

Bond Market Insight

Proceeds down

Comment on government bond placement

Despite UAH5.6bn of debt repayments scheduled for today, including UAH1.0bn to the NBU, demand at yesterday's primary auction was low, slightly above UAH1.5bn. As expected, bondholders scheduled to receive today's payments mostly postponed purchases of new bonds in anticipation of the NBU's key policy rate decision tomorrow. The budget will receive only UAH0.99bn, nearly UAH0.19bn less than a week ago.

The main part of demand (UAH0.75bn) was submitted for 3-month bonds of which the MoF accepted two-thirds of received demand. With bids as high as 18.00% submitted, the MoF accepted rates no higher than 16.00% and non-competitive demand, which was about one fourth of the accepted bids.

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
UA4000200505	0.00	@Mty	16-May-18	500,000	967.35	483.68	500.00	16.00	1,500.00
UA4000200513	0.00	@Mty	15-Aug-18	208,605	929.81	193.96	208.61	16.40	1,118.94
UA4000200604	0.00	@Mty	28-Nov-18	27,600	890.15	24.57	27.60	16.50	27.60
UA4000199210	14.91	SA	12-Oct-22	280,600	1,025.74	287.82	280.60	16.46	2,945.57
Total UAH				1,016,805		990.03	1,016.81		5,592.11

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.

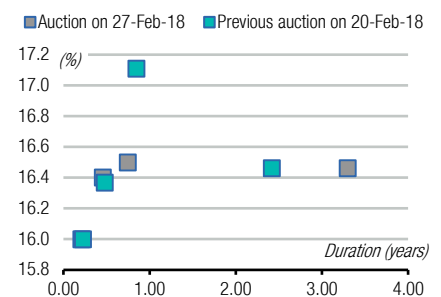
The 6-month bond received seven bids, covered less than a half of offered amount, or UAH0.23bn at 16.40-16.50%, of which the MoF accepted UAH0.21bn no higher than 16.45%, setting the weighted-average rate at 16.40%. The cut-off rate declined 5bp while the weighted-average rate was up 3bp from last week's auction. Of note, non-competitive demand constituted more than half of the fulfilled bids, with UAH0.12bn fully accepted at the weighted-average rate.

The same was seen in 5-year bonds with non-competitive bids slightly below half of total demand, or UAH0.15bn of UAH0.38bn. The MoF accepted only bids at 15.79% and all non-competitive demand, rejecting only two of six bids with rates above 15.79% up to 16.25%. The cut-off and weighted-average rates slid 1bp to the same level as seen last week for 3-year bonds.

The smallest demand was for new 9-month bonds which received four bids at

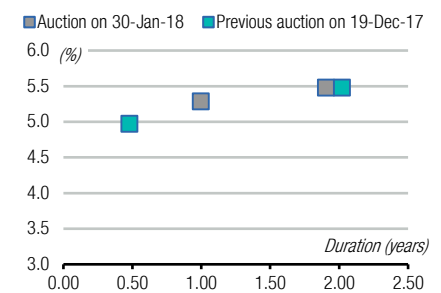
WEDNESDAY, 28 FEBRUARY 2018

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.

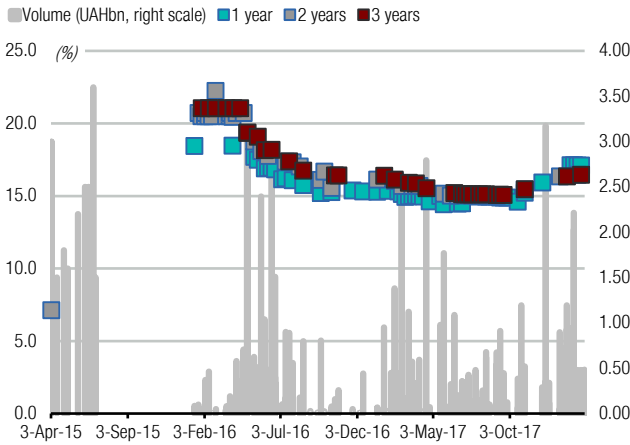
UAH0.17bn par value. Interest rates ranged from 16.50% to 16.90%, but the MoF accepted only two at 16.50% for a mere UAH0.03bn, keeping the cut-off rate unchanged from the last auction.

Most bondholders scheduled to receive debt repayments today postponed buying. Only a small portion who have to refinance repayments till the end of the month submitted bids, and most likely non-competitive bids were forced to purchase. Part of non-competitive demand increases (non-competitive demand was only 13.9% last week versus above 38% yesterday). As a result, interest rate movements were insufficient ahead of the NBU key policy rate decision. Next week, demand could increase and the key rate increase pushes rates by 20-50bp or more.

