



Bond Market Insight

Slight increase in demand

Comment on government bond placement

Yesterday, the MoF offered only three-year bonds, likely after consultations with primary dealers indicating that only this issue would attract demand. Tightening of the offering to one bond supported demand by concentrating on this maturity. But total demand was insufficient compared with last week's auction. Banks submitted only three bids amounting to UAH423m, which was an unexpectedly large due to lack of bond redemptions this week and insufficient payments of interest payments. Bids were submitted with a simple rate, 14.54%, the same as last week's cut-off and weighted-average interest rate.

Despite demand for three-year bonds that was nearly three times larger compared with the last auction, demand for the auction was up less than two times. But if we look at demand in June, the average demand was above UAH700m, and the MoF sold three-year bonds at UAH1.44bn at two auctions.

So, the results of yesterday's auction are not remarkable; the interest rate was unchanged and the proceeds were only slightly larger. This demand could have been from investors, who had accumulated additional funds for buying new bonds.

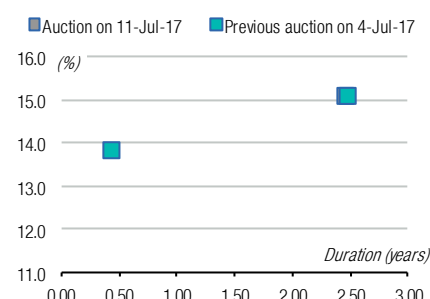
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Pay-ment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000198006	14.64	SA	10-Jun-20	423,000	1,013.24	428.60	423.00	15.11	2,010.76
Total				423,000		428.60	423.00		2,010.76

Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [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.

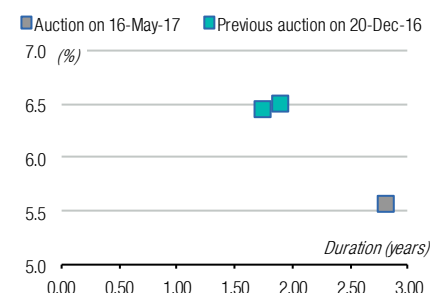
WEDNESDAY, 12 JULY 2017

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

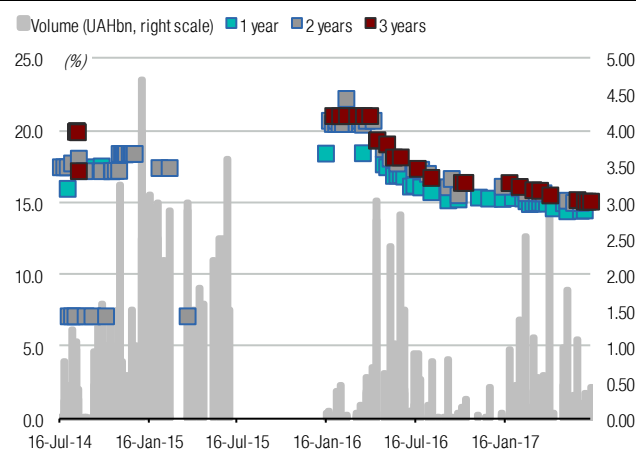


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

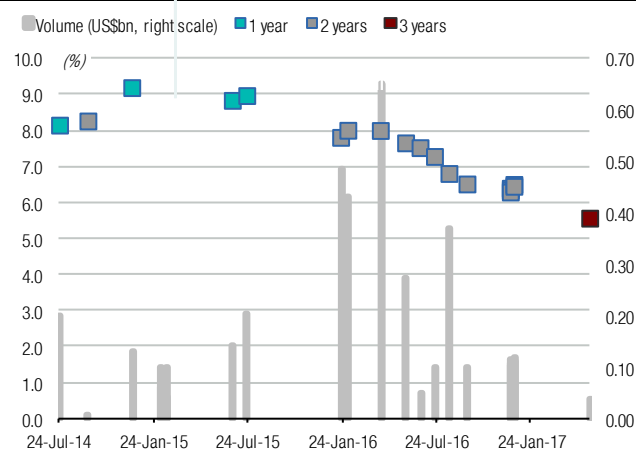
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

