

Bond Market Insight

Expensive demand rejected

Comment on government bond placement

In the regular primary auction this week, borrowings were slight, as the Ministry of Finance rejected bids with a higher cost of borrowing than has been seen in recent months. However, a few bonds were sold with a slight increase in interest rates by a few basis points.

Interest rates of the rejected bids were sufficiently higher than the cut-off rates at the current or previous auctions. For six-month bills, rates were as high as 18%; for 12-month paper, 17.75%; for two-year maturities, as high as 17.5%; for the five-year note, 16.4%; and for euro-denominated bills, 4.75%.

As the result, the MoF accepted only UAH64m of demand out of the UAH526.2m bids it received for local-currency instruments, receiving UAH61.6m of financing.

The MoF rejected over 90% of demand for the six-month bills after it increased the cut-off rate by 5bp to 17.25% with the weighted-average rate up 3bp to 17.23%, compared with auction two weeks ago. The cut-off rate on the five-year note was kept at the same level of 16%.

On the other hand, nearly 93% of FX-denominated instruments were accepted. Out of EUR69.6m of demand, the MoF rejected only one bid for EUR5m due to the rate being too high. To accept the other bids, the MoF had to increase the cut-off and weighted-average rates by 7bp to 4.07% to collect EUR64.6m of proceeds.

In the end, the MoF will probably use new issues of USD-denominated bonds to refinance debt repayments, at least during the next few months, as these bonds had the largest demand at the last week's auction. As a result, next week's auction should see moderate demand. We expect to see more interest at the auction scheduled for 12 and 19 June, when the MoF is going to offer USD-denominated bonds.

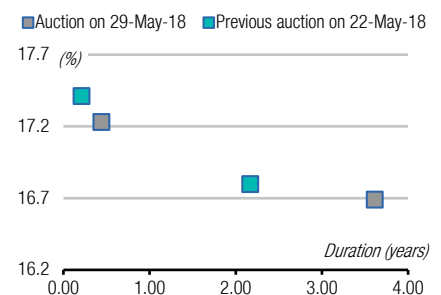
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000200950	0.00	@Mty	7-Nov-18	34,000	929.37	31.60	34.00	17.23	184.50
UA4000201255	16.00	SA	24-May-23	30,000	1,000.00	30.00	30.00	16.69	30.00
Total UAH				64,000		61.60	64.00		214.50
UA4000200711	4.12	SA	27-Nov-19	64,589	1,000.83	1,948.12	1,946.50	4.12	8,090.44
Total EUR				64,589		1,948.12	1,946.50		8,090.44

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 26.08/USD, 30.14/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

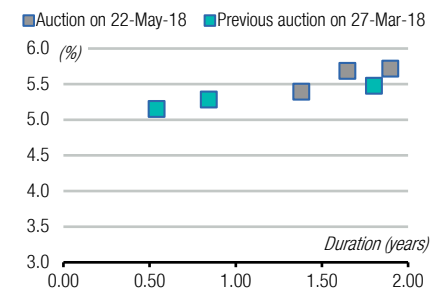
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



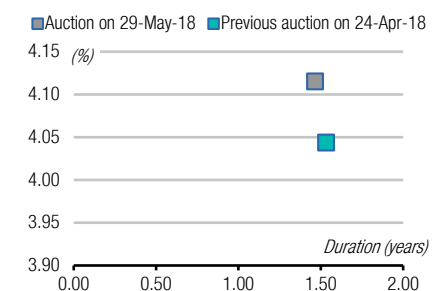
Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

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

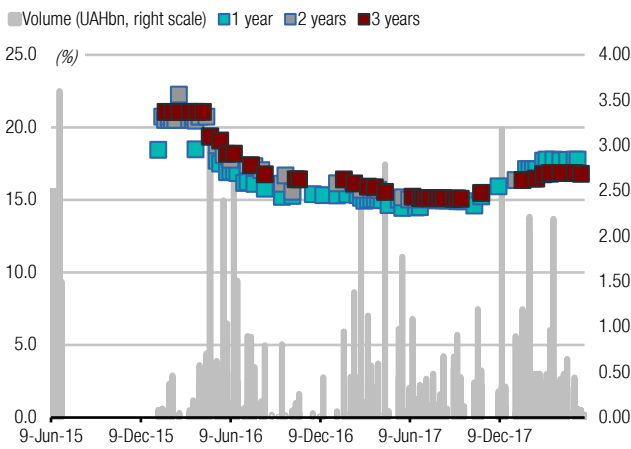


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

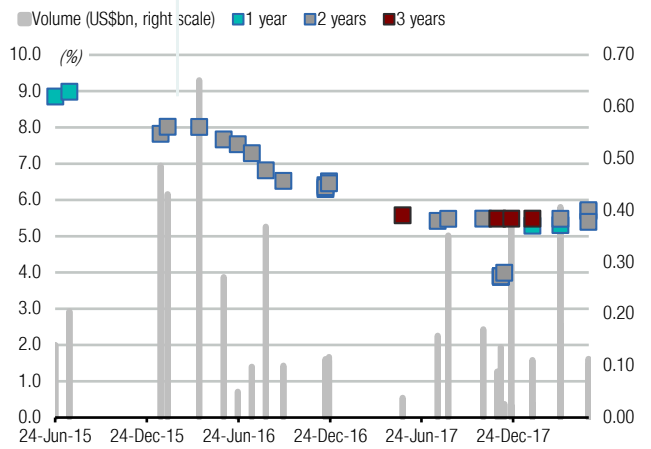
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

