

Bond Market Insight

Interest rates down 30bp

Comment on government bond placement

Yesterday, the primary market became more active. After a 2-month break, the MoF offered 3-year bonds denominated in local currency. In addition, the MoF offered the routine zero-coupon bonds with 6-month and 12-month maturities which were last sold in May. As expected, demand was concentrated on 3-year bonds.

The zero-coupon bonds received no bids, while demand for 3-year bonds amounted to UAH1.34bn in 17 bids at 14.60%-14.80%. The MoF accepted the main portion of demand up to 14.65% and rejected the bids at higher rates, setting the weighted average rate at 14.64% to raise UAH1.09bn in proceeds.

Yesterday's auction results show that the market was awaiting the 3-year bond offering with a 15.22% YTM. The market can now hold out for further NBU key monetary rate cuts in the future for some time. The cut-off and weighted average interest rates for 3-year bonds amounted to 30bp, ending the correction of the yield curve after the recent key rate cut decision in May. Over the next few weeks, demand should be concentrated at the long-term end of the yield curve, possibly with only 5-10bp further rate reductions at most.

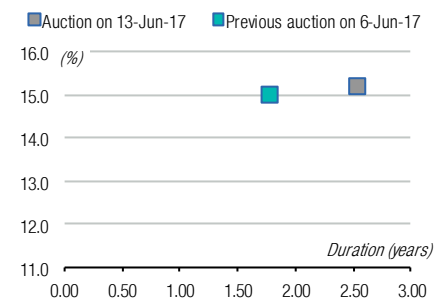
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000198006	14.64	SA	10-Jun-20	1,088,255	999.98	1,088.23	1,088.26	15.22	1,088.26
Total				1,088,255		1,088.23	1,088.26		1,088.26

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.

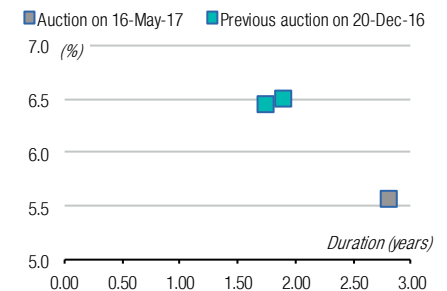
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

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

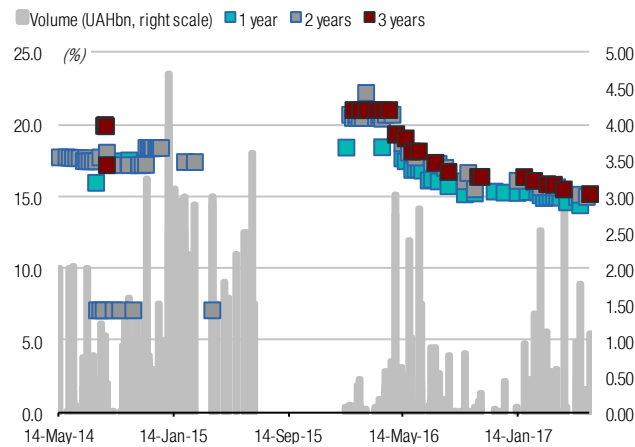


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

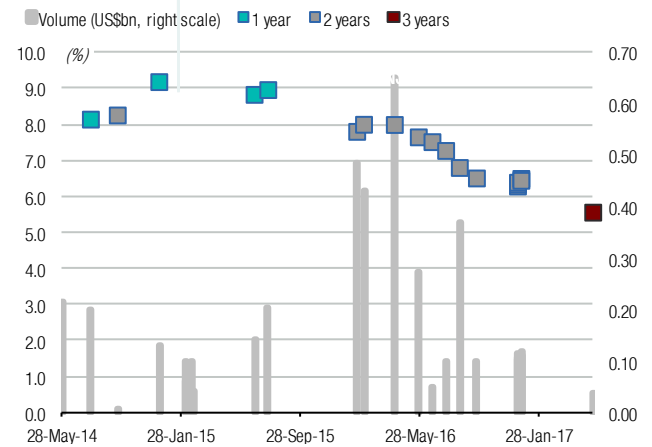
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

