

Bond Market Insight

Significant demand on FX bonds

Comment on government bond placement

Today's auction budget proceeds amounted to UAH10.3bn from 1-year and 3-year local currency bonds and a 2-year FX-denominated bond that was offered for the second time this year.

The FX-denominated bond received higher demand than what was set by the MoF, attracting US\$477.3m in 13 bids at 5.30-5.40%, exceeding the MoF's US\$350m limit. The MoF set the cutoff and weighted average rates at 5.40%. Non-competitive bidders received 9% of satisfied demand, and total budget proceeds from FX-denominated bonds was US\$351.5m.

Local currency bonds received high demand as well. One-year local currency bond saw UAH600m in demand from five bids, all of which were fulfilled at 14.4%. The 3-year local currency bond attracted UAH660m in two bids, all of which were fulfilled at 14.54%.

Local currency bond yields remain unchanged, while FX-denominated bond yields increased 6bp from 5.34% to 5.40%. Demand volume was high, which was expected for the foreign currency bonds.

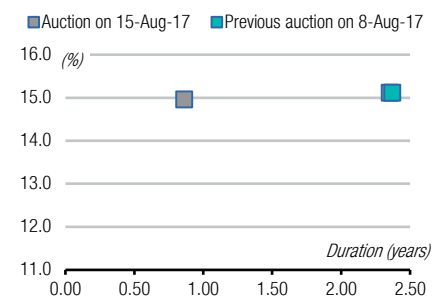
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000194591	16.62	SA	11-Jul-18	600,000	1,033.74	620.24	600.00	14.96	2,153.85
UA4000198006	14.64	SA	10-Jun-20	660,000	1,027.01	677.83	660.00	15.11	3,192.22
Total				1,260,000		1,298.07	1,260.00		5,346.07
UA4000198469	5.34	SA	10-Jul-19	350,000	1,004.23	8,994.38	8,956.50	5.48	12,988.56
Total				350,000		8,994.38	8,956.50		12,988.56

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.

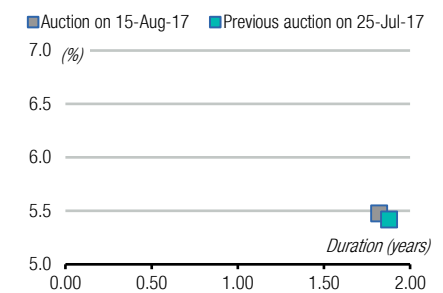
WEDNESDAY, 16 AUGUST 2017

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

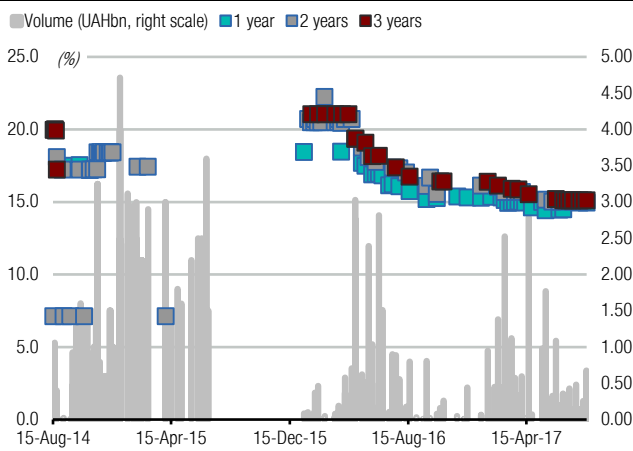


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

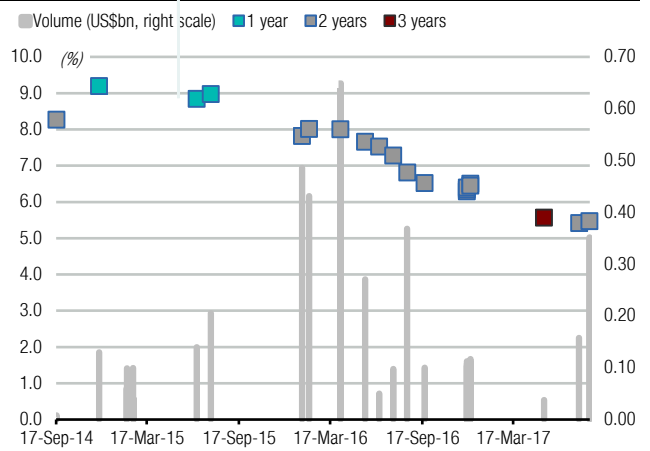
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

