

# Bond Market Insight

## Proceeds and interest rates rise higher

### Comment on government bond placement

Yesterday, the MoF borrowed about UAH7.5bn, nearly half of which were in local currency. In addition to bonds with maturities up to one year, UAH0.73bn of 5-year bonds and US\$0.14bn of USD-denominated bonds were sold. At the same time, interest rates for short-term local currency bonds increased 50bp from the previous auction, while the MoF set the 5-year bond cut-off rate at 15.80%. It accepted only the cheapest bids, or about 63% of the total demand at the auction.

Interest rates for 3-month bonds were up to 17.50% but the MoF decided to accept only four of the nine bids and rejected 40% of the demand. The MoF accepted only bids with the lowest rate of 16.50%. At the same time, for 6-month bonds the MoF rejected 61% of demand, accepting only six from the 18 bids received. Interest rates were up to 17.95% but cut-off rate was set at 16.50%.

Demand for 9-month and 12-month bonds was also sufficient, of which the MoF accepted a bit more than half. Cut-off rates were set at 16.50% and 16.40%, respectively. Demand for the 9-month bond - the largest from the short-term bonds - amounted to UAH1.63bn at par value.

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

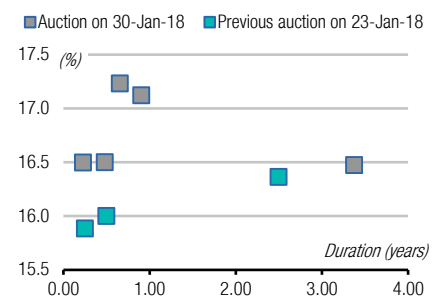
ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000200158	0.00	@Mty	25-Apr-18	961,216	963.42	926.05	961.22	16.50	2,202.22
UA4000200166	0.00	@Mty	25-Jul-18	985,050	926.69	912.84	985.05	16.50	1,983.30
UA4000175467	14.25	SA	10-Oct-18	912,050	1,029.00	938.50	912.05	17.23	2,626.06
UA4000178891	14.25	SA	9-Jan-19	113,850	989.84	112.69	113.85	17.12	2,191.11
UA4000199210	14.91	SA	12-Oct-22	731,400	1,013.50	741.27	731.40	16.47	2,664.97
<b>Total</b>				<b>3,703,566</b>	<b>3,631.36</b>	<b>3,703.57</b>			<b>11,667.66</b>
UA4000200257	0.00	@Mty	30-Jan-19	117,020	949.93	3,109.17	3,273.05	5.29	3,273.05
UA4000199491	5.40	SA	12-Feb-20	25,625	1,025.05	734.69	716.73	5.48	3,815.47
<b>Total</b>				<b>142,645</b>	<b>3,843.85</b>	<b>3,989.78</b>			<b>7,088.52</b>

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.

The MoF's concept for the 5-year was similar to that of last week's 3-year bond: it accepted the cheapest competitive demand and all non-competitive bids. Rates came in as high as 17.00% but the MoF accepted 15.80%. It accepted demand non-competitive bids, constituting 93% at par value.

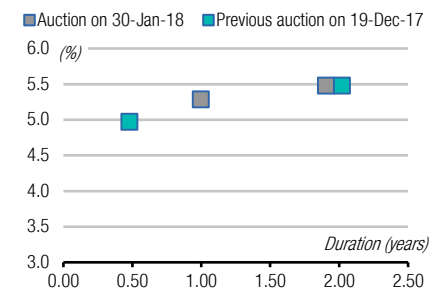
### WEDNESDAY, 31 JANUARY 2018

#### 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.

For the FX-denominated bonds, the MoF accepted most of the demand, enabling it to increase the ratio of accepted demand to 63%. Of the US\$31.63m of demand for the 2-year bond, the MoF accepted US\$25.63m (par value) while it accepted all US\$117.02m in received bids for the 5-year, at cut-off rates of 5.40% and 5.30%, respectively.

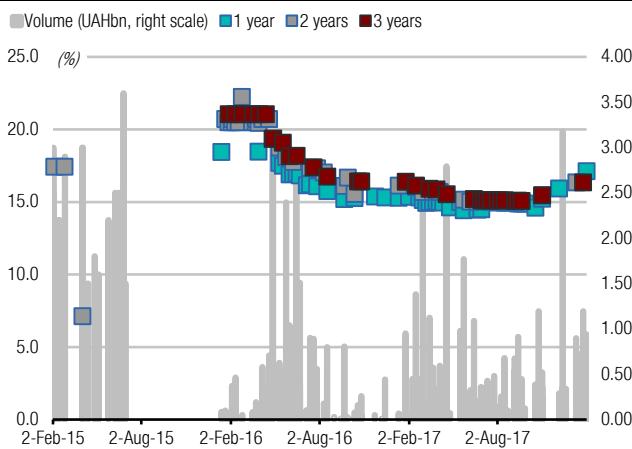
The MoF borrowed more than it did earlier this year - about UAH7.5bn, or about 60% of all proceeds this year. The auction appeared to signal that significant increases in interest rates are not good for the budget and that the MoF will try to keep rates low. The significant demand and wide range of rates yesterday allowed the MoF to reject more than 54% of the demand for local currency bonds.

