

Bond Market Insight

Primary market interest rates up

Comment on government bond placement

At the debut auction after the NBU's decision to increase the key policy rate last week, interest rates rose at the primary bond market for all offered bonds. We saw an increase in the cut-off rates and weighted-average rates, as the lowest bids were also above those seen at recent auctions.

The largest increase was for the 10-month bond: its cut-off rate was up 35bp while its weighted-average rate rose the most yesterday, up 58bp. Two bids for these bonds were submitted at 14.50% and 14.70%, for a total of UAH0.51bn, or nearly 46% of total demand at yesterday's auction. This most likely forced the MoF to accept all bids, setting the weighted-average rate at 14.65%, as 75% of the demand for this bond was at 14.70%.

The 2-year bond received one bid for UAH0.26bn at 14.85%, 39bp above the rate at the last auction for this bond. The MoF also accepted this bid, increasing the weighted-average rate by 45bp.

The smallest increase in rates was for the 3-year bond, which attracted four bids for a total of UAH0.35bn. Rates were 14.85-14.94%, but demand was close to the lowest rate, causing the weighted average rate to rise 38bp to 14.88% while the cut-off rate rose 44bp to 14.94%.

The primary market immediately reacted to the key policy rate increase, but less significantly. This increase was inside the expected 50bp increase, similar to the market's reaction to the 100bp key rate decrease earlier this year. Probably, non-residents did not participate in the auction or their bids were insufficient. At the same time, the issuer quite unexpectedly decided to satisfy all received demand at higher interest rates. This followed the MoF's announcement to work under true market conditions

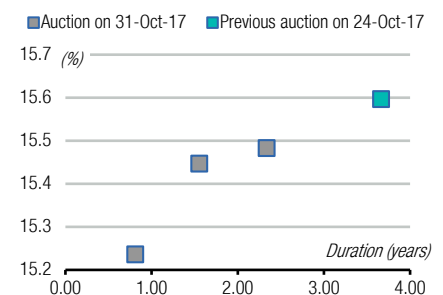
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

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
UA4000174239	14.25	SA	5-Sep-18	510,000	1,018.28	519.32	510.00	15.24	2,768.84
UA4000185755	14.30	SA	31-Jul-19	260,000	1,026.90	266.99	260.00	15.45	1,325.99
UA4000198873	14.50	SA	19-Aug-20	350,000	1,018.72	356.55	350.00	15.48	2,232.60
Total				1,120,000		1,142.87	1,120.00		6,327.43

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.

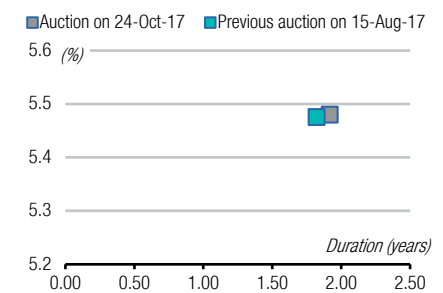
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

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

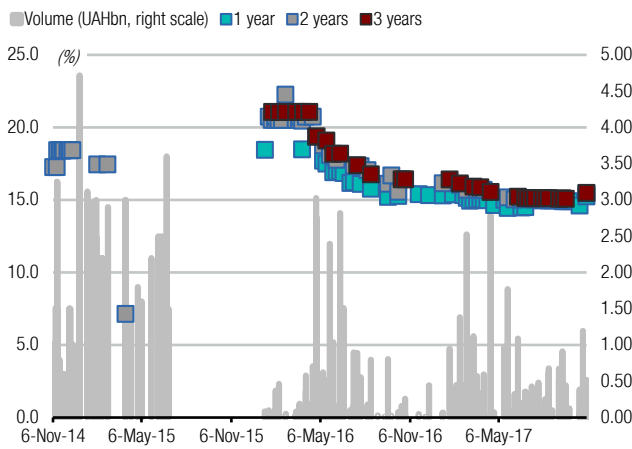


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

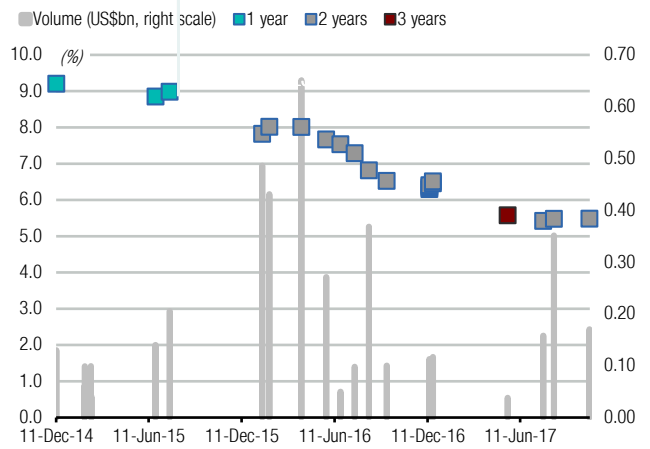
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

