

Bond Market Insight

Interest rates continue to decline

Comment on government bond placement

The key monetary rate cut to 13% pushed the primary bond market rate down as primary auction rate fell below 15%. Last week's interest rate for 3-year bonds slid 30bp to 14.94% (with the YTM down to 15.55%) and yesterday's 10-month bond rate slid 36bp.

Generally, yesterday's auction was tepid despite auctions not being scheduled for the next three weeks. Demand also could have been paltry because the auction offered only zero-coupon bonds which usually have low demand. Yesterday, 6-month bonds attracted no bids while 10-month bonds received three bid for a total of UAH80m, generating UAH71.28m of budget proceeds today. Interest rates bids came in at 14.45-14.50%, but volumes at low interest rates were small, causing the weighted average interest rate to decline only 1bp versus the cut-off rate.

The primary market yield curve is entering a new phase as we await the upcoming auctions in three weeks. While there could be some adjustments during the second part of next month, they should be insignificant. At the three scheduled auctions in May, local currency 2-year bonds will be offered only once while the other auctions will include only bonds with maturities below one year. The most interesting auction could be on 16 May with a USD-denominated bonds which has not been offered so far this year and will be not offered until the end of 2Q17.

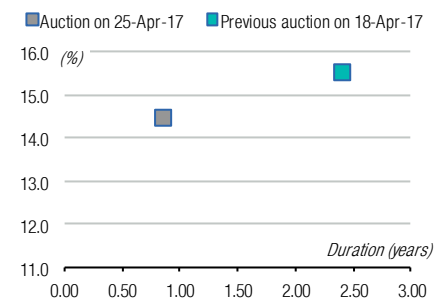
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

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	80,000	891.06	71.28	80.00	14.49	1,026.94
Bcero				80,000		71.28	80.00		1,026.94

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.

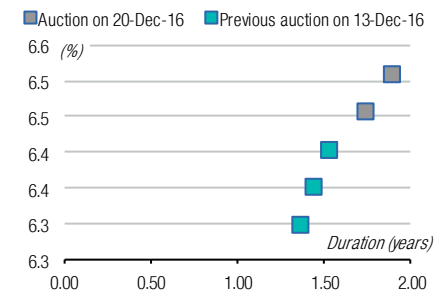
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

USD-denominated domestic gov't bonds: yield curve in past two auctions

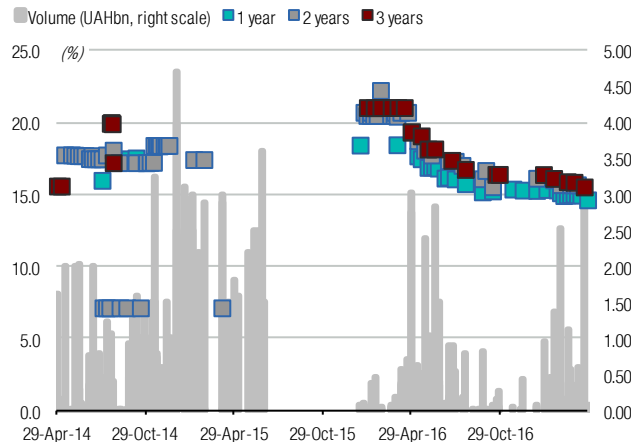


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

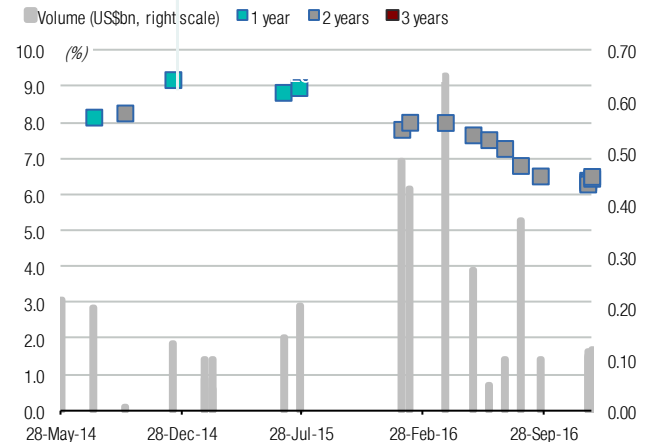
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

