

Bond Market Insight

Insufficient demand and yields decline

Comment on government bond placement

Yesterday, the MoF offered three bonds, two of which were offered during recent weeks, but the third offering was 2-year bonds. The MoF decided to re-offer a May 2019 issue, all of which was in the NBU portfolio, thus making it new to the market. As no market debt principal repayments are scheduled today, no funds are available for refinancing repayments. Instead, the market might be anticipating the 3-year bond offering next week.

There was no demand for zero-coupon bonds and 2-year bonds attracted seven bids for a total of UAH376m at 14.30%-14.60%, but mostly at 14.30%-14.50%. As the result, the MoF rejected only the most expensive bid and satisfied UAH326m of demand with cut-off rate at 14.50% and a weighted average rate of 14.46%.

2-year bonds were offered and sold rarely over recent months, just once in April at 15.08% when the key monetary rate was 14.00%, at the end of May at 14.60% when the key rate was 13.00%, and yesterday at 14.46% when the key rate was 12.50%. So, after recent decreasing the key monetary rate, the interest rate for 2-year bonds slid just 14bp. As we can see, the difference between the key rate and the primary market has broadened. The MoF will be unable to decrease the interest rate for 3-year bonds significantly next week unless there is significant demand at a low rate.

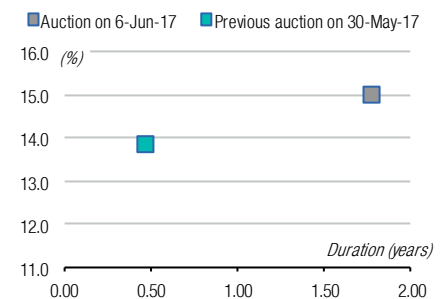
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000142137	14.13	SA	22-May-19	326,000	999.82	325.94	326.00	15.03	2,226.00
Total				326,000		325.94	326.00		2,226.00

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.

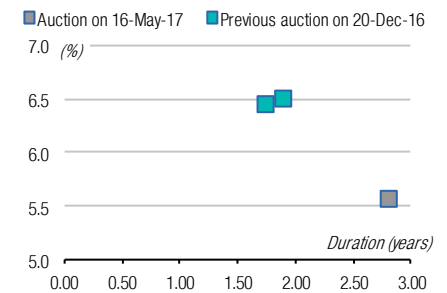
WEDNESDAY, 7 JUNE 2017

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

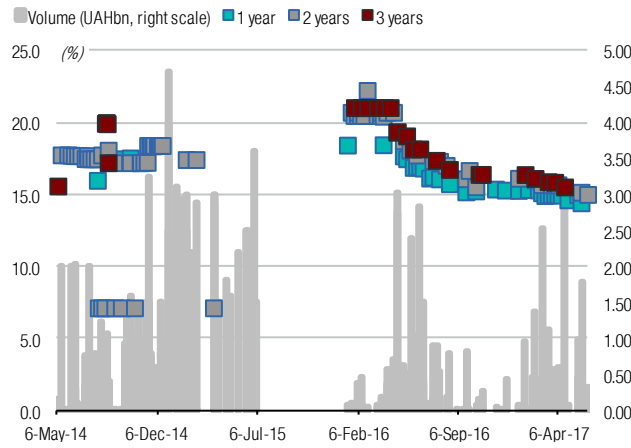


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

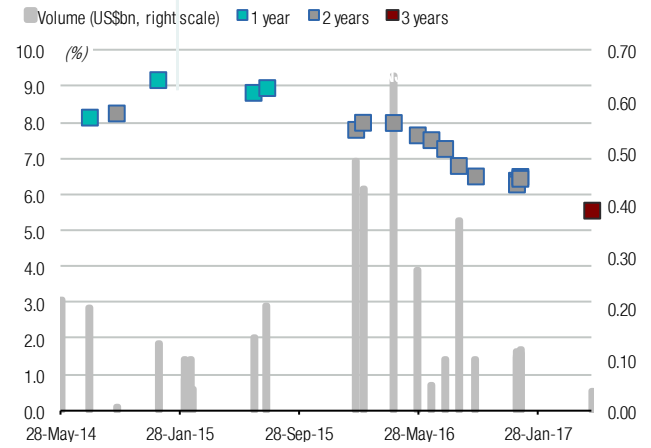
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

