

Bond Market Insight

MoF refinances almost 90% of principal

Comment on government bond placement

Tuesday's auction proceeds of UAH3.7bn, including UAH2.7bn from euro-denominated bonds, allowed the MoF to refinance almost 70% of UAH5.4bn in total debt repayments. UAH5.2bn of these repayments were denominated in local currency, including UAH4.3bn of principal repayments.

To refinance the 87% of principal repayments amidst low primary market activity in April, the MoF had to raise the interest rates for local-currency bonds and offer euro-denominated bonds.

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
UA4000200778	0.00	@Mty	3-Oct-18	358,545	929.48	333.26	358.55	17.20	863.08
UA4000197081	15.09	SA	6-Mar-19	71,292	1,005.03	71.65	71.29	17.76	1,663.59
UA4000200885	15.97	SA	19-Apr-23	646,414	999.93	646.37	646.41	16.66	646.41
Total UAH				1,076,251		1,051.28	1,076.25		3,173.08
UA4000200711	4.12	SA	27-Nov-19	82,099	1,018.56	2,670.02	2,621.36	4.04	6,509.40
Total EUR				82,099		2,670.02	2,621.36		6,509.40

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

Although demand was below the offered amount of 6-month bonds, the MoF bids at higher rates (as high as 17.5%) while it set the cut-off rate at 17.2% set last week. The weighted-average rate rose 7bp to 17.2% from last week's auction.

Likewise, the 10-month bond rate was set at 17.5%, unchanged from the previous auction, while the weighted-average rate rose 4bp to 16.99%.

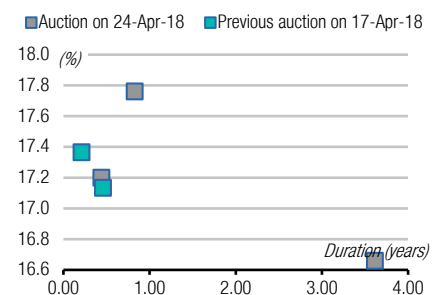
A 5-year bond was offered for the first time since the key policy rate was increased to 17%, and the yield movement was more volatile than other maturities. At the end of February, a similar bond was sold at 15.79%, while this week the cut-off rate rose 21bp to 16% and the weighted-average rate increased 18bp to 15.97%.

It was only the euro-denominated bond rate TGA declined from the last auction in March 2018. All bids were at 4% and the cut-off and weighted-average rates were both also at 4%, down 17bp and 12bp, respectively.

The MoF successfully refinanced most of this week's debt repayments, primarily

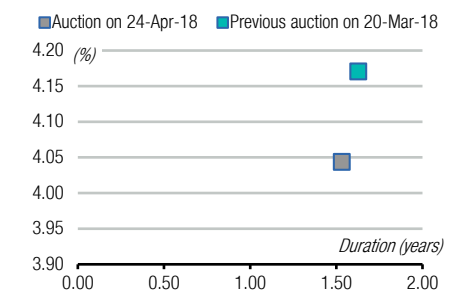
THURSDAY, 26 APRIL 2018

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



Source: Ministry of Finance of Ukraine, ICU.

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



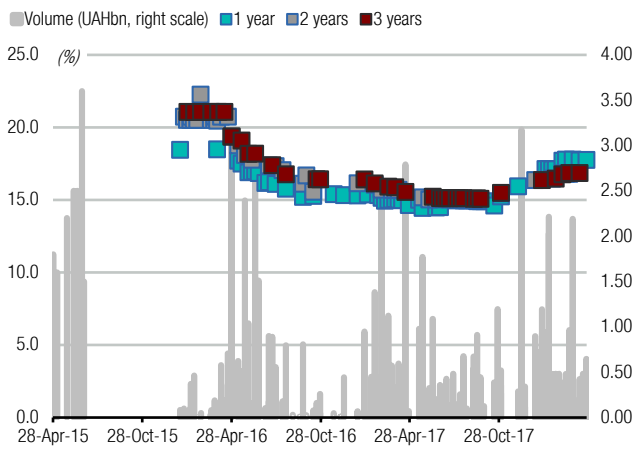
Source: Ministry of Finance of Ukraine, ICU.

via euro-denominated bonds, in April's peak volume. Over the next few weeks, low debt repayment volume is scheduled. Yield movements will depend on demand and budget needs to finance non-debt payments.

