

Bond Market Insight

3-year bond yield declines

Comment on government bond placement

This Tuesday, the MoF continued to decrease interest rates at the primary bond market, possibly as the result high high demand, most of which was satisfied. Of the UAH774.9m in total demand, the MoF accepted UAH754.9m at par value, receiving UA711.97m of budget proceeds.

The 6-month bond received no bids, and demand was split between 1-year and 3-year bonds. Only one bid for UAh400m (par value) was seen for the 1-year bond, while the 3-year bond had five bids for a total of UAH374.9m (par value). The 1-year bond was unchanged from last week at 14.40%.

Bids for the 3-year bond were submitted at 14.54-14.65%, with only UAH20m requested above 14.54%. The MoF rejected the most expensive bid, and satisfied the remainder of demand, most likely non-competitive bids.

The MoF accepted most of the demand and rejected the most expensive small bid, enabling the interest rate to decline by 10bp compared with the weighted-average rate two weeks ago. Overall, demand was insignificant, with an unknown outlook for the MoF's plans for the next quarter.

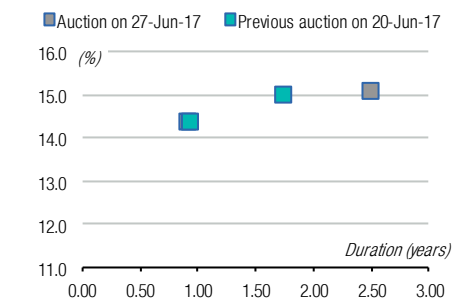
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000197420	0.00		23-May-18	400,000	885.42	354.17	400.00	14.40	550.00
UA4000198006	14.64	SA	10-Jun-20	354,900	1,008.18	357.80	354.90	15.11	1,443.16
Total				754,900		711.97	754.90		1,993.16

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.

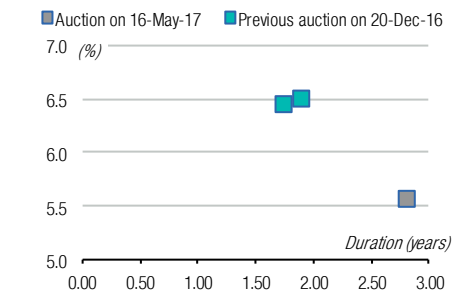
THURSDAY, 29 JUNE 2017

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

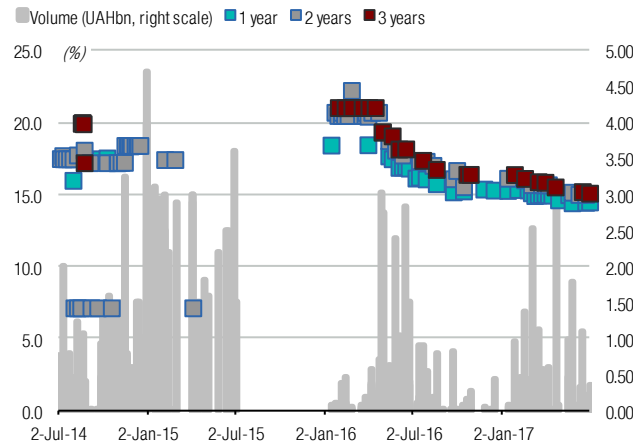


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

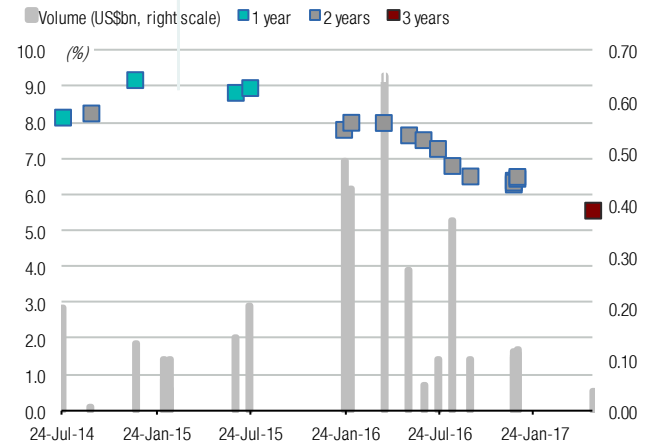
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

