

Bond Market Insight

Ministry decreased interest rates

Comment on government bond placement

June's debut auction was met with an increase in demand, which resulted in an almost three-fold increase in budget proceeds. At the same time, the Ministry was able to decrease interest rates for all offerings.

Typically, the three-month and six-month bills have set limits, which this week resulted in a material decline in interest rates. There was not much demand for the three-month bills, just UAH830m vs the offered amount of UAH500m. The six-month bills saw three times larger demand, UAH1.5bn vs the offered amount of UAH500m.

The large demand allowed the Ministry to sell the planned amount of these bills, receiving UAH525m and UAH477m, respectively, accepting only part of the cheapest demand. Most likely, some bids were partially accepted. As a result, cut-off rates were set at 9.9% and 10.27%, while weighted-average rates were 9.84% and 10.11%, respectively, for the three-month and six-month bills. These rates are 35bp lower than a week before for the three-month bills. For the six-month paper, the cut-off rate declined 68bp and the weighted-average rate by 22bp. This large difference was the result of a wide range of rates in accepted bills a week ago.

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
UA4000198873	14.50	SA	19-Aug-20	500,000	1,050.92	525.46	500.00	10.11	7,430.73
UA4000209225	0.00	@Mty	25-Nov-20	500,000	953.77	476.89	500.00	10.11	8,414.82
UA4000209373	0.00	@Mty	24-Feb-21	700,000	926.47	648.53	700.00	10.89	7,180.48
UA4000209381	0.00	@Mty	19-May-21	1,429,460	905.67	1,294.62	1,429.46	10.86	5,586.84
Total UAH				3,129,460	2,945.49	3,129.46			28,612.88

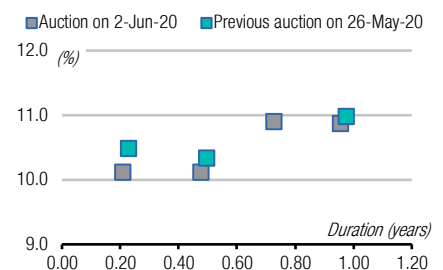
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.73/USD, 30.44/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Rates for longer bills also declined, but it was less material. The weighted-average rate for nine-month and 12-month bills slid by 11bp to 10.89% and 10.86%, respectively. The cut-off rate for these bills was set at the same level, 10.89%, which is 11bp and 8bp below previous successful auctions, respectively.

However, Ukrainian banks and non-bank investors continue to purchase new bills with a slight increase in demand. Most likely, this is a result of large debt repayments scheduled for next week, in addition to the scheduled revision of the NBU key

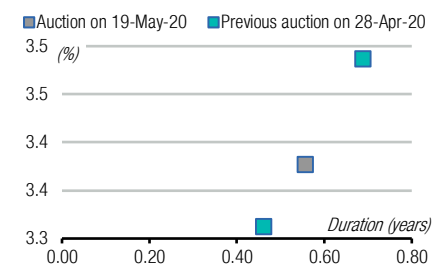
WEDNESDAY, 3 JUNE 2020

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



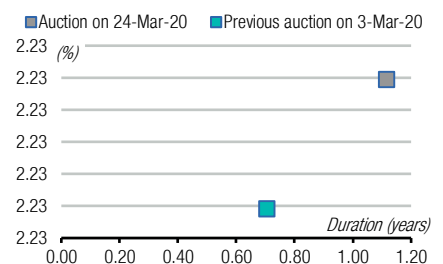
Source: Ministry of Finance of Ukraine, ICU.

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



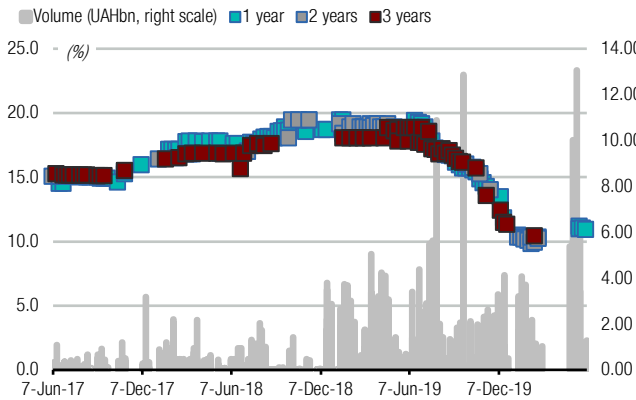
Source: Ministry of Finance of Ukraine, ICU.

policy rate next Thursday. This could incent investors to purchase bills in advance, as next week the Ministry can be more aggressive in rejecting bids with higher interest rates waiting for a further decline in interest rates after the expected NBU key rate cut.

