

# Bond Market Insight

## Bond rates unchanged

### Comment on government bond placement

The first primary auction in November provided the budget with UAH1.2bn of proceeds, including UAH0.8 in local currency and US\$21.5m in FX. The Ministry kept interest rates unchanged for all offered bonds, four in local currency and one in FX.

Demand was unanimously flat at 18.5% only for nine-month local-currency bills, and it was fully accepted. Other local-currency bills received some bids a bit higher than prior weeks, and they were rejected. In the end, the MoF rejected just 16% of demand for bills denominated in hryvnia.

At the same time, USD-denominated bills also received demand at the 7.4% rate, slightly below the recent cut-off for similar maturities. But demand was too small to have an impact on the weighted-average rate. So, most of the accepted demand was satisfied at 7.5%.

As expected, the Ministry held rates unchanged, bringing in a low amount of budget proceeds. We do not expect much change in rates or amounts for the rest of the year, as the financing limit has almost been reached, and current demand remains too small to expect an increase in interest rates.

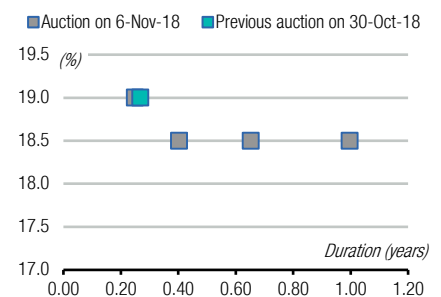
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000200968	0.00	@Mty	6-Feb-19	492,948	954.77	470.65	492.95	19.00	936.88
UA4000201370	0.00	@Mty	3-Apr-19	7,492	930.66	6.97	7.49	18.50	535.13
UA4000201768	0.00	@Mty	3-Jul-19	58,393	892.36	52.11	58.39	18.50	141.39
UA4000202667	0.00	@Mty	6-Nov-19	93,450	844.24	78.89	93.45	18.50	93.45
<b>Total UAH</b>				<b>652,283</b>		<b>608.63</b>	<b>652.28</b>		<b>1,706.86</b>
UA4000201396	5.62	SA	15-Jan-20	21,558	996.31	600.86	603.09	7.64	8,693.15
<b>Total USD</b>				<b>21,558</b>		<b>600.86</b>	<b>603.09</b>		<b>8,693.15</b>

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 27.98/USD, 31.8/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

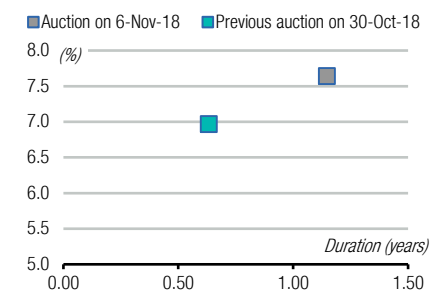
### THURSDAY, 8 NOVEMBER 2018

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



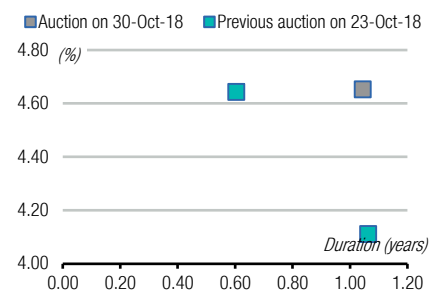
Source: Ministry of Finance of Ukraine, ICU.

