

Bond Market Insight

Slight increase in rates

Comment on government bond placement

Yesterday, the MoF sold UAH500m each of 3-month and 6-month bonds at slightly higher rates. The MoF refinanced less than half of the principal repayments scheduled for this week.

Demand was submitted for all three offered bonds, but the 11-month bonds received just non-competitive bids which the MoF rejected. Bids for the 3-month and 6-month bonds exceeded the offered amounts.

The cut-off rate for the 3-month bond remained unchanged at 17.44% while the weighted-average rate rose 3bp to 17.36% from that seen two weeks ago. For the 6-month bond, the MoF raised the cut-off rate 10bp to 17.20% as the weighted-average rate increased 3bp to 17.13%.

Finally, at the end of the auction the MoF received UAH945.8m of budget proceeds versus UAH3.5bn of debt repayments scheduled for this week, which include UAH2.2bn of principal repayments. At the same time, demand and proceeds have increased from recent weeks, and we expect the MoF to refinance significant debt repayments next week.

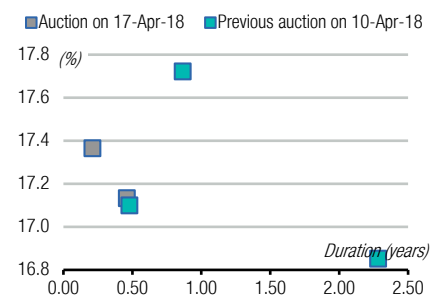
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000200745	0.00	@Mty	4-Jul-18	500,000	964.66	482.33	500.00	17.36	692.22
UA4000200778	0.00	@Mty	3-Oct-18	500,000	926.91	463.45	500.00	17.13	504.53
Total UAH				1,000,000		945.78	1,000.00		1,196.75

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 26.46/USD, 32.45/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

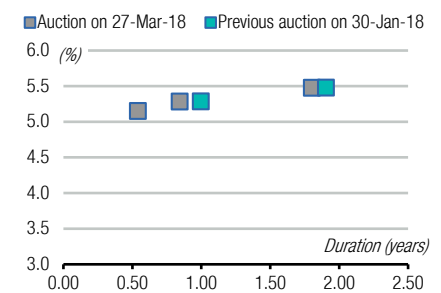
WEDNESDAY, 18 APRIL 2018

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

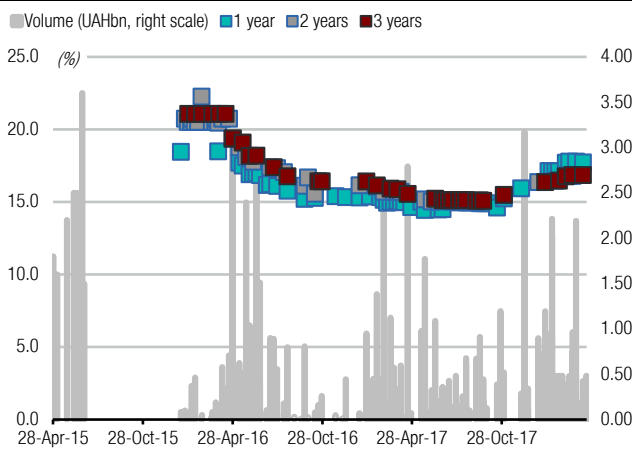


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

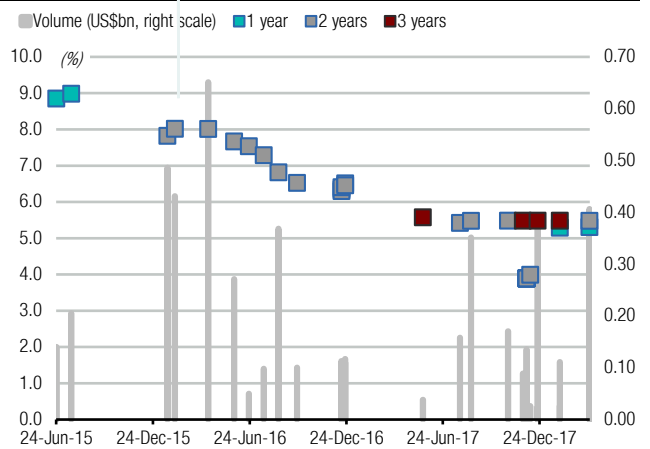
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