Appendix: Yields-to-maturity, repayments

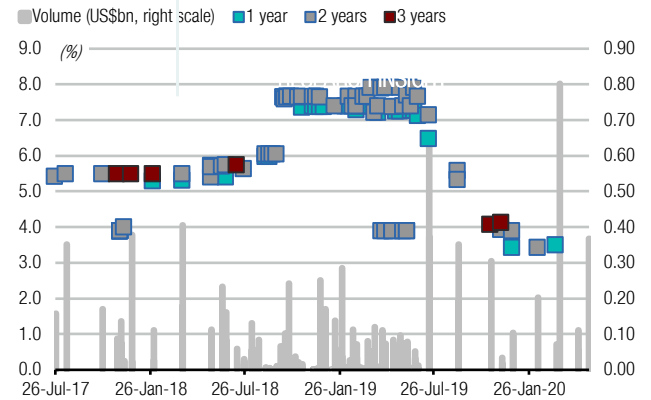
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

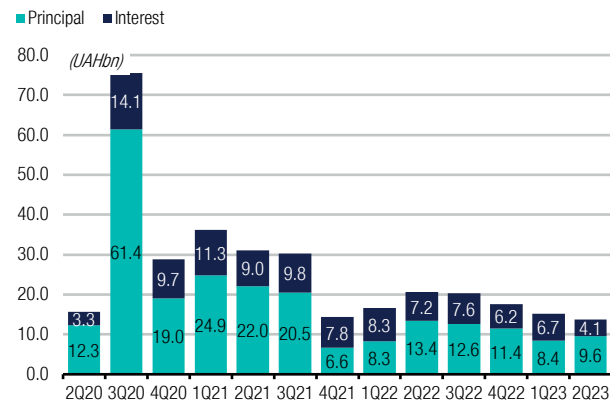
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

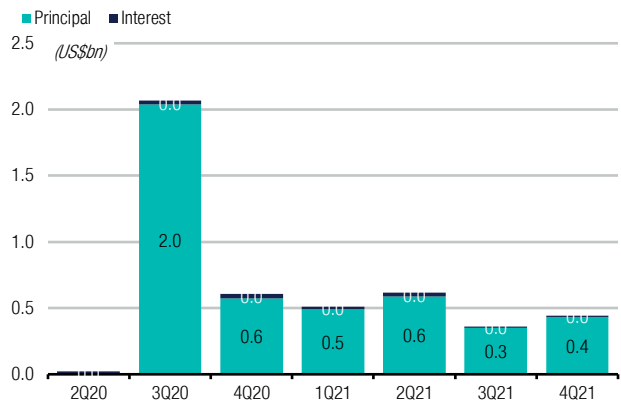
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

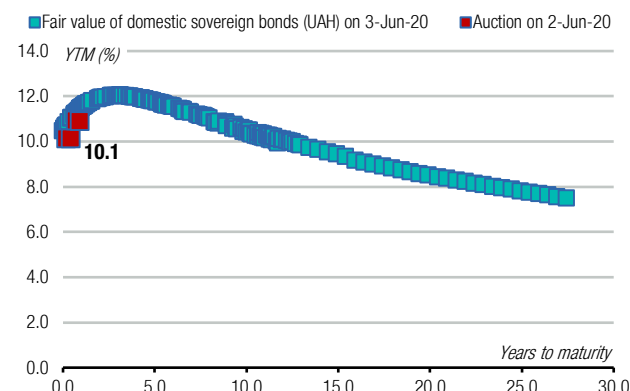
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

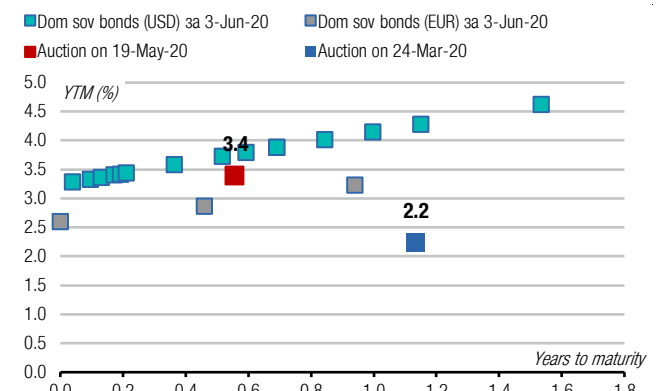
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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