

# Bond Market Insight

## Slight changes in interest rates

### Comment on government bond placement

There was less demand in the primary market this week, which prompted the Ministry of Finance to slightly increase the interest rates for local-currency bills. Proceeds raised fell to UAH2.5bn (US\$92m), including UAH0.8bn (US\$61.1) in local and US\$30.9bn in hard currency.

As usual, six-month paper was bought by one bank. The MoF slightly increased both the cut-off and weighted-average rates by 8bp to 7.82%. Another bid came in at 10% with UAH100m (US\$3.7m) of demand, therefore, as expected, this demand was not accepted.

The Ministry also increased the cut-off rate for the two-year instrument by 5bp to 10.25%. There were 12 bids, where just UAH106m (US\$3.9m) of demand was rejected due to rates in bids as high as 13%. However, a large portion of accepted demand had lower rates, at 10%, which caused the weighted-average rate decline by 6bp to 10.14%.

**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> (%)	Outstanding (m) <sup>4</sup>
UA4000209373	0.00	@Mty	24-Feb-21	1,040,000	961.08	999.52	1,040.00	7.82	10,561.56
UA4000204572	16.06	SA	3-Aug-22	598,500	1,109.06	663.77	598.50	10.42	8,190.07
<b>Total UAH</b>				<b>1,638,500</b>		<b>1,663.29</b>	<b>1,638.50</b>		<b>18,751.63</b>
UA4000207898	3.39	SA	8-Apr-21	30,534	1,012.36	843.96	833.66	3.41	6,294.18
<b>Total USD</b>				<b>30,534</b>		<b>843.96</b>	<b>833.66</b>		<b>6,294.18</b>

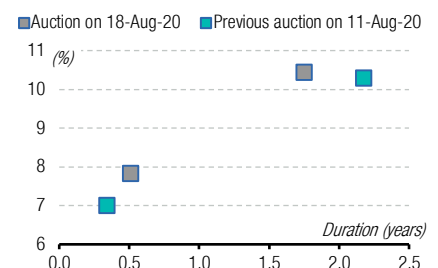
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.3/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Rates were unchanged only for USD-denominated bills and proceeds declined. The Ministry accepted 23 out of 26 bids, rejecting just US\$1.4m of demand. Nearly half of demand was non-competitive as investors wanted to be sure their bids would be accepted despite what the weighted average rate would be.

This decline in demand was expected. There is usually low banking-sector liquidity in December so banks are not in hurry to buy bills with longer maturities. Compared with the three-month bills sold last week, banks' demand was restrained. They preferred the secondary market, where they can buy shorter bills than offered in the primary market or longer instruments at better yields.

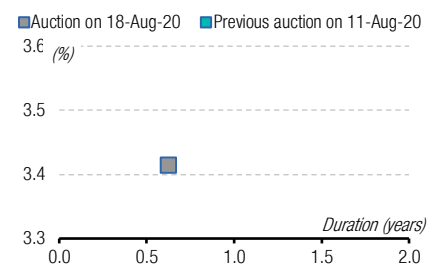
### WEDNESDAY, 19 AUGUST 2020

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



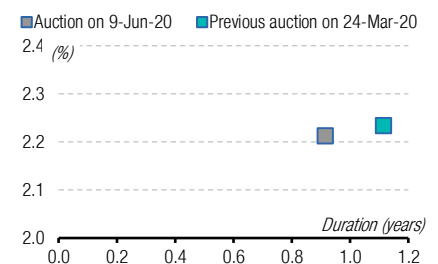
Source: Ministry of Finance of Ukraine, ICU.

