

Bond Market Insight

Rates no longer declining

Comment on government bond placement

The end of the 1H20 brought a sharp fall in banking-sector liquidity caused low activity at yesterday's primary auction with a little movement in interest rates.

By the end of last week, banking-sector liquidity fell to UAH150bn, a quarter less than two weeks before. It is not surprising that in general, demand at the primary auction decreased more than threefold to UAH 2.5 billion. Auction participants were not in a hurry to reduce rates in their bids, nor were they interested in all maturities offered.

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

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000202469	17.25	SA	30-Sep-20	500,000	1,067.11	533.56	500.00	7.39	7,940.99
UA4000209225	0.00	@Mty	25-Nov-20	500,000	969.77	484.89	500.00	7.74	10,414.82
UA4000209886	10.57	SA	23-Feb-22	239,300	1,038.95	248.62	239.30	10.69	2,008.69
UA4000207682	9.84	SA	15-Feb-23	5,000	1,021.52	5.11	5.00	10.78	1,277.16
Total UAH				1,244,300	1,272.17	1,244.30			21,641.67

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 26.73/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand was greater than the offering for the two shortest bills, as usual, but all rates in bids were at the same level as the cut-off rate a week ago. For the three-month bills, rates remained unchanged, while for the five-month bills, the weighted-average rate rose 3bp and the cut-off rate remained unchanged.

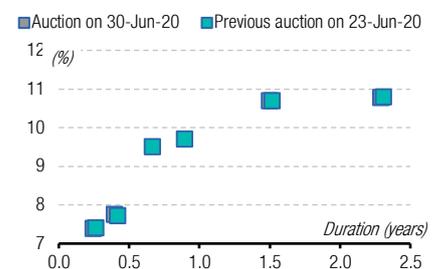
However, bills with maturities next year did not attract much interest. The nine-month bills did not receive any bids. There was demand for the 12-month bills, but only at the 10% rate, which is 30bp above the last week's cut-off rate.

Only bills with maturities of more than one year saw a decline in the cut-off rate with unchanged weighted-average rates. Two-year paper saw a decrease in the cut-off rate by 10bp to 10.4% while weighted-average rate remained at 10.39%. The three-year instrument did not receive any competitive bids, and the Ministry accepted non-competitive demand at 10.47%, the level of last week's weighted-average rate, which actually remained unchanged, although the cut-off rate was down 13bp.

It is likely that for some market players, last week's dividend payments by Naftogaz to state budget was a surprise, and they had to change their plans to purchase bills immediately. This could be the reason why some bills did not see demand at all or

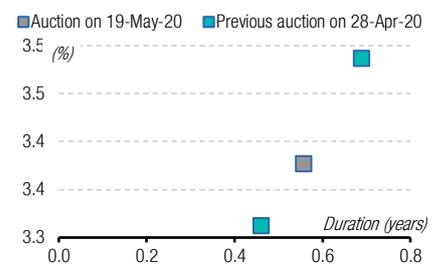
WEDNESDAY, 1 JULY 2020

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



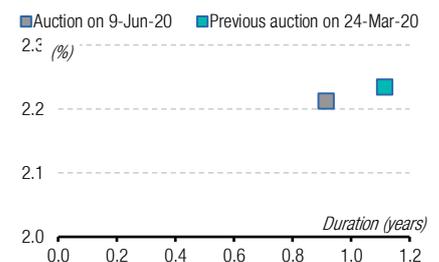
Source: Ministry of Finance of Ukraine, ICU.

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.

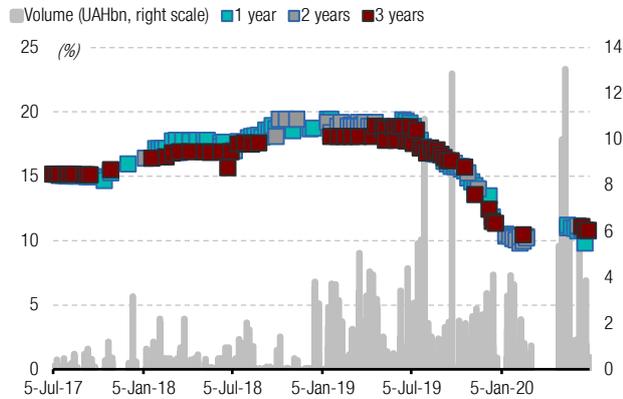
received few bids.

As a result, rates did not decline, although it is possible they will again next week. Next Wednesday, the MoF has to repay about UAH7bn of local-currency debt and part of these funds can be subject to new purchases in addition to new demand. We may see an increase in competition next week, but likely for longer maturities. For the shortest bills, we can see steady interest rates.

