



Focus
Ukraine

Markets
Domestic government bonds

Analyst(s)
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Bond Market Insight

Insufficient demand and proceeds

Comment on government bond placement

Yesterday, for the first time this month, the MoF borrowed some funds for the state budget, but only a minimal amount of proceeds from FX-denominated bonds. Two bonds were offered at the auction, namely 11-month bonds in local currency and 2-year bonds denominated in US dollars, of which the MoF sold only USD-denominated bonds. Demand for local-currency bonds was a paltry UAH0.4m in one non-competitive bid, which was rejected due to lack of competitive demand. The bidder was most likely willing to buy bonds at any interest rate approved by the MoF.

The MoF received 15 bids for the USD-denominated bonds for a total of UAH87.59m (par value), less than a third of the FX-denominated debt repayments scheduled for today. Bids were very flat at 5.39-5.40%, and the MoF decided to accept all bids and set weighted-average rate at 5.40% as demand at the lowest rate was insufficient.

Ultimately, the MoF refinanced only a small portion of debt repayments scheduled for today. This was quite unexpected as FX-denominated bonds were in high demand at recent auctions. Probably, part of the debt repayments from FX-denominated bond redemptions could be reinvested in local-currency debt which was more attractive this year because of the less volatile UAH/USD exchange rate. Quite possibly, demand for local-currency debt could increase using more funds from FX.

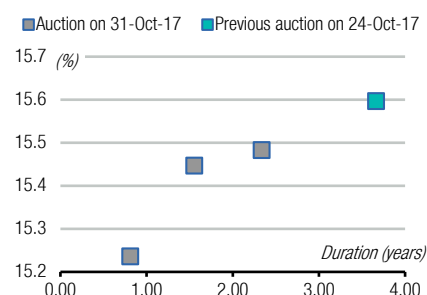
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

| ISIN | Coupon rate (%) | Payment freq ¹ | Maturity | Qty of bonds sold | Price (UAH) | Proceeds ² (UAHm) | Volume ² (UAHm) | YTM ³ (%) | Outstanding (m) ⁴ |
|--------------|-----------------|---------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000199491 | 5.40 | SA | 12-Feb-20 | 87,590 | 1,014.60 | 2,353.47 | 2,319.60 | 5.48 | 2,319.60 |
| Total | | | | 87,590 | | 2,353.47 | 2,319.60 | | 2,319.60 |

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.

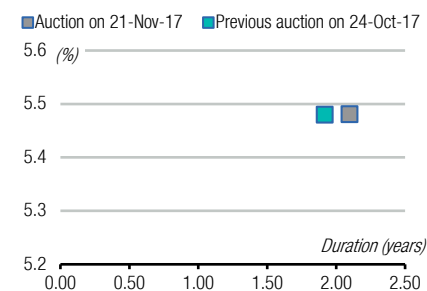
WEDNESDAY, 22 NOVEMBER 2017

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

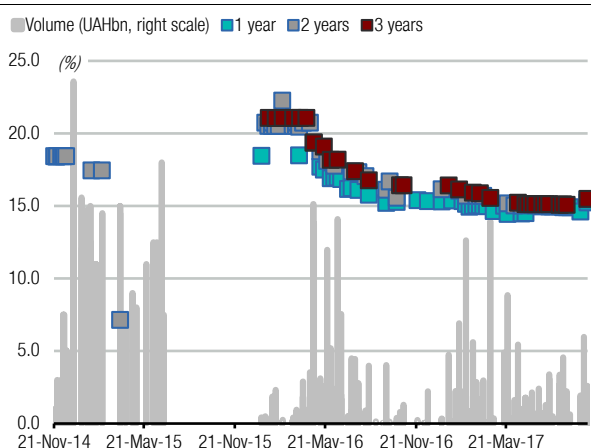


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

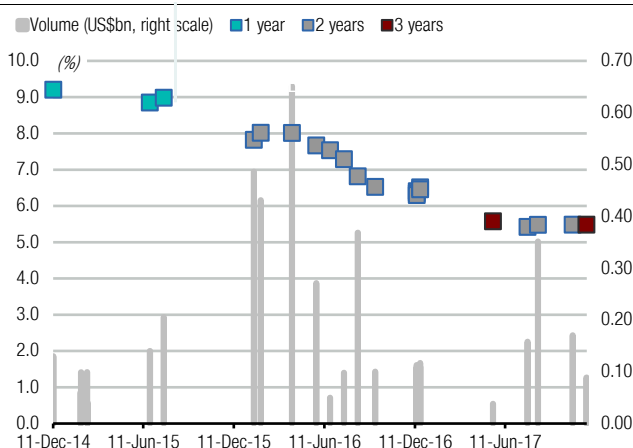
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

