

# Bond Market Insight

## Active demand with increased rates

### Comment on government bond placement

There was active demand for all maturities in this week's auction. Demand was smoothly distributed among all four bills that had tenors ranging from six months up to three years.

Obviously, most bidders were interested in shorter maturities. The six and 12 month bills received almost equal demand of UAH2.1bn (US\$74m) each. However, demand for the longer maturities came with higher rates. Therefore, the Ministry rejected part of demand for all maturities.

**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 <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000211957	0.00	@Mty	28-Apr-21	2,000,115	959.01	1,918.13	2,000.12	7.96	6,106.04
UA4000204986	15.36	SA	29-Sep-21	1,789,980	1,054.06	1,886.75	1,789.98	10.25	7,964.54
UA4000204572	16.06	SA	3-Aug-22	1,010,827	1,114.71	1,126.78	1,010.83	11.12	10,083.76
UA4000206460	11.67	SA	22-Nov-23	1,012,995	1,063.50	1,077.32	1,013.00	11.27	11,013.00
<b>Total UAH</b>				<b>5,813,917</b>		<b>6,008.97</b>	<b>5,813.92</b>		<b>35,167.33</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 28.23/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

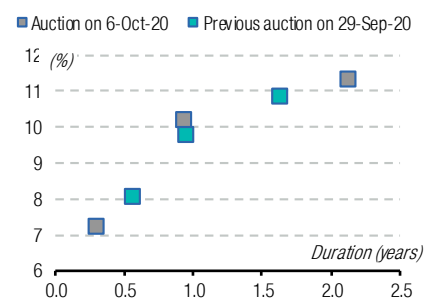
For the six-month bills, the highest rate in submitted demand was 10%. Two bids for low amounts, just UAH100m (US\$3m) were rejected, without material impact on the amount of borrowings. So, rates were kept unchanged at 8%.

The placement of 12-month bills was similar. The highest rate was 11%, and the Ministry rejected three bids for almost UAH300m (US\$11m). In the end, UAH1.8bn (US\$67m) was accepted, a good result for now, as the cut-off rate remained unchanged at 10%, and the weighted-average rate was up just 11bp to 10%.

The Ministry decided to increase rates only for the two-year bills. The highest rate in demand was 11.25%. Three bids that amounted to UAH300m (US\$11m) were rejected. But to sell UAH1bn (US\$36m) of bills at par value to the other four bidders, the MoF had to increase the cut-off rate by 35bp to 10.85% and the weighted-average rate by 32bp to 10.82%. An increase in rates for this issue was inevitable, as the lowest rate was 10.75% or 25bp above the cut-off rate set two weeks ago. Therefore, taking into account the weighted-average rate for these bills, most of accepted demand had rates close to the cut-off rate, so the MoF chose the rate that provided

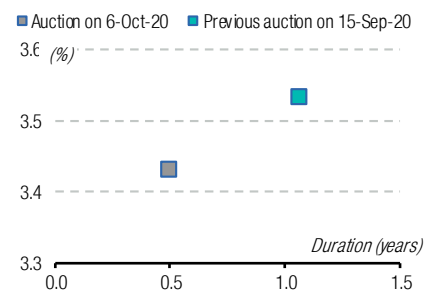
THURSDAY, 15 OCTOBER 2020

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



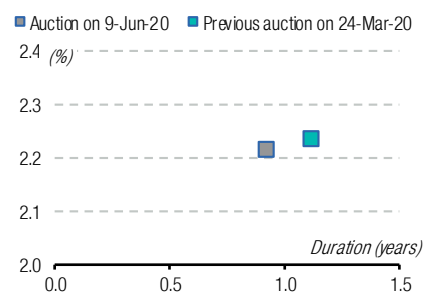
Source: Ministry of Finance of Ukraine, ICU.

### 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.

the most proceeds.

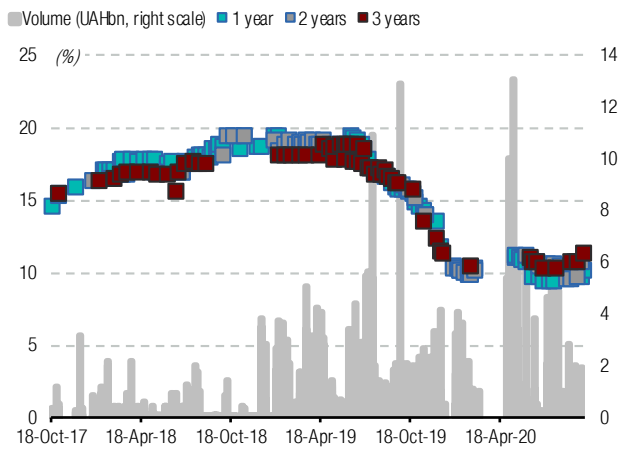
Unexpectedly, the Ministry did not increase the rate for the three-year bills. It's been several months since similar maturities were offered. Instead, the Ministry has been offering bills with shorter tenors. This week, the maturity was extended by nine months. Therefore, rates would be expected to rise. But out of six bids for this issue, three were submitted with the same rate as last week for bills with redemption in February 2023, which amounted to almost 90% of demand. Obviously, with that much demand there was no reason for a rate increase. Therefore, rates remained steady at 10.95%.

The primary market has become a bit more active. This activity likely was supported by the NBU's five-year loans provided to 14 banks last Friday. Banks could use the liquidity to replace funds used to purchase bills last week, or to purchase new bills on Tuesday. This was the second consecutive week we saw active demand with slightly elevated rates, which induced the MoF to increase rates where it could obtain a large amount of budget financing.

