

Bond Market Insight

Inactive auction

Comment on government bond placement

Yesterday, the MoF offered only an 11-month bond at the primary auction. Maturing July 2018, the bond debuted in 2016 with a 16.62% coupon. Although the YTM has risen to about 14.96%, this did not increase demand for it significantly.

Only one bank participated in the auction with one bid which was calculated to not exceed UAH100m. Bank requested 96,477 bonds, raising budget proceeds of a mere UAH625 below the UAH100m. This bid was submitted at the usual 14.40%.

Last week, liquidity fell significantly, mostly as the result of outflows to the budget, and new funds were injected by the NBU through FX auctions, although too little and too late. Also, today's debt repayments to the market of UAH200m, half of which was refinanced at the auction, had little impact.

Without a long-term source of funds and liquidity falling after tax payments, the auction was quite inactive. Most likely, a dealer participated on behalf of its client who should get debt repayments today or has an accumulated portion of new funds. This situation could continue next week, and could slightly improve in September when debt repayments to the market should rise slightly.

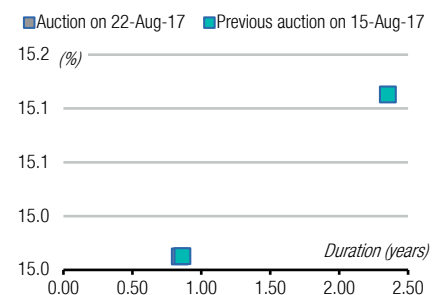
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

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	96,477	1,036.51	100.00	96.48	14.96	2,250.33
Total				96,477		100.00	96.48		2,250.33

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.

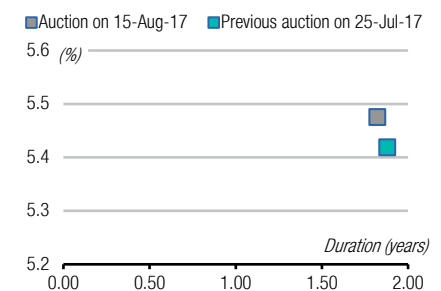
WEDNESDAY, 23 AUGUST 2017

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

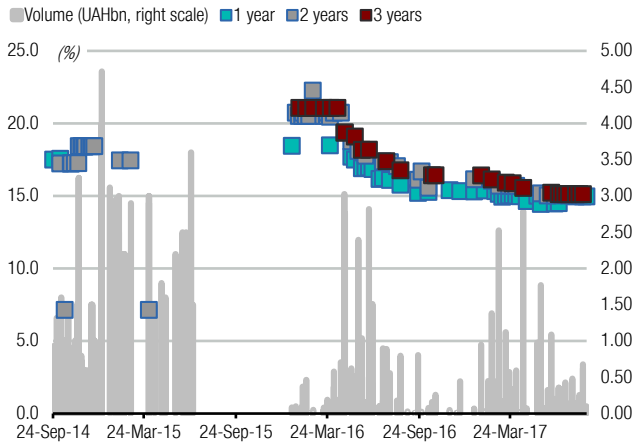


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

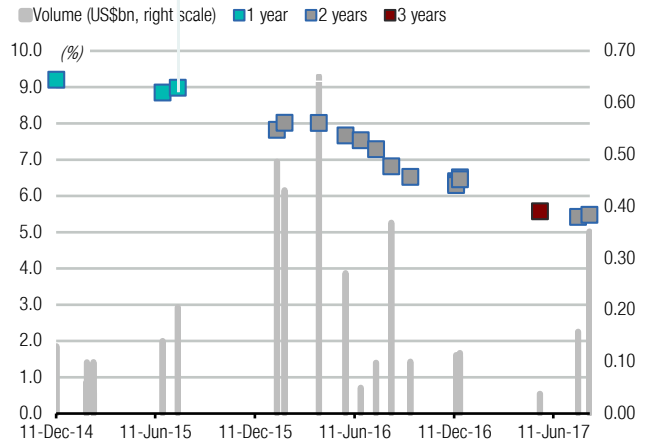
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

