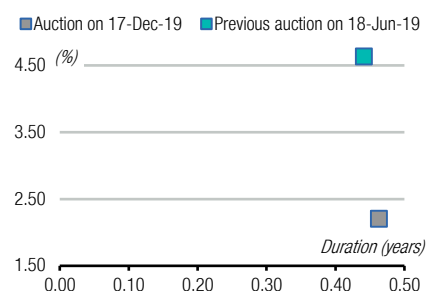
Source: Ministry of Finance of Ukraine, ICU.

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.

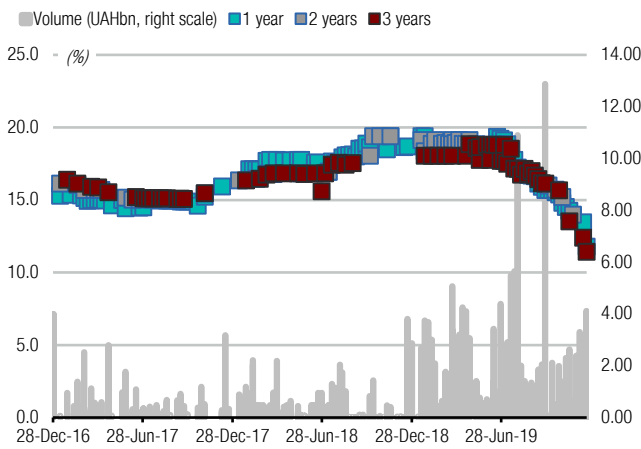
EUR425.5m at the end of November, this was the debut offering of bills denominated in this currency. Total demand yesterday was EUR352m, and with a cap of EUR200m, the MoF accepted only 28 out of 37 bids, setting the cut-off rate at 2.3% and weighted-average rate at 2.22%. The last time paper denominated in euro was offered was in June, 2019. Since then, rates have declined 230bp and 238bp, respectively.

From the results of this auction, it can be concluded that with one week to go before the festive season begins, the hype around Ukrainian paper has slightly declined. The decline in interest rates for local-currency notes met a bottom line. It may move down slightly from here, but the move will be less significant than what we have just seen. Next week's auction will probably not provide large proceeds or changes in rates, since with Christmas so close, we expect activity from foreigners to be at a minimum.

Appendix: Yields-to-maturity, repayments

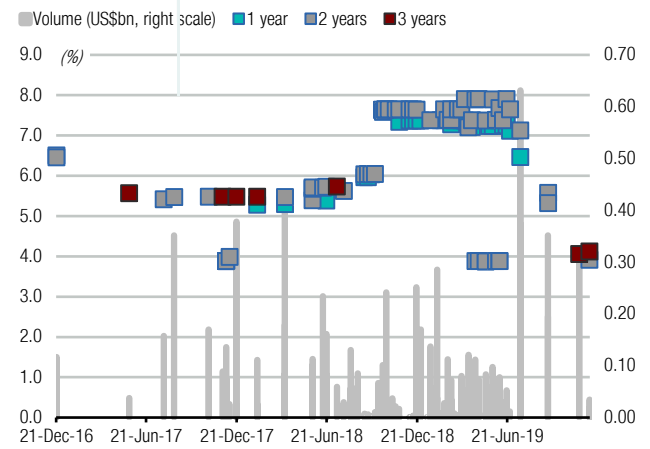
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

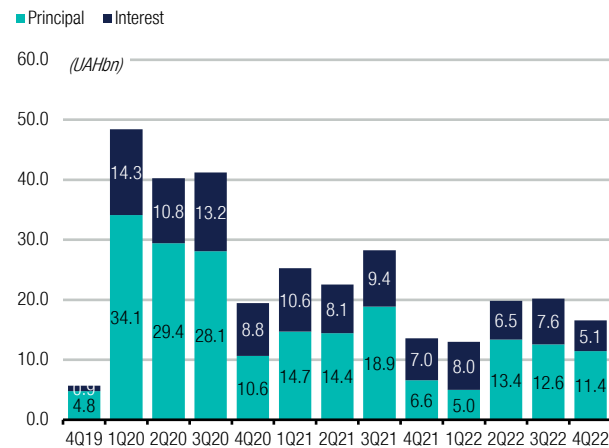
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

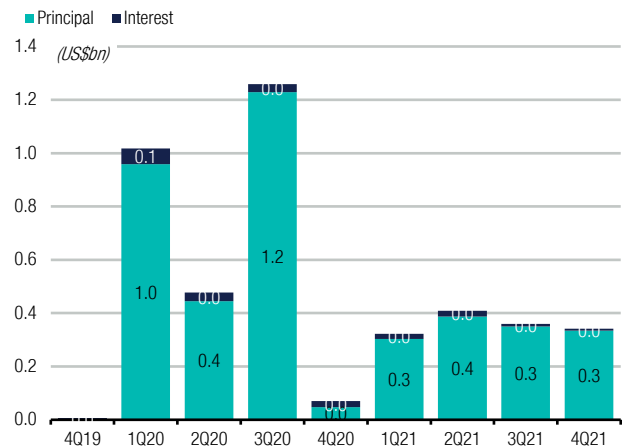
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

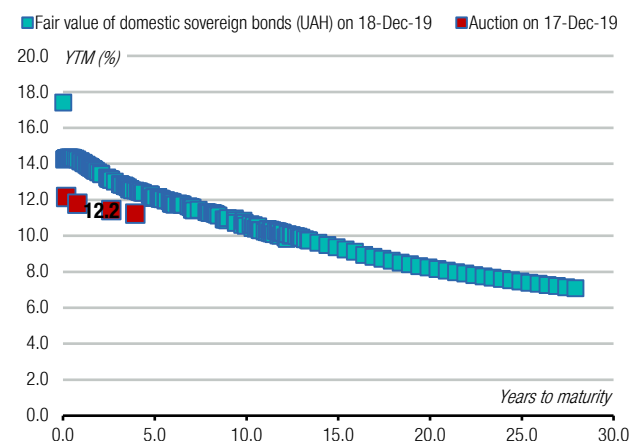
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

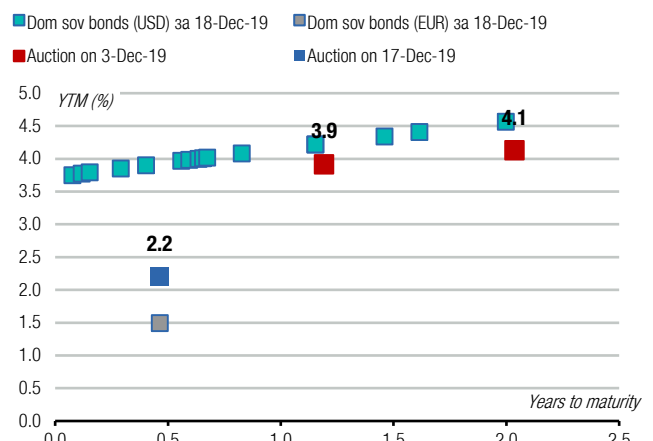
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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