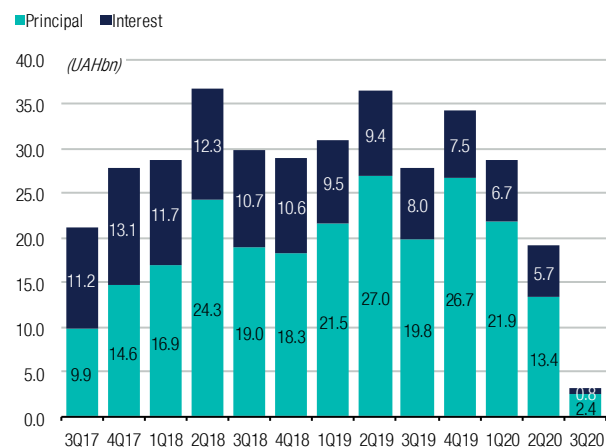
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

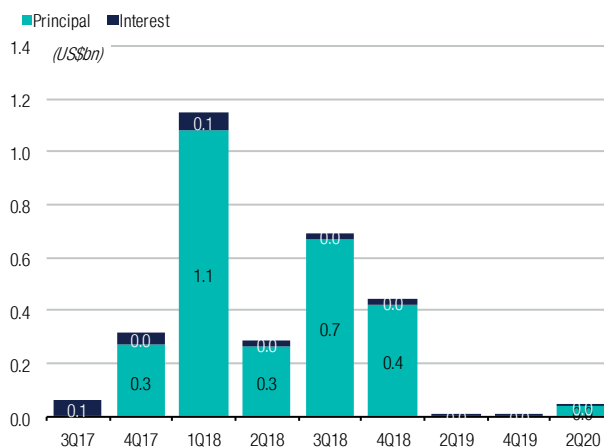
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

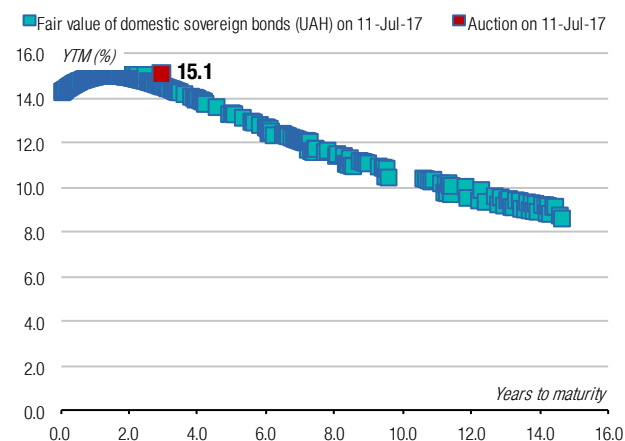
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

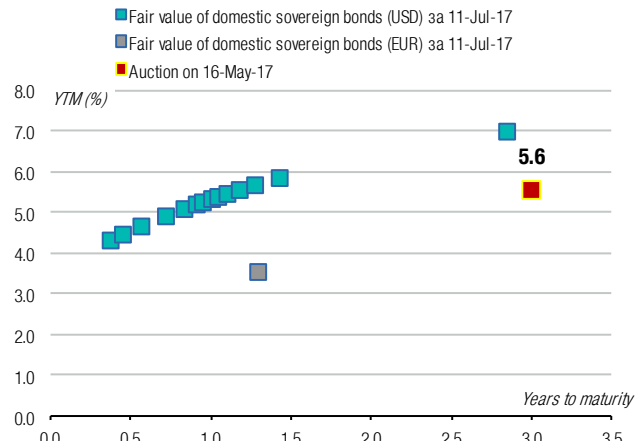
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

UAH-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

USD- and EUR-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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