



Bond Market Insight

Ministry keeps rates steady

Comment on government bond placement

After borrowing UAH1bn this Tuesday, the MoF decided to hold an additional auction yesterday. It offered two bills with three-month and six-month maturities, which allowed the MoF to borrow additional funds for the budget, keeping the cost of borrowing at the previous level. Taking into account the maturities of the new bills, the cost of borrowing slightly declined.

Demand for this auction was a bit lower than UAH2.3bn, and it was concentrated in the three-month bills. Demand for the six-month bill was only UAH101m. Interest rates on bids were as high as 18.5% for the three-month, and up to 18.1% for six-month bills. The Ministry decided to keep the cut-off rates at 18%, the same level as at the last two auctions for similar maturities. As the result, the MoF accepted five out of 11 bids for three-month bills, with proceeds amounting to UAH2.14bn. They accepted two out of four bids for the six-month bills, for UAH81m (all at par value). Budget proceeds amounted to UAH2.1bn.

Unscheduled auctions, introduced yesterday, could attract demand from banks, according to the new rules for current liquidity wherein the NBU can include bills with up to six-month maturities. The new budget proceeds should improve budget execution for next several days until quarterly tax payments begin, which, similar to May, are expected to be favourable.

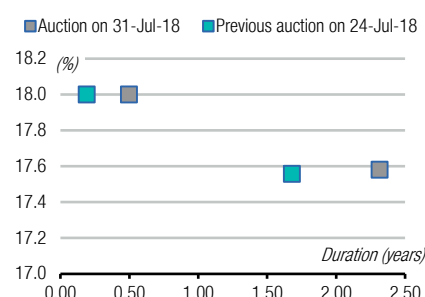
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Pay-ment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000200950	0.00	@Mty	7-Nov-18	2,135,473	954.80	2,038.95	2,135.47	18.00	2,768.20
UA4000200968	0.00	@Mty	6-Feb-19	81,000	915.57	74.16	81.00	18.00	349.87
Total UAH				2,216,473		2,113.11	2,216.47		3,118.07

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 26.59/USD, 31.19/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

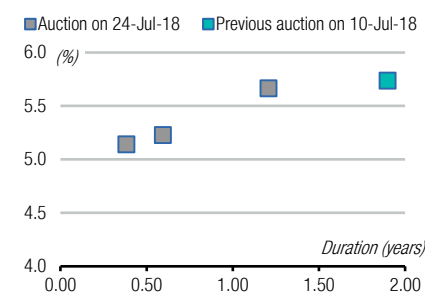
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



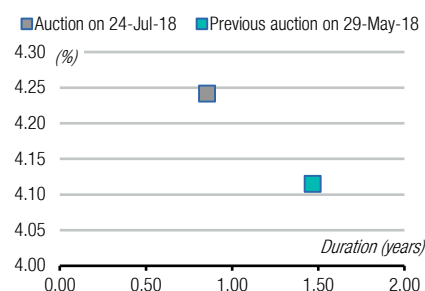
Source: Ministry of Finance of Ukraine, ICU.

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

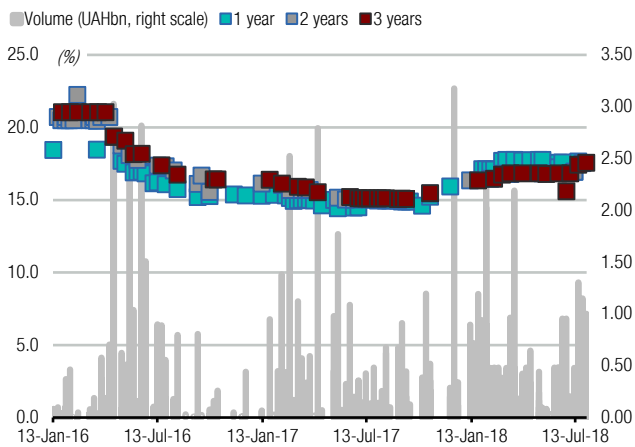


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

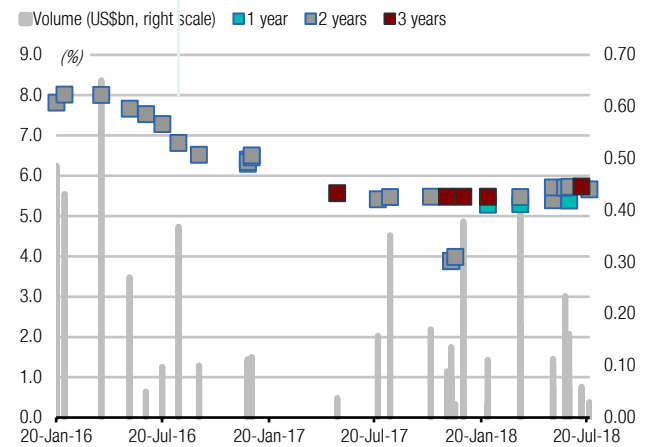
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

