

Bond Market Insight

Yields fall slightly

Comment on government bond placement

As expected, the MoF received little demand at yesterday's auction following last week's high volume of 3-year bond sales and ahead of next week's scheduled auction of the same 3-year maturity. While all three offered bonds received bids, only two issues were sold at slightly lower interest rates.

The 6-month bond interest rate received two bids for a total of UAH30m at 14.00%, unchanged from the cut-off rate at the end of May yet 12bp higher than the weighted average rate, which the MoF reasonably rejected. The 12-month bond received one bid for UAH50m at 14.40%, or 4bp lower than that for a similar bond sold in May.

The 2-year bond received bids for UAH251m at interest rates in the same range as traded two weeks ago. The MoF set the cut-off rate 4bp lower than at the beginning of the month, at the same level as the weighted average rate.

Yesterday, the market purchased a portion of the new bonds, but as next week's 3-year bond offering is highly anticipated, demand was low. As demand next week should be greater and at interest rates similar to actual rates from recent auctions, investors should try to buy bonds at current rates prior the next NBU meeting on the key monetary rate.

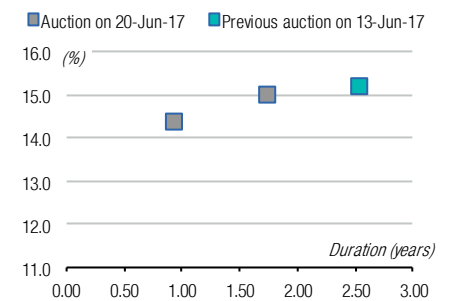
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

| ISIN | Coupon rate (%) | Payment freq ¹ | Maturity | Qty of bonds sold | Price (UAH) | Proceeds ² (UAHm) | Volume ² (UAHm) | YTM ³ (%) | Outstanding (m) ⁴ |
|---------------------|-----------------|---------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000197420 | 0.00 | | 23-May-18 | 50,000 | 882.96 | 44.15 | 50.00 | 14.40 | 150.00 |
| UA4000142137 | 14.13 | SA | 22-May-19 | 200,300 | 1,005.18 | 201.34 | 200.30 | 15.03 | 2,426.30 |
| Total | | | | 250,300 | | 245.49 | 250.30 | | 2,576.30 |

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.

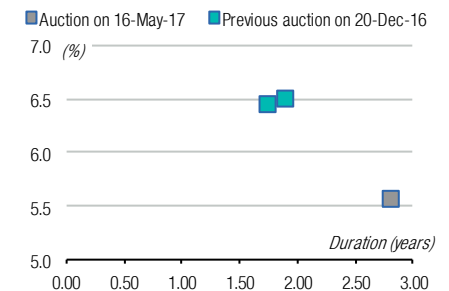
WEDNESDAY, 21 JUNE 2017

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

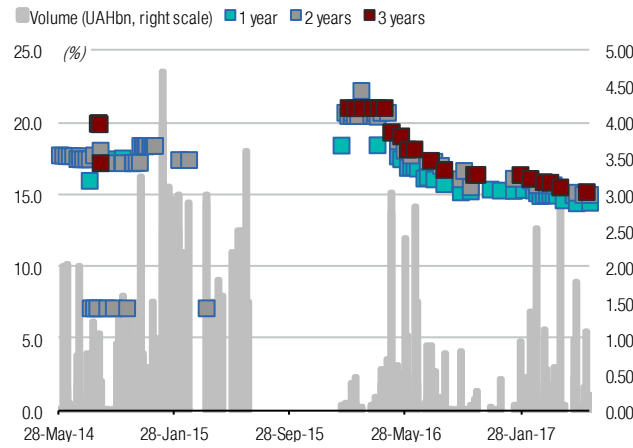


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

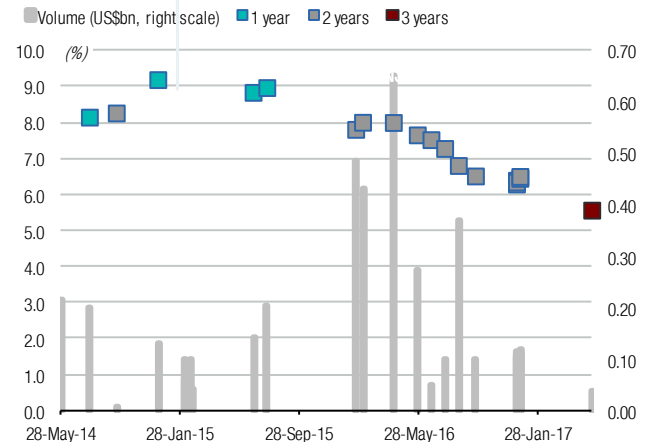
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

