

Bond Market Insight

5-year bonds successfully placed

Comment on government bond placement

Yesterday, at October's debut auction - as the MoF saw no demand over the past two weeks - It offered only an 11-month bond (re-opened from 2013) and a new 5-year bond (last placed in September 2016). Total demand was UAH1.75bn, most of which was concentrated on the 5-year bond.

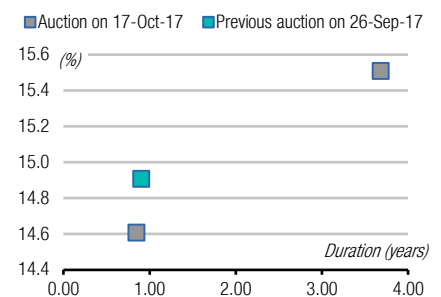
The 5-year bond attracted UAH1.69bn if demand at 14.75 - 16.00%, allowing the MoF to receive UAH1.7bn of proceeds. However, as the MoF wanted the cut-off rate to be no higher than 50bp above the 3-year bond's rate, it accepted only three bids at rates no higher than 15.00%, of which it accepted UAH0.39bn of demand, setting the weighted-average rate at 14.91%, or 41bp above the same rate for 3-year bonds in September 2017.

Demand for 11-month bonds was significantly lower, at UAH0.06bn in two bids at 14.00% and 14.35%, both of which the MoF accepted, enabling it to decrease the weighted average rate by 28bp to 14.07% as it attracted budget proceeds of UAH0.07bn.

Having a large amount of funds at Treasury accounts (at the beginning of this month, this balance was above UAH60bn), the MoF is in no hurry to borrow a large amount of new funds. At the same time, interest rates continued to decline even though last week the NBU sold 3-month CDs at interest rates down 50bp to 14.00%, or just 7bp below yesterday's 11-month bond rate, which will have a YTM of 14.61%. For the 5-year bond, the MoF decreased the cut-off rate from last year's auction by 100bp and made a new guideline for the next auction scheduled in November. This interest rate decrease could dampen demand for these bonds next month. Also, the investment of funds into bonds with shorter maturities and similar interest rates, which are more liquid.

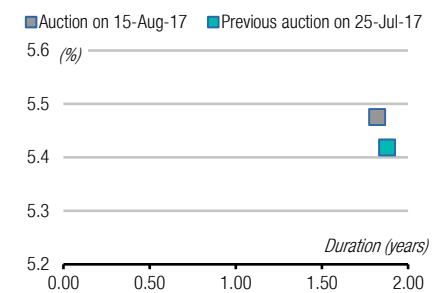
WEDNESDAY, 18 OCTOBER 2017

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.

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

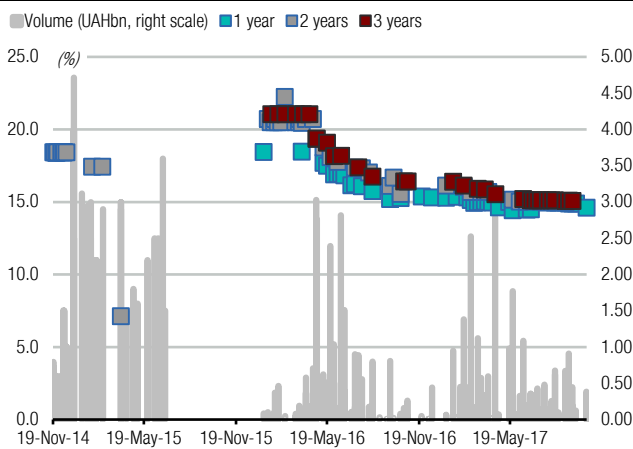
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000174239	14.25	SA	5-Sep-18	64,890	1,017.46	66.02	64.89	14.61	2,258.84
UA4000199210	14.91	SA	12-Oct-22	387,067	1,000.05	387.09	387.07	15.51	387.07
Total				451,957		453.11	451.96		2,645.90

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.

