

Bond Market Insight

Low activity at a high volume

Comment on government bond placement

This month's first auction attracted UAH700m (par value), quite a large volume for zero-coupon bonds versus other auctions last year. This demand was combined with two bids, for 42-day and 9-month bonds.

Demand for the shortest maturity bonds amounted to UAH200m at 14.57% interest rate, which was quite logical at this maturity. But the MoF decided that it was above it expected, and rejected this bid. 9-month bonds got also one bid amounted to UAH500m at 15.20%, the same rate as similar bonds were sold last November. Last week, the MoF sold 12-month bonds at 15.30%, which was satisfied without moving the yield curve.

As views on interest rates vary, the MoF's attempt of compete with the NBU for short-term money failed. If the MoF continues to offer short-term bonds, demand will likely be unacceptable. At the same time, 9-month bonds appear to have been purchased by state-owned banks using funds from local budget deposits to be repaid this year. Other investors prefer longer maturities.

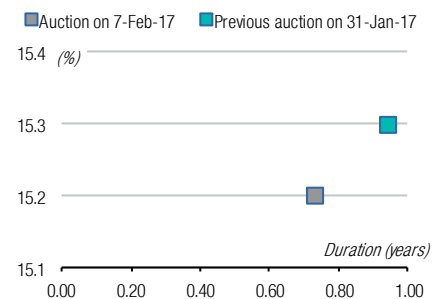
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000196737	0.00	Д	1-Ноя-17	500,000	900.27	450.14	500.00	15.20	500.00
Bcero				500,000		450.14	500.00		500.00

Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate ; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

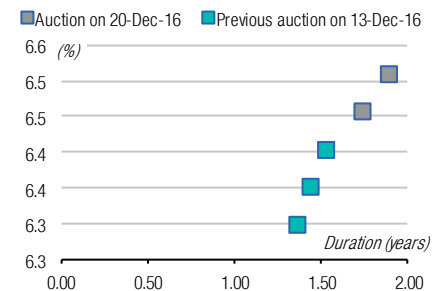
WEDNESDAY, 8 FEBRUARY 2017

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

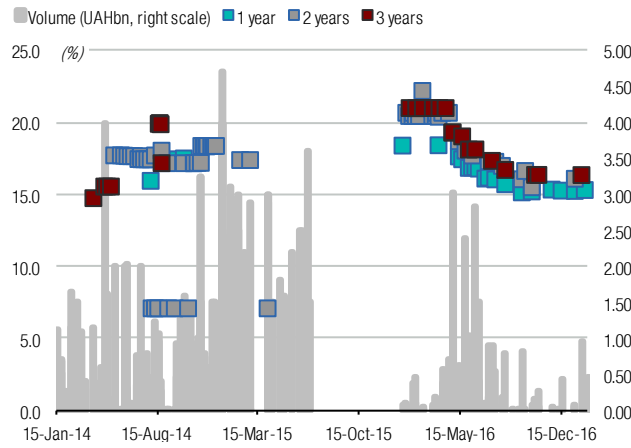


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

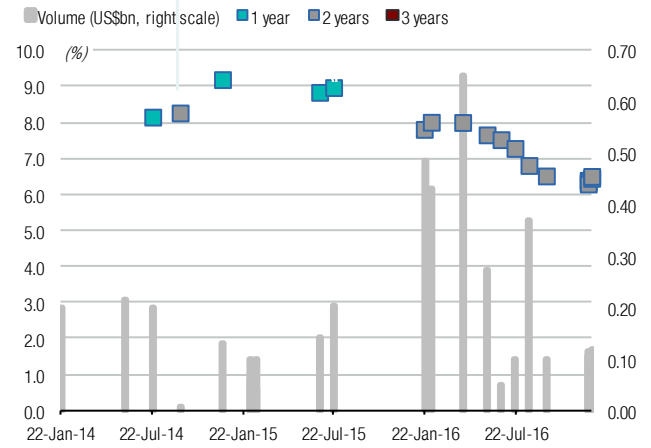
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

