

Bond Market Insight

MoF increases interest rates

Comment on government bond placement

After a month without local-currency proceeds from primary auctions, the MoF agreed with increase in interest rates for short-term bonds yesterday. Interest rates rose for 3-month and 11-month bonds sold yesterday. Also, a small volume of bonds were sold in euros and US dollars.

After nearly a year of no EUR-denominated bond sales, EUR90m were sold, providing the state budget with UAH2.91bn of proceeds. Of the four bids received, one bid for EUR2m at 4.00% was rejected while the remaining three bids were accepted at 3.95%.

Also, the MoF sold US\$26m of 1.5-year bonds with a put-option last week. Yesterday, one bid at 3.85% was fulfilled, providing UAH0.71bn of proceeds.

To borrow UAH0.49bn of local-currency funds, the MoF had to increase interest rates. The cut-off rate for the 3-month bond rose to 16.00%, while the 11-month bond interest rate increased to 15.30%. 3-month bonds were last offered in March 2017, and last sold a year ago at 15.00%, 95bp below yesterday's weighted average rate, as yesterday's bids ranged from 15.94% to 16.00%, setting the weighted-average rate at 15.95%.

For the 11-month bond, the MoF increased the cut-off rate by 60bp from the last auction in October 2017, when 10-month bonds were sold at rates in the range 14.50-14.70%, with a weighted-average rate of 14.65%. Yesterday's demand was a single bid at 15.30%.

Ultimately, the MoF borrowed UAH4.11bn, mostly from FX-denominated bonds, enabling it to accelerate budget financing. Moreover, higher interest rates could increase volumes at the last three auctions in December and achieve the fund borrowing needed.

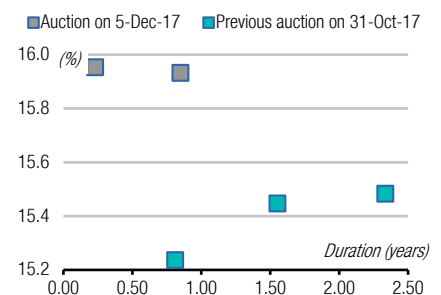
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000197016	0.00	@Mty	28-Feb-18	300,000	964.59	289.38	300.00	15.95	1,326.94
UA4000176093	14.25	SA	24-Oct-18	200,000	1,007.59	201.52	200.00	15.93	1,844.78
Total				500,000		490.89	500.00		3,171.72
UA4000199608	3.85	SA	29-May-19	26,000	1,000.84	705.32	704.73	3.99	2,683.40
Total				26,000		705.32	704.73		2,683.40
UA4000199665	3.95	SA	5-Jun-19	90,000	1,000.11	2,885.21	2,884.89	3.99	2,884.89
Total				90,000		2,885.21	2,884.89		2,884.89

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.

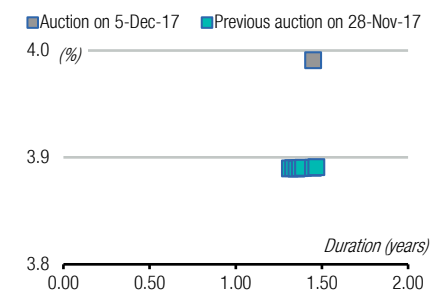
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



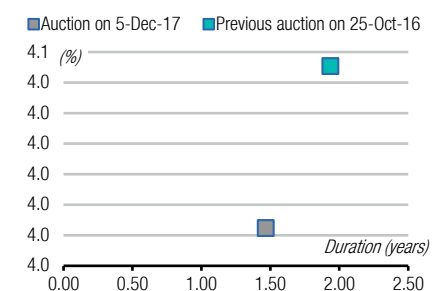
Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