Appendix: Yields-to-maturity, repayments

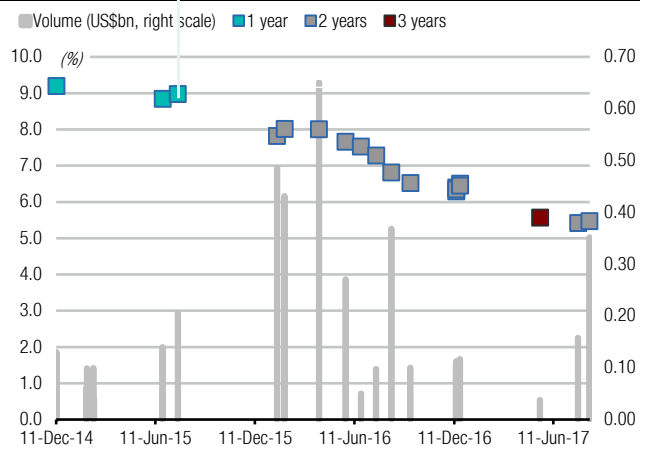
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

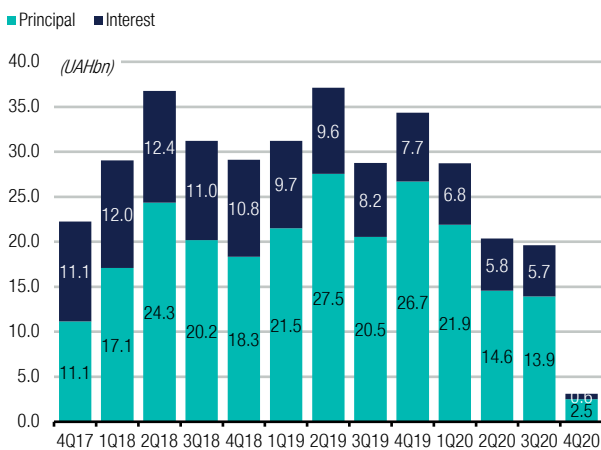
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

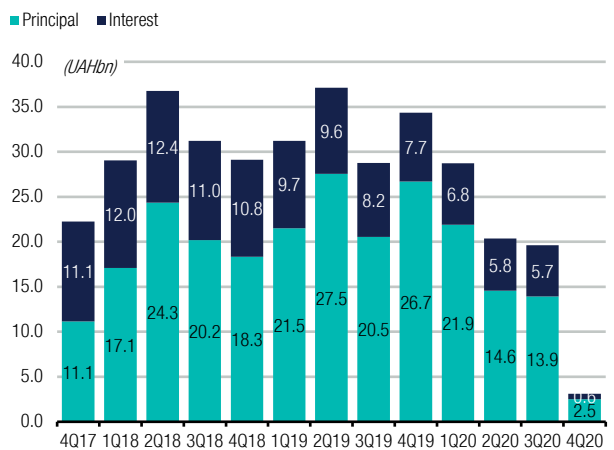
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

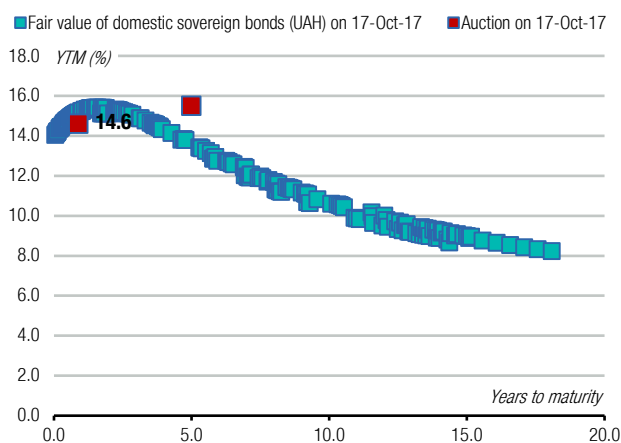
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

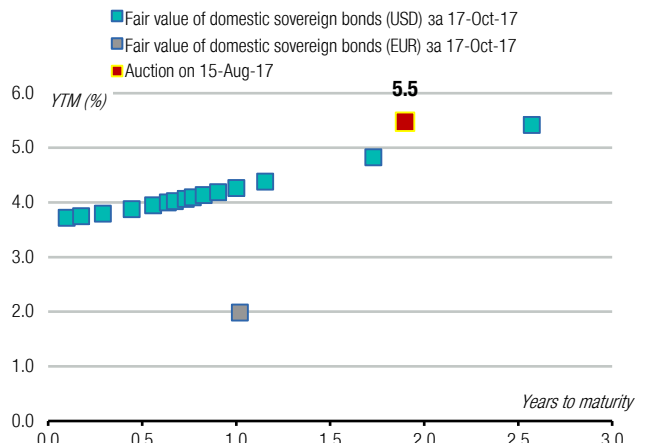
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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