Focus
Ukraine

Markets
Domestic government bonds

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Bond Market Insight

Yields begin to decline

Comment on government bond placement

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For the first time since June, interest rates at primary auctions for government bonds began to decline as the weighted average interest rate for 2-year bonds slid 6bp and for 3-year bonds by 4bp, while cut-off rates remained unchanged.

Total demand at the auction exceeded UAH1.2bn and was only in five competitive bids, namely three for 2-year and two for 3-year bonds. Interest rates were in tight range, 14.40%-14.46% for 2-year bonds, and 14.50%-14.54% for 3-year bonds, for volumes of UAH0.67bn and UAH0.54bn, respectively. The MoF decided to accept all bids.

At the end, weighted average interest rates declined to the lowest bids, the result of a large amount in these bids at the lowest rates and a low amount at the cut-off rates (mainly local investors) while non-residents appear to have a renewed interest in local currency bonds over the last few weeks.

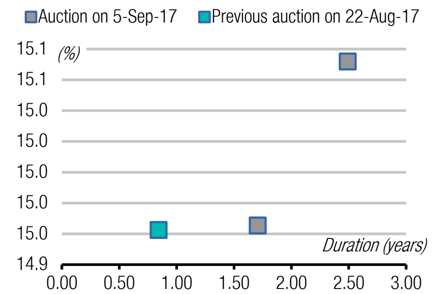
Possibly cut-off rates could move to yesterday's weighted average level of interest rates, and an increase in demand and cheaper non-resident investors could force the MoF to decrease interest rates even further next week.

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]
UA4000185755	14.30	SA	31-Jul-19	665,989	1,011.71	673.79	665.99	14.97	1,065.99
UA4000198873	14.50	SA	19-Aug-20	537,600	1,005.36	540.48	537.60	15.07	537.60
Total				**1,203,589**		**1,214.26**	**1,203.59**		**1,603.59**

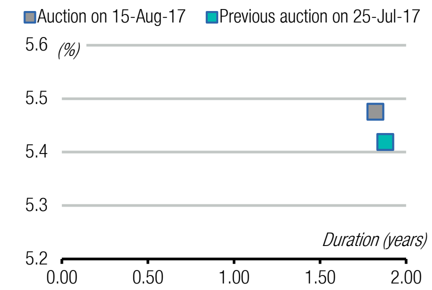
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate ; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

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

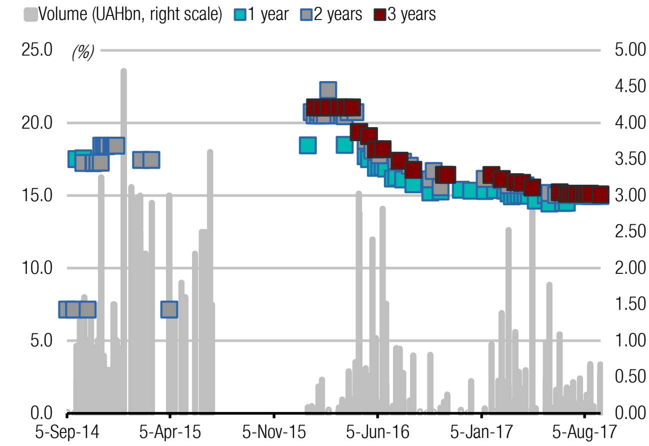


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

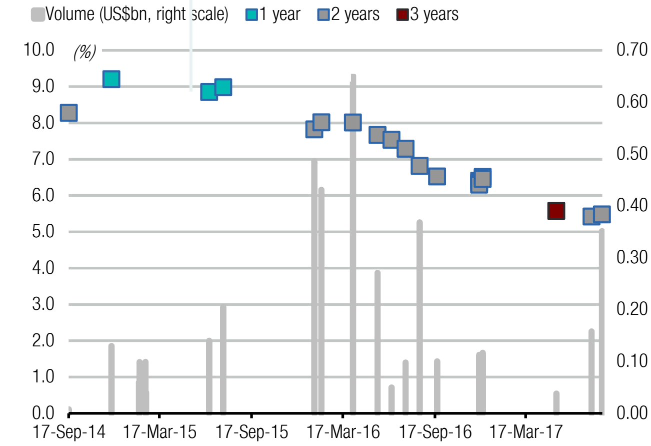
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