#### 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

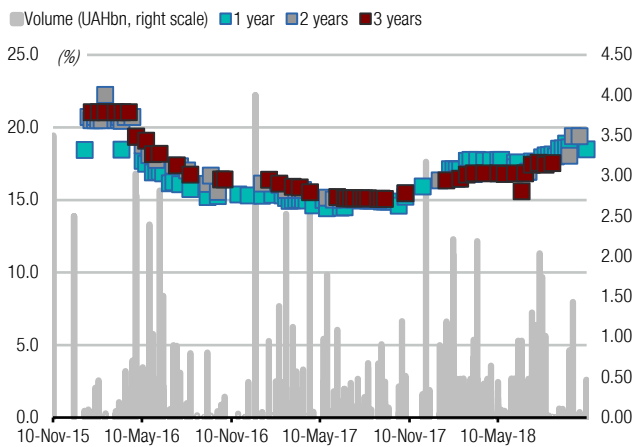


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

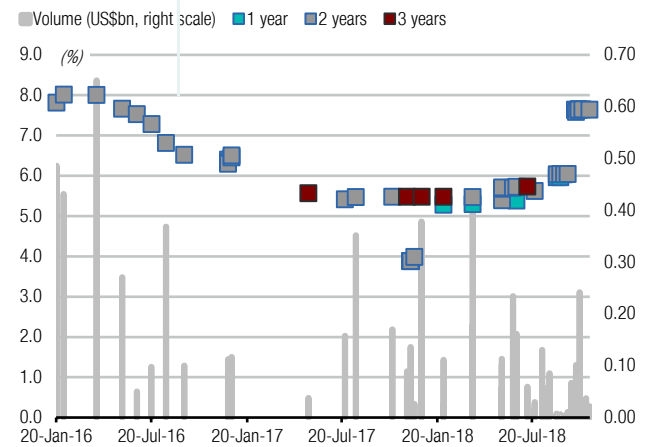
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

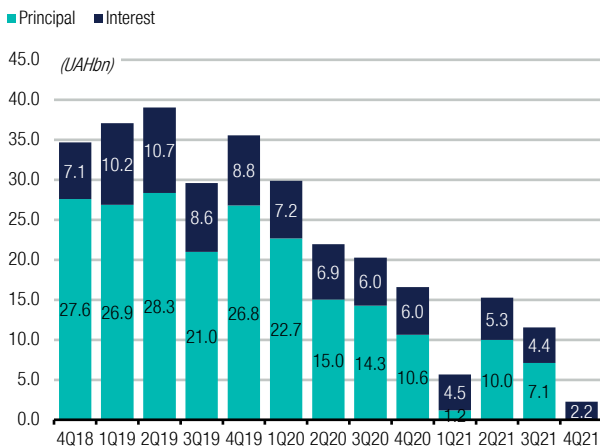
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

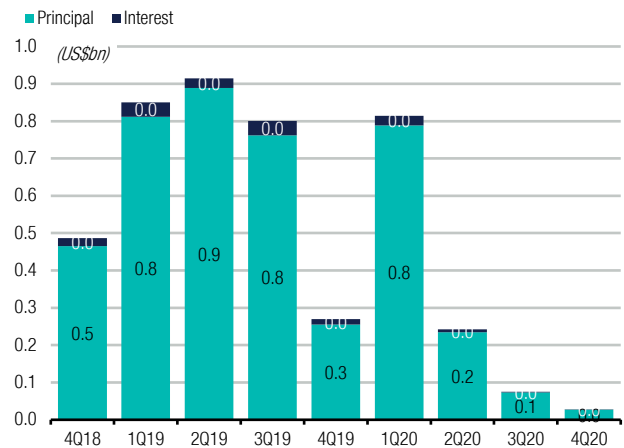
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

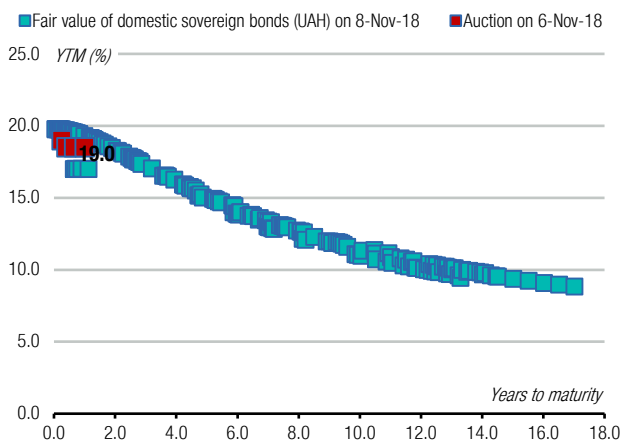
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

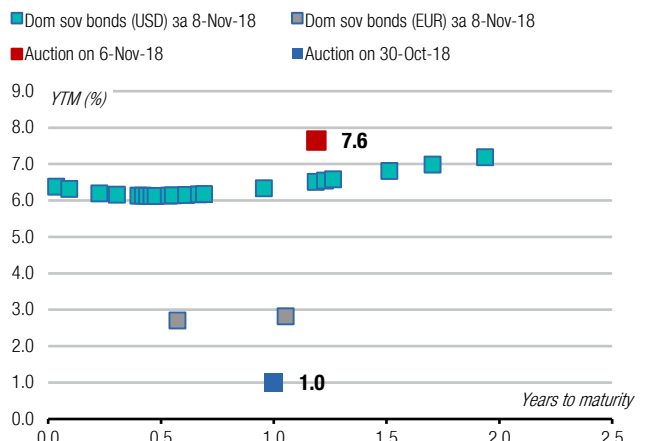
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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