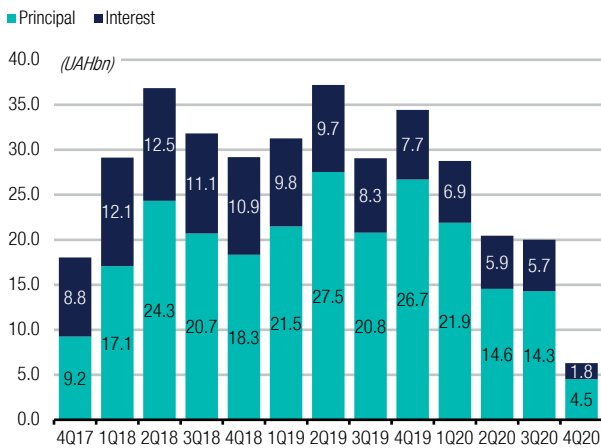
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

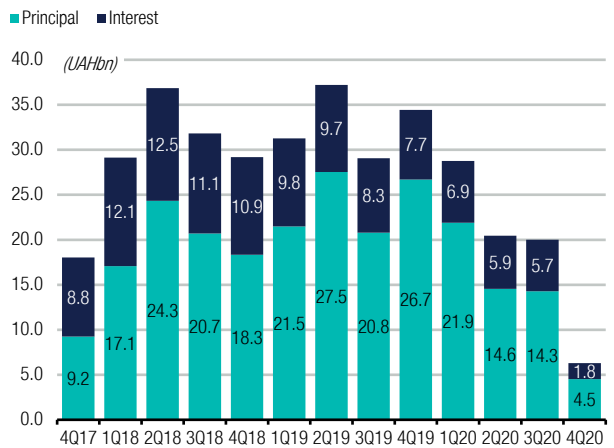
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

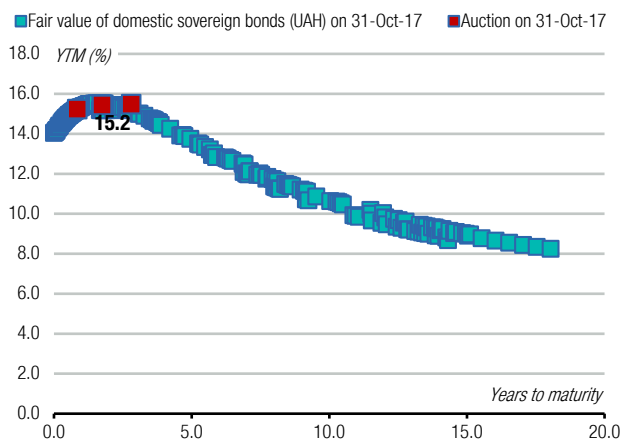
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

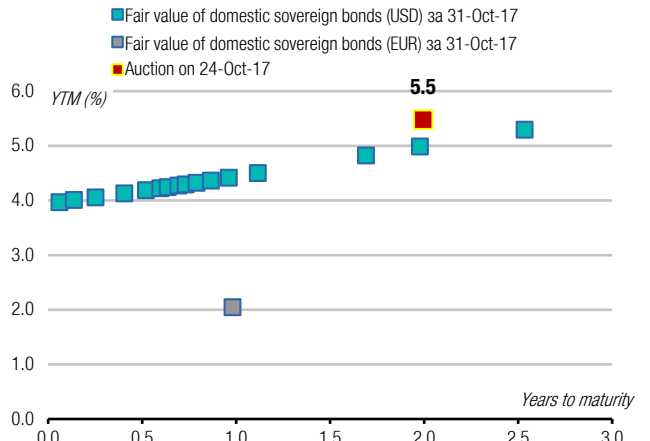
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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