

Bond Market Insight

Market insists on compromise

Comment on government bond placement

Yesterday's demand for new bonds slightly tightened with interest rates correcting to a lower level, but many bids were with rates above the cut-off level. This caused a low amount of budget proceeds to be raised, significantly lower than demand. As the result, the MoF received US\$4m and UAH142.8m of proceeds, which was less than last week.

For six-month and 12-month maturities, demand for local-currency bills was fully satisfied, as all bids had an 18.5% rate. For three-month paper, the highest rate slid 25bp to 20.5%, but demand was mostly between 18.5% and 20.5%, and it was rejected.

Also, the market slightly moved towards the MoF's view for FX-denominated debt. For nine-month bills, the highest rate slid to 6%, while for 14-month debt, it was 6.50%. As expected, for US\$14.6m of demand, the MoF kept the cut-off rate at 5.95%, and rejected most of bids.

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

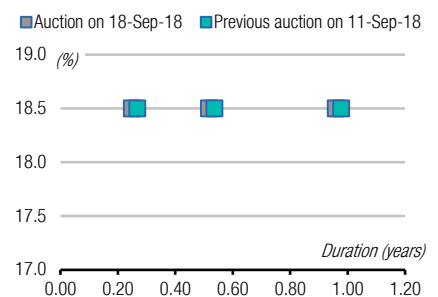
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000202055	0.00	@Mty	19-Dec-18	113,844	955.91	108.82	113.84	18.50	1,339.36
UA4000202287	0.00	@Mty	27-Mar-19	32,023	912.58	29.22	32.02	18.50	51.03
UA4000202295	0.00	@Mty	4-Sep-19	5,634	849.33	4.79	5.63	18.50	23.47
Total UAH				151,501		142.83	151.50		1,413.86
UA4000201453	0.00	@Mty	19-Jun-19	1,987	957.54	53.52	55.89	5.93	2,189.33
UA4000199244	5.40	SA	23-Oct-19	2,073	1,016.16	59.26	58.31	6.04	7,181.14
Total USD				4,060		112.78	114.21		9,370.47

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 28.13/USD, 31.3/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Finally, it is ruled out that the market slightly moved towards the MoF with decreased rates on bids. For the most popular three-month bills, most of the demand was above the cut-off rate despite a slight decline of rates. So, the market indicated that it was ready to buy longer bills at 18.5%, but wants a higher rate for shorter instruments. The MoF is not ready to move towards the market, probably because it expects a positive decision from the IMF, and new financing from abroad.

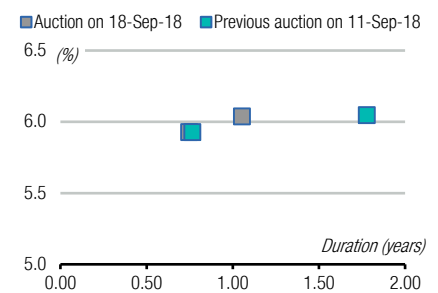
WEDNESDAY, 19 SEPTEMBER 2018

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



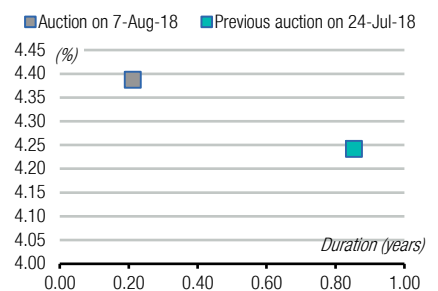
Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

