

# Bond Market Insight

## Yields down significantly

### Comment on government bond placement

At yesterday's auction, the MoF accepted to vet 85% of demand, receiving UAH2.91bn of budget proceeds today. At the same time, the MoF decreased cut-off rates, especially for short-term borrowings.

The largest demand was submitted for 2-year bonds, nearly UAH3.0bn in 28 bids at interest rates between 14.74% and 15.30%. The MoF decided to reject only UAH0.46bn of demand with interest rates above UAH15.19%. It accepted non-competitive bids at a 15.09% weighted average interest rate, 31bp lower than two weeks ago.

10-month bonds were sold at interest rates of 14.95-15.00% with an average rate of 14.99%, accepting most bids. The cut-off rate slid 20bp, while the weighted average rate declined 21bp to 14.99%.

The largest decline in interest rates was seen yesterday for 9-month bonds to 12.10%, down 310bp from the rate at the beginning of the month. However, demand was a paltry UAH5.0m at par value.

The 10-month and 2-year bonds confirmed the general trend for interest rates declining prior to the possible key monetary rate cut, moving the yield curve to around 15% with very slight differences depending on maturity. If the key rate is cut tomorrow, in two weeks the interest rate for 2-year bonds could slide to or below 15%, while 3-year bonds could see a significant decline to yesterday's weighted average interest rate for 2-year bonds.

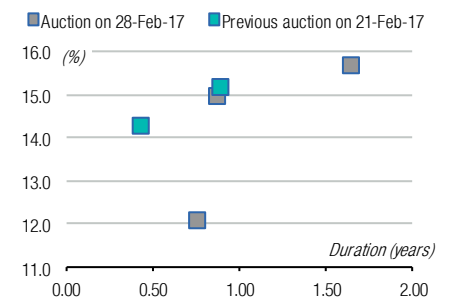
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

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>
UA4000196976	0.00	Д	29-Ноя-17	5,000	917.01	4.59	5.00	12.10	5.00
UA4000196554	0.00	Д	10-Янв-18	424,950	885.45	376.27	424.95	14.99	1,039.35
UA4000196562	15.50	ПП	2-Янв-19	2,453,000	1,029.64	2,525.72	2,453.00	15.71	2,863.00
<b>Bcero</b>				<b>2,882,950</b>		<b>2,906.58</b>	<b>2,882.95</b>		<b>3,907.35</b>

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.

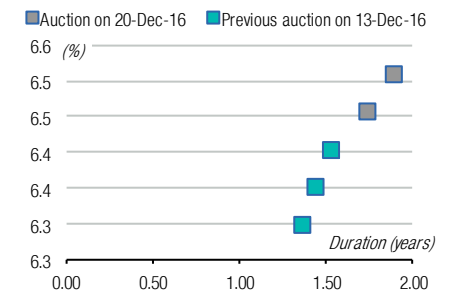
WEDNESDAY, 1 MARCH 2017

### 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

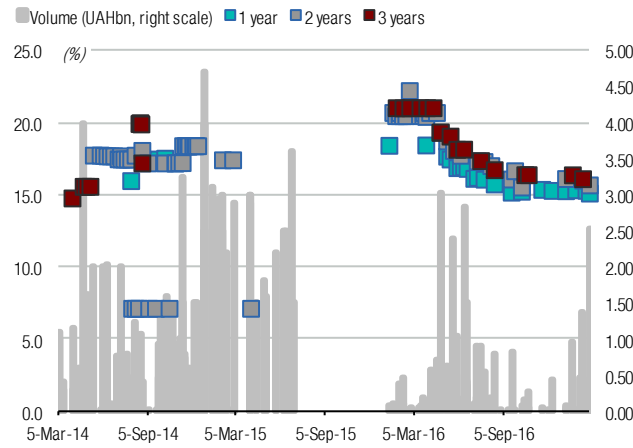


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

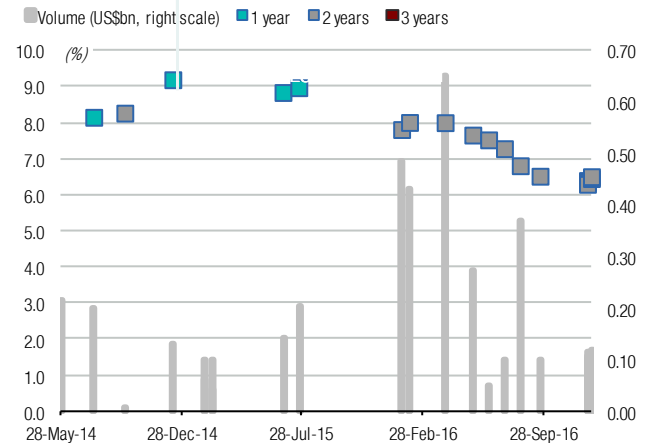
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

