

# Bond Market Insight

## Interest rates correct

### Comment on government bond placement

Low demand, concentrated in just one of three offered maturities, resulted in the MoF partially reviewing its interest rate policy. The greatest effect was on weighted-average rates, although cut-off rates were affected too. The budget received just UAH1.5bn of proceeds, which is enough for now.

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

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m) <sup>4</sup>
UA4000171094	14.30	SA	8-Jul-20	333,705	1,032.70	344.62	333.71	10.09	8,659.49
UA4000207989	9.63	SA	21-Jul-21	1,143,850	1,007.23	1,152.12	1,143.85	9.89	1,143.85
UA4000207682	9.84	SA	15-Feb-23	32,548	993.22	32.33	32.55	10.39	935.13
<b>Total UAH</b>				<b>1,510,103</b>	<b>1,529.06</b>	<b>1,510.10</b>			<b>10,738.47</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 24.56/USD, 26.01/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Only the cut-off rate for the five-month bills was unchanged, which received UAH623m (US\$25.4m) of demand, out of an offered UAH1bn (US\$40m). However, nearly half the demand was rejected. The MoF kept the cut-off rate unchanged at 10%, but the weighted-average rate rose 22bp to 9.82%, although the lowest rate in demand slid 1bp. So, accepted demand was mostly at or slightly below 10%.

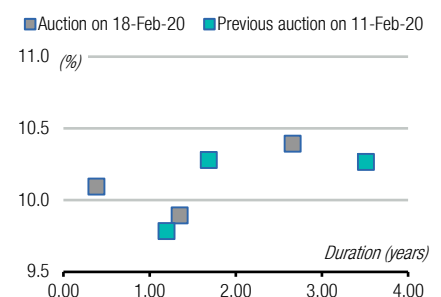
The 1.5-year bills rates rose also. The lowest rate in demand was up 10bp. Likely, it caused the increase in the weighted average rate to rise 10bp, both rose to 9.63%. But the cut-off rate was up 12bp to 9.65%. At the same time, the highest rate in demand fell 100bp to 10%. But the MoF rejected bids with rates between 9.65% and 10% due to the low amount, as budget would get just UAH15m (US\$0.6m) more of proceeds.

The cut-off rate was reduced only for three-year paper, but just by 1bp to 10.14%. By the way, the weighted-average cost of borrowings from this note rose the most from yesterday's offerings by 27bp to 10.11%. However, the amount of demand and proceeds were the lowest of the auction at just UAH32.3m.

Yesterday could well be the beginning of a correction in rates and continuation of yield-curve normalization, where longer maturities are getting more preferences in interest rates. At the same time, the short end of yield curve is in no hurry to decrease cut-off rates, although there has been more movement in weighted average rates.

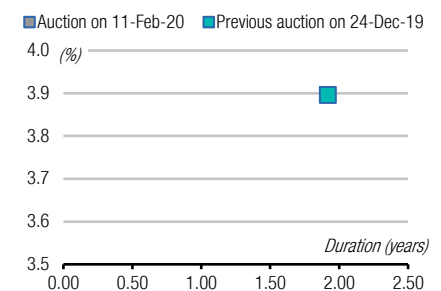
### WEDNESDAY, 19 FEBRUARY 2020

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



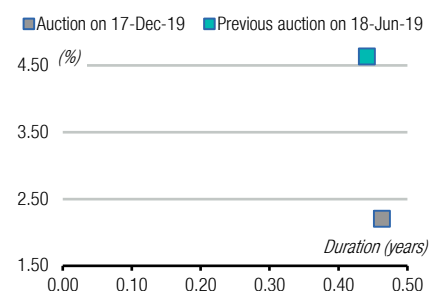
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

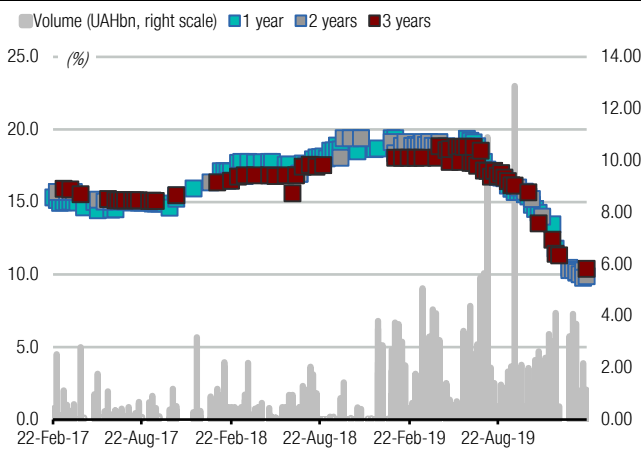
Most likely, 1.5 year paper will continue to attract most of the demand from foreigners, and provide the budget with larger proceeds and a lower cost of funds. But little by little, shorter maturities should reduce this difference, especially after the next key policy rate revision, which should make the yield curve smoother.

In total this week, the Ministry refinanced most of the debt principal repayments that were scheduled in local currency in the market. Therefore, this auction should not have much impact on budget performance or the FX market.

