

# Bond Market Insight

## Demand for bill has run out

### Comment on government bond placement

The regular auction showed that active demand observed in early October is now virtually exhausted. Raising rates at the beginning of the month had only a short-term effect. After attracting more than US\$400m in two weeks, only a tenth of this amount was received yesterday. Another dramatic difference was raising funds in the national currency. After raising UAH2.4bn of proceeds for two weeks, this time only UAH7.1m was raised for the budget.

For local-currency bills, there was demand only for the shortest maturity. The bulk of it was in the range between 19% and 20%, and was rejected. Market participants expected that after placing two-month paper at 19%, the four-month bills would have a higher rate. But according to the issuer's decision, these are similar instruments, and the rate remains at the previous level. Therefore, less than 7% of demand was satisfied. There was no demand for bonds with maturities from six and up to 11 months.

For two-year bills, bids had rates 50-75bp above the cut-off rate two weeks ago, and was too small to be accepted.

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

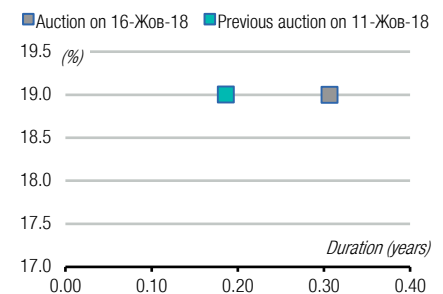
ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m) <sup>4</sup>
UA4000200968	0.00	@Mty	6-Лют-19	7,491	944.91	7.08	7.49	19.00	357.36
<b>Total UAH</b>				<b>7,491</b>		<b>7.08</b>	<b>7.49</b>		<b>357.36</b>
UA4000201453	0.00	@Mty	19-Чер-19	8,664	955.30	230.90	241.70	6.97	6,047.87
UA4000202535	7.50	SA	30-Січ-20	7,524	1,015.70	213.20	209.90	7.64	4,408.87
UA4000197396	5.49	SA	13-Тра-20	103	993.98	2.86	2.87	7.65	6,538.48
UA4000202568	7.50	SA	15-Жов-20	25,258	1,000.00	704.64	704.64	7.65	704.64
<b>Total USD</b>				<b>41,549</b>	<b>1,151.59</b>	<b>1,159.11</b>			<b>17,699.85</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 27.9/USD, 32.27/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

At the same time, FX-denominated bills received bids for all offered maturities. Part of demand was rejected for only the shortest one because of the MoF's unwillingness to raise the rate. For other maturities (from 14 to 24 months) the rate was set at the usual level of 7.5%. But the volume of demand was almost 10 times less than in the previous three auctions this month, and the volume of borrowings was 1/10 the amount of funds attracted this month. Such proceeds compensate for only

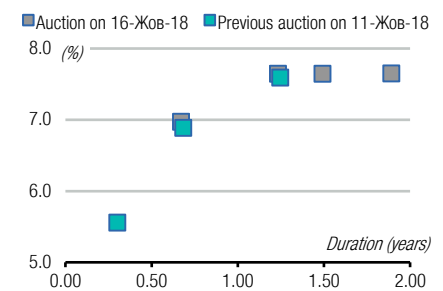
WEDNESDAY, 17 OCTOBER 2018

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



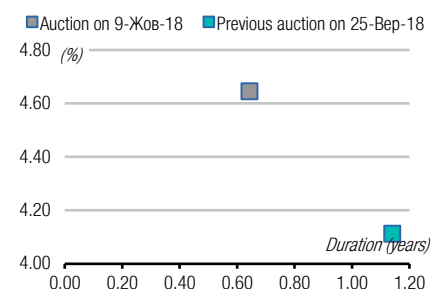
Source: Ministry of Finance of Ukraine, ICU.

### 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.

a small part of the FX spent on debt repayments today, and the budget will be left with a small amount of FX before the next payment of FX-denominated bills next week.

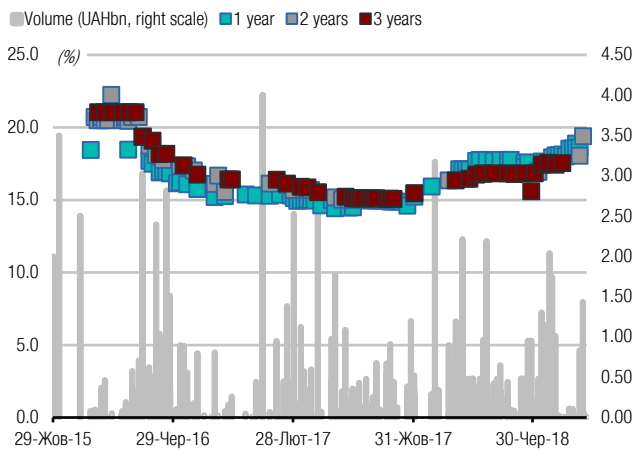
In anticipation of the NBU decision on the key policy rate, demand for local-currency bills may not be available next week. So no matter what decision is made on the key rate, the local-currency source may not return to the primary market until the end of the month. An increase in demand at the end of October and early November will contribute to the replenishment of budget accounts before significant debt repayments in November.

