

# Bond Market Insight

## Demand increases for longer bills

### Comment on government bond placement

For the second consecutive week, demand for medium-term bills increased. This week, these bills provided nearly half of the proceeds raised.

Overall demand in this auction declined to UAH3.4bn; however, there were some positive characteristics. First was the refinancing ratio. Last week, it was 1.25 as the MoF repaid UAH4.4bn and borrowed just UAH1.1bn more. This week, it rose sufficiently. With UAH0.8bn of repayments, the Ministry had to borrow four times more, or UAH3.2bn.

Second, and no less important, is borrowings structure in terms of maturity. Last week, only 16% of borrowings had maturity dates in 2020 and 2021. Yesterday, proceeds from bills with maturities in 2021 amounted to UAH1.6bn or nearly half of all proceeds in local currency.

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

ISIN	Coupon rate (%)	Payment frequency <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>
UA4000203640	0.00	@Mty	26-Jun-19	1,385,244	946.88	1,311.66	1,385.24	19.50	1,385.24
UA4000203301	0.00	@Mty	7-Aug-19	35,848	928.92	33.30	35.85	19.00	1,363.10
UA4000202295	0.00	@Mty	4-Sep-19	59,122	916.51	54.19	59.12	19.00	374.09
UA4000203244	0.00	@Mty	29-Jan-20	276,411	859.69	237.63	276.41	18.50	843.48
UA4000200174	15.70	SA	20-Jan-21	1,615,241	985.34	1,591.56	1,615.24	18.87	4,017.64
<b>Total UAH</b>				<b>3,371,866</b>		<b>3,228.34</b>	<b>3,371.87</b>		<b>7,983.55</b>
UA4000203392	7.50	SA	11-Feb-21	4,153	1,005.68	110.85	110.22	7.65	364.20
<b>Total USD</b>				<b>4,153</b>		<b>110.85</b>	<b>110.22</b>		<b>364.20</b>
UA4000200711	4.12	SA	27-Nov-19	5,370	1,008.63	162.27	160.88	4.65	8,494.23
<b>Total EUR</b>				<b>5,370</b>		<b>162.27</b>	<b>160.88</b>		<b>8,494.23</b>

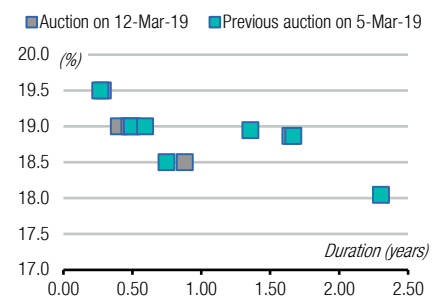
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.54/USD, 29.96/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

At the same time, demand for FX-denominated bills remained low, providing some FX for budget, which was expected due to the strong hryvnia and lack of debt repayments in FX. Yesterday, the MoF borrowed just US\$4.2m and EUR5.4m.

Yesterday's demand saw movement into medium-term bills. Last week, there was an increase in foreign investors' interest in the same maturities. We expect this trend of lower demand for three-month bills to continue. This is important, as tomorrow,

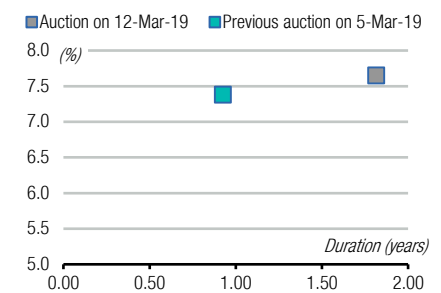
### WEDNESDAY, 13 MARCH 2019

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



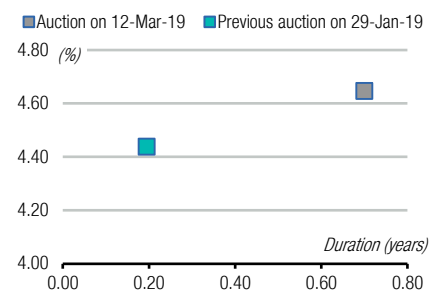
Source: Ministry of Finance of Ukraine, ICU.

#### 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



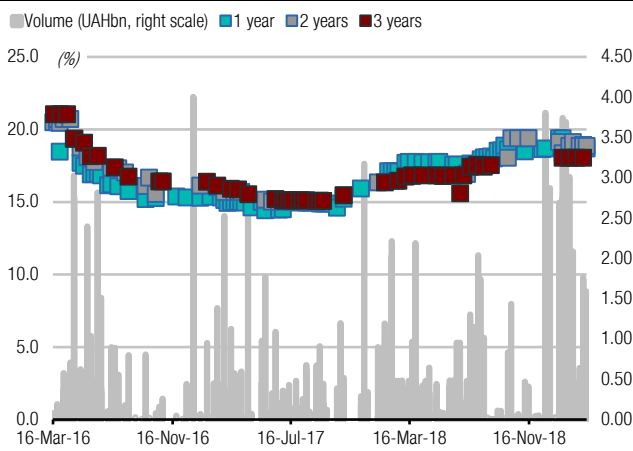
Source: Ministry of Finance of Ukraine, ICU.

the NBU has to announce its decision on the key policy rate for the next six weeks. Current changes in the demand structure could be a message that the market expects the NBU to cut its key rate soon, probably during next few months, which will push down interest rates for local-currency bills.