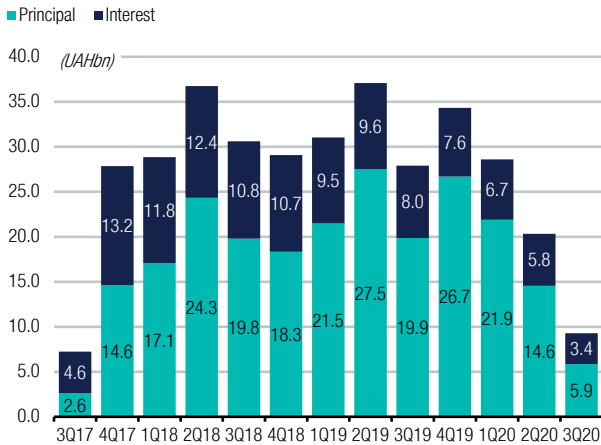
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

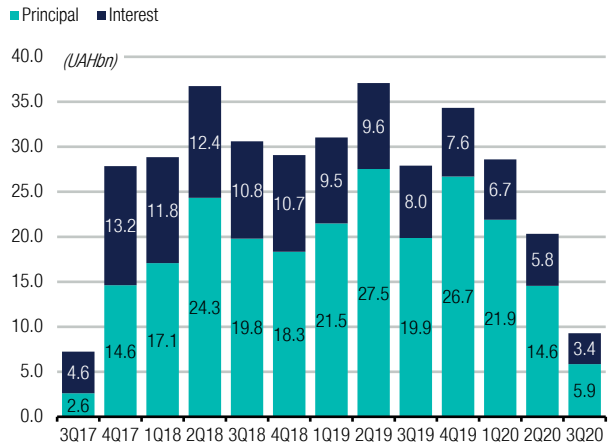
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

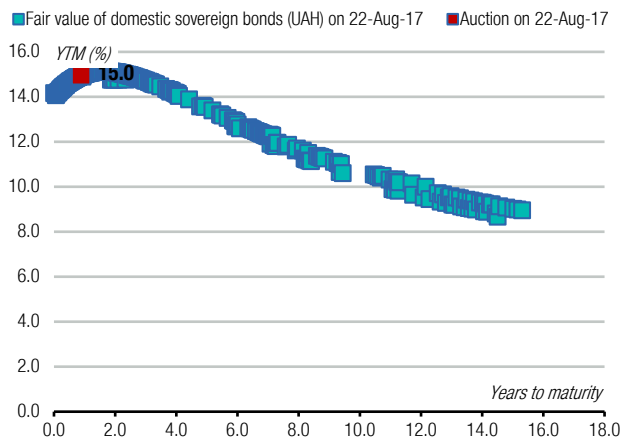
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

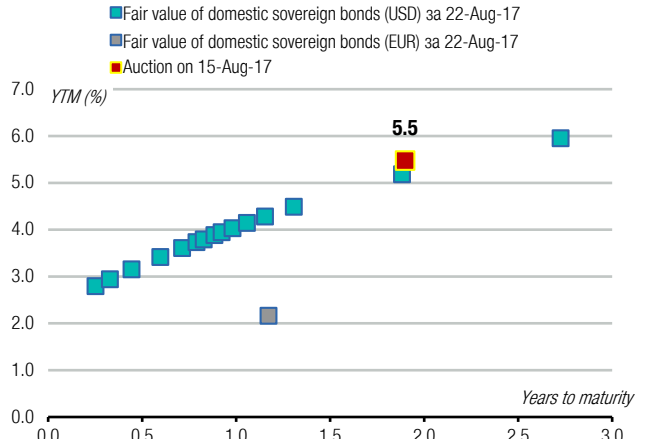
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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