



Bond Market Insight

UAH yield curve flattens

Comment on government bond placement

At yesterday's auction, the MoF diverged from market views and did not follow movements after the NBU's key policy rate increase. As a result, cut-off rates were set at 16.00%, causing the MoF to reject more than a half of the bids for these bonds.

The 3-month bond drew nine bids for UAH665m, of which the MoF accepted only six for UAH355m at 16.00% amidst other interest rate bids that ranged up to 17.00%. Ultimately, the MoF decreased the cut-off rate by 30bp.

Similarly, as the MoF refused 2/3 of demand in two bids of the 5-month bond, rejecting all bids above 16.00%, it increased the cut-off rate and weighted average rate by 10bp each, to 16.00% and 15.95%, respectively.

Demand for USD-denominated bonds were not noteworthy as the 6-month bond drew 94% of UAH408.68m in demand, while the remaining 6% of demand was for the 2-year bond. All bids for USD-denominated bonds were accepted.

Although the MoF borrowed more than UAH11bn of funds and refinanced all FX debt repayments scheduled this week, the fixed rate appears abnormally high. The next step would be to refinance the debt and decrease the impact Of debt repayments on FX reserves.

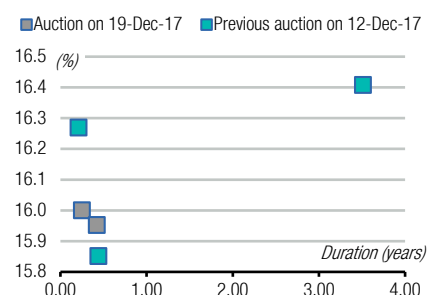
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

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
UA4000199756	0.00	@Mty	21-Mar-18	355,000	961.64	341.38	355.00	16.00	355.00
UA4000197420	0.00	@Mty	23-May-18	126,100	936.94	118.15	126.10	15.95	1,031.10
Total				481,100		459.53	481.10		1,386.10
UA4000199764	0.00	@Mty	13-Jun-18	387,485	976.72	10,561.05	10,812.77	4.97	10,812.77
UA4000199491	5.40	SA	12-Feb-20	23,198	1,018.76	659.48	647.34	5.48	3,091.54
Total				410,683		11,220.53	11,460.11		13,904.31

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.

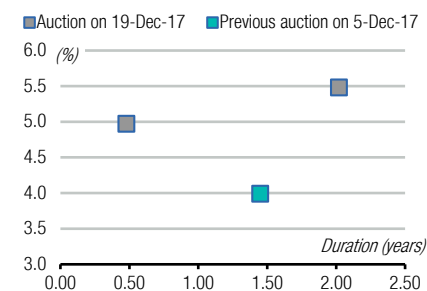
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

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

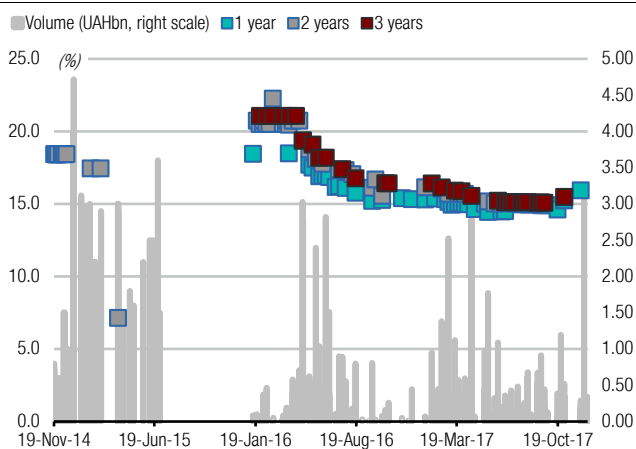


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

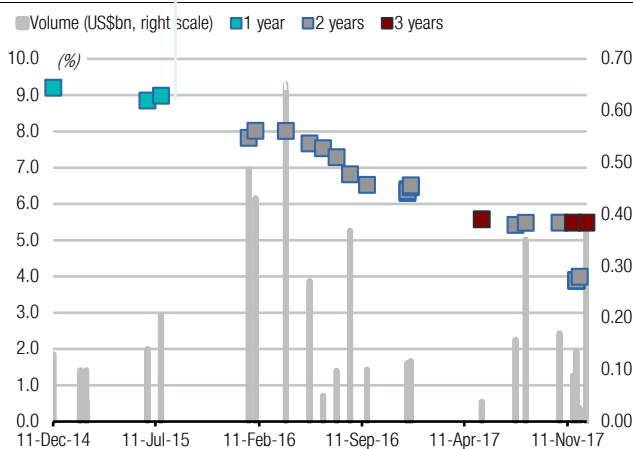
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