# Appendix: Yields-to-maturity, repayments

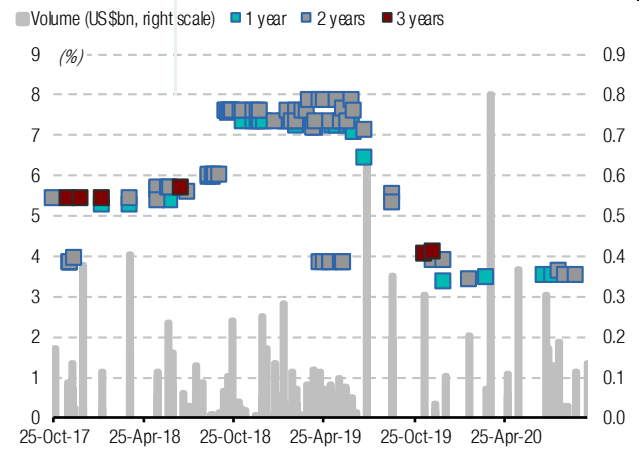
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

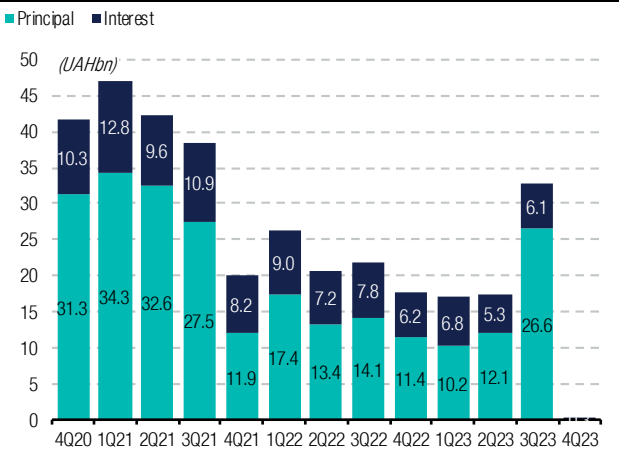
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

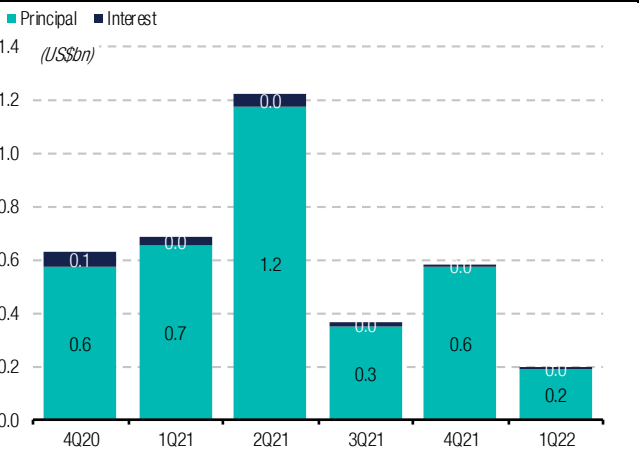
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

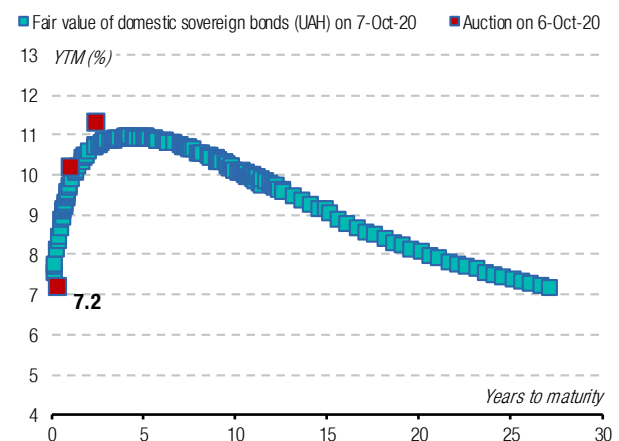
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

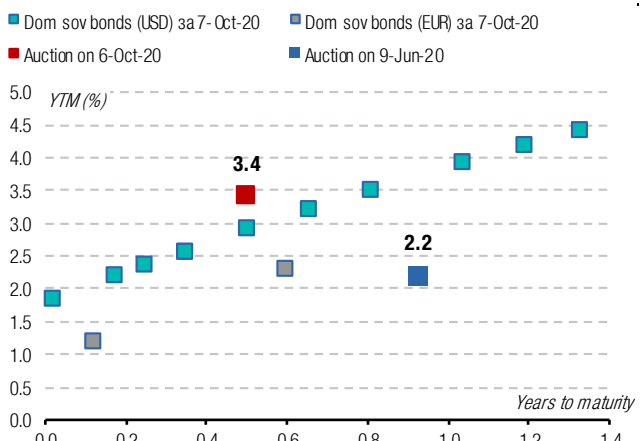
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kyiv, 01030 Ukraine  
Phone/Fax +38 044 3777040

**WEB** [www.icu.ua](http://www.icu.ua)   

## RESEARCH

### Sergiy Nikolaychuk

Head of macro research  
sergiy.nikolaychuk@icu.ua

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
taras.kotovych@icu.ua

### Dmitriy Dyachenko

Junior financial analyst  
dmitriy.dyachenko@icu.ua

### Alexander Martynenko

Head of corporate research  
alexander.martynenko@icu.ua

### Mykhaylo Demkiv

Financial analyst (Banks)  
mykhaylo.demkiv@icu.ua

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