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

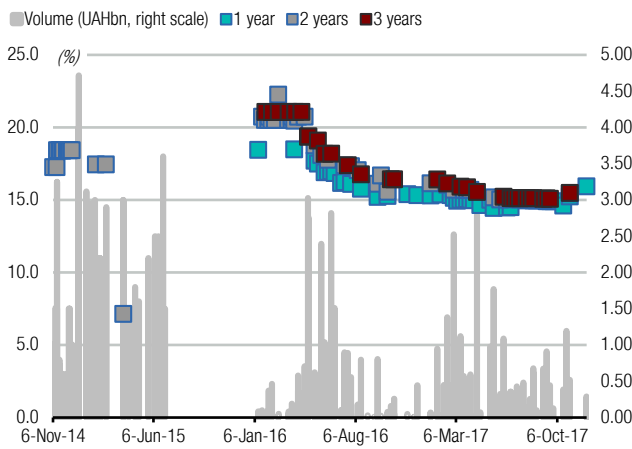


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

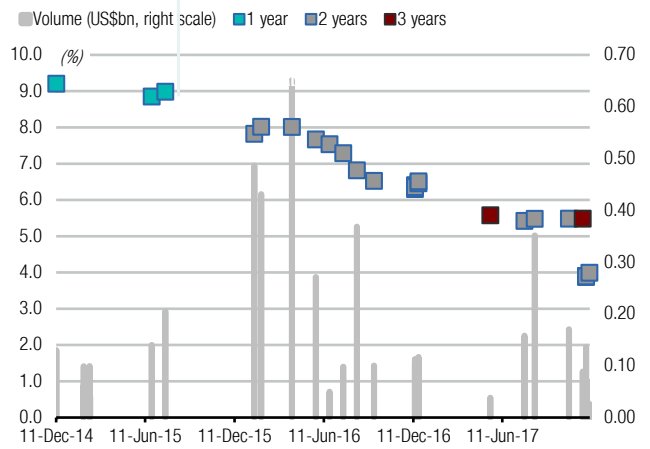
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

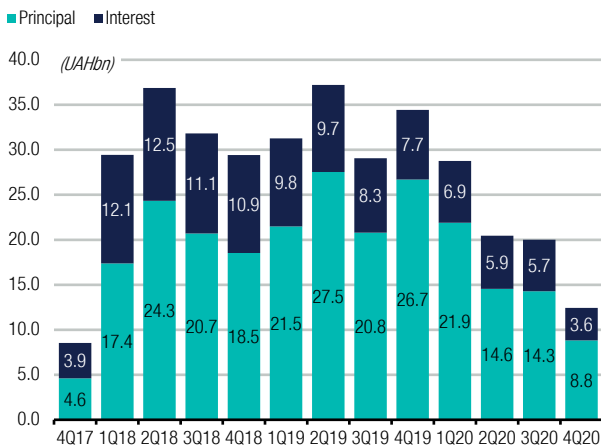
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

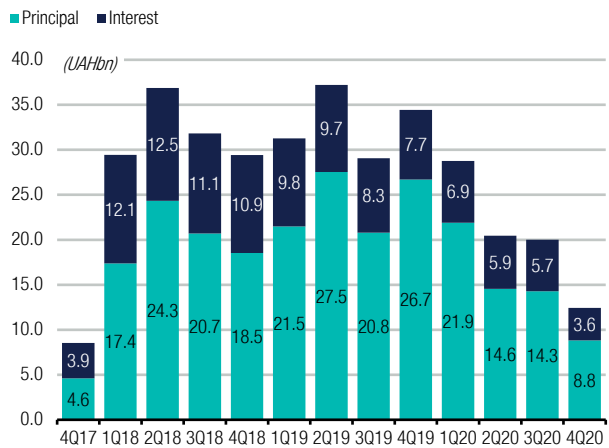
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

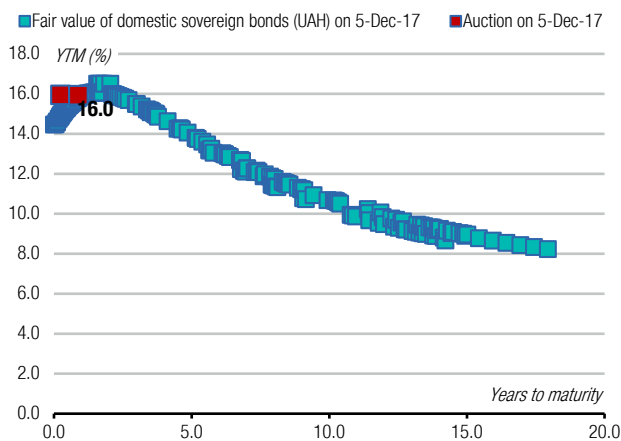
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

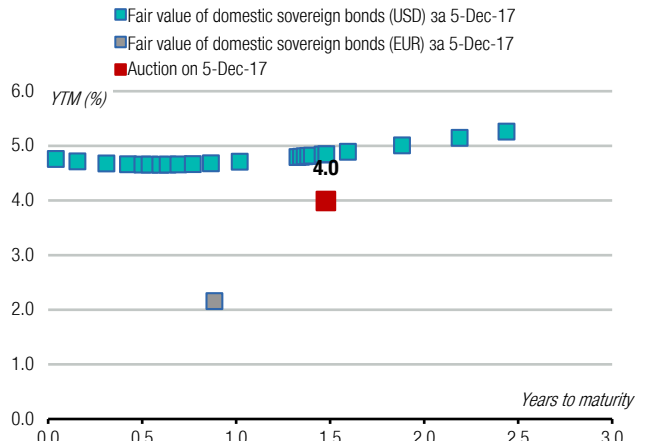
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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