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

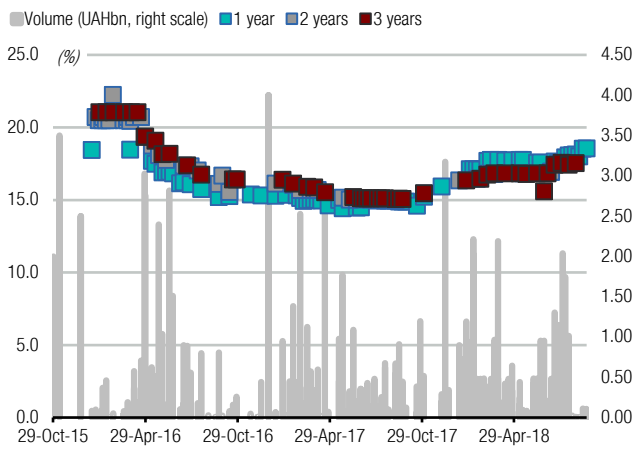


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

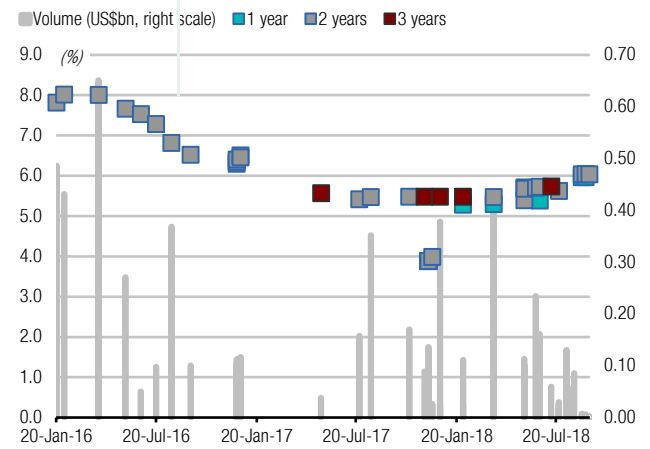
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

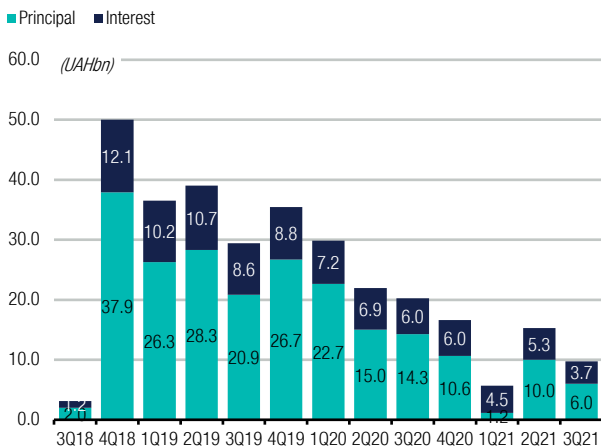
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

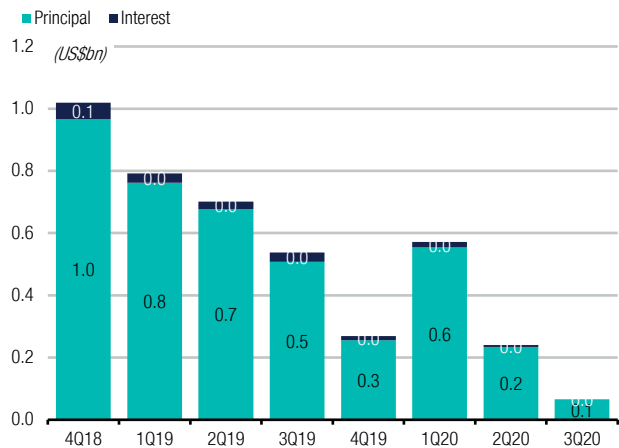
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

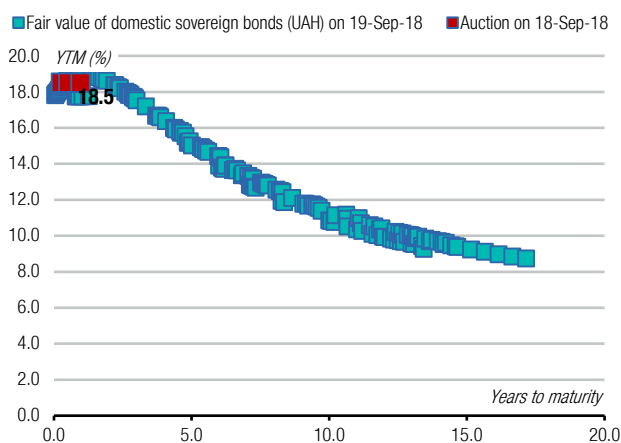
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

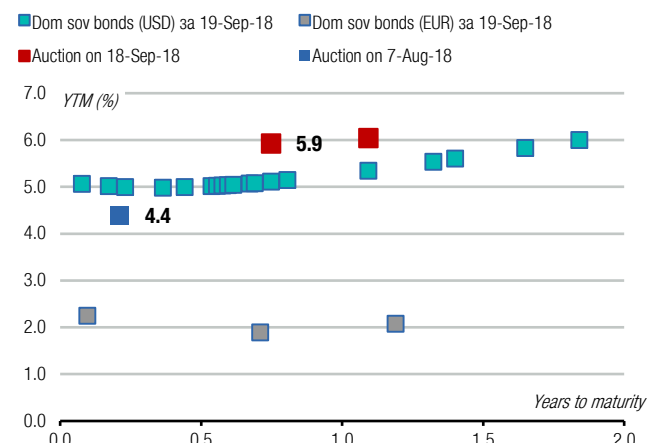
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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 2200120

WEB www.icu.ua



[@ICU_UA](https://twitter.com/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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