Appendix: Yields-to-maturity, repayments

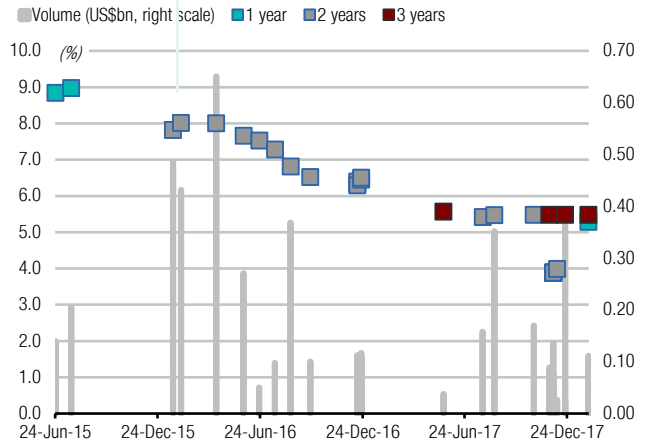
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

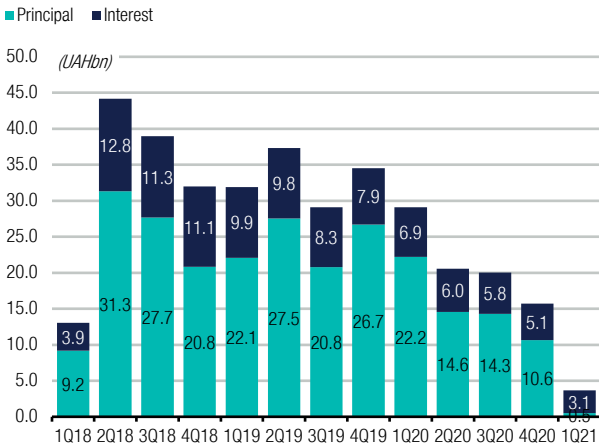
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

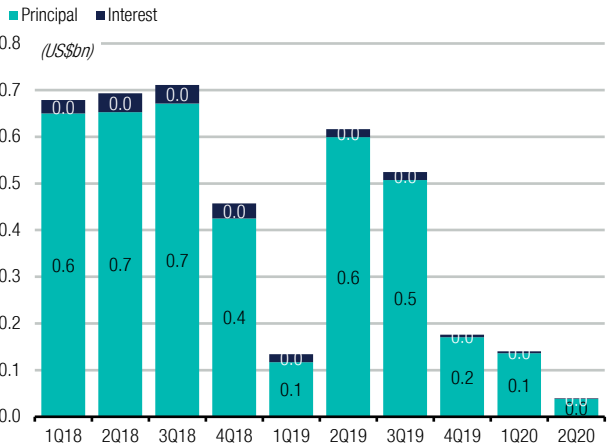
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

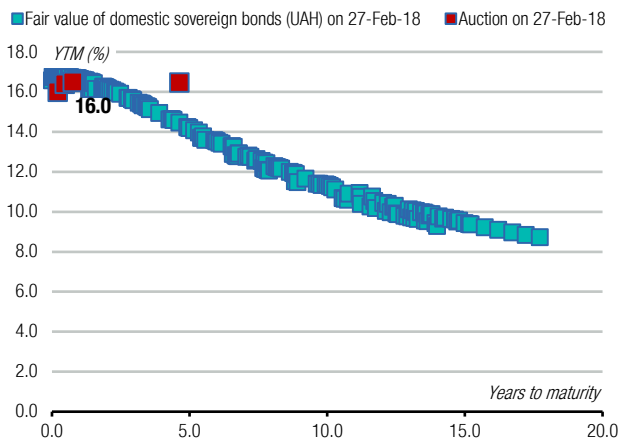
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

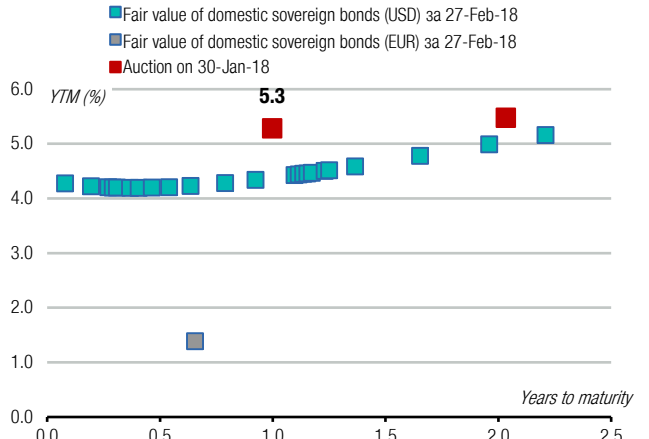
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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