

Bond Market Insight

Rates remain stable

Comment on government bond placement

Compared with last week's auction dominated by 3-month bond rates, this week's auction had low demand of just UAH1.42bn (par value), of which the MoF satisfied 86% to receive UAH1.18bn of budget proceeds. It appears that non-resident participation was smaller than before and there was lower competition between bidders. While last week's 3-month and 6-month bond rates were at 15.89%, yesterday the lowest rate for the 3-month bond was 16.00% and the for 6-month, 16.23%.

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
UA4000200505	0.00	@Mty	16-May-18	500,000	964.49	482.25	500.00	16.00	1,000.00
UA4000200513	0.00	@Mty	15-Aug-18	410,337	927.24	380.48	410.34	16.37	910.34
UA4000178891	14.25	SA	9-Jan-19	233,366	998.99	233.13	233.37	17.11	2,645.63
UA4000200174	15.70	SA	20-Jan-21	80,000	1,009.65	80.77	80.00	16.46	276.27
Total UAH				1,223,703	1,176.63	1,223.70			4,832.24

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.

The MoF received three bids but accepted only two: for the 3-month bond at 16.00% (one was non-competitive) as the 17.00% bid was rejected. The competitive bid was satisfied partially due to the bond offering's limited amount. At the same time, the MoF accepted all 12 bids for the 6-month bond at 16.23-16.50% and set the weighted average rate at 16.37%.

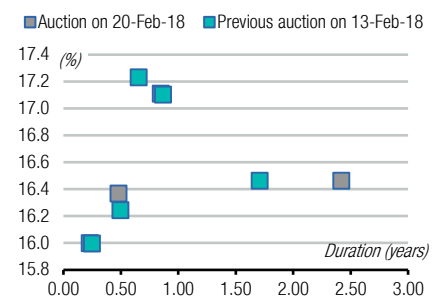
The 9-month bond received two bids at 16.75% and 16.90%, both of which were rejected, as the MoF has accepted only bids at or below 16.50% since 30 January.

For the 1-year and 3-year bonds, rates moved insignificantly. The 1-year bond's lowest rate was 2bp lower than the unchanged cut-off rate of 16.40%, and the weighted-average rate slid just 1bp to 16.39%. All five bids for this bond were within this range.

The largest number of bids that the MoF rejected was for the 3-year bond offering, of which it accepted only one of four. Demand was at 15.79-16.25%, up from when the MoF sold these bonds in January at 15.70%, and increased the cut-off rate to 15.79% and accepted only one bid.

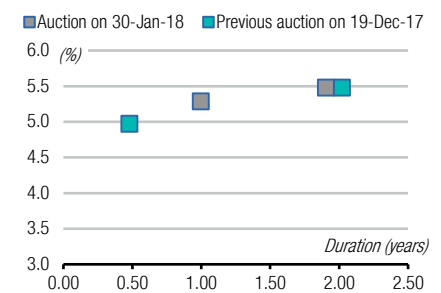
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



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.

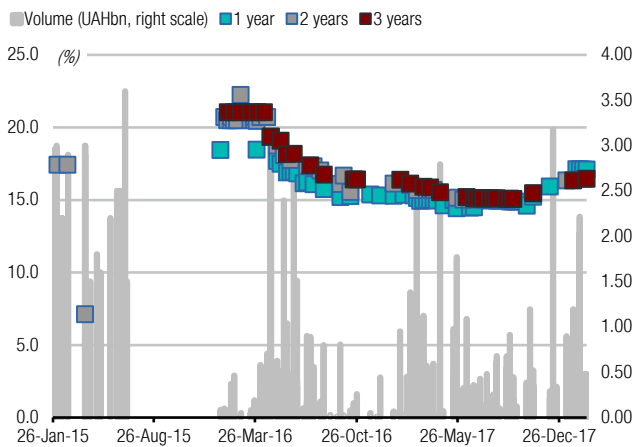
Low rates for the 3-month and 6-month bonds confirmed that there was demand from non-residents, albeit at a lower amount. Demand continued to decline: for 6-month bonds, it was below the offered amount, while for 3-month bonds, it was slightly higher.

Next week, although demand could be higher to refinance debt repayments, most likely the main part of demand will be postponed to the first auction in March which will be after the NBU's key policy rate meeting. The next auction could see low demand and only minor changes in interest rates.

