

Bond Market Insight

Insufficient domestic demand

Comment on government bond placement

The MoF offered only 12-month bonds yesterday and total demand was insufficient. While banking sector liquidity is low and could decline further as month-end tax payments continue through this week, non-residents have been purchasing 3-year or 2-year bonds more frequently recently.

The MoF accepted the two bids for a total of UAH125m at 14.35%, a rate unchanged for the third auction, to collect UAH125.89m.

It appears that demand came only from domestic investors as non-residents likely took a break as they did at the end of August. This low auction participation also could have been a reaction to only one short maturity bond being offered. With a greater volume of debt repayments scheduled and the possibility of non-residents' participation, demand at next week's auction could be significantly larger.

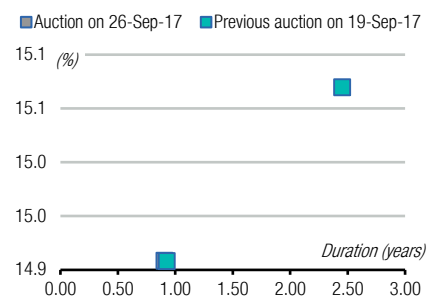
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000174239	14.25	SA	5-Sep-18	125,000	1,007.12	125.89	125.00	14.91	2,193.95
Total				125,000		125.89	125.00		2,193.95

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.

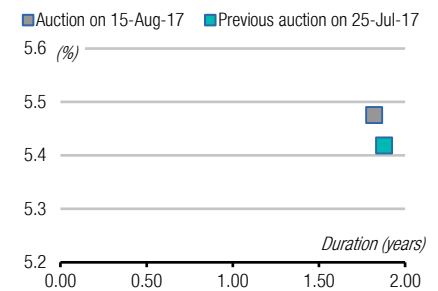
WEDNESDAY, 27 SEPTEMBER 2017

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

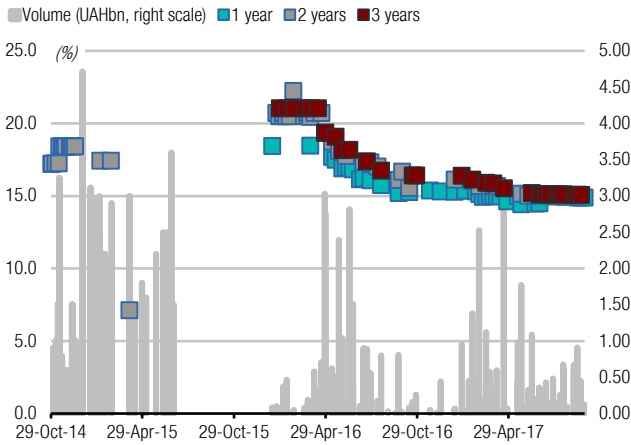


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

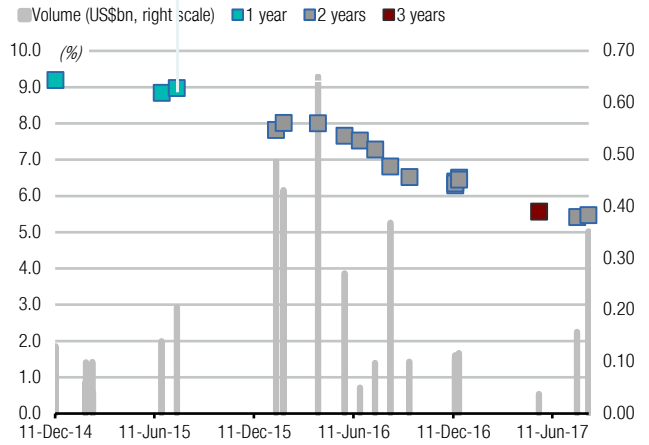
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

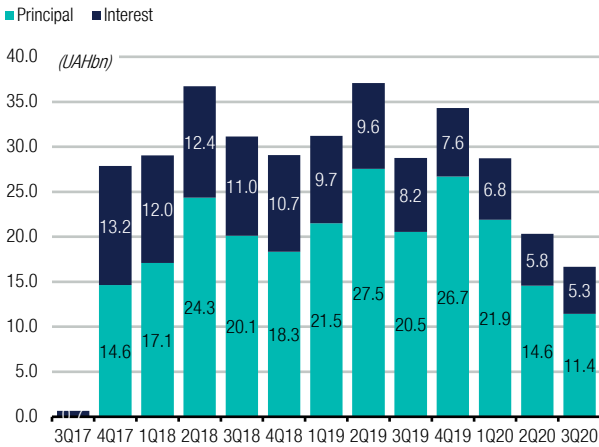
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

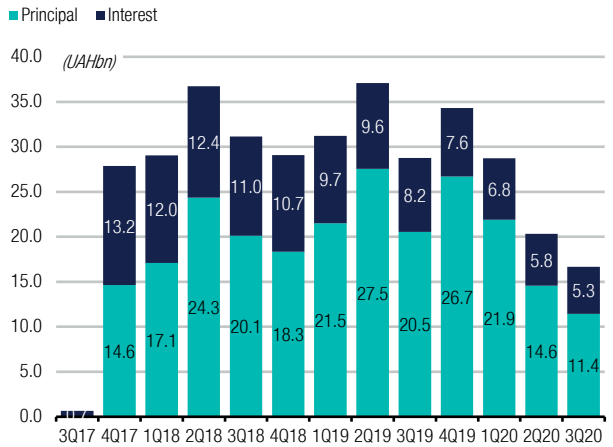
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

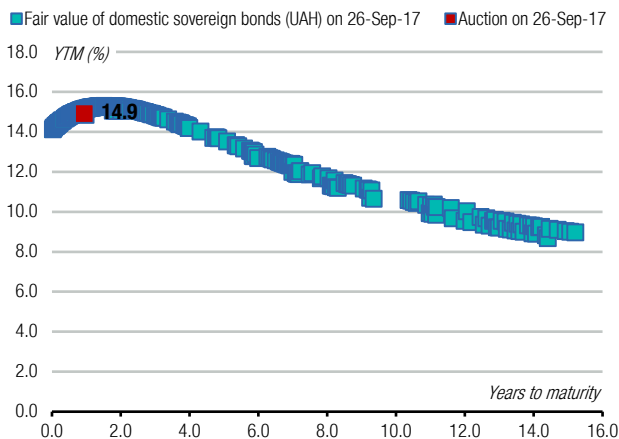
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

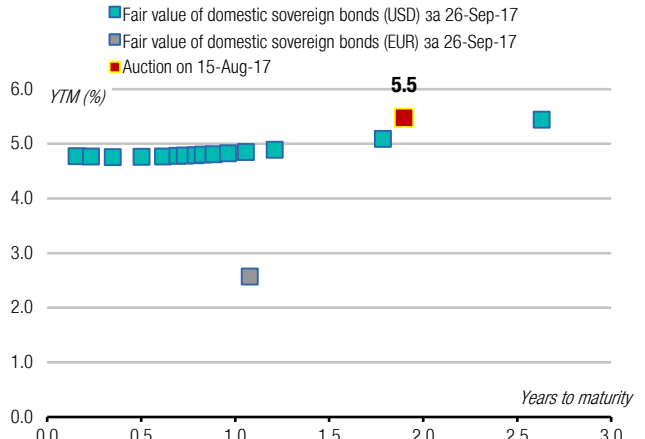
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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