

Bond Market Insight

Yields close to 16%

Comment on government bond placement

At its debut auction in 2018, the MoF kept yields unchanged, keeping the yield curve at about 16.00%. This decision allowed it to accept 94.6% of demand and receive UAH986.02m of budget proceeds. However, these funds covered only 36.6% of yesterday's local currency debt repayments.

For the shortest bonds with a 6-month maturity, the cut-off rate was unchanged at 16.00%, but the weighted-average rate rose 4bp to 15.97% with the maturity increased by one month. This is the result of accepting all 12 bids which amounted to UAH902.4m. Interest rates in bids were close to last year's levels, ranging between 15.85% and 16.00%.

For longer term bonds with 9-month and 2-year maturities, the MoF rejected some demand, with little impact on the volume borrowed. For 9-month bonds, the MoF accepted only one bid at 15.75%; for 2-year bonds, it rejected only one bid at 16.00%.

The MoF signaled that it will keep interest rates at their current level and decrease them later to move the yield curve a bit lower. While the MoF appears unwilling to borrow money at higher rates, they might change over the following weeks. Interest rates could stay at the current level without declining significantly due to low demand.

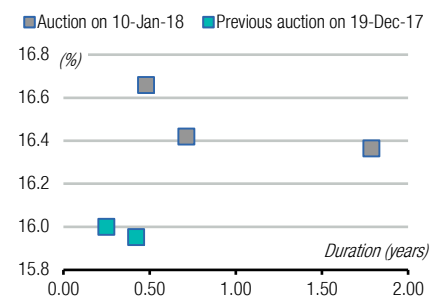
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000170732	14.25	SA	4-Jul-18	902,400	994.96	897.85	902.40	16.66	4,755.80
UA4000175467	14.25	SA	10-Oct-18	50,000	1,024.71	51.24	50.00	16.42	1,414.01
UA4000199913	15.70	SA	8-Jan-20	36,935	1,000.00	36.94	36.94	16.36	36.94
Total				989,335		986.02	989.34		6,206.75

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.

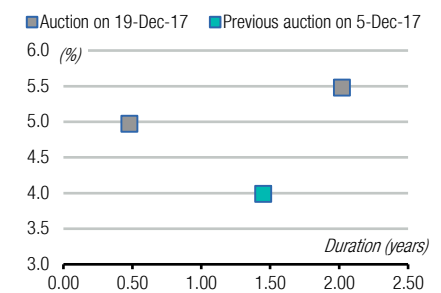
THURSDAY, 11 JANUARY 2018

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

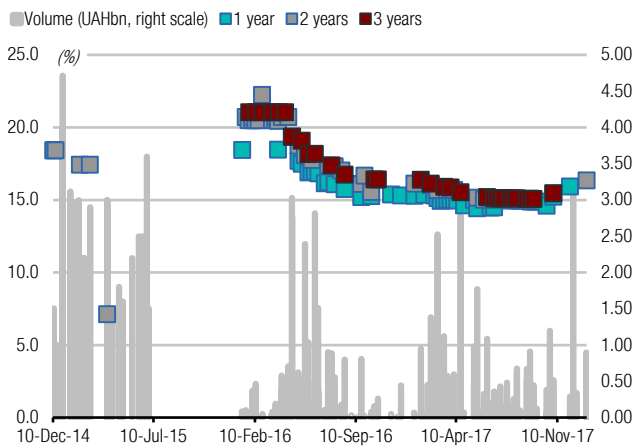


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

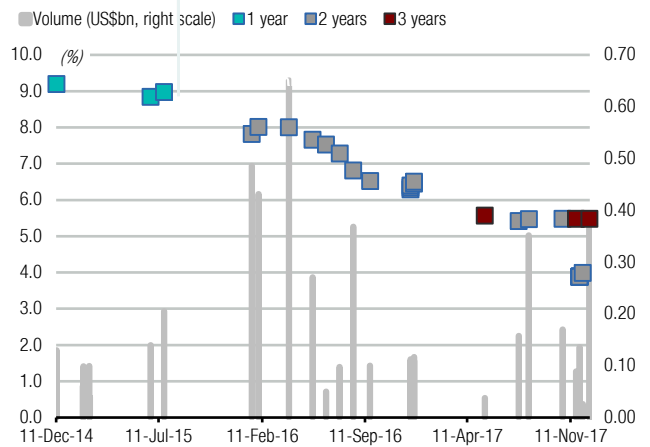
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

