

Bond Market Insight

Bond yields unchanged

Comment on government bond placement

The MoF continued to borrow money to support the budget with additional funds, as needed at the beginning of the year, albeit at unusually high interest rates, mostly at 16.00%. Most of yesterday's demand for short-term yields was submitted at 16.00%, similar to previous auctions, and was fully accepted, while a small portion of demand for 9-month bonds at the same rate was rejected.

All bids for 3-month and 6-month bonds - which constituted 75% the total bids at par value at the expectedly flat rate of 16.00%, unchanged from last week and last December - were accepted and produced UAH1.29bn of proceeds.

For 9-month bonds, the outcome was the same as last week as the MoF rejected demand at 16.00% and accepted only bids at the lowest rate, 15.75%. Three out of six received bids were rejected, but this demand was just UAH82.64m, while from UAH300m of accepted bids the MoF received UAH0.31bn of proceeds.

The auction results came in as expected with interest rates at the primary market under current market conditions. The NBU last sold 3-month CDs at 14.70% while demand was seen at as high as 16.25%, but the amount offered usually is very small at UAH0.30bn per week. As a result, the market moved to short-term bonds. Remember that the MoF has till the end of the month to repay nearly UAH6.00bn in local currency debt, most likely via refinancing and increasing total borrowings.

Next week's demand should be under the same conditions, at 15.75-16.00% for short-term bonds, which most likely should be accepted in full. For longer term bonds, the MoF prefers rates a bit lower, at 15.70 for 2-year bonds and probably at 15.50% for 3-year bonds, which could be offered next week.

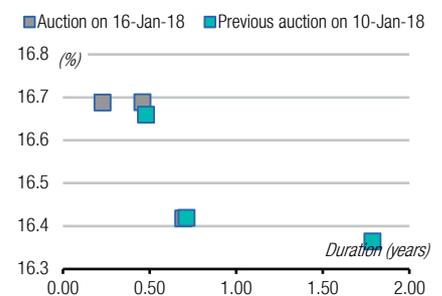
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

| ISIN | Coupon rate (%) | Payment freq ¹ | Maturity | Qty of bonds sold | Price (UAH) | Proceeds ² (UAHm) | Volume ² (UAHm) | YTM ³ (%) | Outstanding (m) ⁴ |
|--------------|-----------------|---------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000165765 | 14.25 | SA | 11-Apr-18 | 695,000 | 1,033.87 | 718.54 | 695.00 | 16.69 | 2,280.60 |
| UA4000170732 | 14.25 | SA | 4-Jul-18 | 570,900 | 997.79 | 569.64 | 570.90 | 16.69 | 5,326.70 |
| UA4000175467 | 14.25 | SA | 10-Oct-18 | 300,000 | 1,027.71 | 308.31 | 300.00 | 16.42 | 1,714.01 |
| Total | | | | 1,565,900 | | 1,596.49 | 1,565.90 | | 9,321.31 |

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.