# Appendix: Yields-to-maturity, repayments

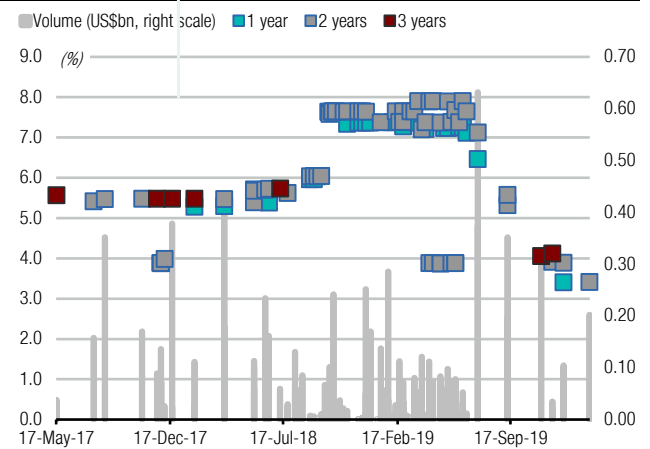
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

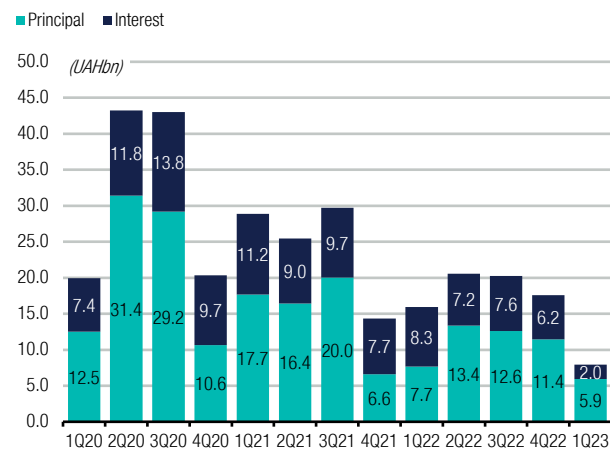
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

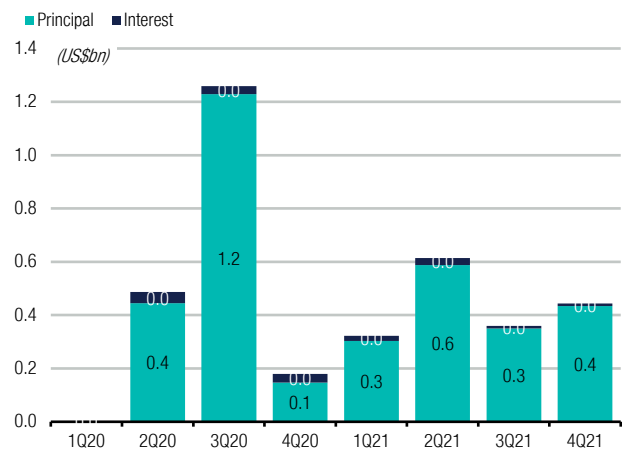
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

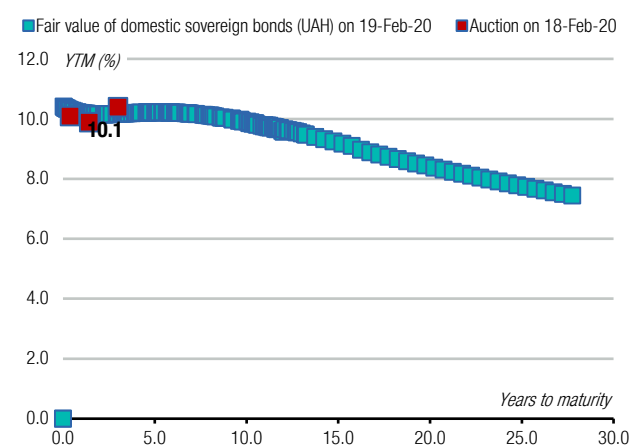
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

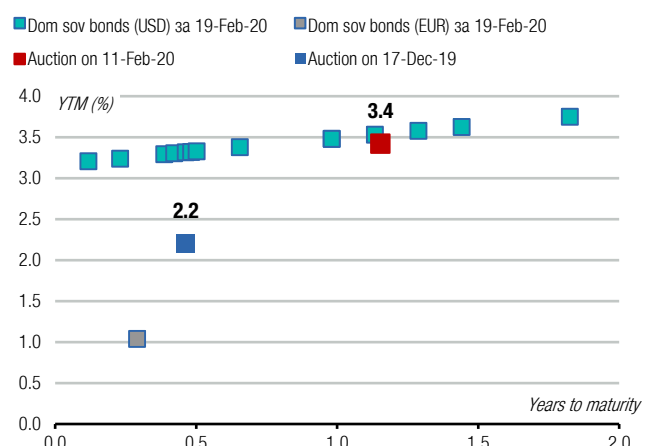
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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