

# Bond Market Insight

## Yield curve remains steady

### Comment on government bond placement

Yesterday's auctions confirmed anticipations that the market will not force bond purchasing at any price, while the MoF will not increase interest rates. The MoF received six bids, one for 77-day bonds, one for 12-month bonds and four for 2-year bonds. Out of this demand, the MoF rejected only the bid for the 77-day bond due to the high level interest rate at 14.75%. The main portion of yesterday's demand was submitted for 12-month and 2-year bonds at the usual level of interest rates, 14.95% and 15.09%, respectively.

Most demand was seen for 2-year bonds, at 15.08-15.09%. The MoF accepted all UAH570m of demand, out of which UAH100m was non-competitive demand, and received UAH573.23m of proceeds to the budget. One small bid for 12-month bonds was received at UAH20m par value, which provided an additional UAH17.54m of proceeds. At the same time, the interest rate for 77-day bonds was too high, 45bp higher than that for 5-month bonds that were sold in February, and just 20bp lower than for 12-month bonds.

Ultimately, the MoF accepted the main portion of demand, receiving UAH590.77m of proceeds today, keeping the yield curve unchanged. Most likely, next week will be the same with similar turnover and rates as only about UAH1.0bn in repayments, an insignificant amount, are scheduled.

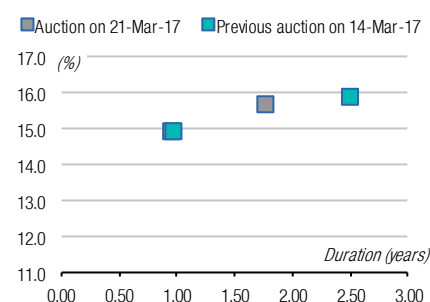
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

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	20,000	876.82	17.54	20.00	14.95	237.44
UA4000197081	15.09	ПП	6-Мар-19	570,000	1,005.67	573.23	570.00	15.70	570.00
<b>Bcero</b>				<b>590,000</b>		<b>590.77</b>	<b>590.00</b>		<b>807.44</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.

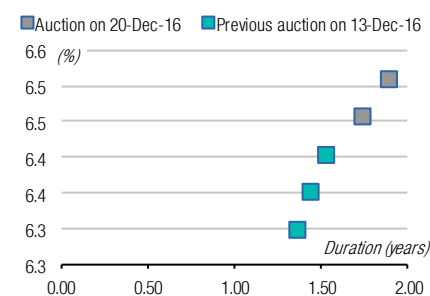
WEDNESDAY, 22 MARCH 2017

### 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

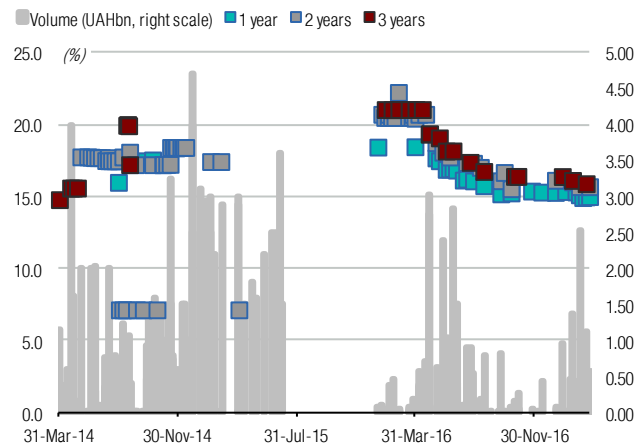


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

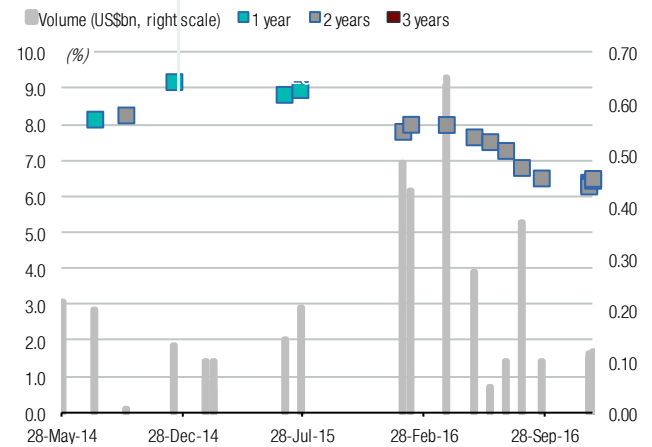
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

