

Bond Market Insight

Non-residents likely increase their portfolio

Comment on government bond placement

Yesterday, the MoF sold 1-month and 3-year maturity government bonds. A low volume of the 10-month bond was sold with a 5bp decline in the interest rate, while a majority of sales went for the 3-year bond with the interest rate essentially unchanged. Total budget proceeds amounted to UAH0.92bn.

With nearly UAH1.15bn in submitted demand, some bids were submitted with abnormally high interest rates and were rejected, namely two bids for the 2-year bond at 14.75% (most likely one competitive and one non-competitive bid), and one bid for the 3-year bond also at 14.75%, which the MoF rejected along with a UAH5m bid for the 10-month bond at 14.40%.

As a result, the MoF decreased the cut-off and weighted average rate for the 10-month bond by 5 bp to 14.35% while the 3-year bond's cut off rate remained unchanged at 14.54% while the weighted average rate increased 3bp to 14.53%.

Most likely, yesterday's 14.50% bid was from a non-resident, similar to the bid at 14.54%, which were accepted by the MoF. The non-residents' bid could be non-competitive. This auction indicates that non-resident demand is evident and could return, enabling the MoF to borrow additional funds and decrease the cost of new borrowings at the local currency bond market.

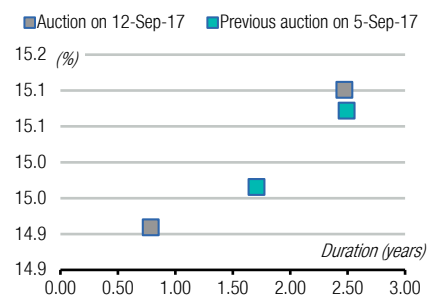
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency 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	10,000	1,045.24	10.45	10.00	14.91	2,260.33
UA4000198873	14.50	SA	19-Aug-20	905,000	1,007.44	911.73	905.00	15.10	1,442.60
Total				915,000		922.18	915.00		3,702.93

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.

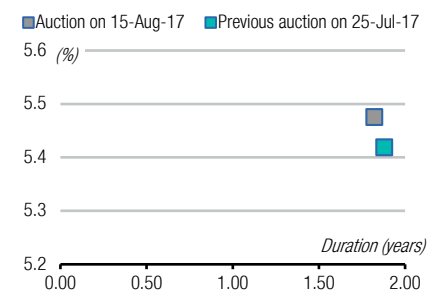
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

USD-denominated domestic gov't bonds: yield curve in past two auctions

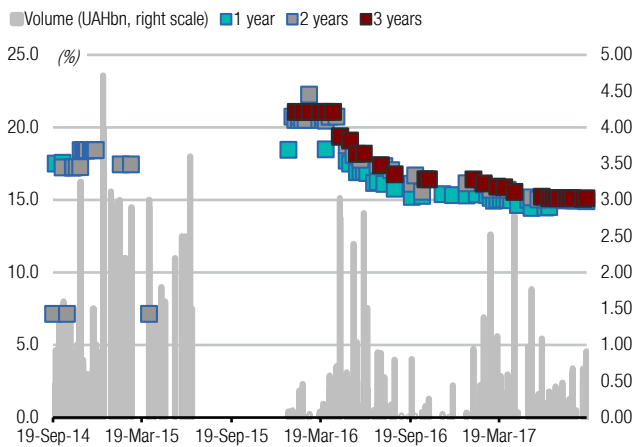


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

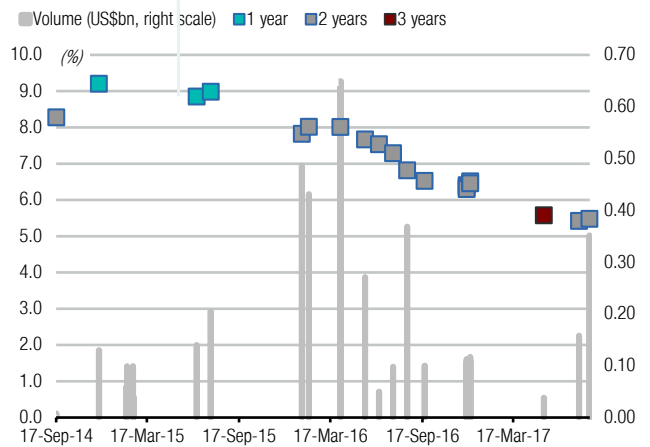
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

