

# Bond Market Insight

## Insufficient demand for 12-month bonds

### Comment on government bond placement

With interest rates coming in similar to those at last week's auction, the MoF received little demand at Tuesday's auction. Bonds with maturities up to 9 months received no bids while 12-month bonds received four bids for a total of UAH294.58m (par value) from which the MoF accepted three bids for a total of UAH194.58m (par value). Bids were submitted in the range of 14.94-15.15%, but the MoF rejected the most expensive bid at 15.15% and accepted only bids with interest rates up to 14.99%, the weighted average interest rate of last week's auction, for budget proceeds of UAH169.79m.

As the NBU last week surprised the market by not decreasing the key monetary rate, keeping it at the same level for more than a month, demand moved to the secondary market.

Next week, as the MoF is scheduled to offer 3-year bonds again after nearly a month-long break, demand should be more active, especially as the decline in interest rates should be minimal, the MoF might not be able to satisfy demand which should be very close to the last three bond auctions will try to set cut-off rates no higher than 15.30%, which is 20bp above the weighted average rate for 2-year bonds last week.

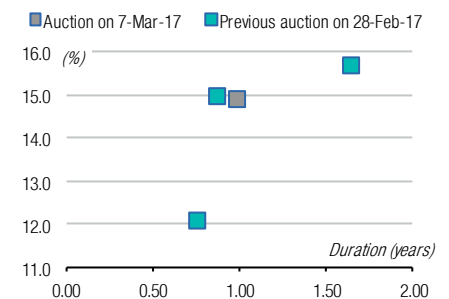
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment freq <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>
UA4000197016	0.00	Д	28-Фев-18	194,575	872.64	169.79	194.58	14.92	194.58
<b>Bcero</b>				<b>194,575</b>		<b>169.79</b>	<b>194.58</b>		<b>194.58</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.

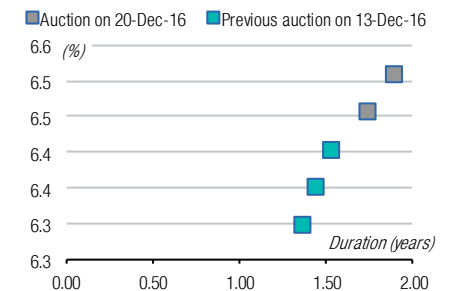
### THURSDAY, 9 MARCH 2017

#### 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

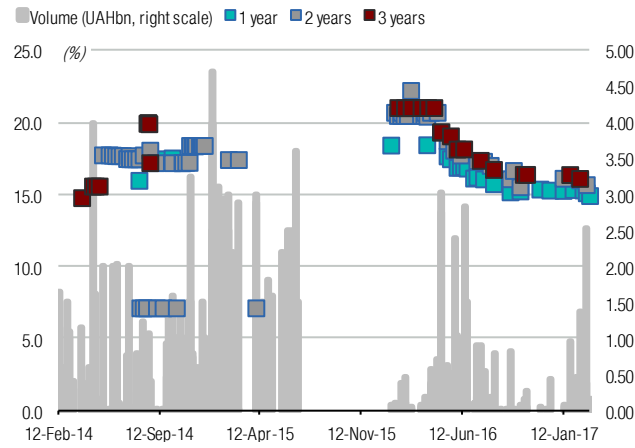


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

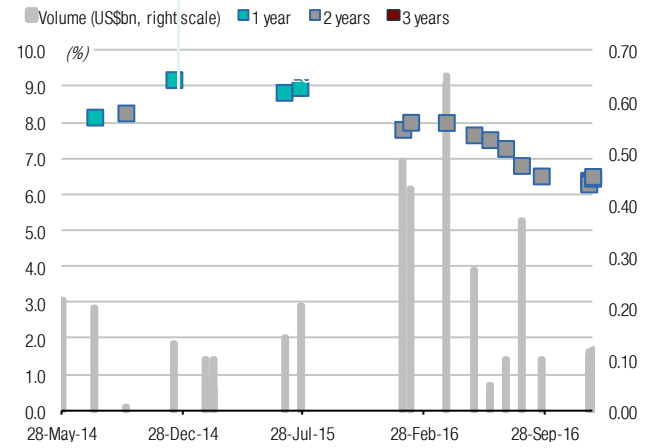
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