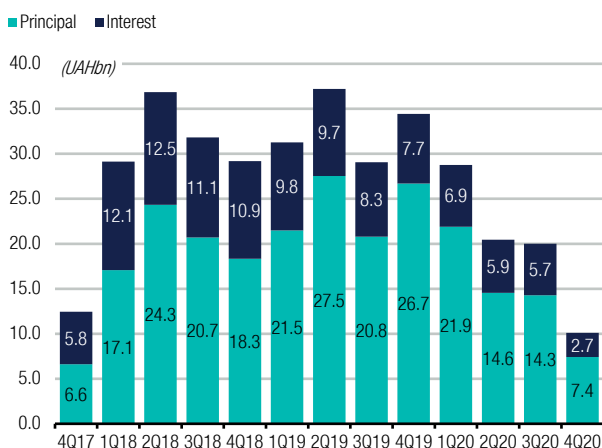
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

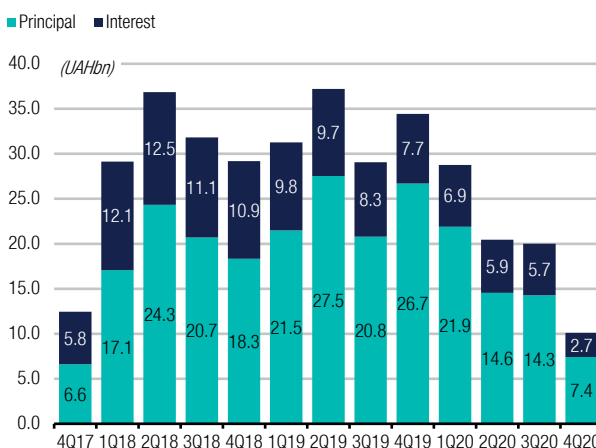
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

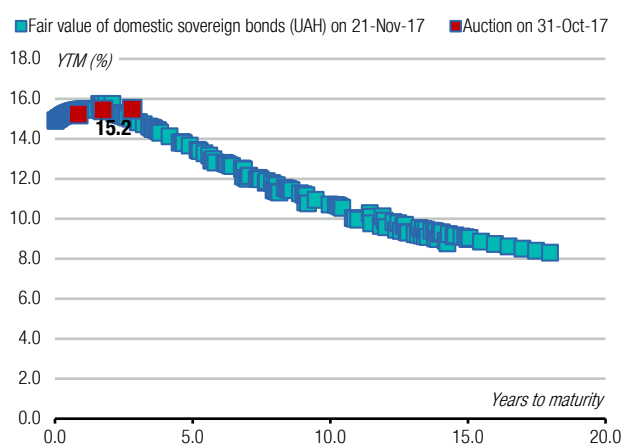
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

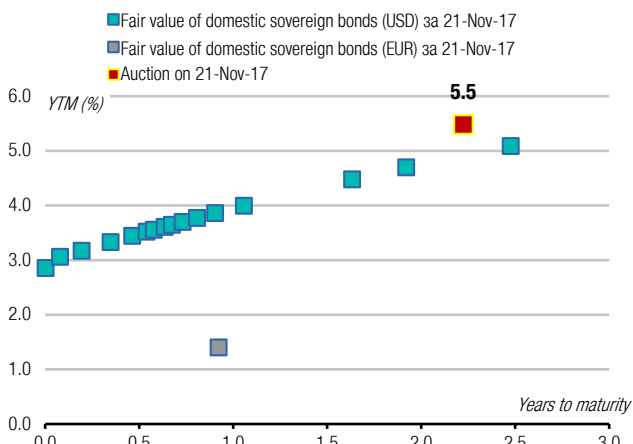
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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