But the FX-denominated source, likely, ran out in previous weeks. The Ministry will have to make an effort to increase interest in FX-denominated bills. This is especially true for instruments denominated in euro, which will be offered next week to maximize funds for refinancing of debt repayments, since they will need to pay over EUR 200 million next week. The Ministry of Finance may even have to hold an additional auction tomorrow to replenish foreign currency balances, including in euros.

# Appendix: Yields-to-maturity, repayments

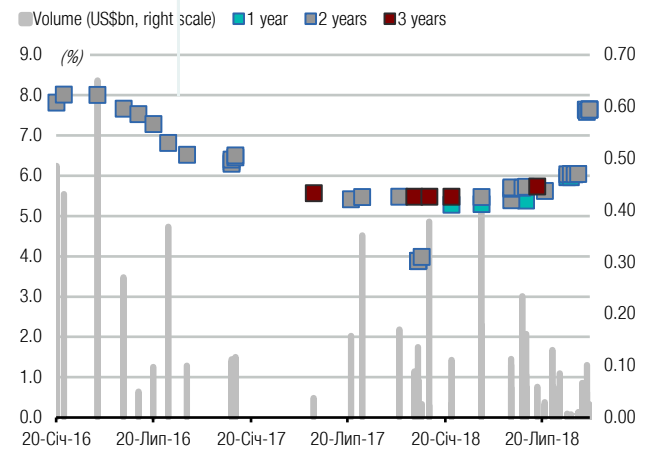
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

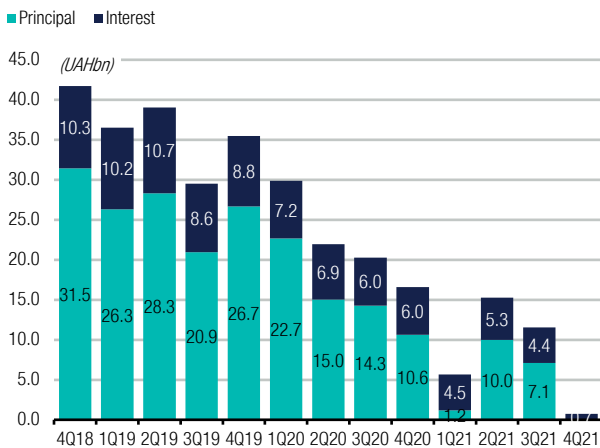
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

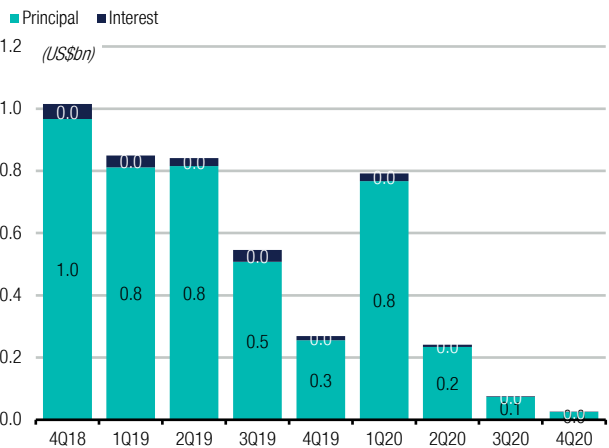
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

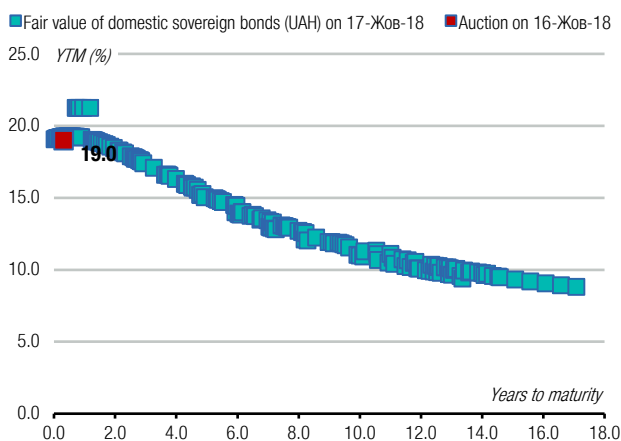
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

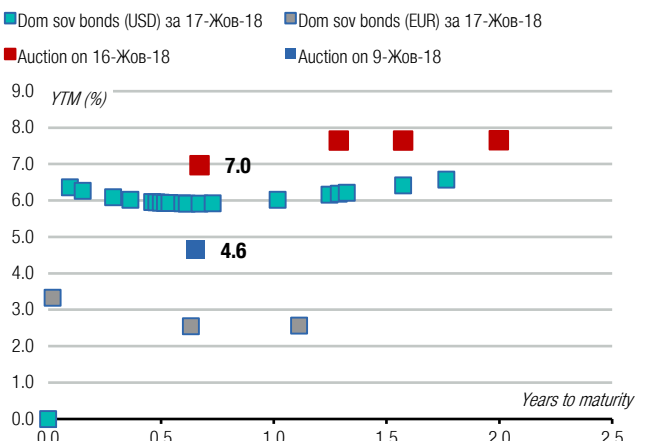
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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