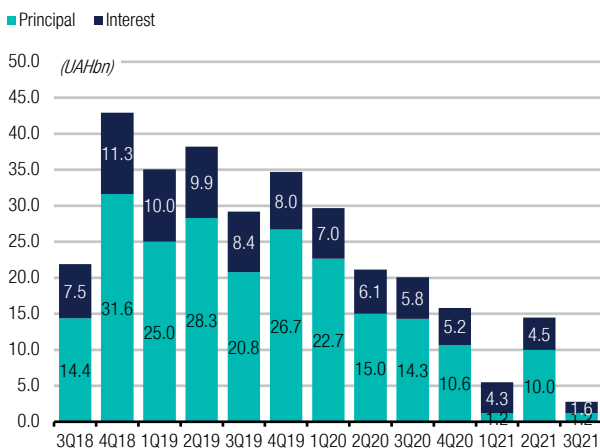
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

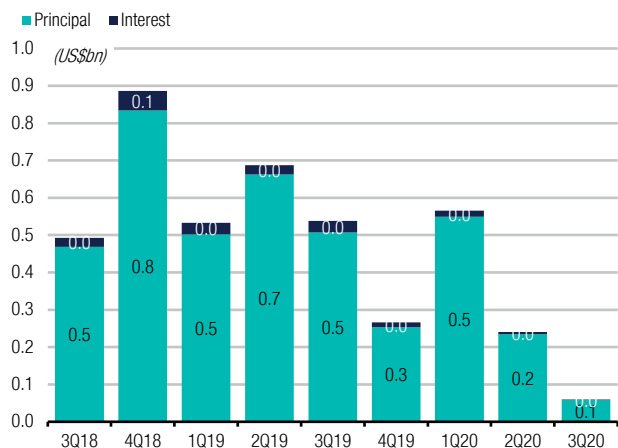
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

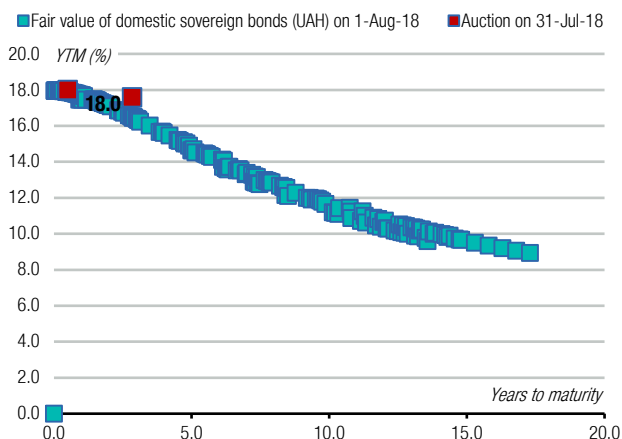
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

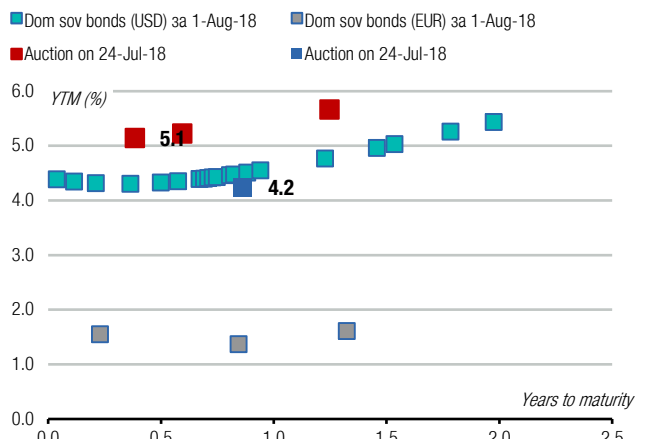
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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