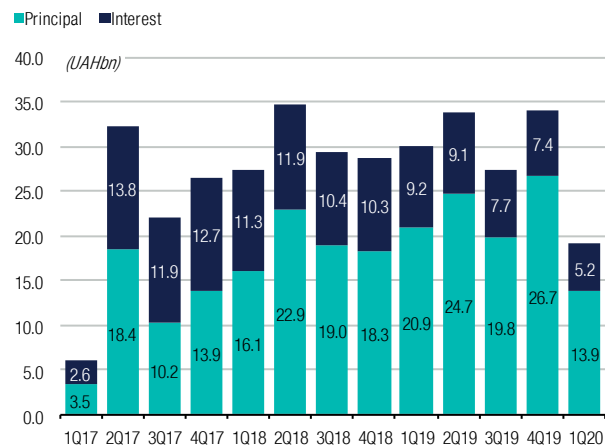
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

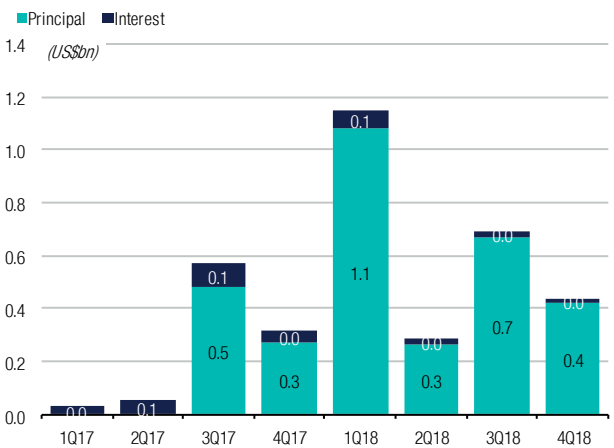
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

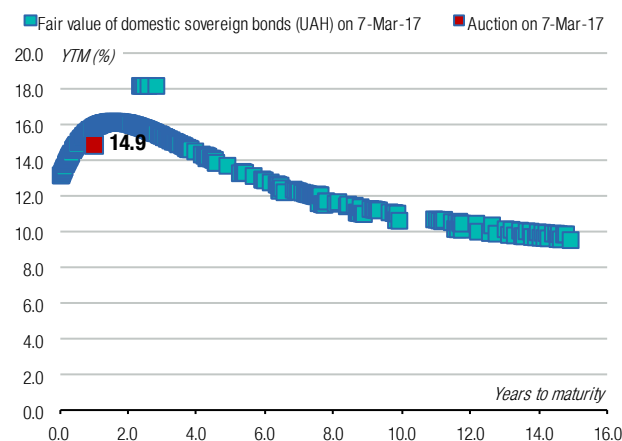
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

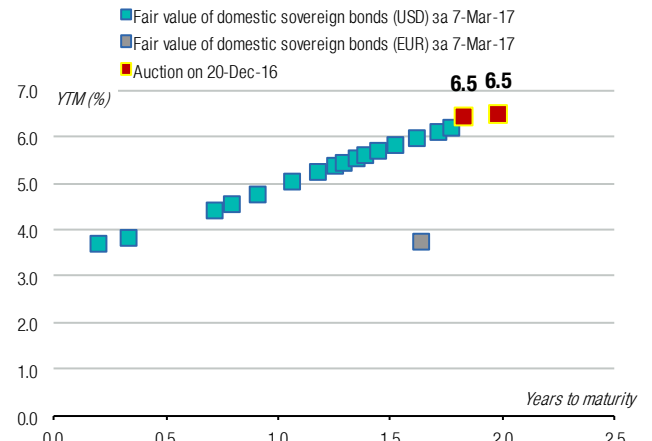
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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