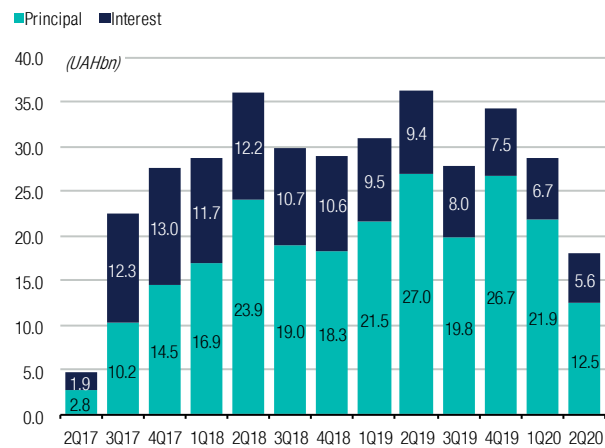
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

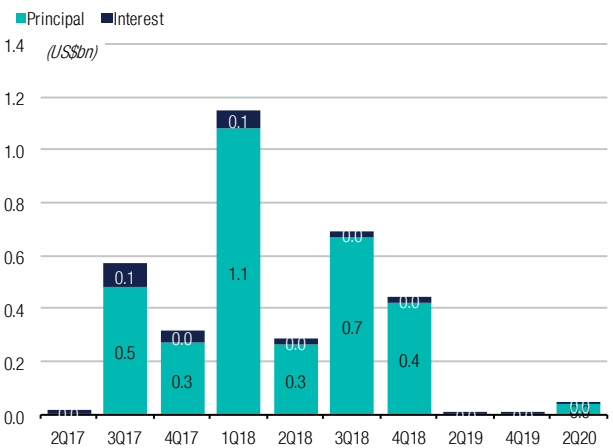
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

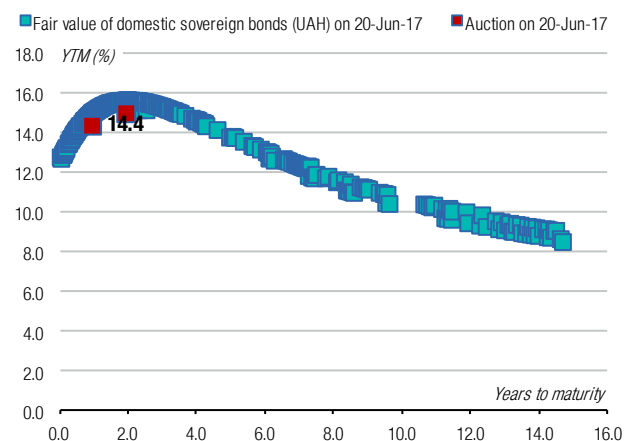
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

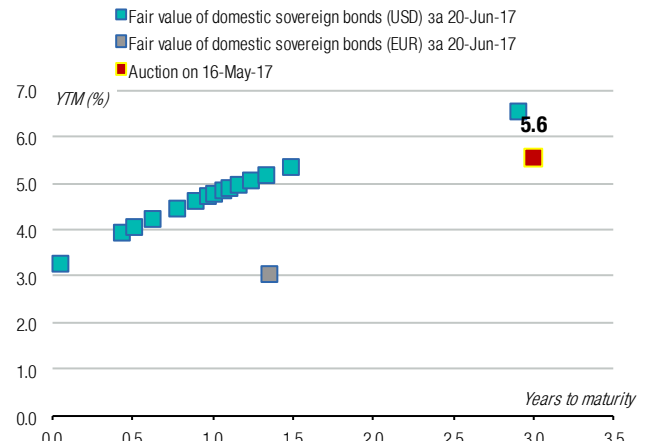
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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