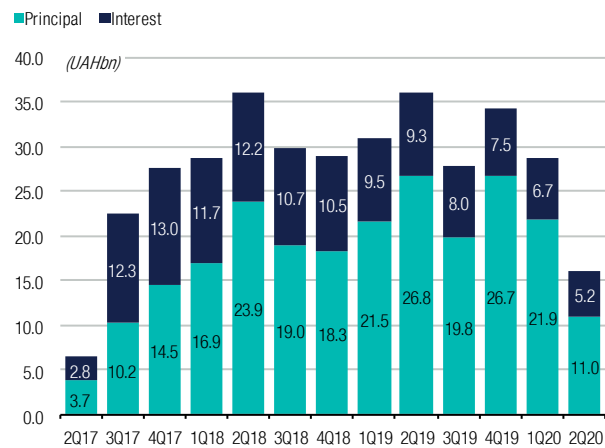
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

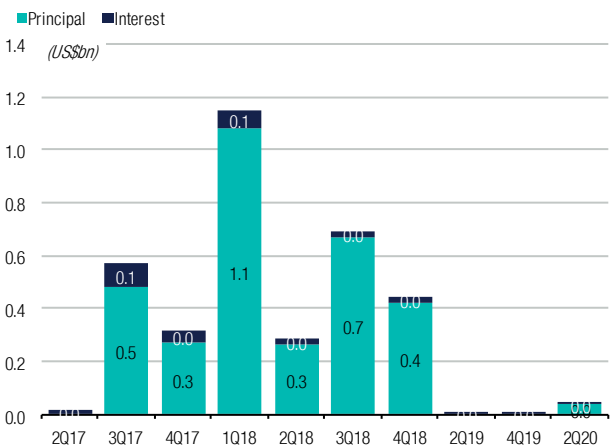
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

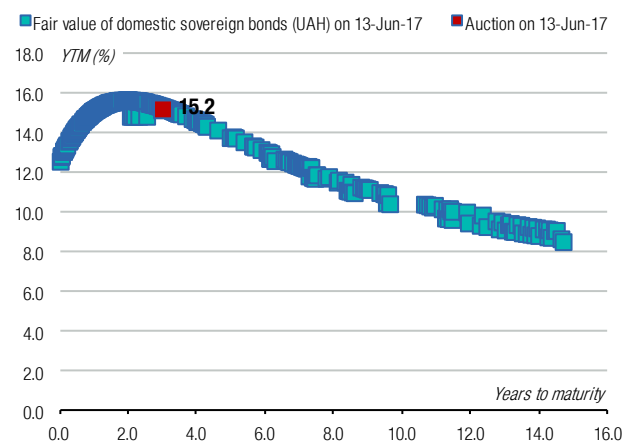
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

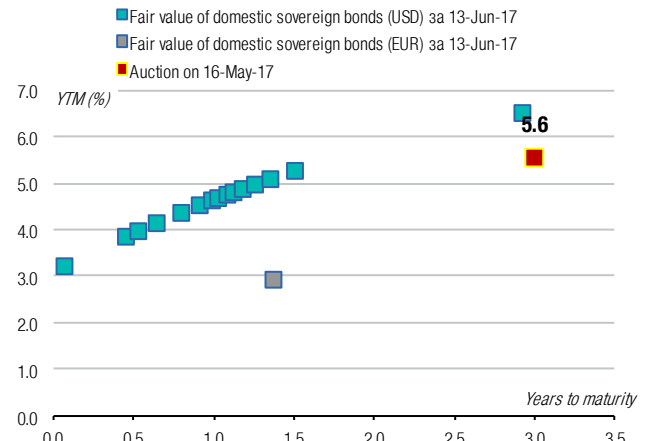
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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