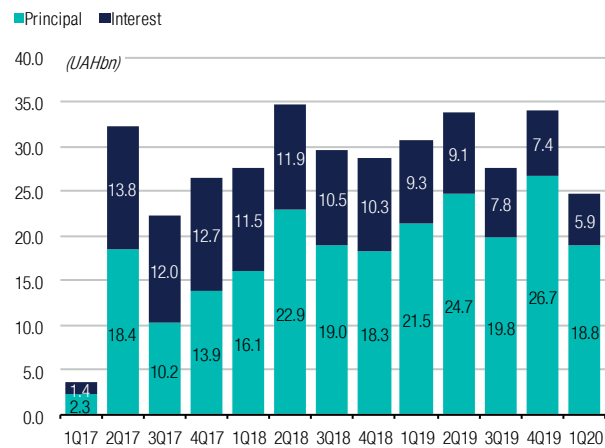
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

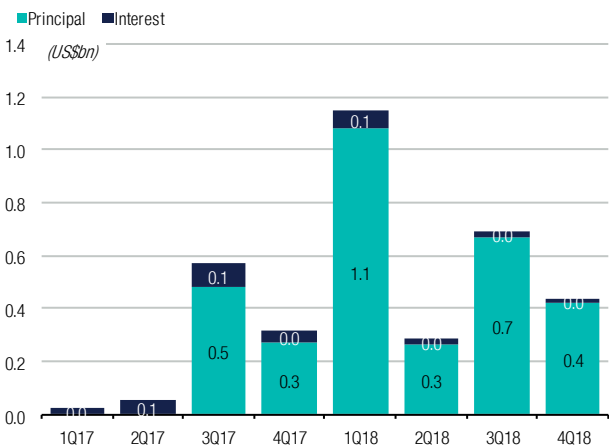
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

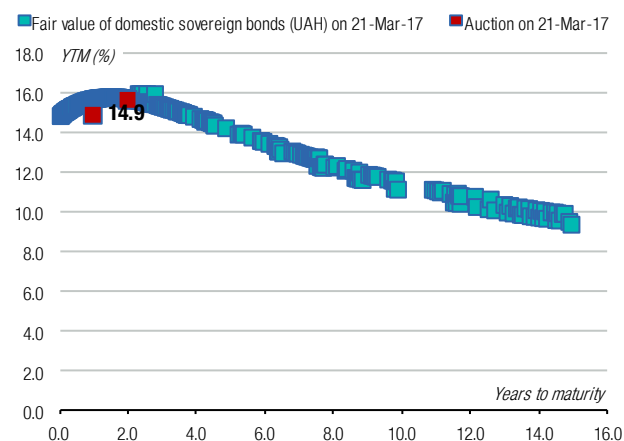
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

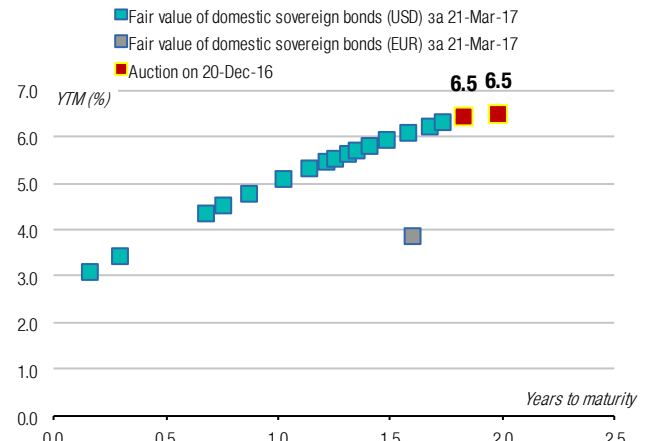
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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