

Bond Market Insight

MoF returns interest rate to former level

Comment on government bond placement

At its debut auction in July, the MoF offered only medium-term instruments with 1.5-year, two-year, and three-year maturities. These instruments have not seen large demand in recent months, and, yesterday, they received only UAH382.5m of demand. The MoF sold only three-year notes at the 16.15% cut-off rate, which is usual for this paper.

Demand for 1.5-year and two-year instruments was small, just UAH81.7m and UAH50m, respectively. Interest rates in bids were not acceptable to the issuer. For the 1.5-year instrument, bids were 16.5%, and for the two-year, they were 16.45%.

Similarly, 16.4% was the highest rate in demand for the three-year note, which was also rejected. But other bids for this paper were accepted at the 16.15% cut-off rate, which has been usual for this maturity since March 2018. So, after last week's rate was decreased to 15%, the MoF returned to the usual level.

Demand for local-currency instruments remains low, and is expensive for the MoF. Therefore, in the next few weeks, we could see attempts from bidders to get higher rates, which the MoF will continue to reject. As a result, we expect most of next week's demand will be concentrated in the offering of USD-denominated paper, which will be with a two-year maturity.

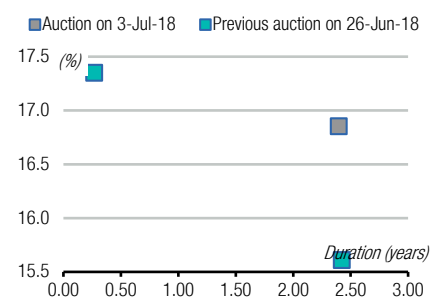
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000194377	16.75	SA	2-Jun-21	200,779	1,026.02	206.00	200.78	16.85	3,153.67
Total UAH				200,779		206.00	200.78		3,153.67

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 26.49/USD, 30.47/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

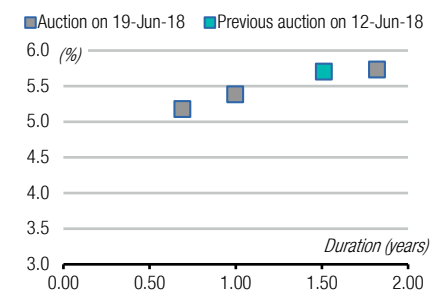
WEDNESDAY, 4 JULY 2018

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

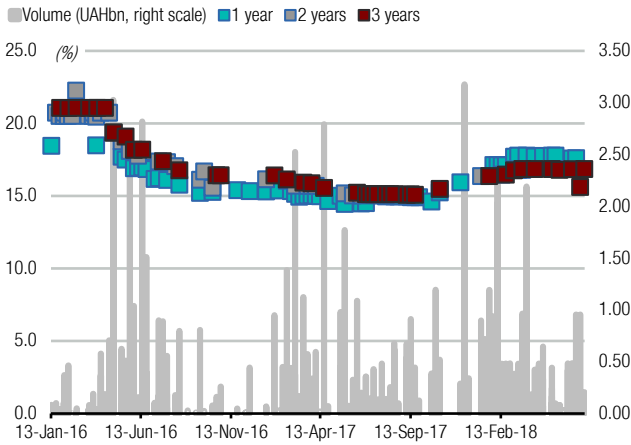


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

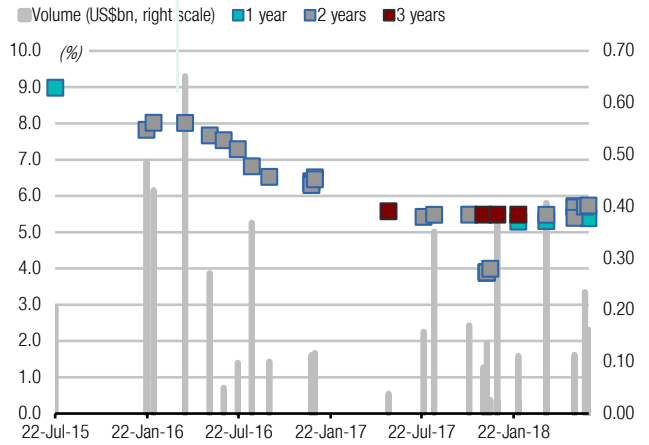
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