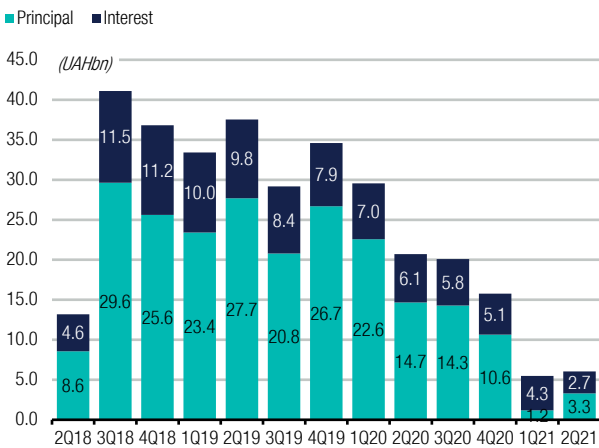
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

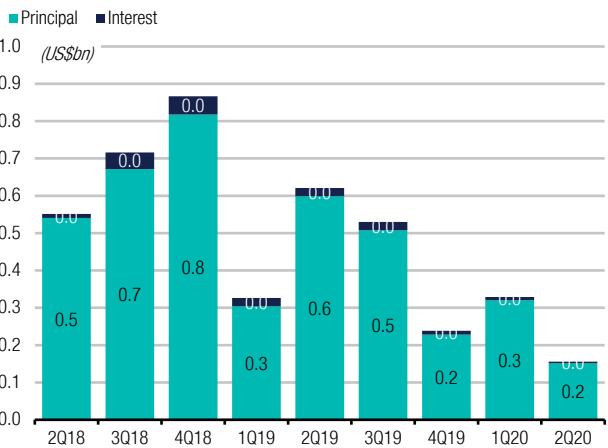
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

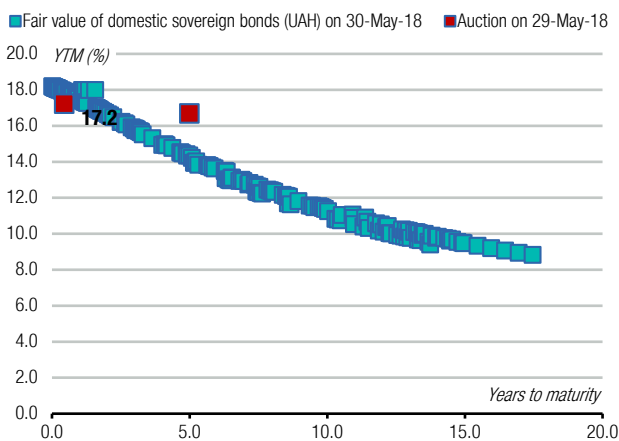
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

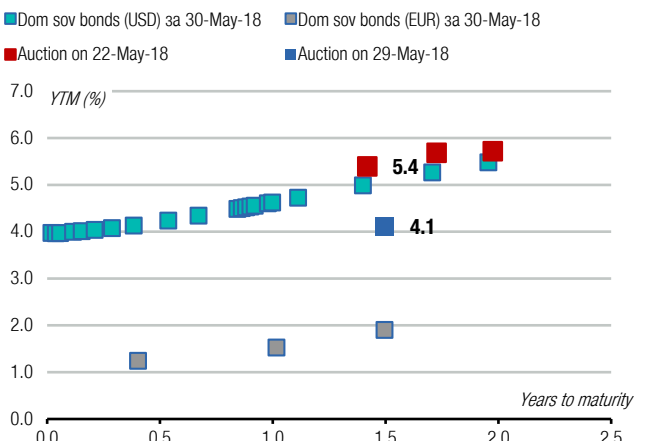
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Partner
makar.paseniuk@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua

Roman Nikitov, ACCA Director
roman.nikitov@icu.ua


Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua


Ruslan Patlavsky, Director
ruslan.patlavsky@icu.ua

ASSET MANAGEMENT

Grigoriy Ovcharenko, Director
Head of Local Asset Management
grigoriy.ovcharenko@icu.ua

Liliya Kubytovych 
Head of Marketing and Sales
liliya.kubytovych@icu.ua


TRADE OPERATIONS

Konstantin Stetsenko 
Managing Partner
konstantin.stetsenko@icu.ua

Vlad Sinani, Director
Strategy and Business Development
vlad.sinani@icu.ua


Sergiy Byelyayev
Head of Fixed-Income Trading
sergiy.byelyayev@icu.ua

Yevgeniya Gryshchenko
Head of Brokerage Services Department
yevgeniya.gryshchenko@icu.ua

Vitaliy Sivach 
Trader, Fixed-Income & Forex
vitaliy.sivach@icu.ua


Bogdan Vorotilin 
bogdan.vorotilin@icu.ua

RESEARCH

Alexander Valchyshen 
Head of Research
alexander.valchyshen@icu.ua

Taras Kotovych 
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Alexander Martynenko 
Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv 
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Dmitriy Dyachenko
Junior financial analyst
dmitriy.dyachenko@icu.ua

Artem Gladchenko
Junior financial analyst
artem.gladchenko@icu.ua

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