

Bond Market Insight

Interest rates poised to decline

Comment on government bond placement

Yesterday, the MoF continued to sell bonds while decreasing interest rates as it accepted large bids and rejected only small demand for the 9-month bond. This auction received a total of four bids for UAH807.09m, from which it sold UAH785m (par value) as follows: UAH500m of 11-month bonds were sold to two bidders and UAH285m in 5-month bonds to one bidder. Total budget proceeds amounted to UAH709.66m.

The MoF decreased interest rates, with the 5-month bond rate declining from 15.10% (last week) to 14.30%, which is below the 14.75% rate set for 42-days bonds seen at the beginning of month. The 11-month bond rate fell only 10bp to 15.20%, and the 9-month bond rate also declined 10bp from last week.

Interest rates declines could continue next week in anticipation of the key monetary rate cut scheduled at the beginning of March. As the 3-year bond sold last week with an interest rate decline of 25bp will set the benchmark, next week interest rates could slide by an additional 10-15bp.

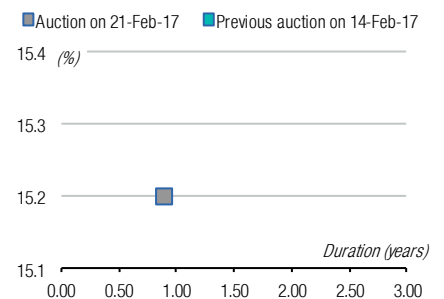
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000194856	0.00	Д	26-Июл-17	285,000	943.10	268.78	285.00	14.30	353.50
UA4000196554	0.00	Д	10-Янв-18	500,000	881.76	440.88	500.00	15.20	614.40
Bcero				785,000		709.66	785.00		967.90

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.

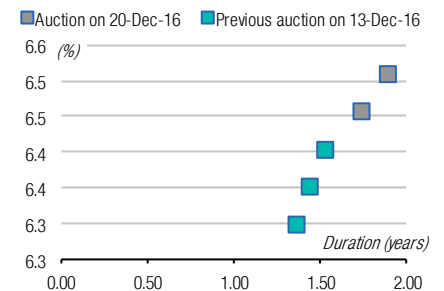
WEDNESDAY, 22 FEBRUARY 2017

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

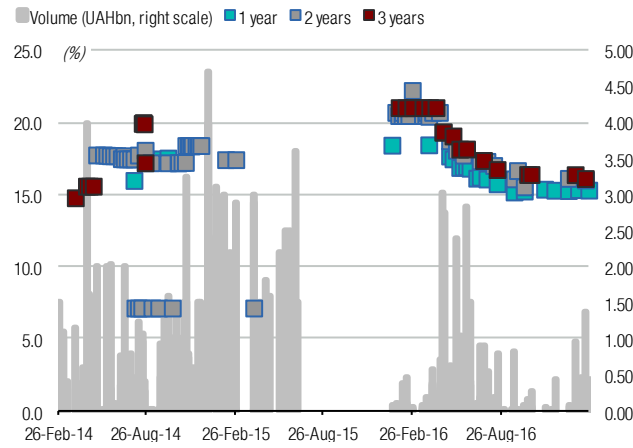


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

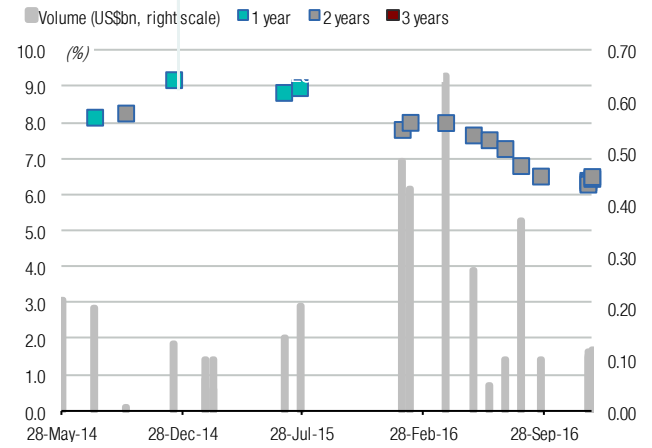
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

