



Focus  
Ukraine

Markets  
Domestic government bonds

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# Bond Market Insight

## Yield curve goes up

### Comment on government bond placement

Yesterday, the MoF held the regular auction and once more increased interest rates to borrow a significant amount of budget financing. While local currency bond rates increased, demand for FX-denominated bonds was insufficient. USD-denominated bonds received only non-competitive bid while EUR-denominated bonds received three bids for a mere total of EUR3.5m at 3.95% (unchanged from last week), from which the MoF received UAH0.11bn of proceeds.

Total demand for the three local currency bonds was UAH4.17bn at par value, from which UAH3.25bn was submitted for the shortest bond. Demand was combined from ten bids at interest rates of 15.60-16.30%, all of which were accepted. As a result, the cut-off rate was set at 16.30%, 30bp above last week's level, with the weighted average rate up 32bp.

The 6-month bond received six bids for a total of UAH0.47bn at 15.60-16.00% from which the MoF accepted only three bids for a total of UAH0.36bn with the cut-off rate at 15.90% and the weighted average rate at 15.85%. The 5-year bond, the first offered since the key policy rate was increased by the NBU at the end of October 2017, received five bids, from which the MoF accepted only two at 15.74%.

Ultimately, the MoF received a large amount of funds, mostly for a short time at higher rates. Most likely, year-end budget needs forced to accept higher rates, and next week we could see bidders continue to submit higher rates. However, for the issuer the amount of proceeds will be more important.

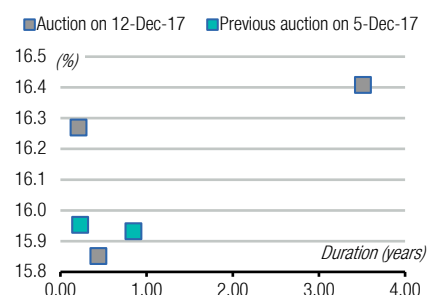
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000199665	0.00	@Mty	28-Feb-18	3,285,500	966.82	3,176.38	3,285.50	16.27	4,612.34
UA4000197420	0.00	@Mty	23-May-18	355,000	934.65	331.80	355.00	15.85	905.00
UA4000199210	14.91	SA	12-Oct-22	351,200	994.91	349.41	351.20	16.41	1,933.57
<b>Total</b>				<b>3,991,600</b>		<b>3,857.60</b>	<b>3,991.60</b>		<b>7,450.91</b>
UA4000199665	3.95	SA	5-Jun-19	3,500	1,000.86	111.80	111.70	3.99	2,984.03
<b>Total</b>				<b>3,500</b>		<b>111.80</b>	<b>111.70</b>		<b>2,984.03</b>

Note: [1] payment frequency abbreviations: M - monthly, Q - 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.

