

Bond Market Insight

Interest rates decline

Comment on government bond placement

At yesterday's auction, the MoF significantly decreased the interest rate for 3-year bonds to 15.28% (weighted-average rate), and also to 14.95% for 12-month bonds. The MoF accepted the majority of demand and borrowed UAH1.14bn. Bonds with maturities less than one year did not receive any bids, while demand for 2-year bonds was rejected.

12-month bonds were sold as expected at the minimum level of bids seen two weeks ago, 14.95%, for a single bid for UAH22.87m (par value). 2-year bonds saw three bids for a total of UAH400m which the MoF could accept at 15.14%, but decided to not increase the interest rate set two weeks ago.

Interest rates for 3-year bonds were close to our expectations. With bids at 15.24-15.39%, the MoF set the cut-off rate at 15.29% and weighted average interest rate at 15.28%. Out of UAH1.14bn of demand, the MoF accepted UAH1.12bn of bids (par value).

Therefore, the MoF moved the yield curve to a new level that was started two weeks ago. The following two auctions should see the rate hold steady, probably with insufficient movements. The market could cause a slight decline of a few basis points, while the MoF most likely will reject any attempts attempts to increase interest rates.

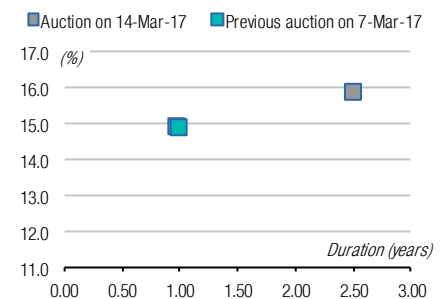
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000197016	0.00	Д	28-Фев-18	22,865	874.62	20.00	22.87	14.95	217.44
UA4000197040	15.28	ПФ	4-Мар-20	1,120,000	1,002.85	1,123.19	1,120.00	15.91	1,120.00
Bcero				1,142,865		1,143.19	1,142.87		1,337.44

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.

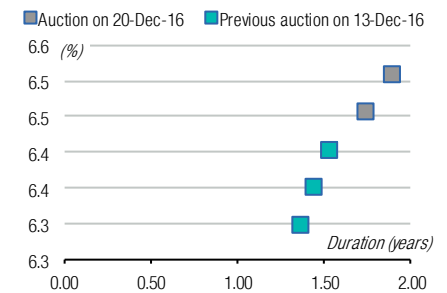
WEDNESDAY, 15 MARCH 2017

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

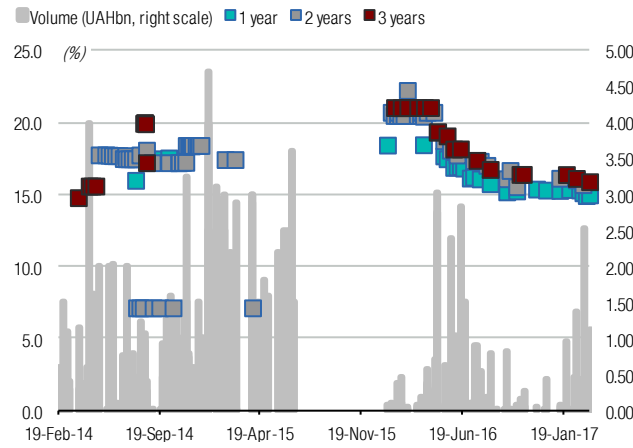


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

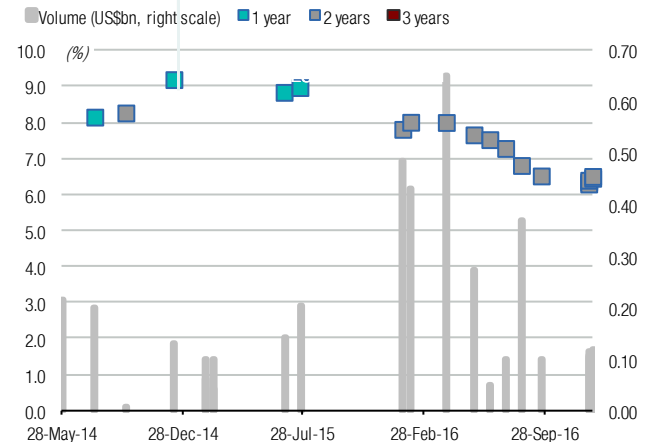
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