Appendix: Yields-to-maturity, repayments

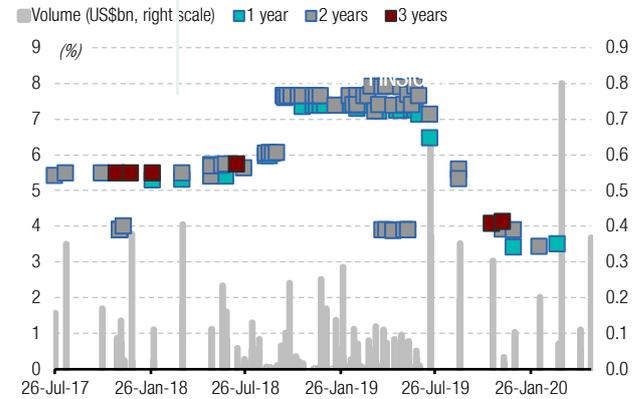
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

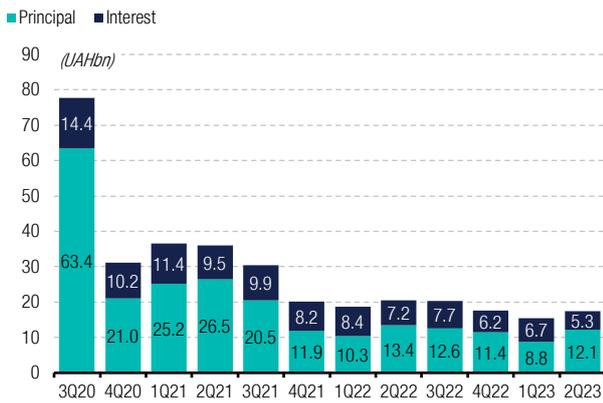
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

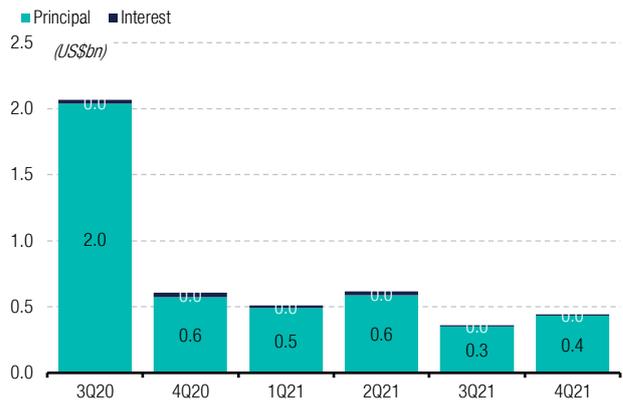
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

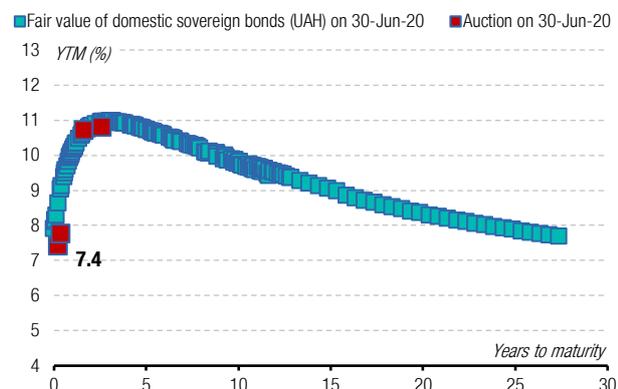
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

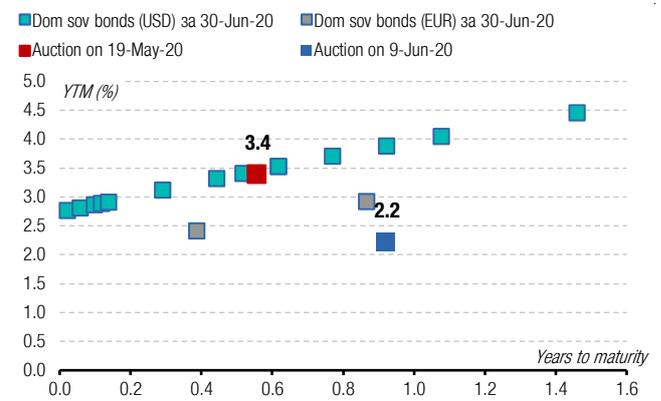
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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