

Bond Market Insight

MoF sells 3-year bonds

Comment on government bond placement

Yesterday, the MoF sold 3-year bonds for the first time since the end of October 2017. With the coupon rate set at 15.70%, the same level as 2-year bonds two weeks ago, 3-month and 6-month bonds also had cut-off rates at 16.00%, unchanged from last week. The MoF will receive UAH2.31bn of budget proceeds.

Demand for 3-month bonds was in eight bids from 15.60% to 16.00%, all of which were all accepted, reducing the weighted-average rate to 15.89%, last seen in the first half of December 2017 before the key policy rate increase to 14.50%. Please note, as interest rate bids were lower, short-term borrowings could decline in a few months, signaling a yield-curve adjustment. The MoF accepted all bids for 6-month bonds, all of which were at 16.00%.

Demand for 3-year bonds was mostly from non-competitive bids, and the MoF decided to accept only one competitive bid at the lowest rate and all non-competitive demand, thus raising UAH196.27m, setting the level for this maturity for the first time since the end of October 2017.

As the MoF borrowed a significant amount of funds, interest rates becomes are flattening as the yield curve adjusts downward to 15.70-15.89% with the highest level of 16.00% at the 6-month maturity. The MoF could sell 5-year bonds next week at interest rates close to 3-year and 2-year bonds, depending on the NBU's key policy rate announcement this Thursday.

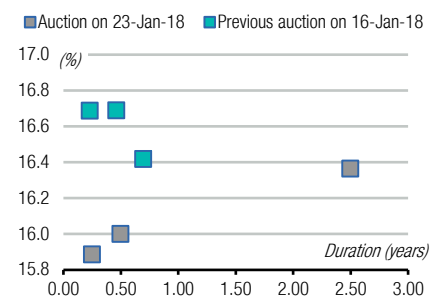
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

| ISIN | Coupon rate (%) | Payment freq ¹ | Maturity | Qty of bonds sold | Price (UAH) | Proceeds ² (UAHm) | Volume ² (UAHm) | YTM ³ (%) | Outstanding (m) ⁴ |
|--------------|-----------------|---------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000200158 | 0.00 | @Mty | 25-Apr-18 | 1,241,000 | 961.90 | 1,193.72 | 1,241.00 | 15.89 | 1,241.00 |
| UA4000200166 | 0.00 | @Mty | 25-Jul-18 | 998,250 | 926.11 | 924.49 | 998.25 | 16.00 | 998.25 |
| UA4000200174 | 15.70 | SA | 20-Jan-21 | 196,268 | 1,000.00 | 196.27 | 196.27 | 16.36 | 196.27 |
| Total | | | | 2,435,518 | | 2,314.48 | 2,435.52 | | 2,435.52 |

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.

