

Bond Market Insight

Seven-year notes received strong demand

Comment on government bond placement

The most anticipated offering of local-currency paper this month was the 7-year note, but this instrument provided just 61% of total proceeds from this week's auction. In total, the MoF received UAH6.3bn (US\$254.7m) of proceeds with a slight decline in rates.

The seven-year note received demand of UAH9bn vs UAH6bn offered; out of 73 bids, 29 bids were rejected. Forty-four bids were accepted, part of which was non-competitive, and rates decreased below 10%. The cut-off rate was set at 9.95%, and weighted-average rate (also the coupon rate) was set at 9.79%. The budget received UAH3.7bn (US\$150m) of funds from this note.

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
UA4000165773	14.30	SA	8-Apr-20	500,000	1,051.29	525.65	500.00	10.44	3,358.07
UA4000203723	18.00	SA	24-Mar-21	1,000,000	1,148.05	1,148.05	1,000.00	10.18	9,983.49
UA4000203236	17.25	SA	5-Jan-22	802,030	1,137.50	912.31	802.03	10.13	4,790.29
UA4000207518	9.79	SA	26-May-27	3,649,566	1,015.01	3,704.36	3,649.57	10.05	3,649.57
Total UAH				5,951,596	6,290.37	5,951.60			21,781.42

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 23.26/USD, 26.01/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

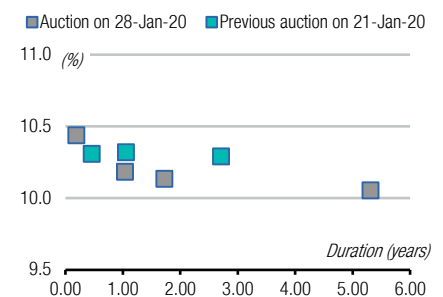
The offering for the two-year bills was similar. Demand was lower than the offering, but some bids were rejected. Out of 20 bids, three bids for UAH500m were rejected, UAH802m of bills (par value) were sold, with budget proceeds of UAH0.9bn (US\$36.9m). For this issue, rates had a slight change: the cut-off rate slid 1bp to 10.20%, and weighted-average rate declined 18bp to 9.86%.

Shorter maturities saw a larger decline in rates, where demand was larger than the capped offering. Some issues declined below 10%, but not all. For the 14-month bills, the cut-off rate was decreased by 34bp to 10.10%, and the weighted-average rate by 27bp to 9.91%. At the same time, for 70-day maturity, all rates remained above the 10% level, although their decline was the largest yesterday. The cut-off rate declined 60bp to 10.25%, and weighted-average by 58bp to 10.15%.

Most indicative of the rate dynamic was the minimum rate, as it declined less than the weighted-average rate. For the shortest offered maturity, the lowest rate declined

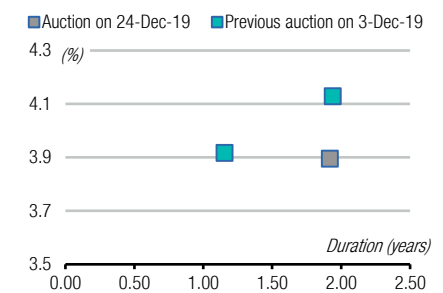
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



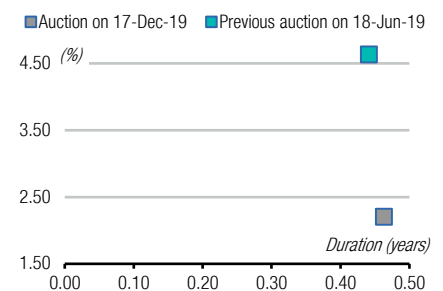
Source: Ministry of Finance of Ukraine, ICU.

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.

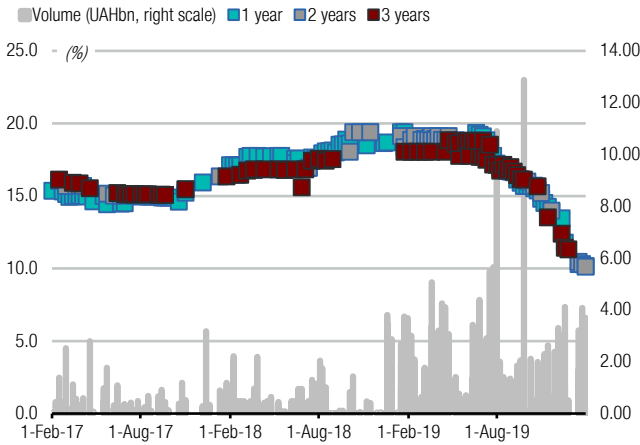
by 56bp, for the 14-month bills it slid 20 bp, and two-year paper remained unchanged. The lowest rate bid was lower only for the seven-year note, at 9%.