Next week, the MoF will most likely attempt to maintain yesterday's rates. It will depend on the lowest rate of demand for each bond. Most likely, the MoF will reject bids above yesterday's cut-off levels or cancel offerings. The yield-curve could stay at 16.50% for short-term bonds while 2-year and 3-year rates could rise 50-60bp to 16.20-16.30% if demand appears.

# Appendix: Yields-to-maturity, repayments

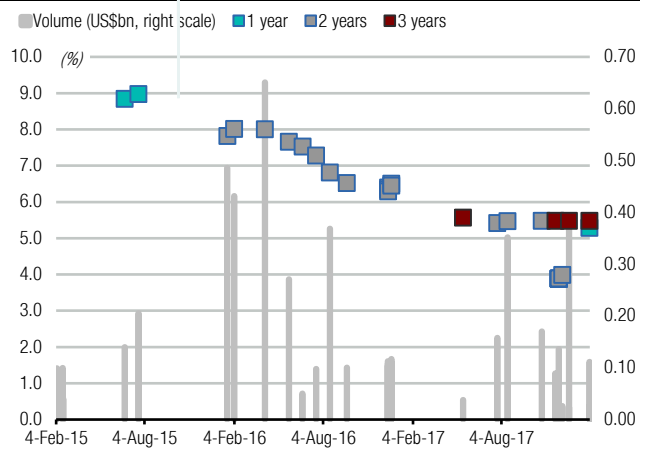
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

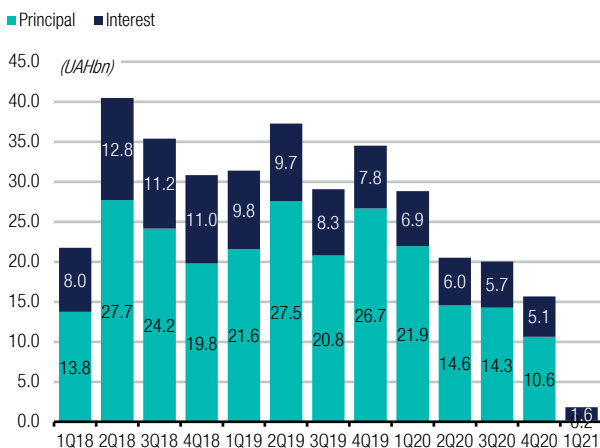
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

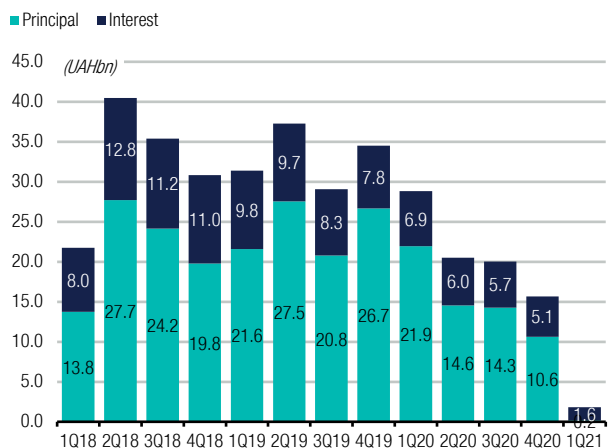
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

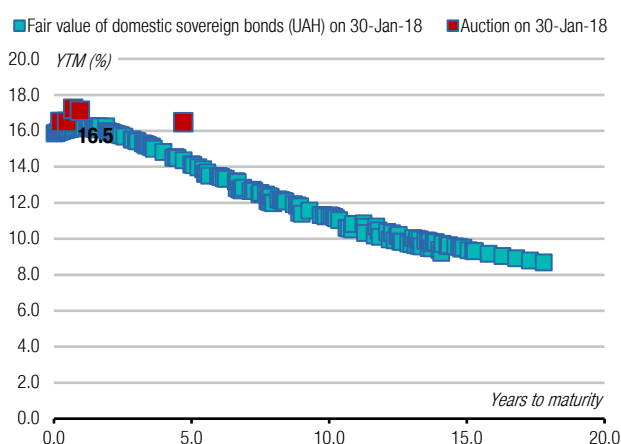
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

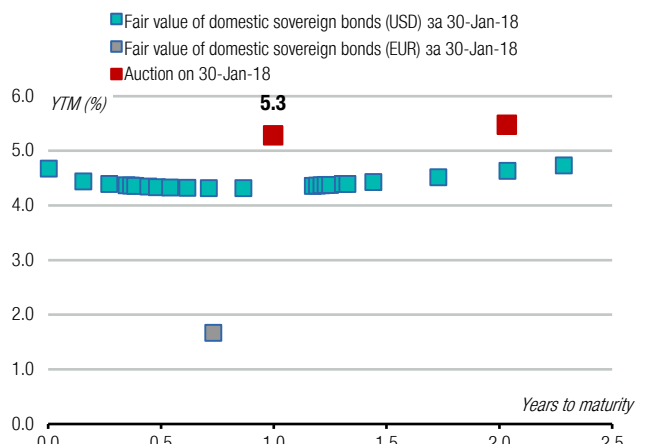
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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