

# Bond Market Insight

## The MoF fixed rates

### Comment on government bond placement

At yesterday's auction, the MoF fixed its new interest rates for 12-month and 3-year bonds: the 12-month at 14.35% and the 3-year rate at 14.50%, the lowest levels compared to those at previous auctions for similar bonds. The MoF also decreased the cut-off rate for the 12-month bond last week, while the 3-year bond cut-off rate was at 14.54% for a few weeks while demand was mostly lower. All demand yesterday was low and the MoF had to decrease rates.

Yesterday's demand amounted to UAH640m (par value), one-third of which was for the 1-year bond. Two bids came in for the 12-month bond at 14.35% and only one bid for the 3-year bond at 14.50%. As there was a lack of competition at the auction, the MoF accepted all bids and received UAH645.65m of budget proceeds. Demand for the 3-year bond could have come partially from non-residents, but most likely bonds were purchased for local investors.

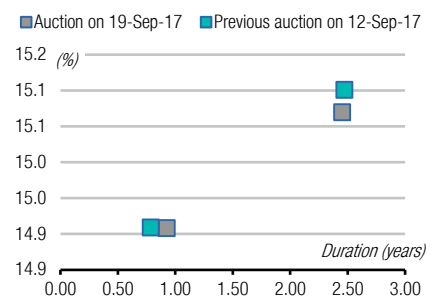
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment freq <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>
UA4000174239	14.25	SA	5-Sep-18	200,000	1,004.44	200.89	200.00	14.91	2,068.95
UA4000198873	14.50	SA	19-Aug-20	440,000	1,010.83	444.77	440.00	15.07	1,882.60
<b>Total</b>				<b>640,000</b>		<b>645.65</b>	<b>640.00</b>		<b>3,951.55</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.

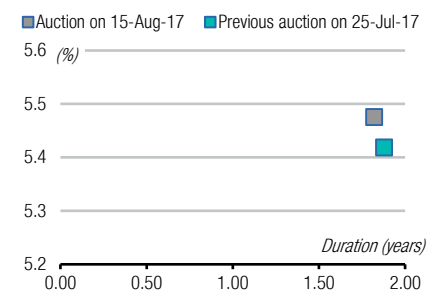
### WEDNESDAY, 20 SEPTEMBER 2017

#### 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

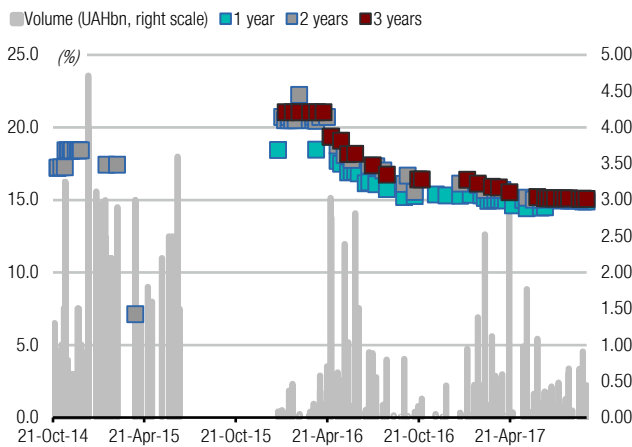


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

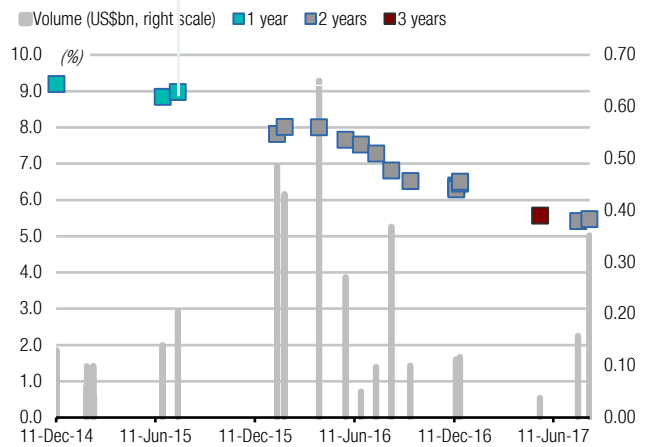
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