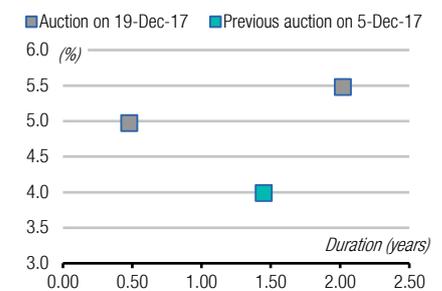
WEDNESDAY, 17 JANUARY 2018

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

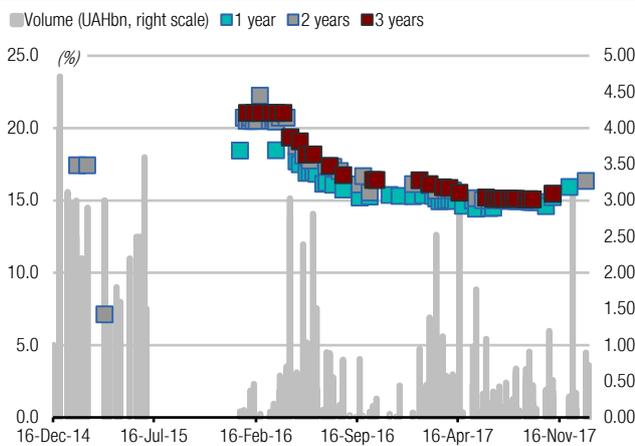


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

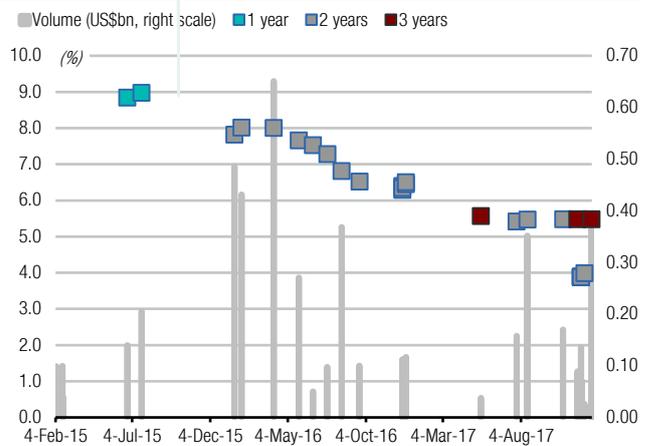
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

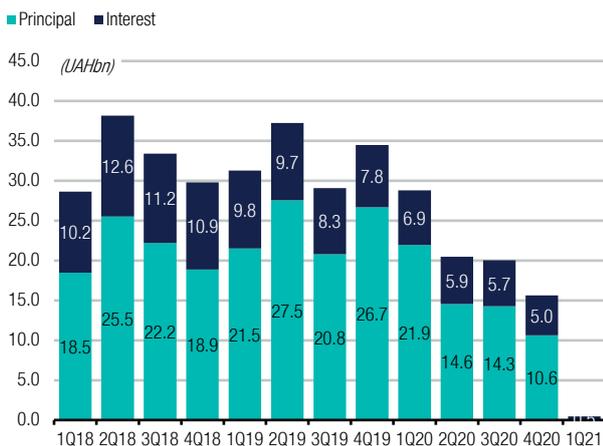
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

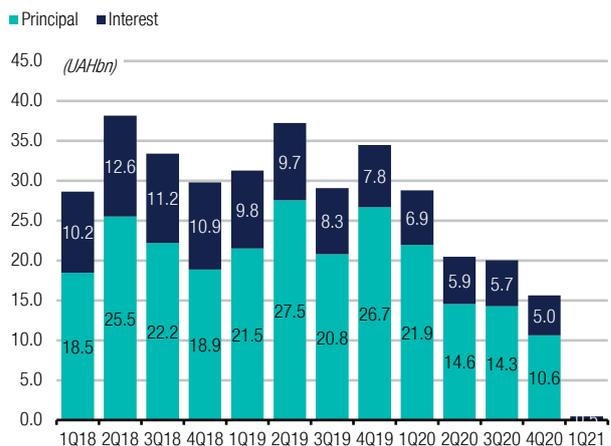
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

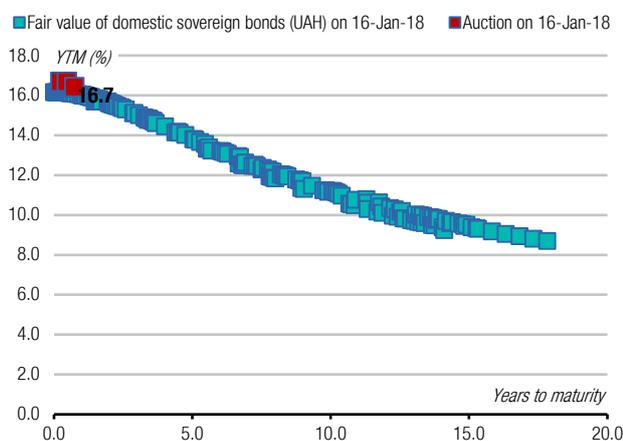
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

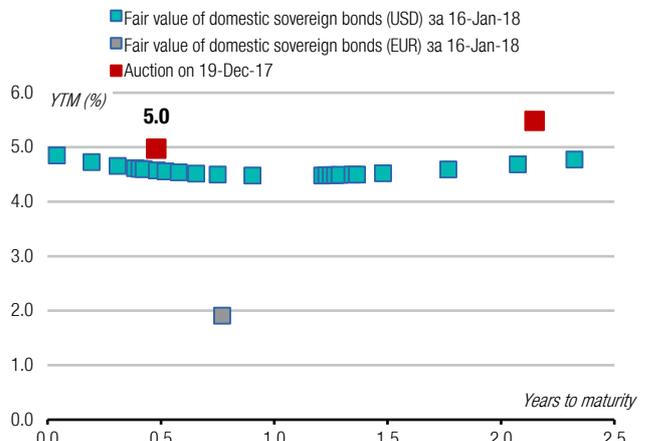
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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