

Bond Market Insight

Proceeds up, cut-off rates steady

Comment on government bond placement

Yesterday, although the MoF rejected bids for 2-year and 3-year bonds because of high interest rates, it borrowed UAH5.24bn, a significant UAH1.61bn more than it did last week, in local currency bonds. The cut-off rates for bonds with maturities up to one year remained unchanged.

Demand of UAH6.43bn was similar to last week, at 80% of last week's demand for local currency bonds. The interest rate range declined from 17.00-17.95% to a flat 17.00% for bonds with maturities up to one year and to 16.50% for longer-term bonds.

The 3-month bond, of the 13 bids received demand for UAH2.27bn at 16.50-17.00%, the MoF accepted only nine at 16.50%, including UAH0.59bn of demand at non-competitive bids. For the 6-month bond, from 16 bids for a total of UAH2.56bn at rates in the same range as the 3-month bond, the Ministry accepted 12 at 16.50%, raising UAH2.38bn, which includes non-competitive demand for UAH0.86bn, or 36% of accepted demand.

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

ISIN	Coupon rate (%)	Payment frequency 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	2,099,380	966.36	2,028.76	2,099.38	16.50	4,301.60
UA4000200166	0.00	@Mty	25-Jul-18	2,382,743	929.42	2,214.57	2,382.74	16.50	4,366.04
UA4000176093	14.25	SA	24-Oct-18	880,500	1,025.99	903.39	880.50	17.21	2,725.28
UA4000178891	14.25	SA	9-Jan-19	90,950	992.85	90.30	90.95	17.12	2,282.06
Total UAH				5,453,573		5,237.01	5,453.57		13,674.98

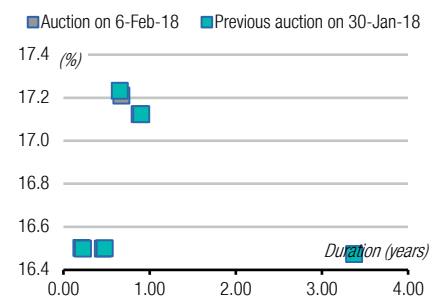
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.82/USD, 32.26/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Only for the 9-month bond, the weighted-average rate was different from the cut-off rate by a mere 2bp lower, attracting UAH1.07bn at 16.47-17.00%. With accepted competitive bids mostly at 16.50% and below, with the cut-off rate at 16.50%, the weighted-average rate was set at 16.48%. Please note that 40% of demand for this bond was non-competitive.

The 12-month bond received the least demand at UAH0.19bn, of which the MoF accepted less than half in four out of five bids at the 16.40% cut-off rate which was unchanged from last week.

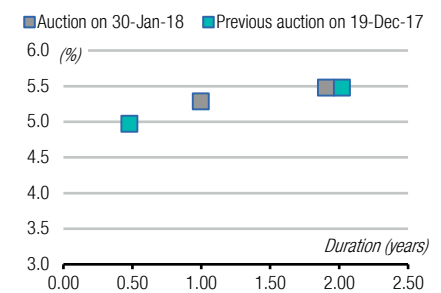
WEDNESDAY, 7 FEBRUARY 2018

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.

The MoF rejected all demand for the 2-year and 3-year bonds at a paltry UAH10.0bn and UAH0.23bn, respectively, at a high of 16.50% to a low of 16.00% for the 3-year bond because of high interest rates.

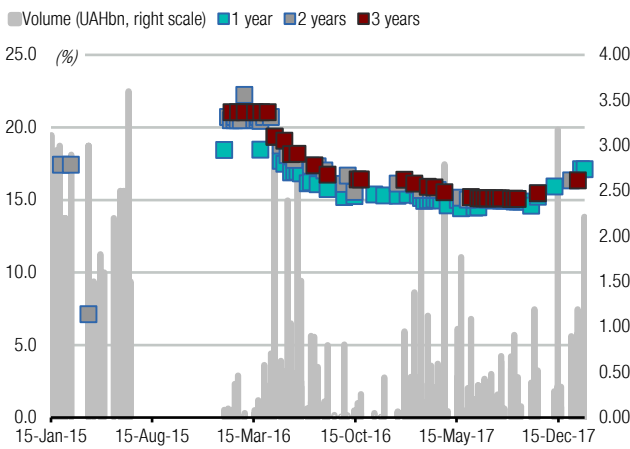
The auction results were as expected with stable cut-off rates. Most likely, the majority of demand was from non-residents in reaction to the key policy rate increase, focused on short-term bonds up to 9-months in anticipation of the hryvnia strengthening during this period for additional profits. This could create challenges to refinancing debt repayments as the total amount of bonds maturing in April and July exceed UAH4.3bn each bond.

Next week, the MoF is unlikely to offer 2-year bonds, as demand is too low, and instead concentrate on bonds with maturities up to one year. Interest rate levels will remain unchanged at 16.40-16.50%. While demand from non-residents could continue, it could be lower if the hryvnia strengthens further.

