

Bond Market Insight

Lack of demand for longer bonds

Comment on government bond placement

This week the MoF offered only local-currency bills, demand and proceeds were insufficient. At this auction, four bills were offered with two-month, five-month, 11-month, and also two-year maturities. But demand, expectedly, was insufficient, and was concentrated in the two shortest bills with maturities in February and May 2019. The longer bills did not receive any bids.

Total demand amounted to UAH48m in six bids. For the shortest, the two-month bill rate was 19%, and the five-month bill was 18.5%. Out of two bids for the five-month bills, one was non-competitive, and was 94% of demand for this paper. The MoF accepted all of these bids and received UAH48m of proceeds.

So, at the end of the year, demand for local-currency bills is declining and without offering FX-denominated bills, the amount of proceeds was insufficient. The next two weeks have scheduled offerings of FX-denominated bills to collect FX for debt redemptions scheduled for 12 December, and the amount of proceeds could rise. But for local-currency bills, demand is expected to be insufficient and concentrated in short-term bills.

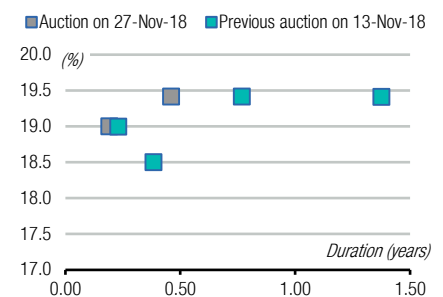
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000200968	0.00	@Mty	6-Feb-19	5,638	964.84	5.44	5.64	19.00	1,369.84
UA4000194138	18.21	SA	15-May-19	42,471	1,005.49	42.70	42.47	19.41	1,951.54
Total UAH				48,109		48.14	48.11		3,321.38

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

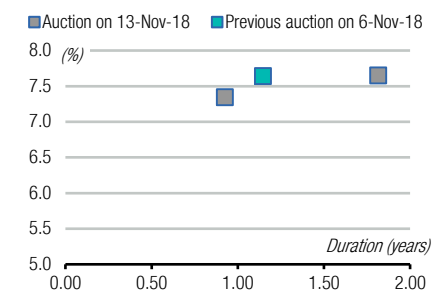
WEDNESDAY, 28 NOVEMBER 2018

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



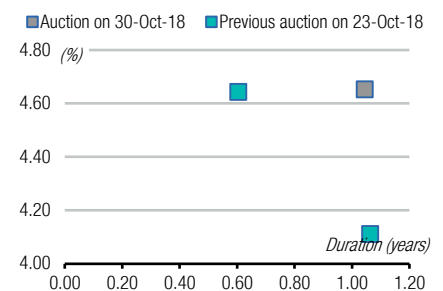
Source: Ministry of Finance of Ukraine, ICU.

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

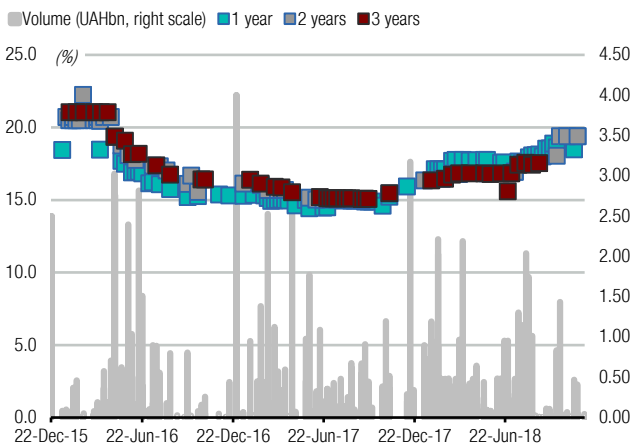


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

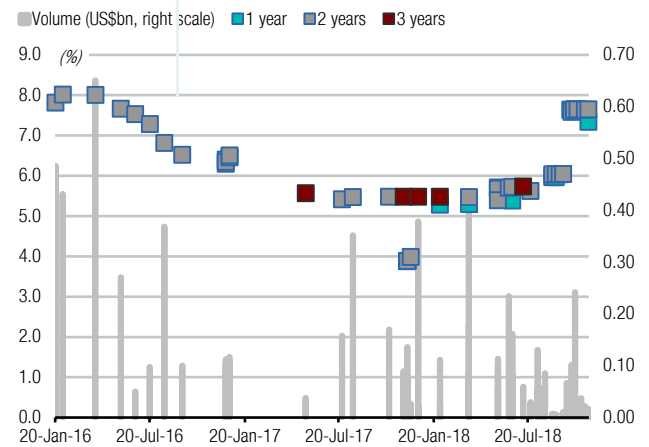
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

