



# Bond Market Insight

## Partial refinancing

### Comment on government bond placement

Yesterday's demand at the auction was insufficient and amounted to UAH234.4m (par value), which is four times less than the average demand at auctions this year. The MoF received only three bids yesterday, one for 2-year and two for 3-year bonds. Total demand was UAH55m lower than today's principal repayments, excluding payments to the NBU. In sum, a large part of today's market debt repayments were refinanced.

Interest rates remained steady for the fifth consecutive week, with demand mostly for mid-term bonds. Market players do not anticipate that the NBU will cut the key monetary rate in August, considering the NBU's explanations of its decision in June.

At the same time, next week could be more active at the primary market. The MoF should repay about UAH600m to the market, including roughly UAH300m in principal. Approximately UAH270m in VAT-bond repayments are scheduled. We predict that demand could be up two-fold from this week. Also, activity could be up due to the 2-year FX-denominated bond offering, not yet offered this year, with the actual amount sold depending on the cut-off rate.

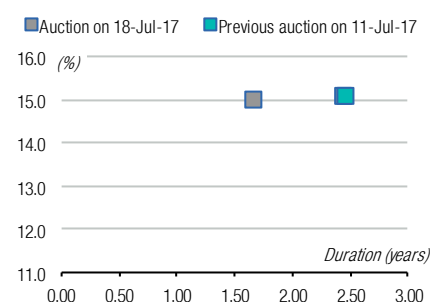
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000142137	14.13	SA	22-May-19	100,000	1,016.03	101.60	100.00	15.03	2,526.30
UA4000198006	14.64	SA	10-Jun-20	134,400	1,015.98	136.55	134.40	15.11	2,145.16
<b>Total</b>				<b>234,400</b>		<b>238.15</b>	<b>234.40</b>		<b>4,671.46</b>

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.

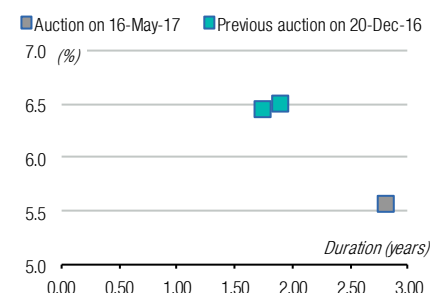
### WEDNESDAY, 19 JULY 2017

#### 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

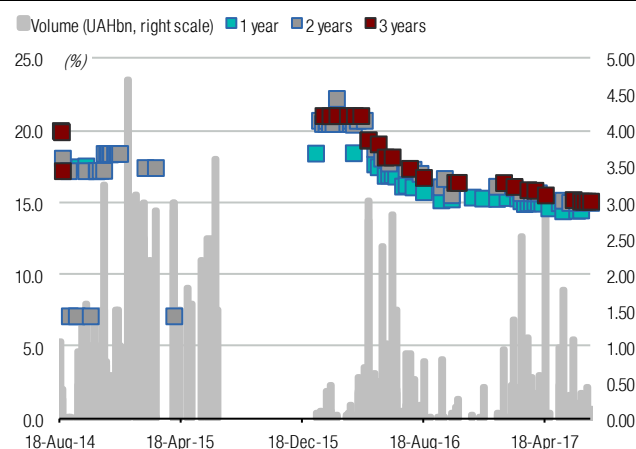


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

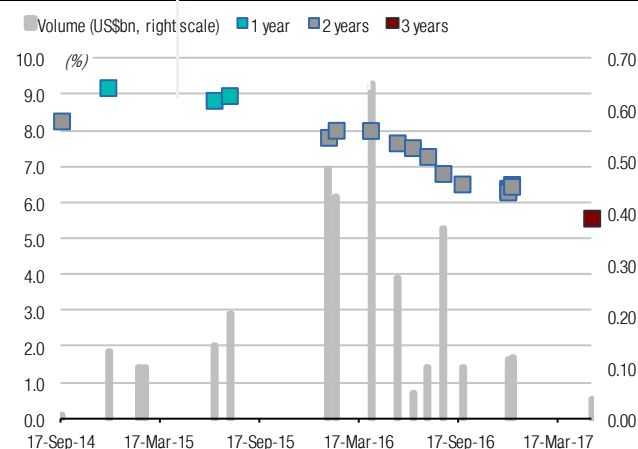
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