#### 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

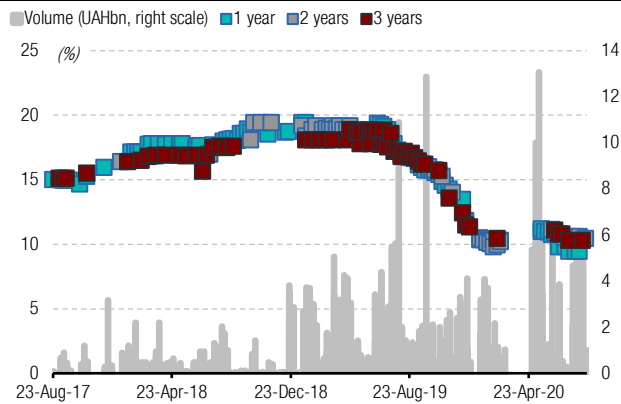


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

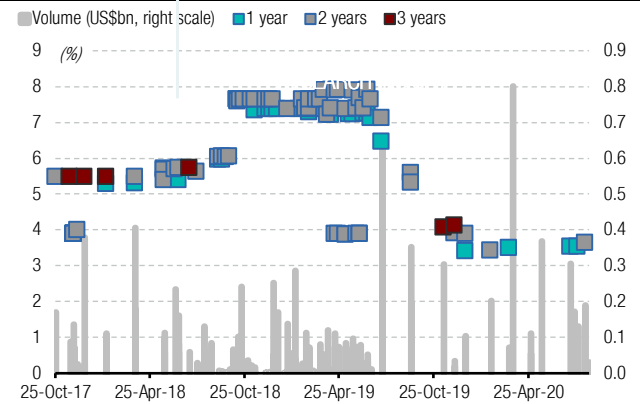
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

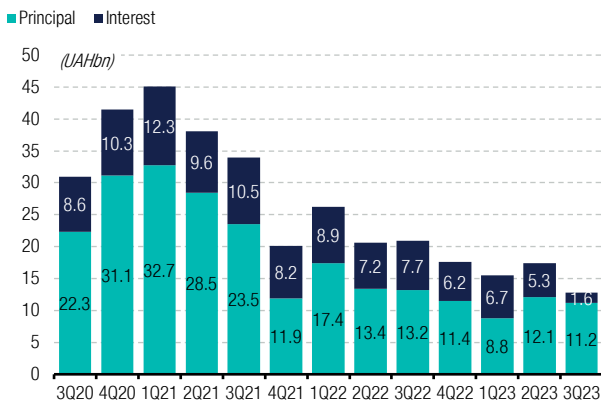
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

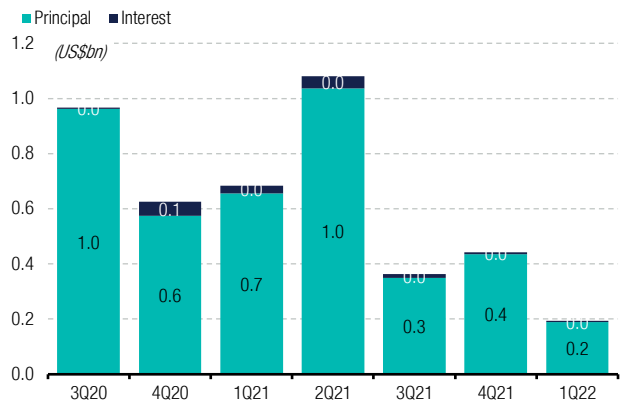
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

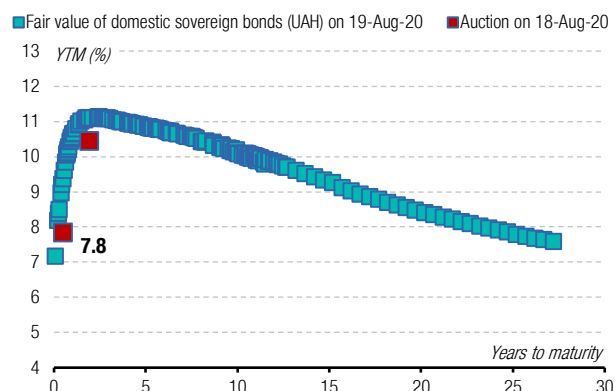
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

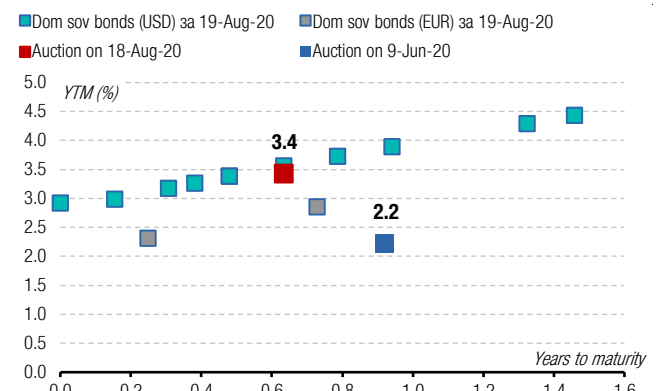
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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