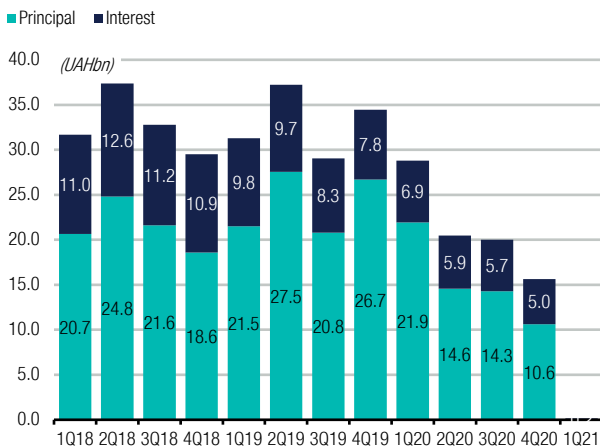
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

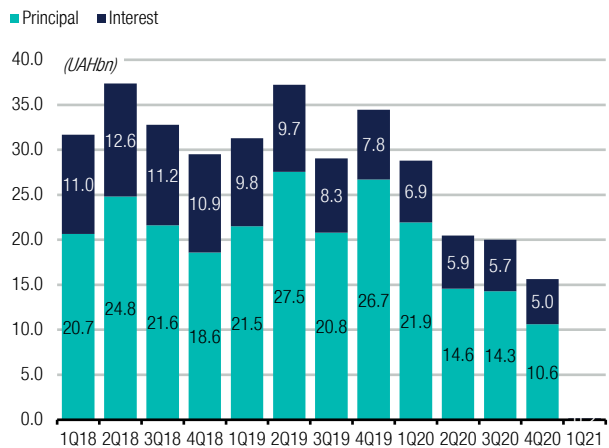
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

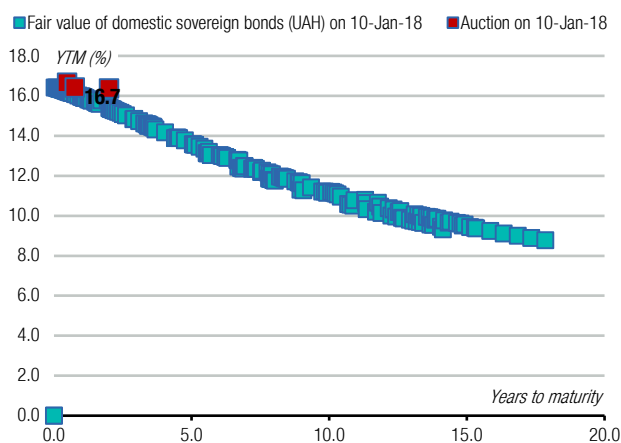
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

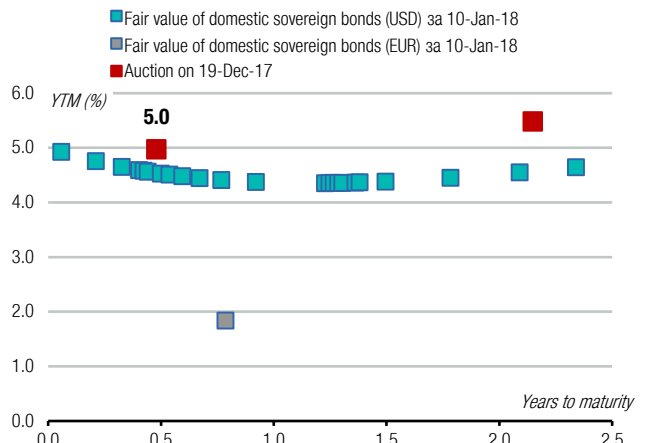
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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