

# Bond Market Insight

## Decline in rates halted

### Comment on government bond placement

Cut-off rates at yesterday's primary auction were mostly unchanged, and borrowings fell to UAH2.3bn. The MoF's strategy of capping offerings was positive for the budget and supported the decline in lowest rates in bids, but weighted-average rates did not decline significantly.

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

ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	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>
UA4000171094	14.30	SA	8-Jul-20	262,971	1,029.84	270.82	262.97	9.86	8,325.78
UA4000194377	16.75	SA	2-Jun-21	1,000,000	1,113.53	1,113.53	1,000.00	10.03	7,277.94
UA4000207682	9.84	SA	15-Feb-23	902,585	1,045.43	943.59	902.59	10.11	902.59
<b>Total UAH</b>				<b>2,165,556</b>	<b>2,327.94</b>	<b>2,165.56</b>			<b>16,506.31</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 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.

Demand for six-month bills exceeded the offering by more than 2x. The Ministry met nearly half of it, or about UAH262m (par value). The cut-off rate was set at 10%, just 4bp lower than two weeks ago. This decision decreased the potential amount of proceeds to UAH270m, but the weighted-average rate declined 43bp to 9.6%.

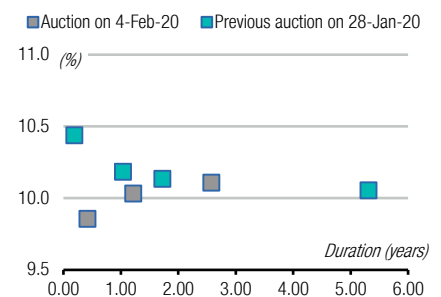
The Ministry sold all UAH1bn of the 16-month bills. Demand also was 2x larger than the cap, but the decline in rates was less significant. The cut-off rate was unchanged since last week when 14-month bills were sold at 10.10%; however, the weighted-average rate slid 14bp to 9.77%.

There was not much demand for the offering of the new three-year note. It's possible that foreigners' view on local-currency bills played a role in this. They could prefer shorter maturities now or will wait for the offering of the four-year note next week. As a result, demand for three-year paper was just UAH0.9bn over 26 bids. The MoF rejected just one bid with the highest rate for a low amount. As a result, the cut-off rate remained steady at 10.15%; the weighted-average rate declined by 17bp to 9.84%.

The decline in weighted-average rates was likely based on the NBU's new key policy rate. Last week's decrease of 250bp caused a decline in lowest bid rates. They were within a 50bp range, but the impact on weighted-average rates was low, which explains why demand at these rates was also low.

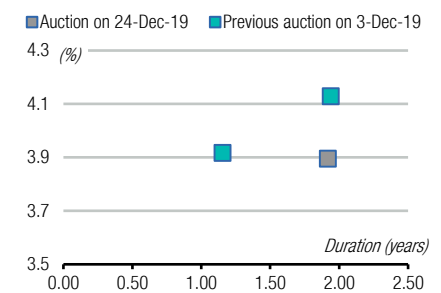
### WEDNESDAY, 5 FEBRUARY 2020

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



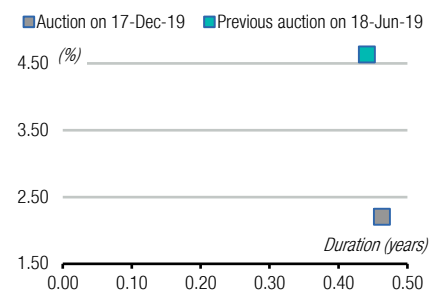
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

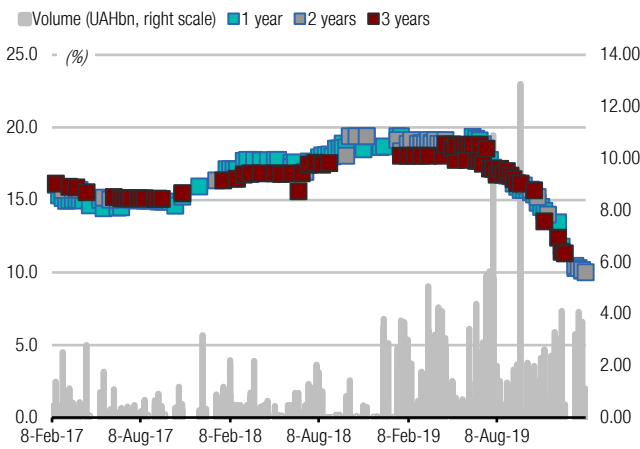
The main reaction to the new key policy rate was the significant decline in rates for the six-month bills. Additionally, this decline was forced by MoF's decision to accept just part of demand, below the cap for this maturity.

So, next week, the decline in rates should mostly be seen for three-month, and two and four-year paper, since the last time they were sold was prior to the key policy rate revision. We expect to see a similar picture as yesterday: a large decline in the lowest rate for each issue with demand concentrating at the short-term end of yield curve, while the total amount of proceeds can rise due to a wider range of instruments offered.