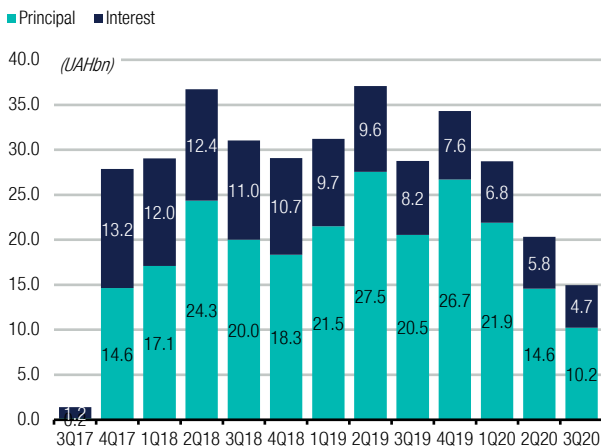
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

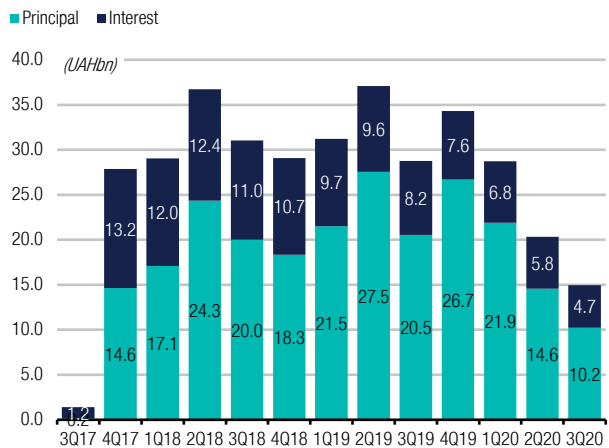
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

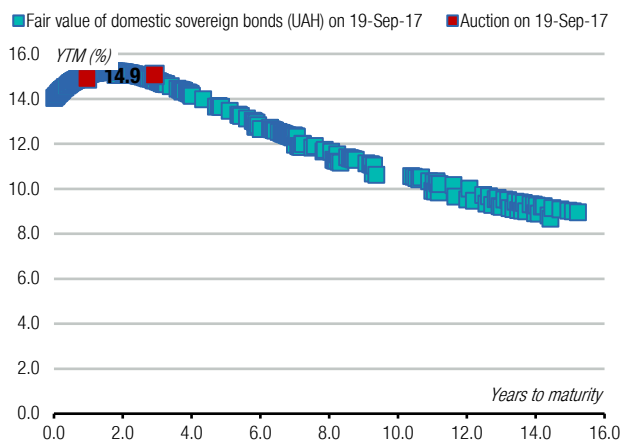
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

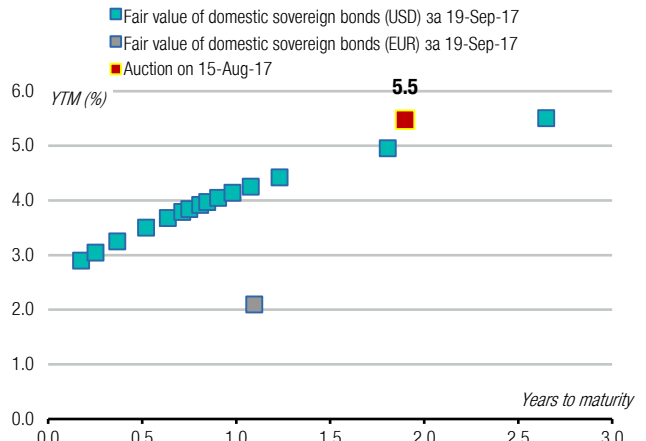
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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