# Appendix: Yields-to-maturity, repayments

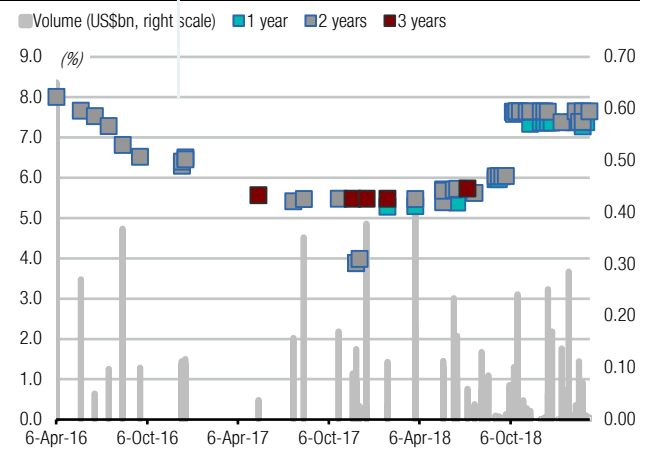
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

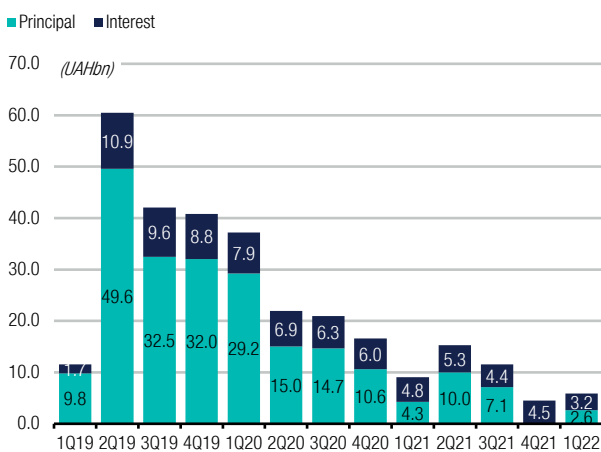
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

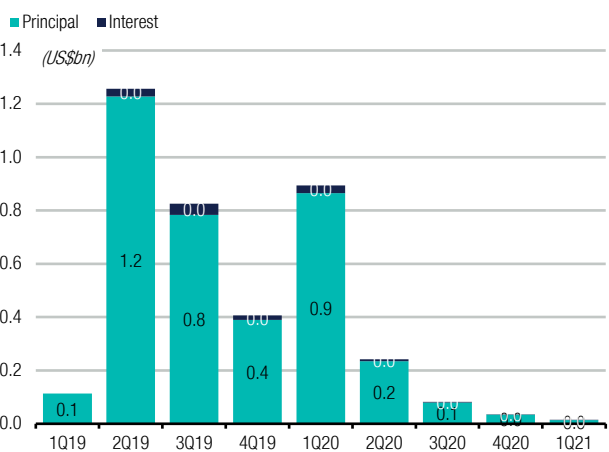
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

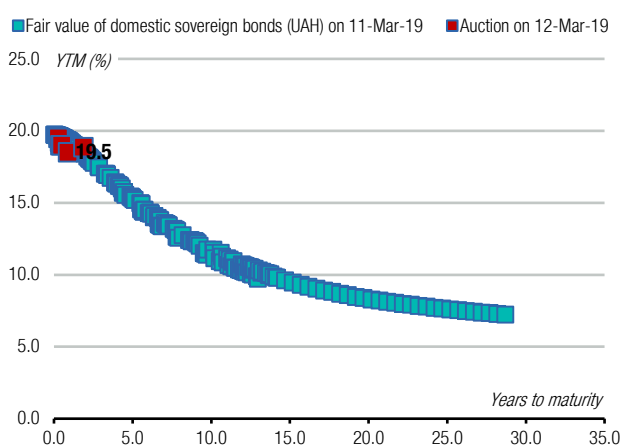
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

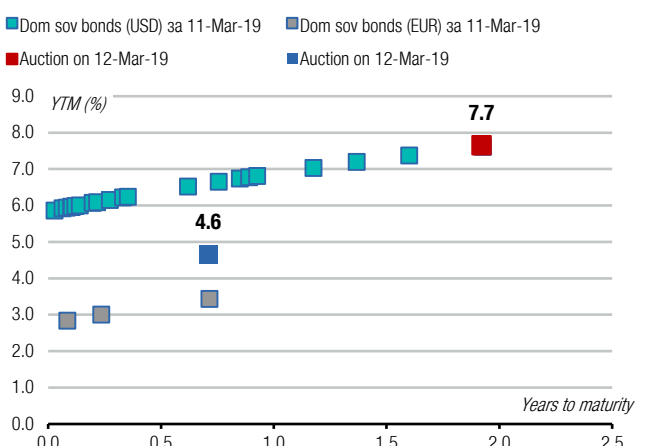
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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