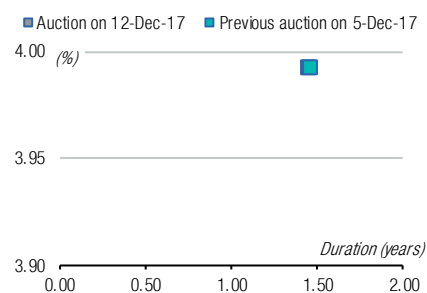
WEDNESDAY, 13 DECEMBER 2017

### UAH-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

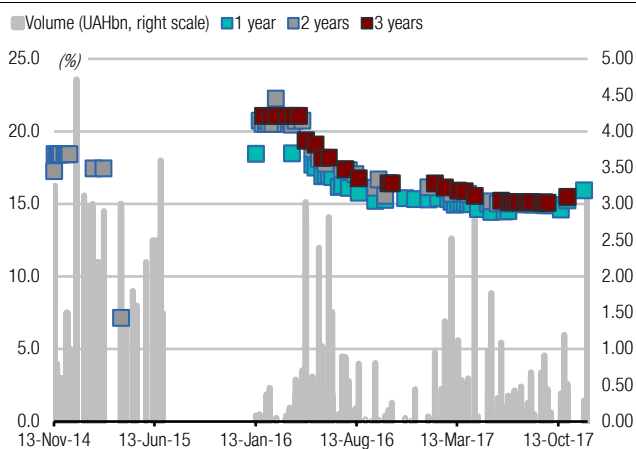


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

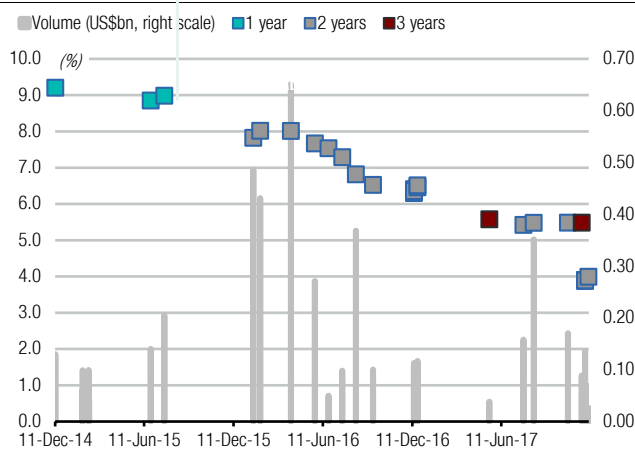
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

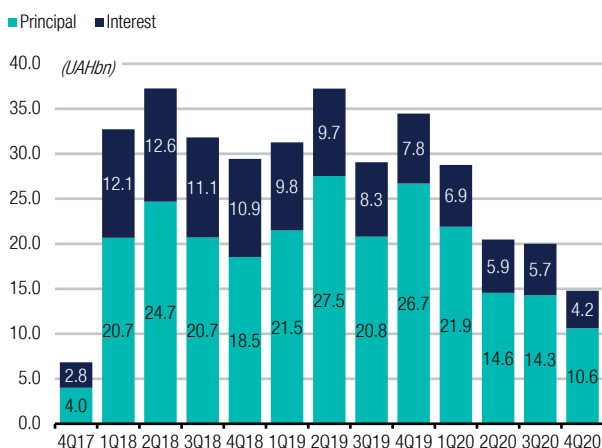
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

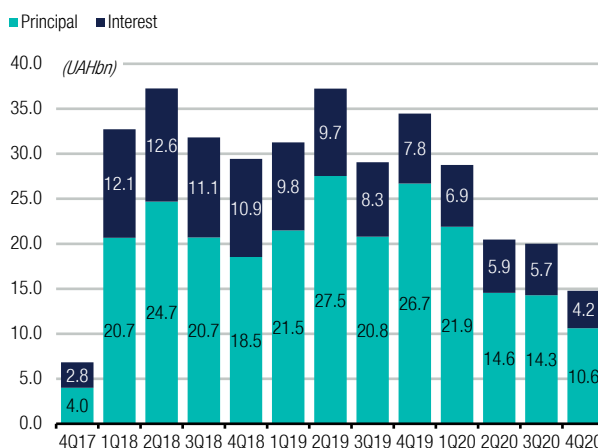
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

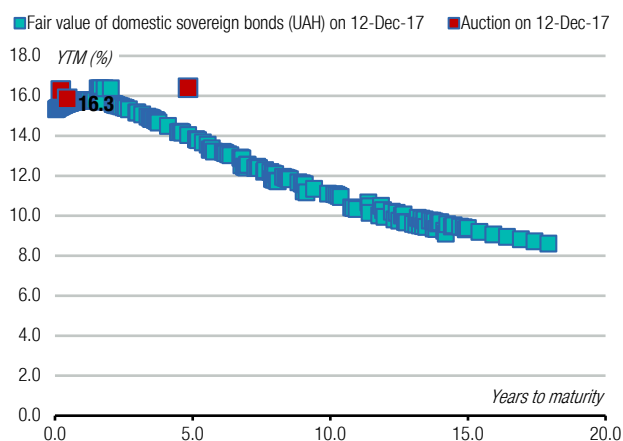
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

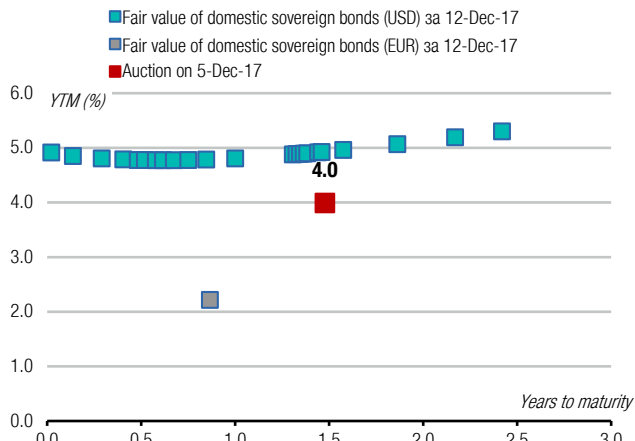
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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