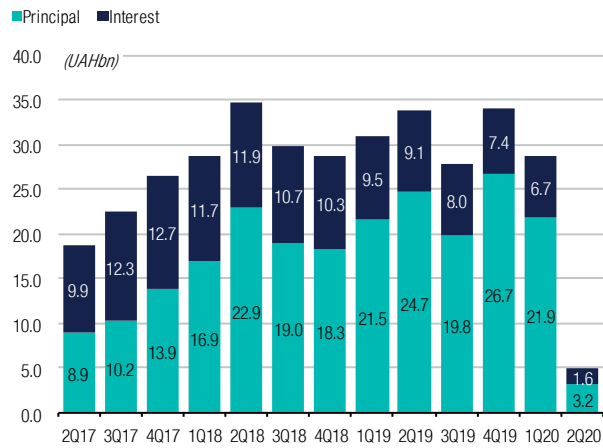
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

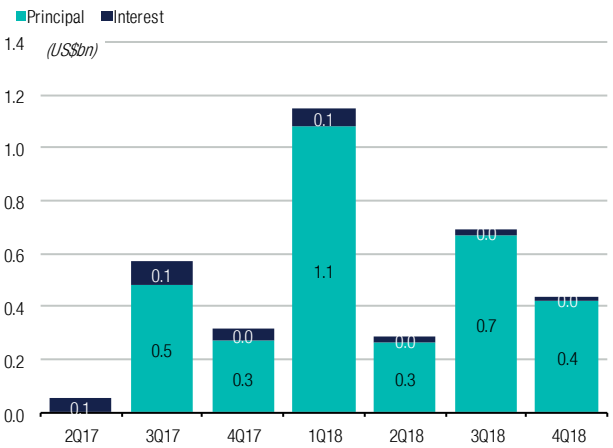
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

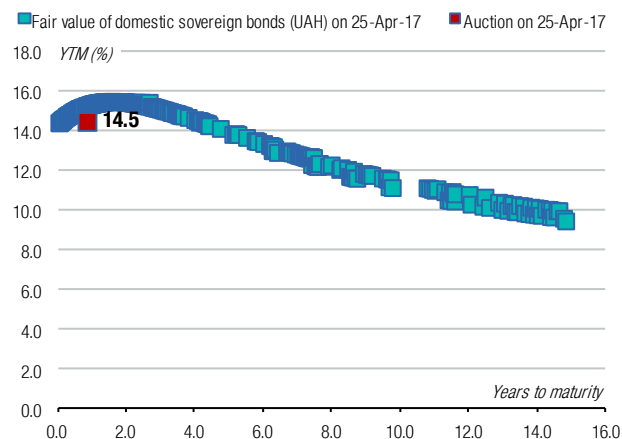
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

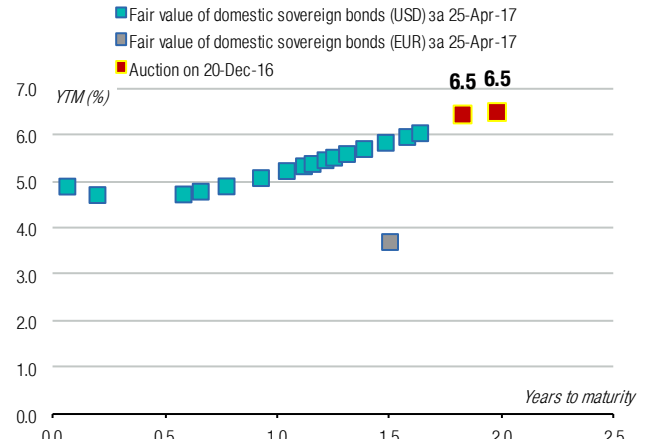
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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