Appendix: Yields-to-maturity, repayments

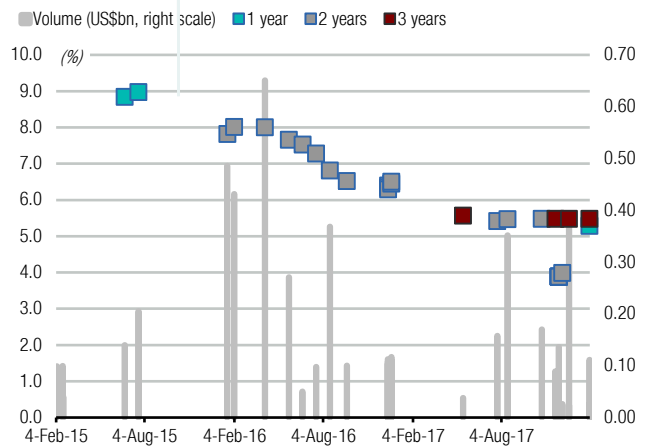
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

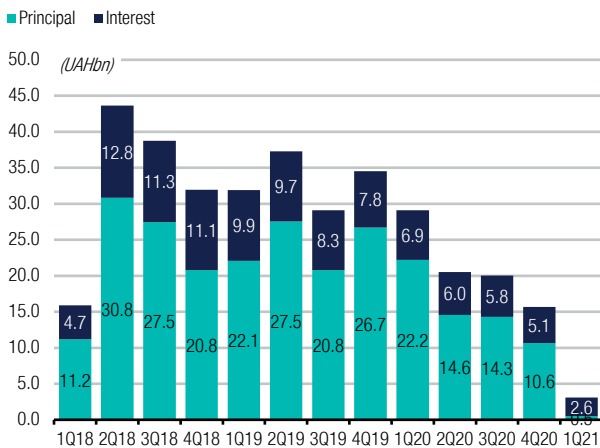
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

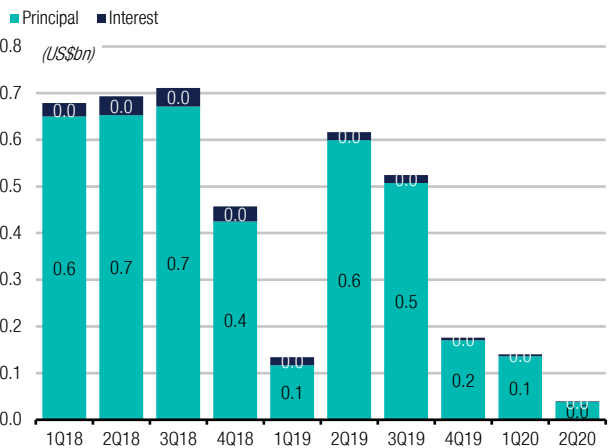
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

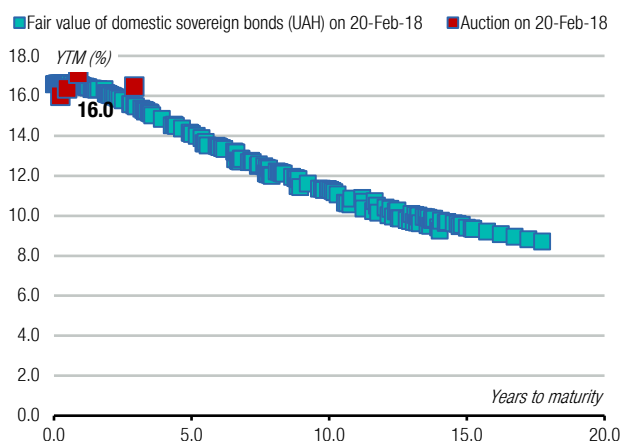
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

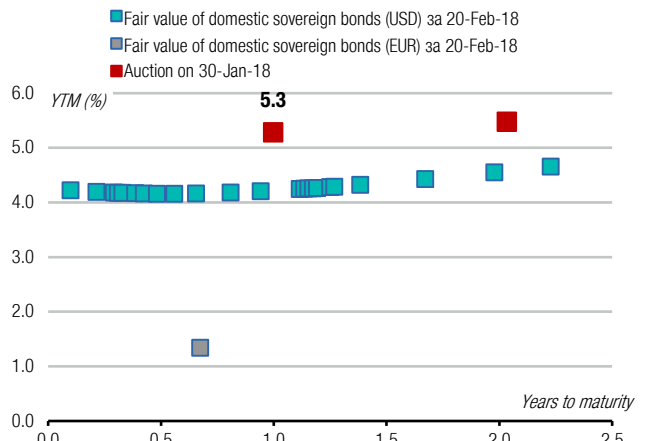
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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