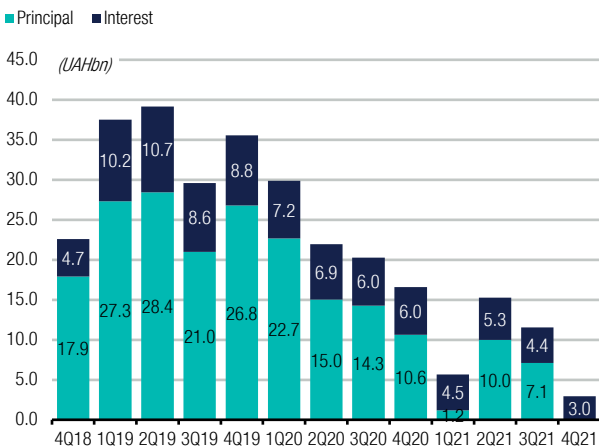
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

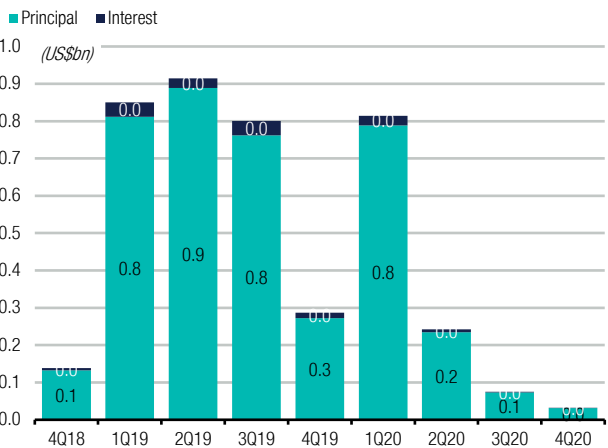
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

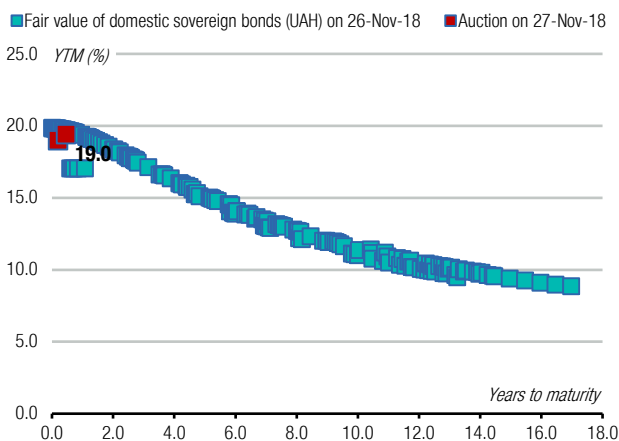
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

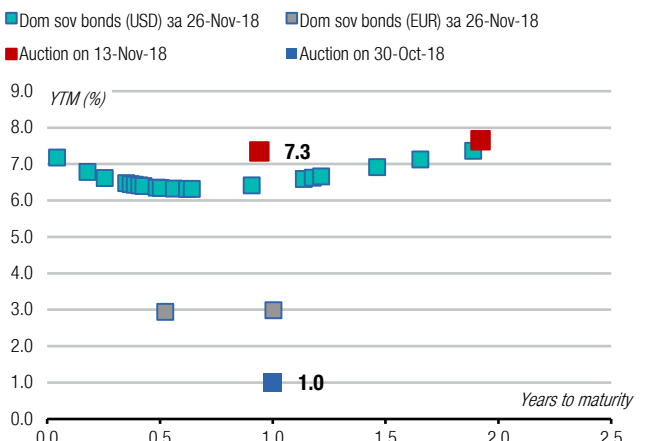
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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