

# Bond Market Insight

## Yields down slightly

### Comment on government bond placement

Yesterday's demand at the primary auction was quite small, concentrated on 3-year bonds, as expected. Out of UAH354.87m in demand (par value), one bid was for the 12-month bond at UAH0.01bn (par value), one for the 2-year bond at UAH0.01bn, and six bids for the 3-year bond for a total of UAH0.33bn. The small demand was not the problem to decrease interest rates.

12-month bonds were sold at the same interest rate as last week, 14.95%, and 2-year bonds were sold at 15.08%, 1bp below last week's rate. The main decline in interest rates was for 3-year bonds, as there is no scheduled offering for 2Q17 and the MoF's plan for borrowings is unknown. Bids for 3-year bonds were received at 15.19-15.29%, all of which the MoF accepted, and the weighted average interest rate slid 5bp to 15.24%.

Low demand was expected as debt repayments to the market are currently insignificant, and most investors had already purchased what they needed. This trend should continue over the following weeks, as no large debt repayments into the banking system at scheduled. Demand should remain low with interest rates possibly declining further.

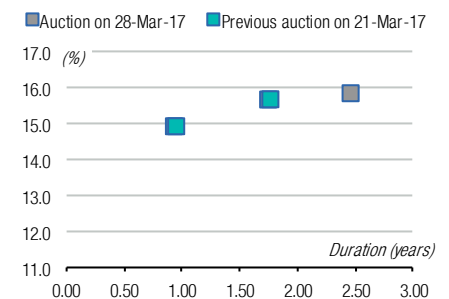
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

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	11,000	879.03	9.67	11.00	14.95	248.44
UA4000197081	15.09	ПП	6-Мар-19	10,000	1,008.59	10.09	10.00	15.69	580.00
UA4000197040	15.28	ПП	4-Мар-20	333,870	1,009.40	337.01	333.87	15.87	1,453.87
<b>Bcero</b>				<b>354,870</b>		<b>356.76</b>	<b>354.87</b>		<b>2,282.31</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.

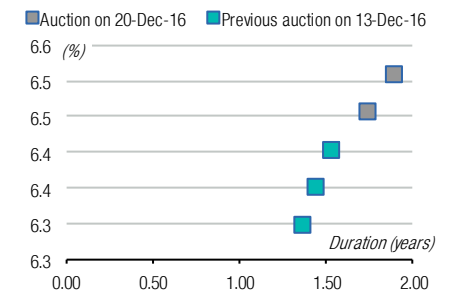
### WEDNESDAY, 29 MARCH 2017

#### 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

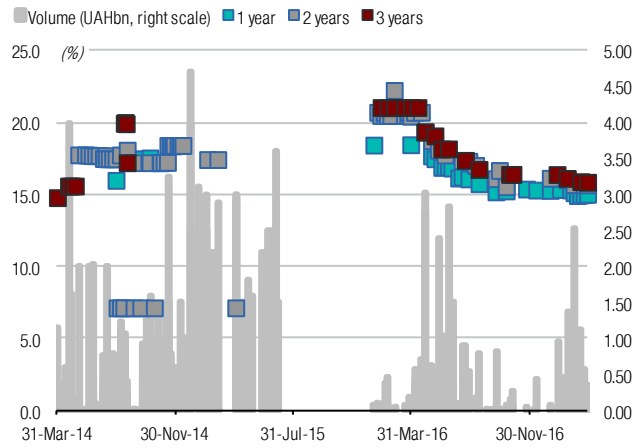


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

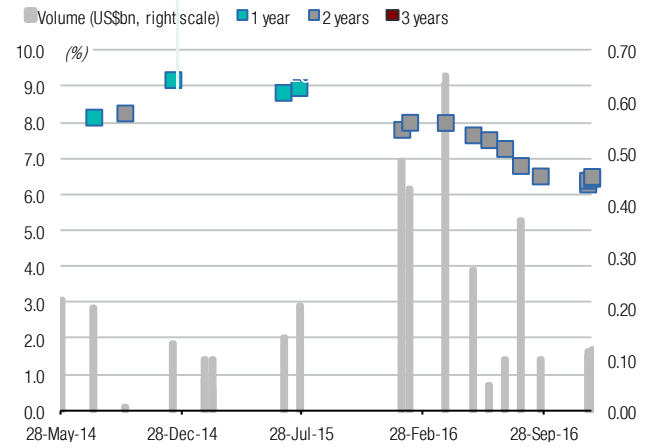
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