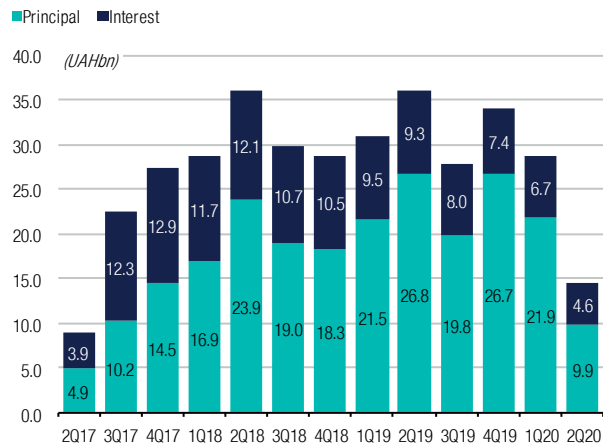
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

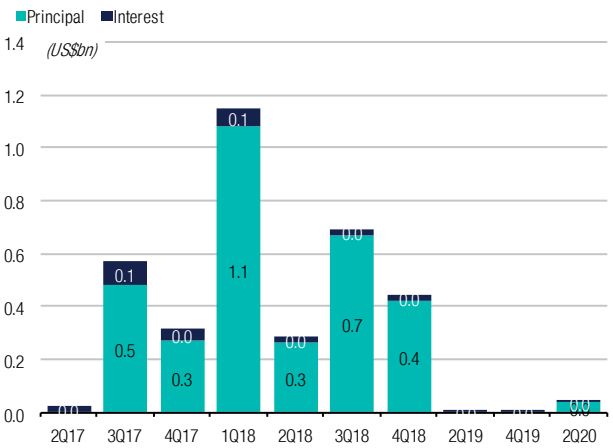
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

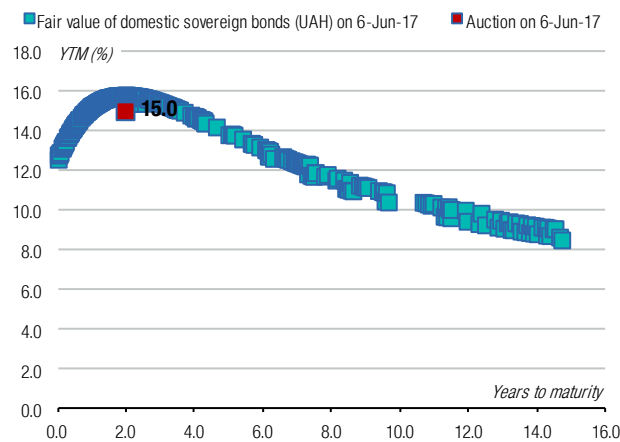
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

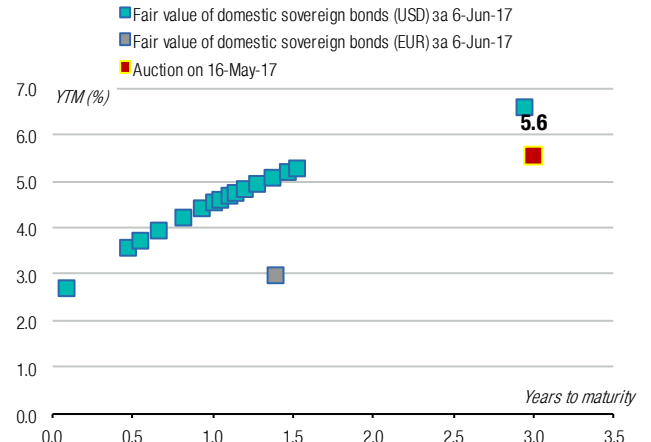
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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