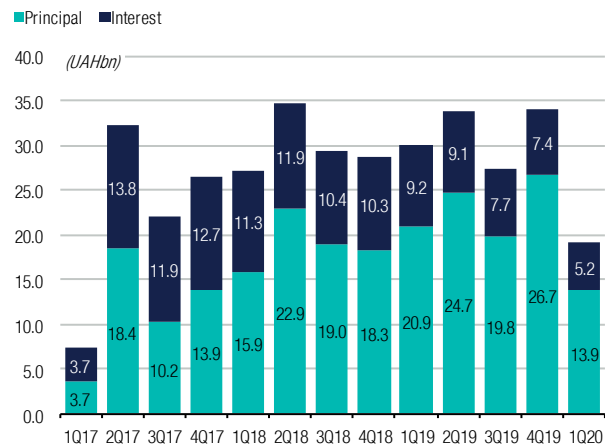
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

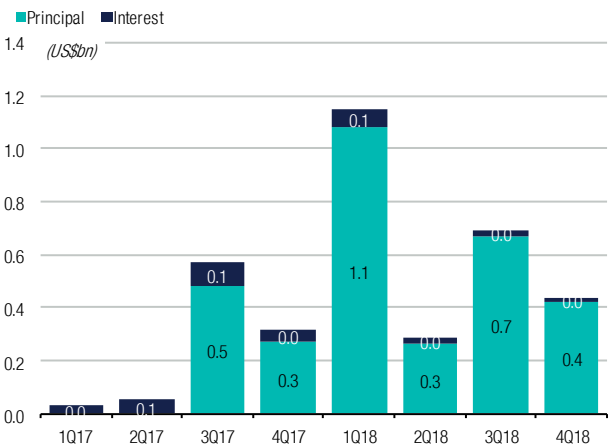
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

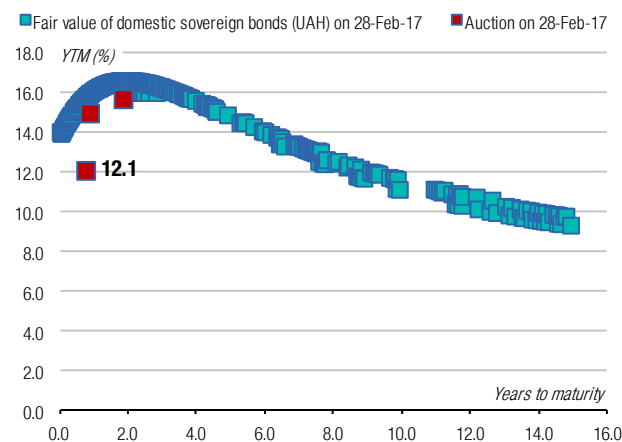
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

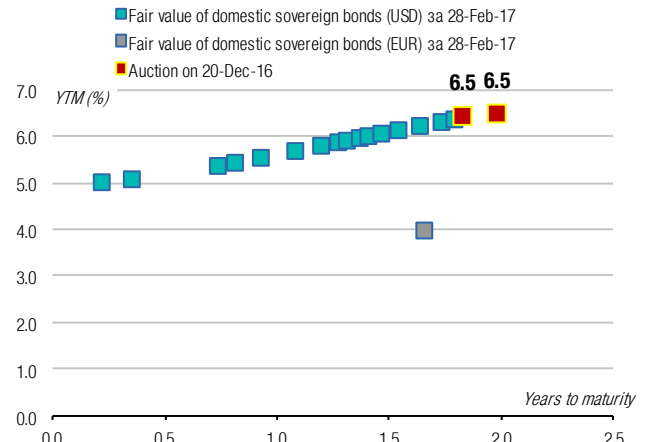
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

**WEB** [www.icu.ua](http://www.icu.ua)    [@ICU\\_UA](https://twitter.com/ICU_UA)

## CORPORATE FINANCE

**Makar Paseniuk, CFA**, Managing Director  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)

**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)


**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)

**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## STRATEGY AND CORPORATE DEVELOPMENT

**Vlad Sinani**, Director  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)

## SALES AND TRADING

**Konstantin Stetsenko**   
Managing Director  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)


**Liliya Kubytovych**   
Asset Management Product Sales  
[liliya.kubytovych@icu.ua](mailto:liliya.kubytovych@icu.ua)

**Sergiy Byelyayev**  
Fixed-Income Trading  
[sergiy.byelyayev@icu.ua](mailto:sergiy.byelyayev@icu.ua)


**Yevgeniya Gryshchenko**  
Fixed-Income Sales  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)


**Vitaliy Sivach**   
Fixed-Income & FX Trading  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)

## RESEARCH DEPARTMENT

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Bogdan Vorotilin**   
Financial analyst (Food & Agribusiness)  
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

**Lee Daniels, Rolfe Haas**  
Editors

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