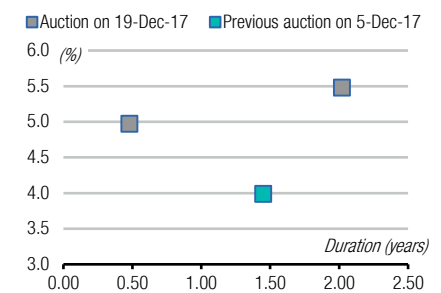
WEDNESDAY, 24 JANUARY 2018

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

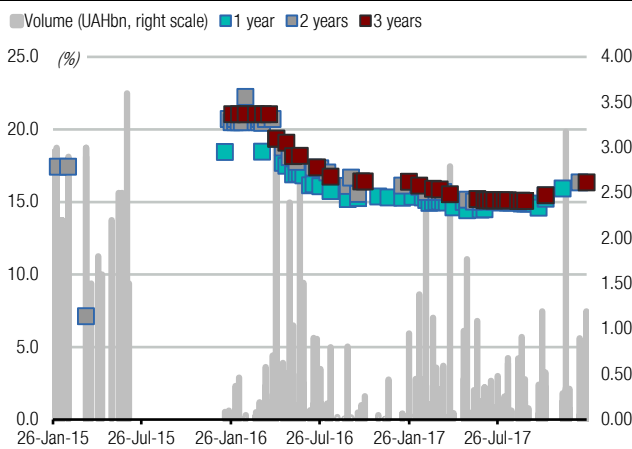


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

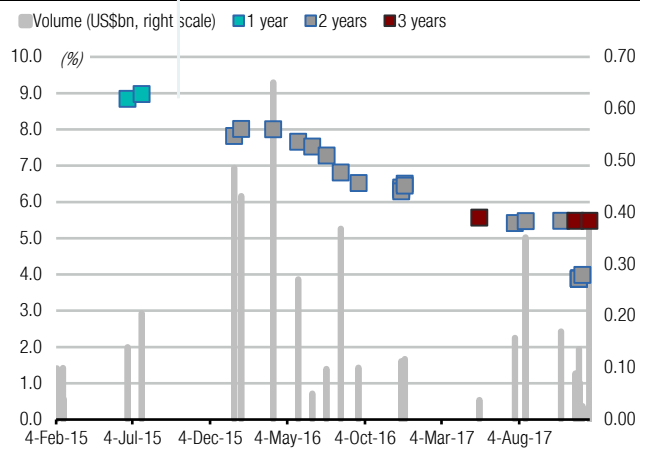
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

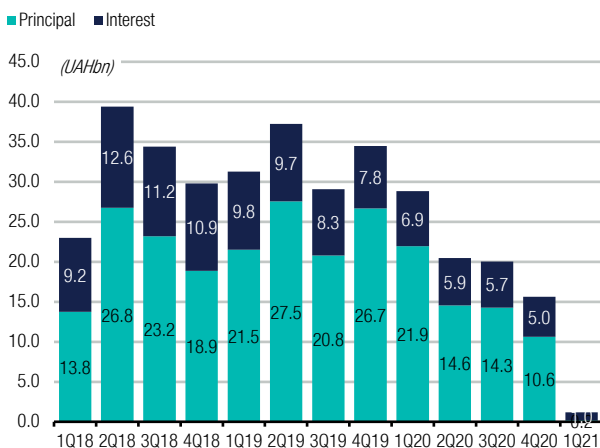
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

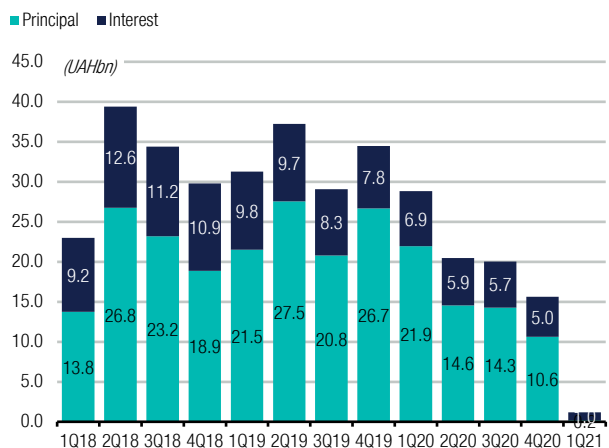
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

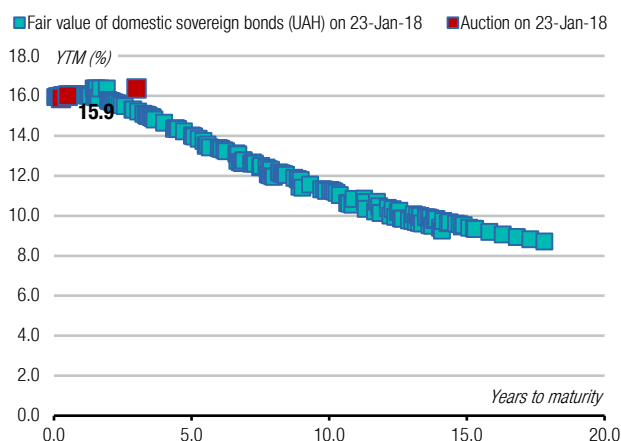
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

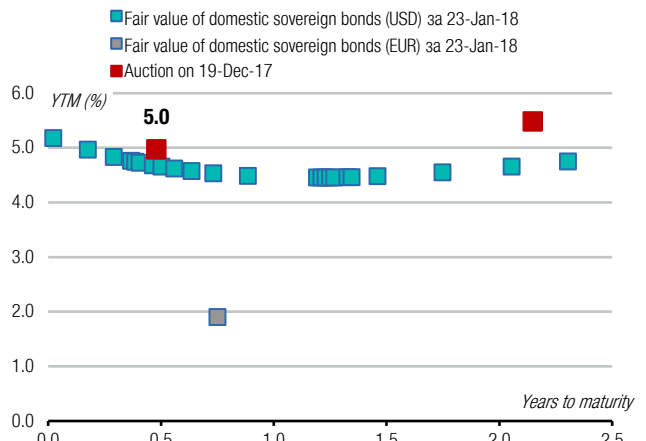
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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