# Appendix: Yields-to-maturity, repayments

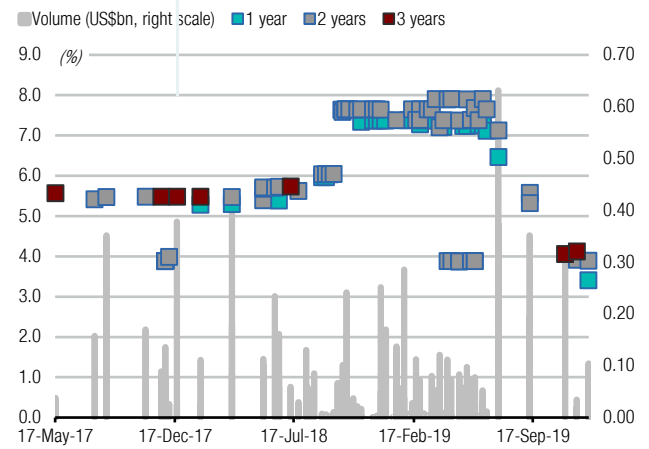
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

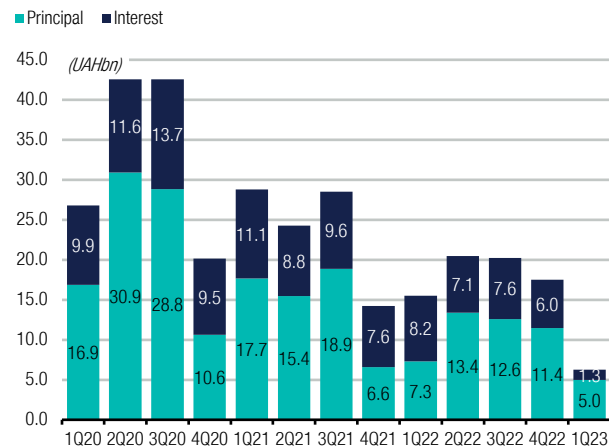
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

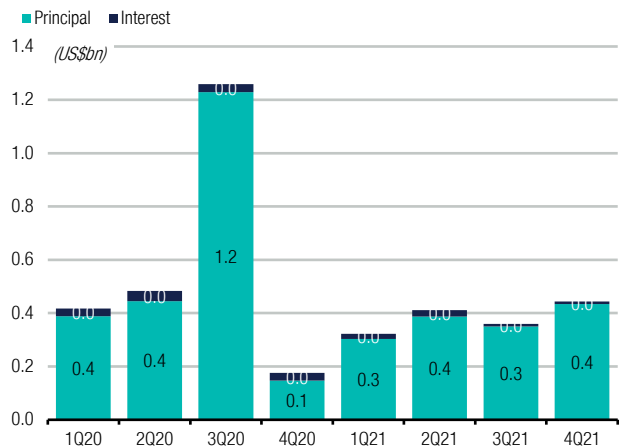
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

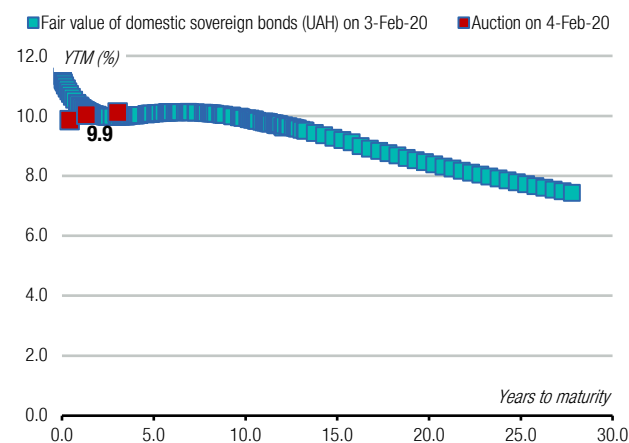
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

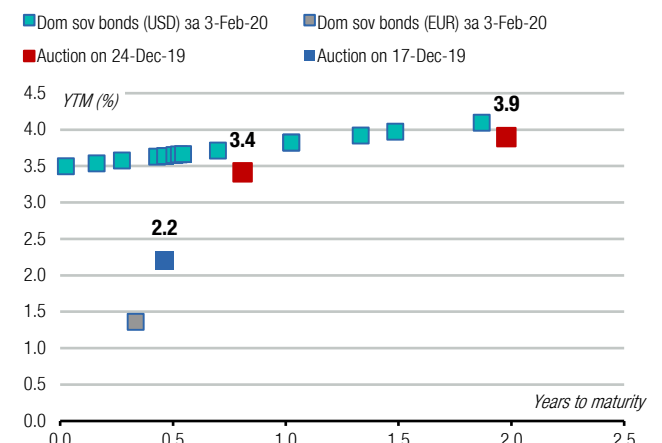
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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