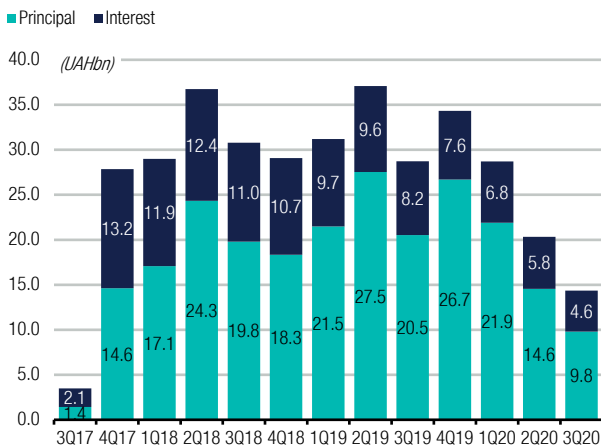
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

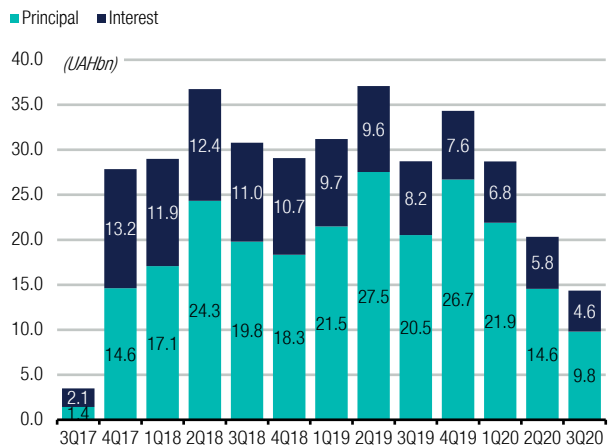
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

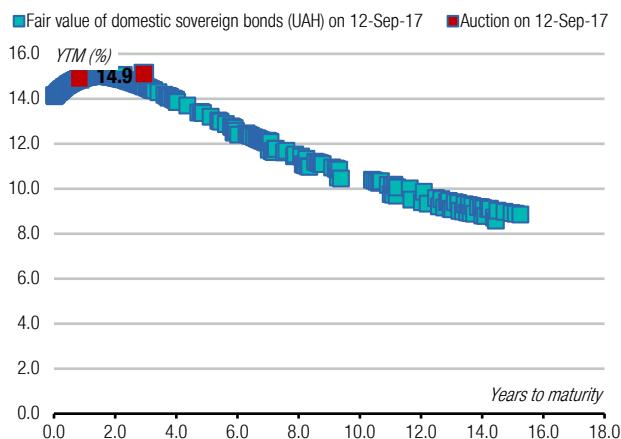
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

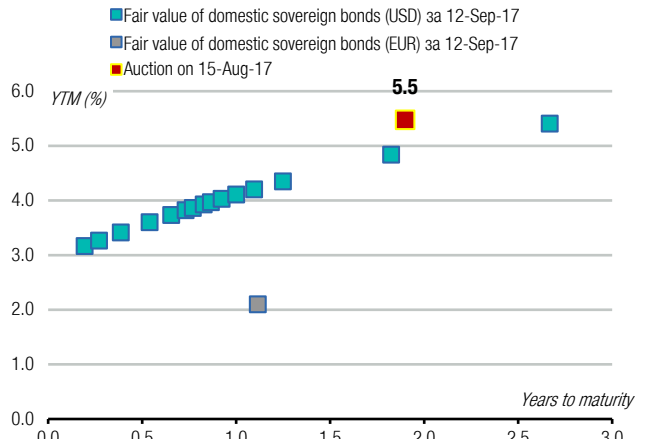
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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