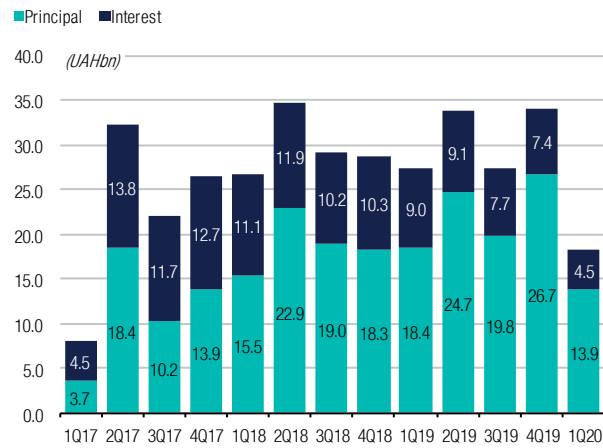
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

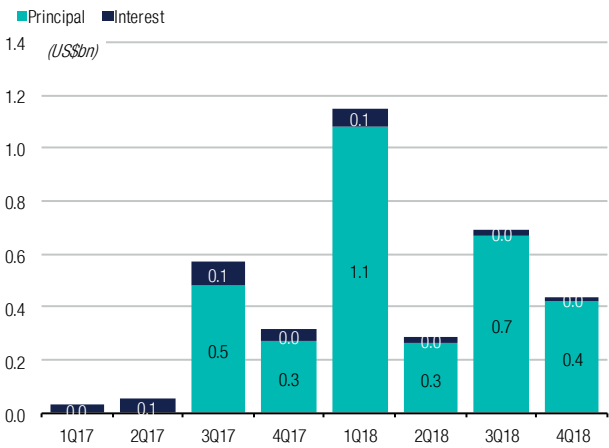
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

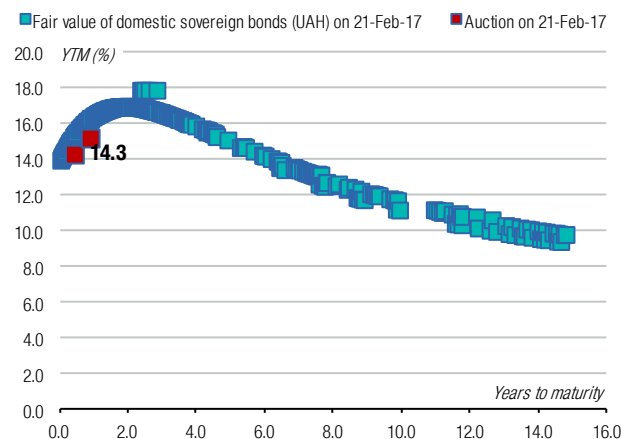
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

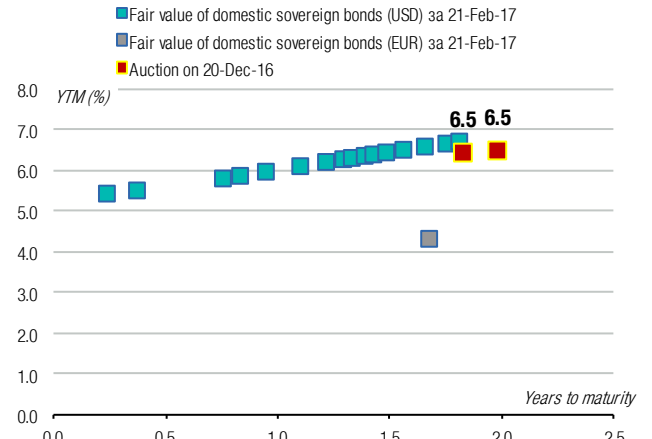
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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