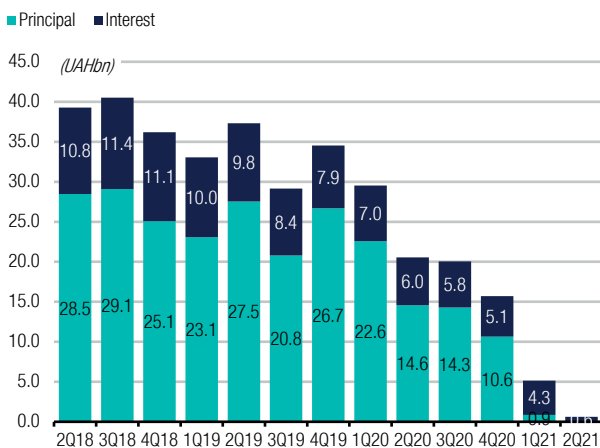
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

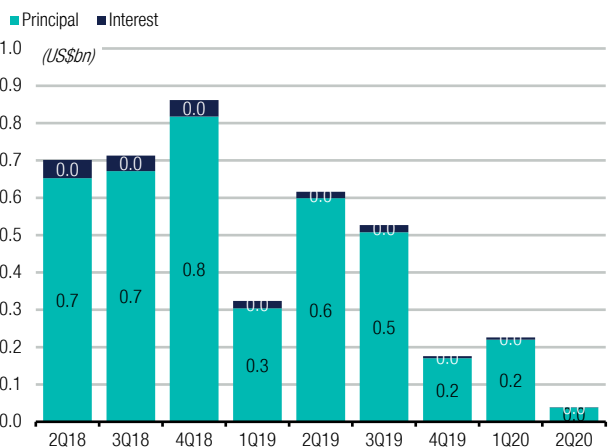
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

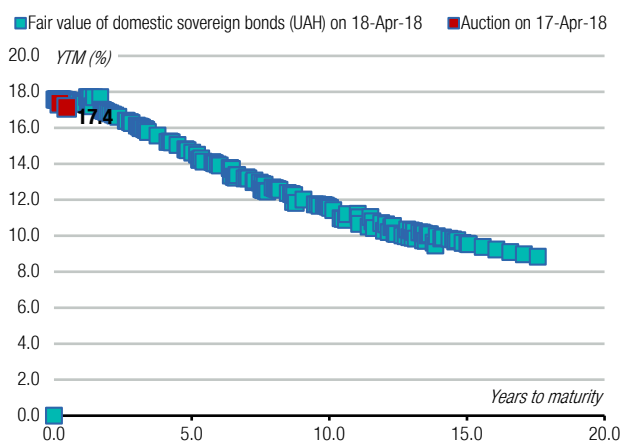
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

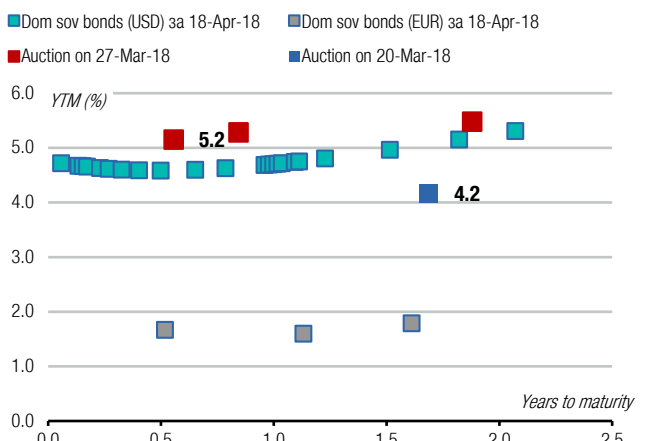
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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