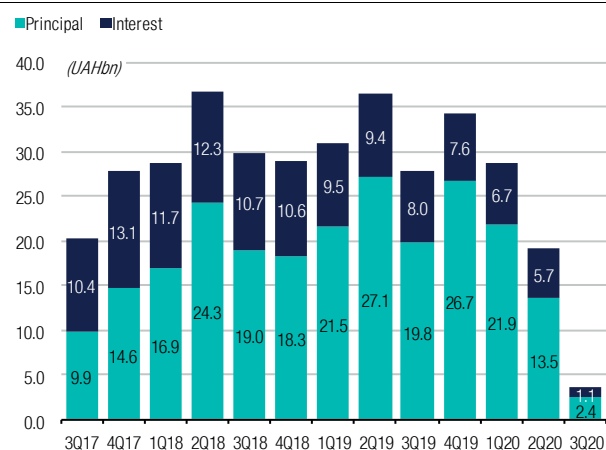
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

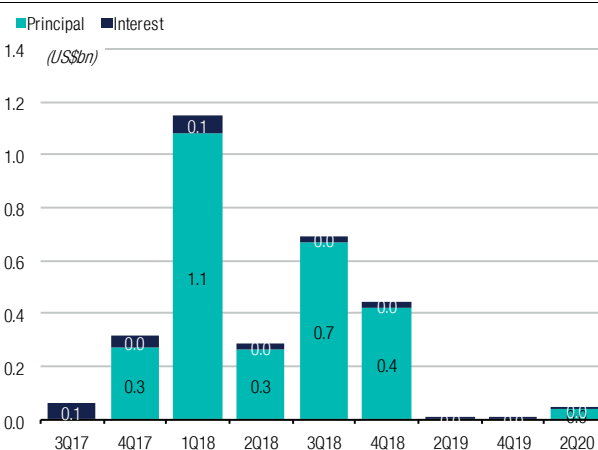
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

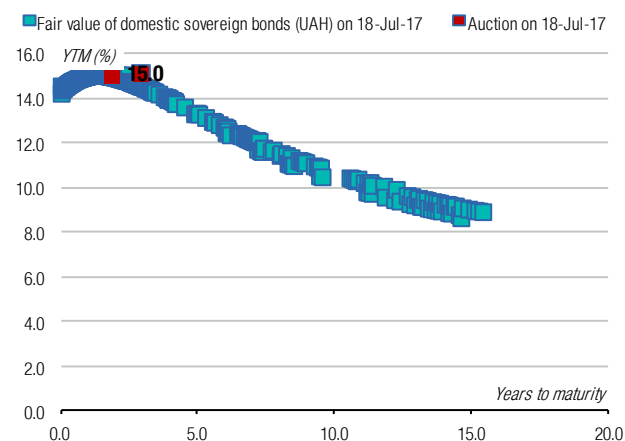
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

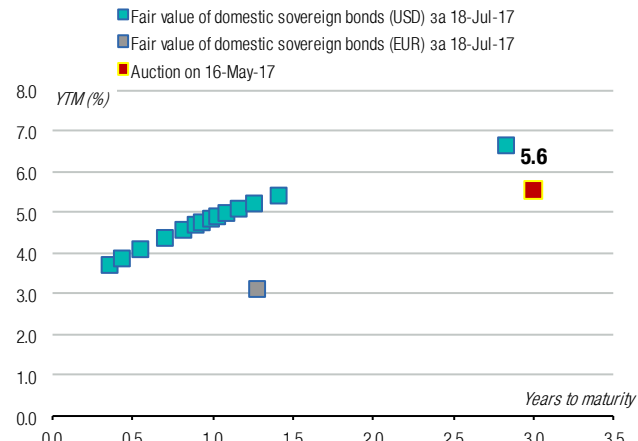
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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