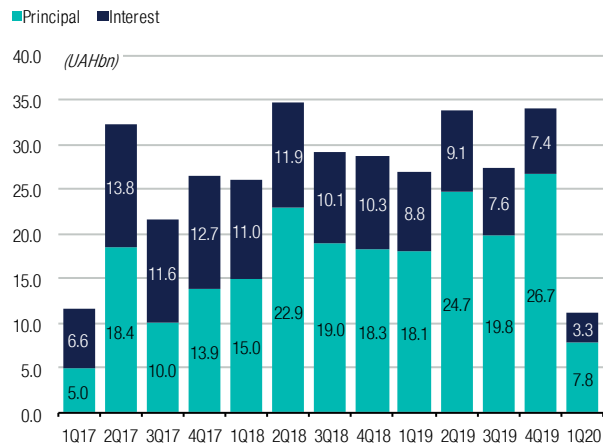
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

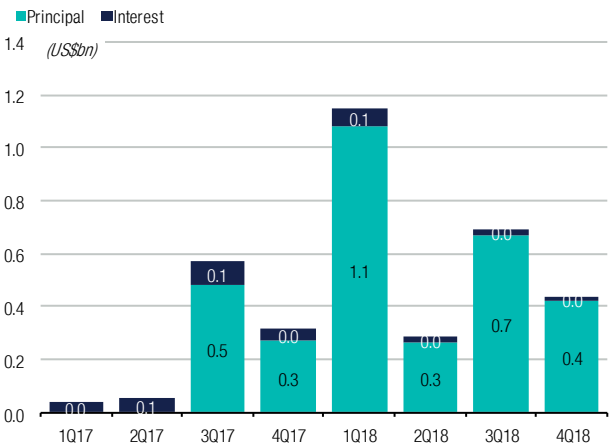
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

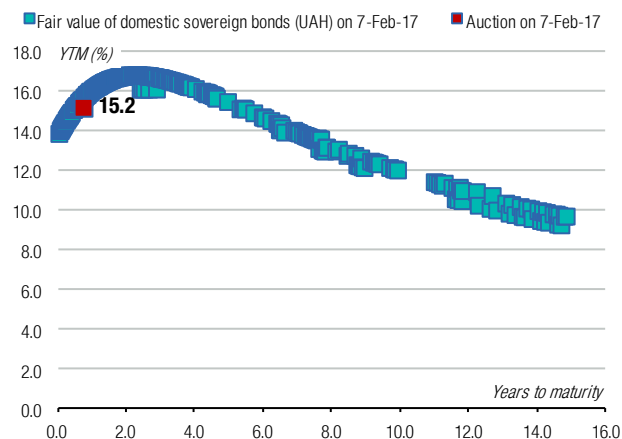
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

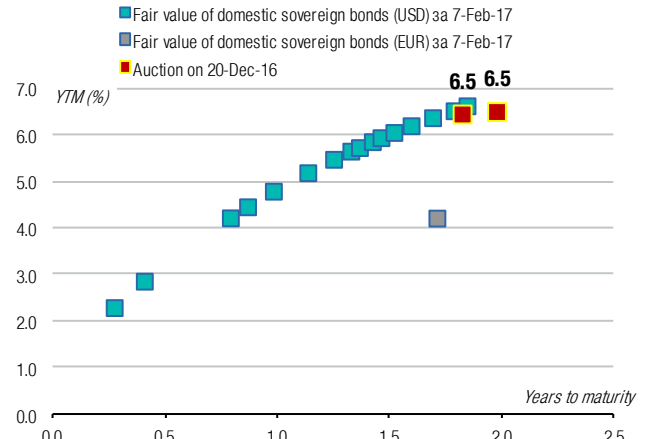
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

USD- and EUR-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

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