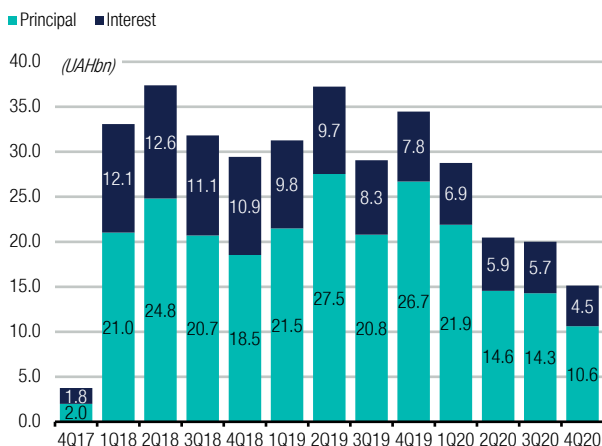
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

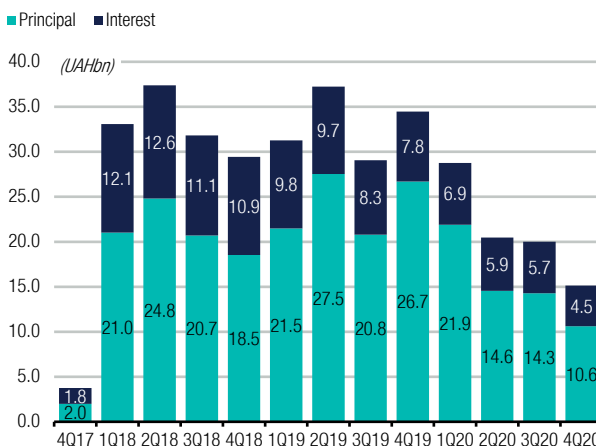
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

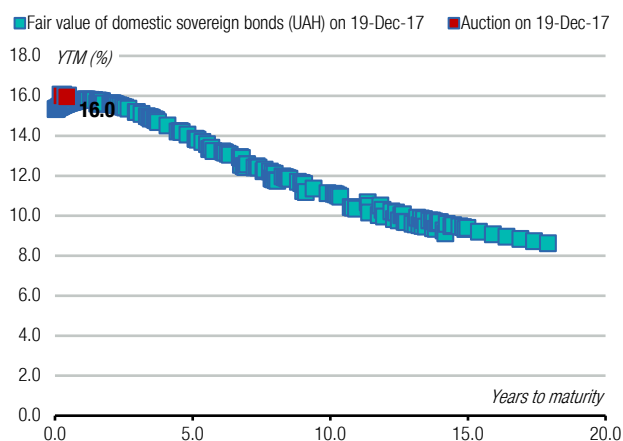
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

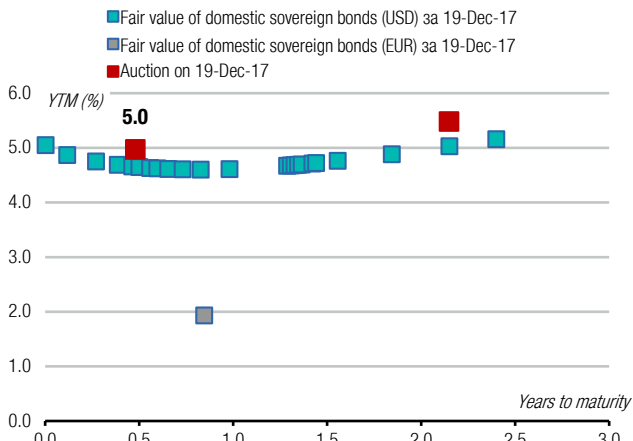
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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