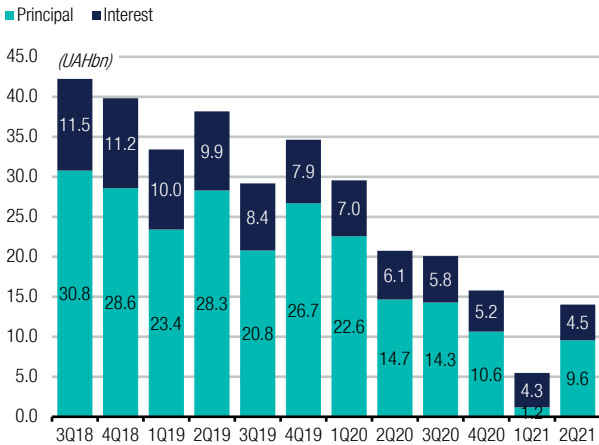
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

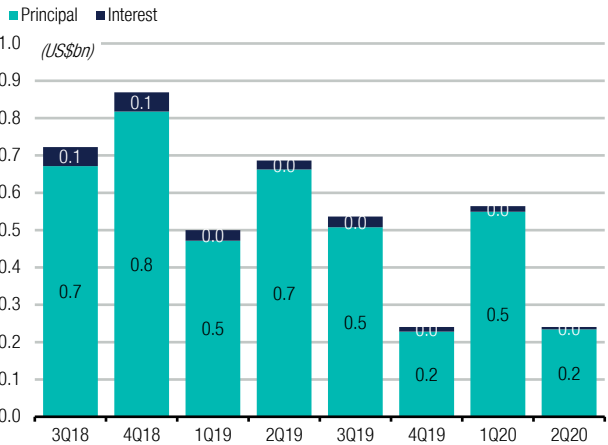
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

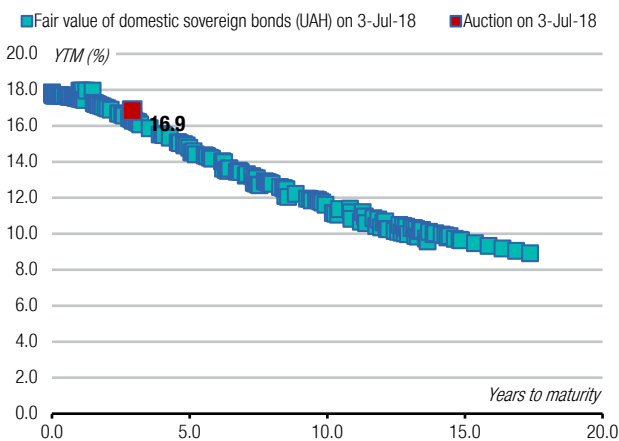
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

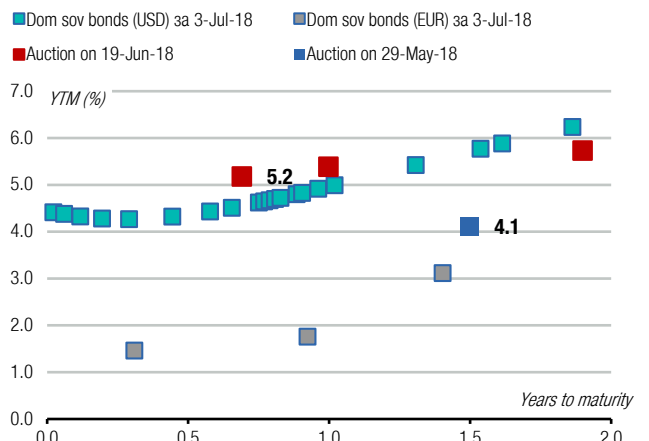
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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