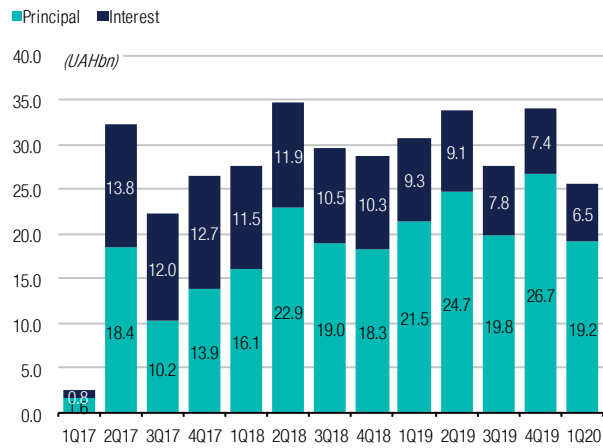
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

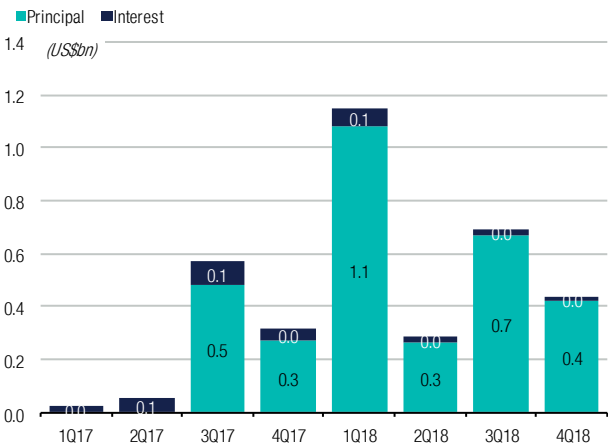
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

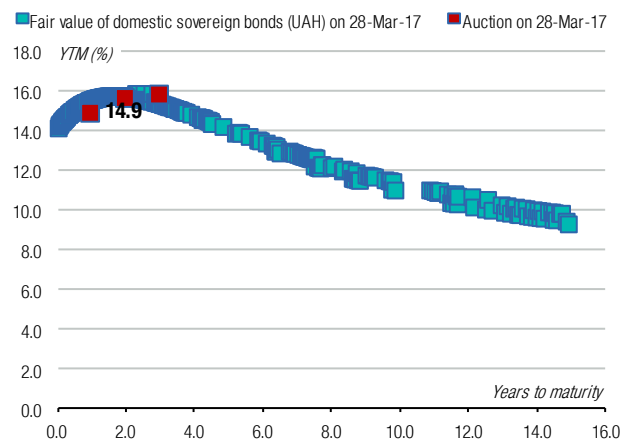
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

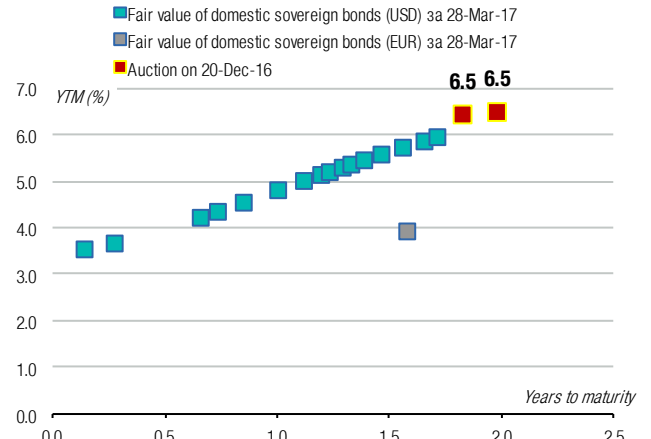
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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