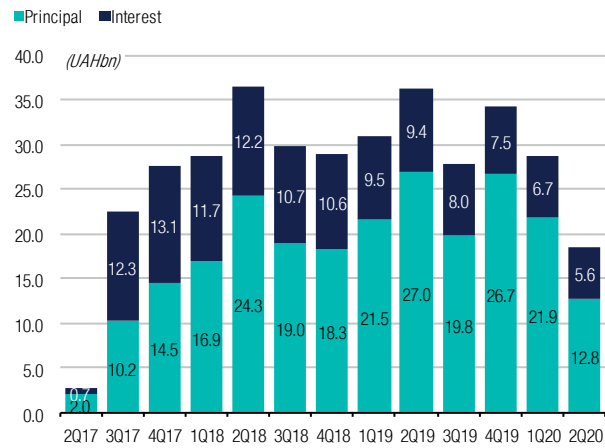
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

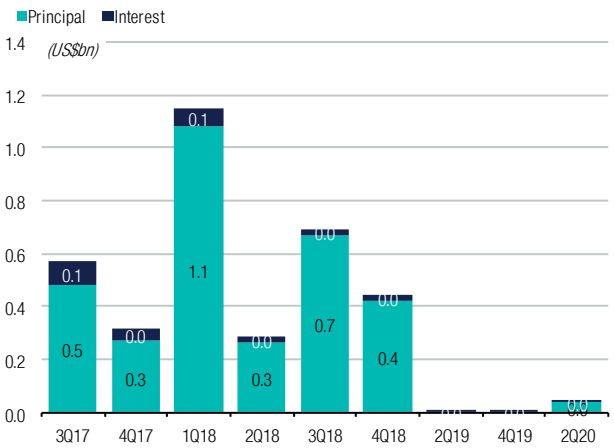
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

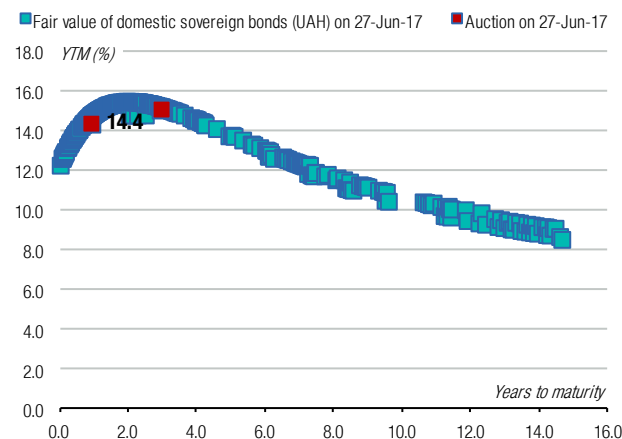
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

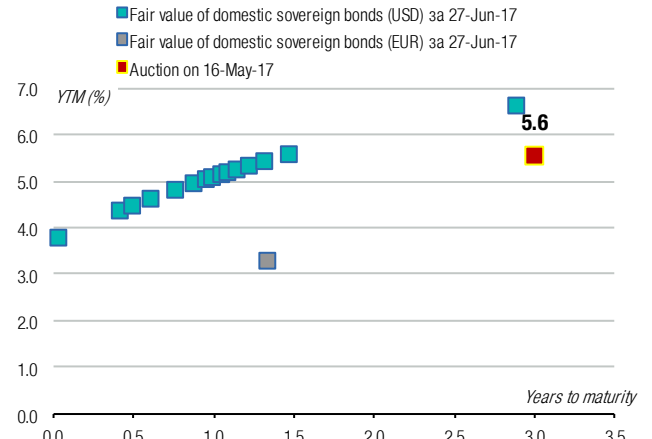
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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