Appendix: Yields-to-maturity, repayments

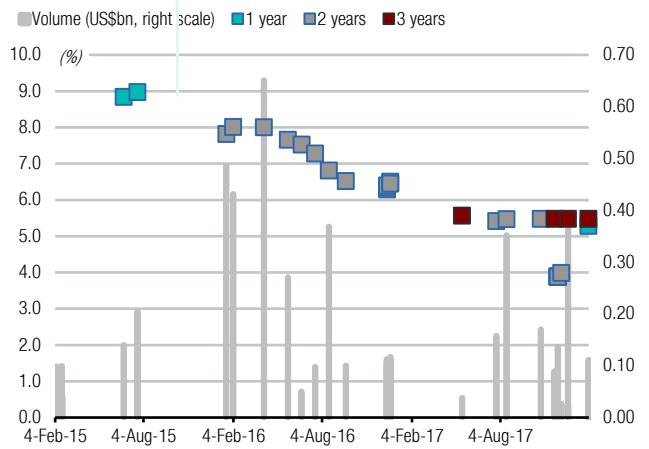
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

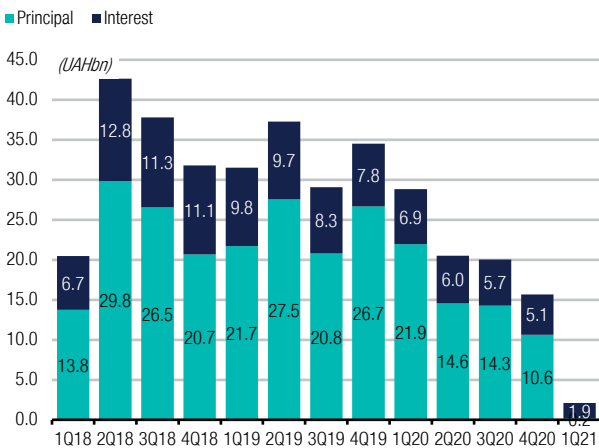
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

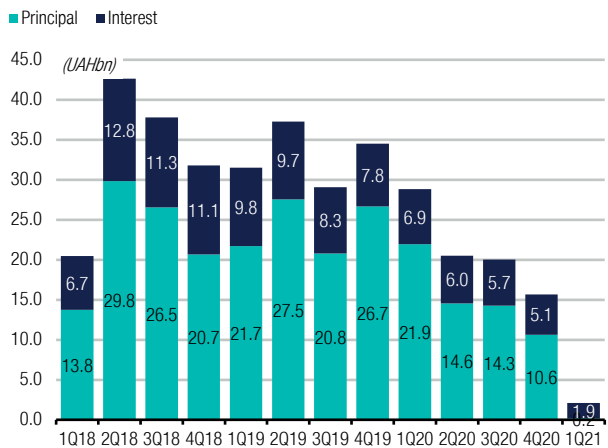
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

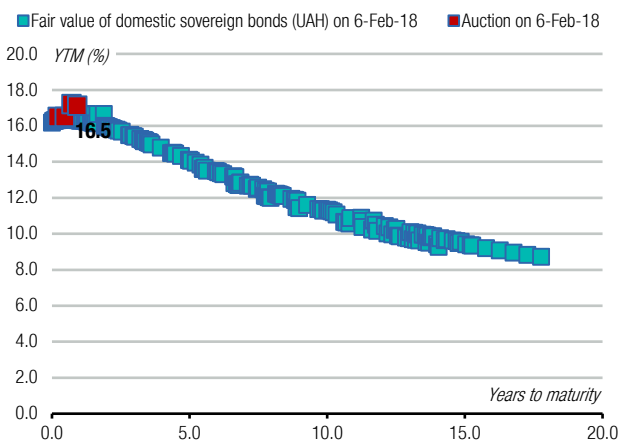
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

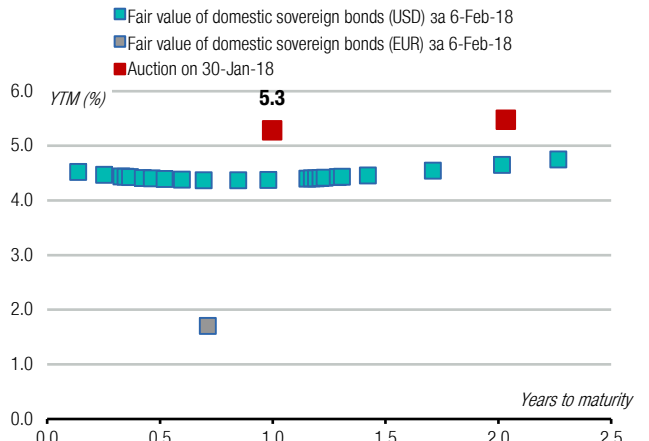
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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