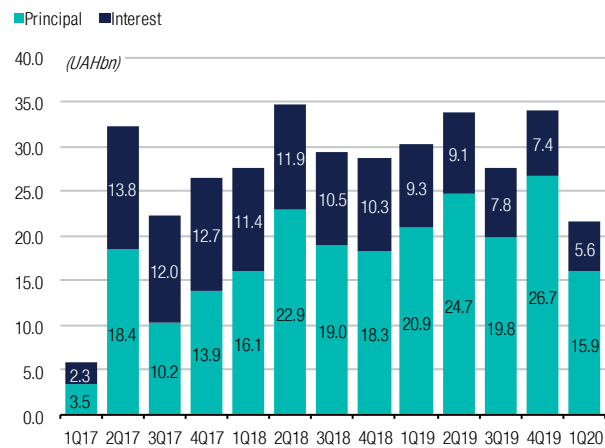
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

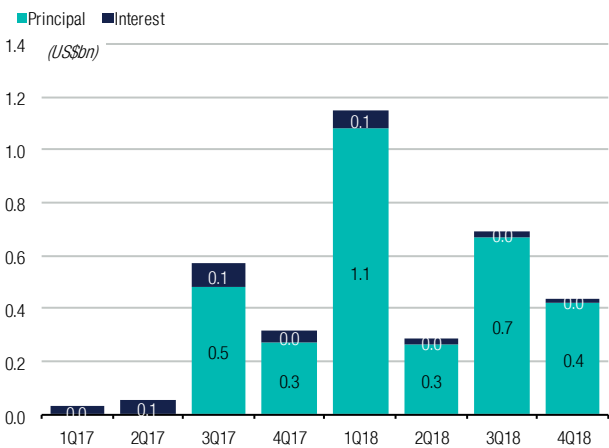
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

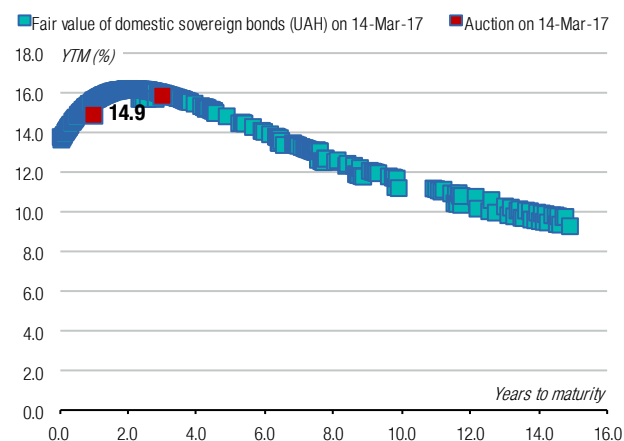
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

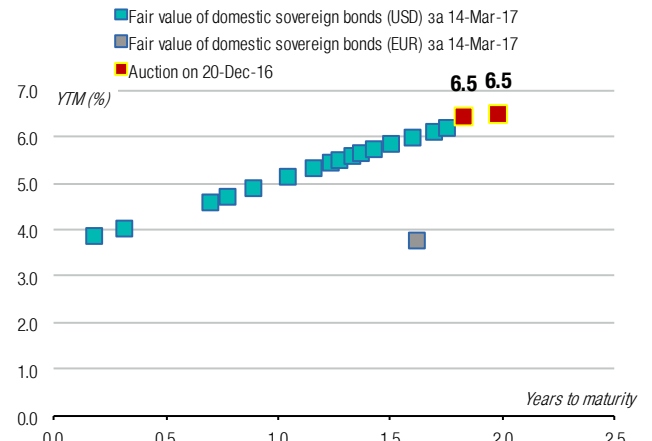
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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