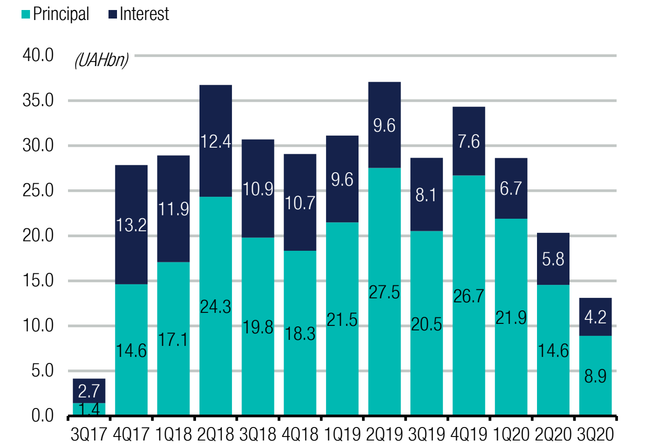
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

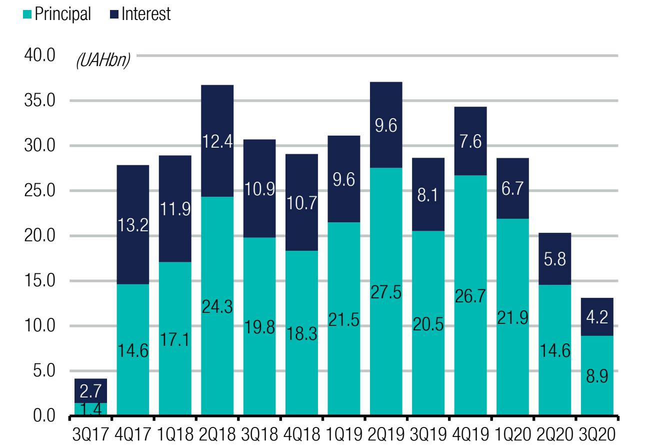
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

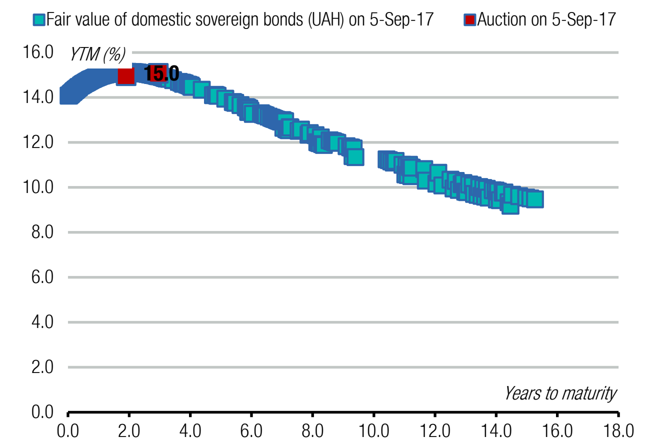
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

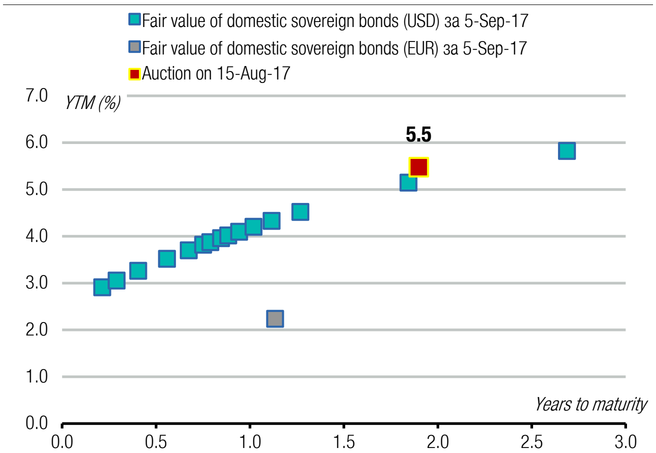
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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