Appendix: Yields-to-maturity, repayments

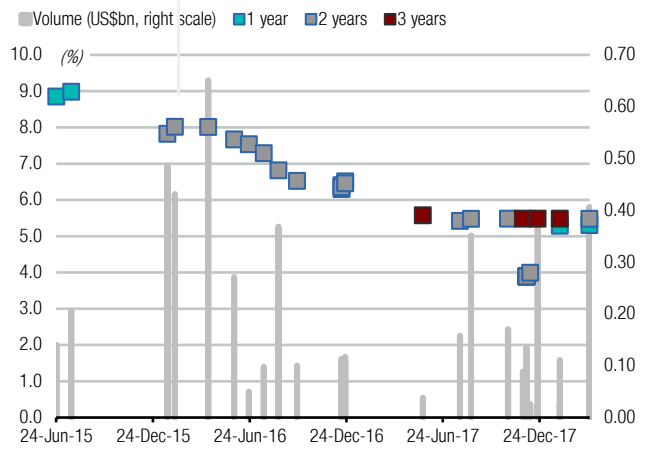
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

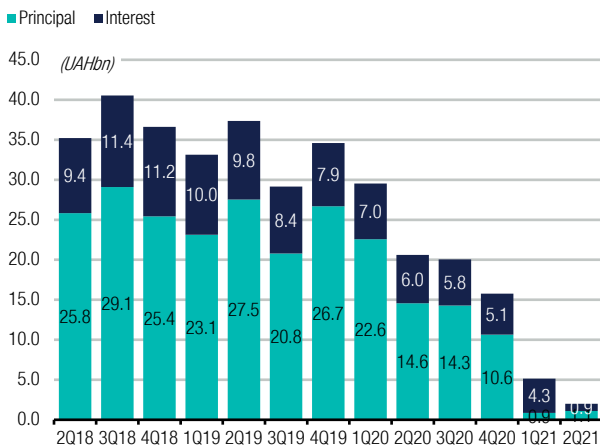
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

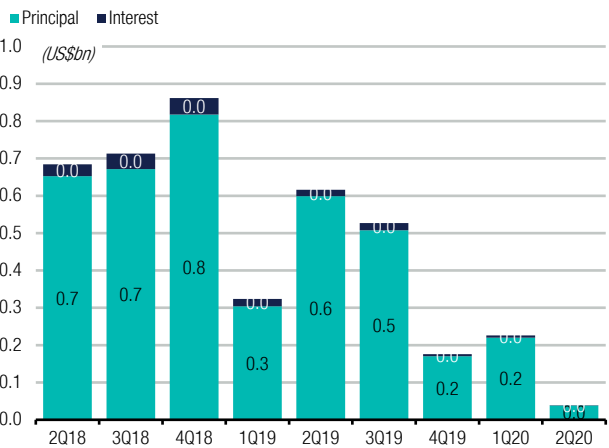
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

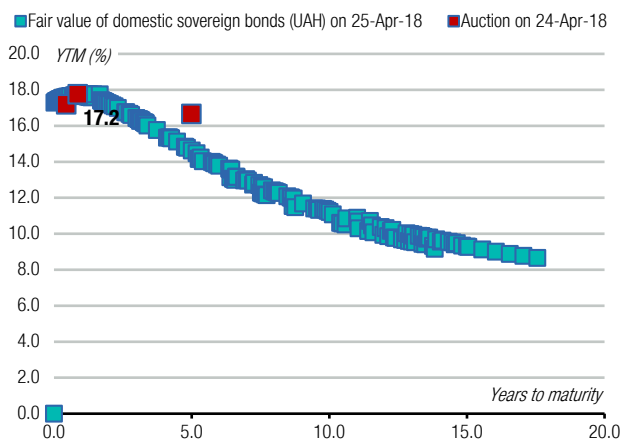
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

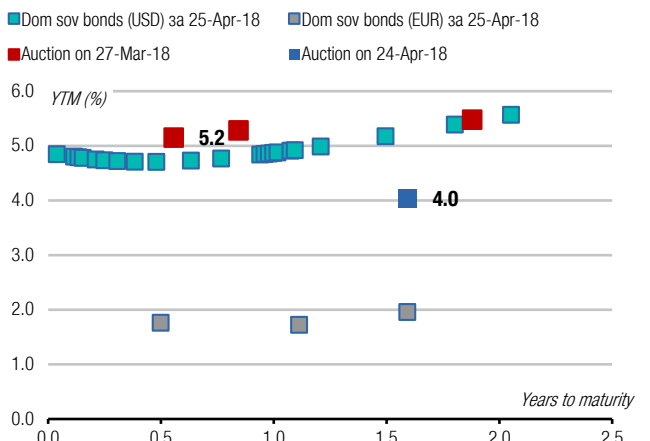
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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