This dynamic of rates may indicate that they have reached the bottom for attractive rates. Especially for the middle of the yield-curve, if there is a further decline, likely it will be insufficient. Most important will be tomorrow's NBU decision about the key policy rate, but it will have insufficient impact on rates for local-currency bills. Interest rates flatten at about 10% and yield-curve will normalize, most likely after the next key policy rate review in March.

Appendix: Yields-to-maturity, repayments

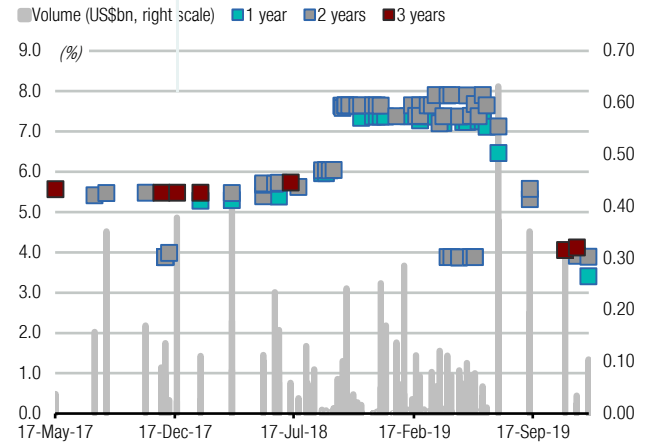
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

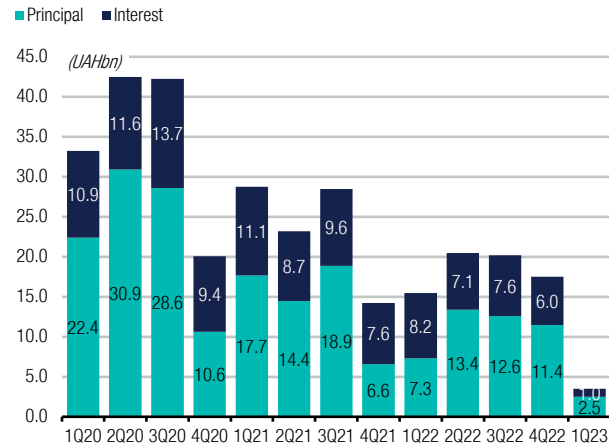
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

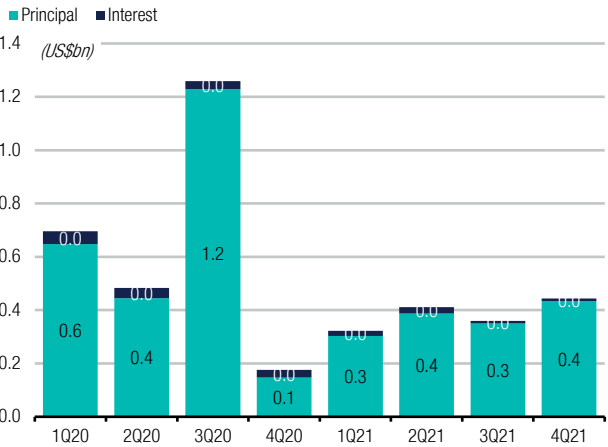
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

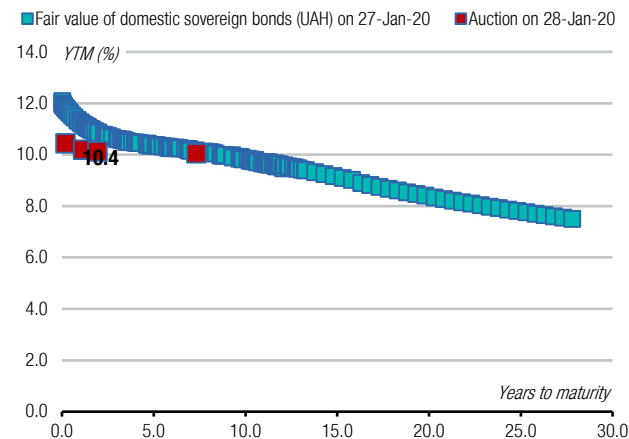
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

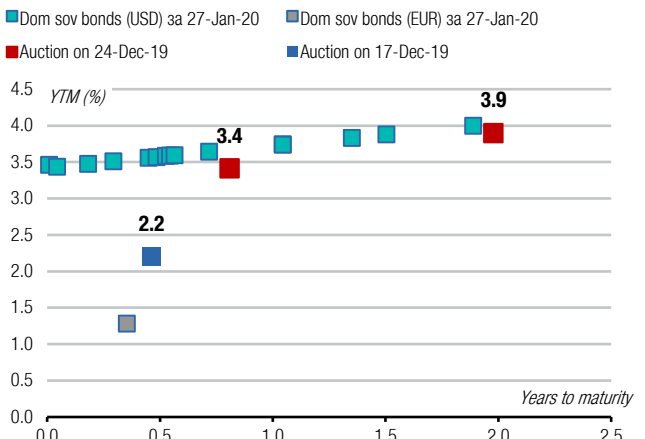
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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