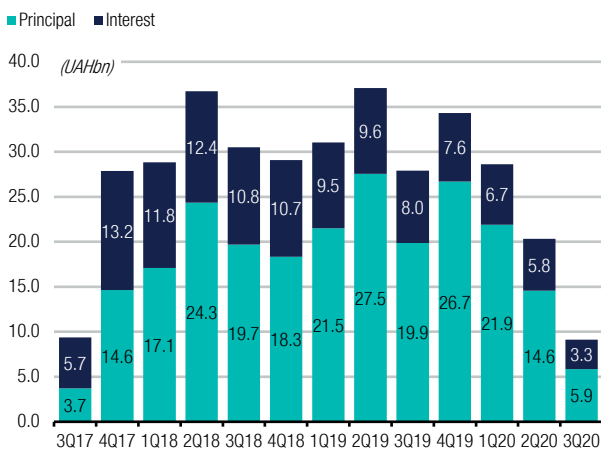
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

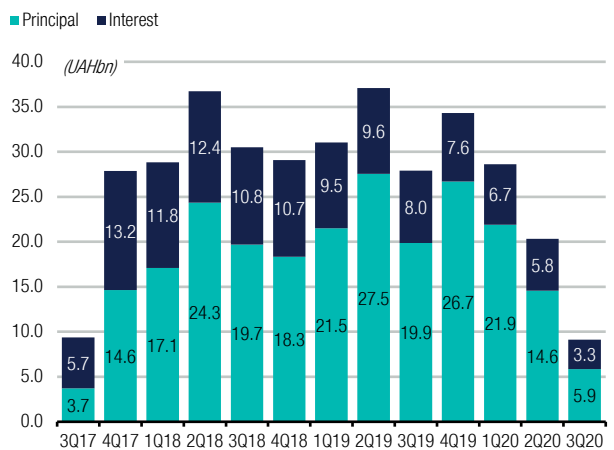
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

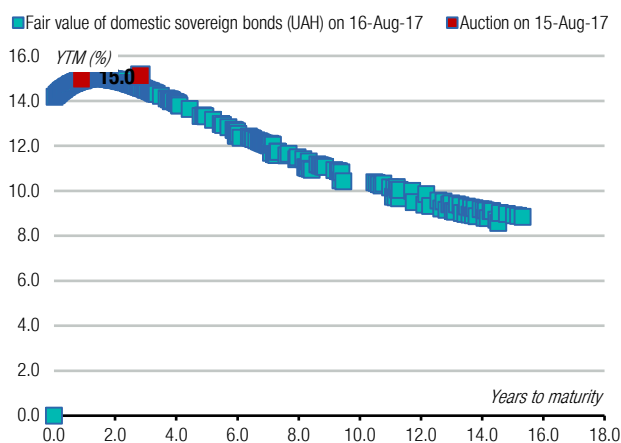
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

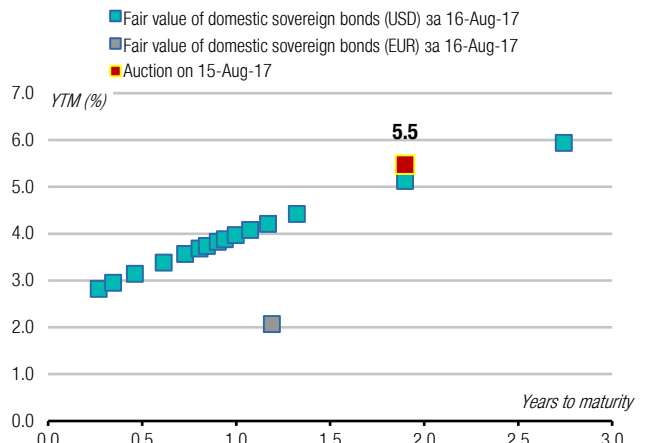
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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