

Bond Market Insight

MoF moved up yield curve

Comment on government bond placement

Low budget revenues at the beginning of this year have forced the Ministry of Finance to review its position on interest rates for local-currency bills. Yesterday, for some maturities, interest rates were increased in response to market reaction on the same issues last December.

For bills with tenors up to six months, the cut-off rate was up 50bp, and for the shortest, the three-month bills, the rate was above market expectations. Most of the accepted demand was cheaper, and the weighted-average rate for 3-month bills was set just 20bp above the previous auction. At the same time, for bills with nine-month and 12-month maturities, rates remained unchanged at 18.5%.

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

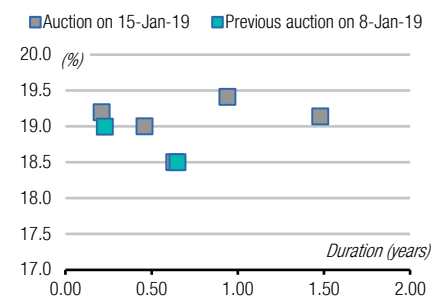
ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000201370	0.00	@Mty	3-Apr-19	2,800,117	961.07	2,691.12	2,800.12	19.20	5,758.02
UA4000201768	0.00	@Mty	3-Jul-19	1,061,072	919.58	975.74	1,061.07	19.00	1,202.46
UA4000202295	0.00	@Mty	4-Sep-19	31,727	895.19	28.40	31.73	18.50	159.14
UA4000199913	15.70	SA	8-Jan-20	1,916,595	978.78	1,875.92	1,916.60	19.41	1,953.53
UA4000202469	17.25	SA	30-Sep-20	23,373	1,034.68	24.18	23.37	19.14	26.37
Total UAH				5,832,884		5,595.37	5,832.88		9,099.53
UA4000203202	0.00	@Mty	18-Apr-19	139,810	984.12	3,862.31	3,924.65	6.40	3,924.65
UA4000201453	0.00	@Mty	19-Jun-19	1,443	972.68	39.40	40.51	6.66	8,247.57
UA4000199491	5.40	SA	12-Feb-20	3,486	1,004.14	98.26	97.86	7.38	10,507.76
Total USD				144,739		3,999.97	4,063.01		22,679.98
UA4000199665	3.95	SA	5-Jun-19	3,946	1,002.50	126.74	126.42	4.55	6,616.22
Total EUR				3,946		126.74	126.42		6,616.22

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 28.07/USD, 32.04/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

An additional point should be made on the placement of bonds with longer maturities. The last time bills with maturities greater than one year were sold by the MoF in October 2018 when bills with 18 and 24-month maturities had cut-off rates of 18.5% and 17.25%, respectively. Yesterday, the Ministry offered a tenor between these two maturities, a 21-month bill with the maturity date at the end of September 2020. There were 10 bids for these bills, but the MoF accepted only five of them, which amounted

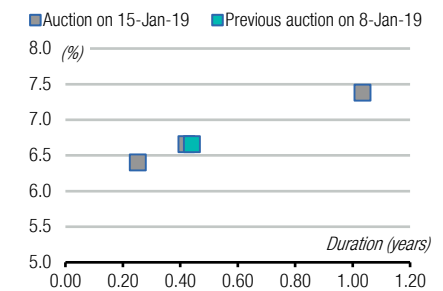
WEDNESDAY, 16 JANUARY 2019

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



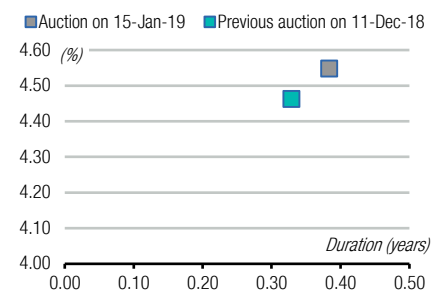
Source: Ministry of Finance of Ukraine, ICU.

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.

to just 1/6 of the demand. The interest rate was set at 18.25, closer to 18-month bills than to the two-year bills.

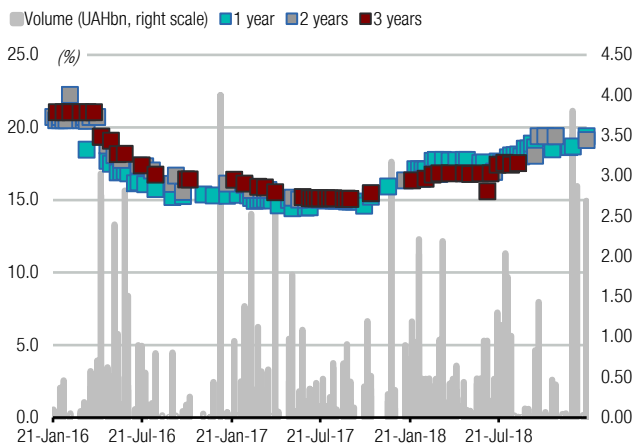
Also yesterday, the MoF sold FX-denominated bills. The most active offering was the three-month bill, which provided the main part of FX yesterday. Other bills also were sold, but at lower amounts. Interest rates were set close to previous auctions in the range of 6.5–7.25% for USD-denominated bills, and 4.6% for bills in euros.

With yesterday's decision to move up the yield-curve, the Ministry received about UAH10bn of funds and improved budget financing. But in FX, only part of today's repayments were refinanced. So, without new external financing soon, the MoF will need to borrow additional FX. This means the Ministry may increase rates for FX-denominated bills as well, while for local-currency bills, the yield-curve may remain steady at the current level.

Appendix: Yields-to-maturity, repayments

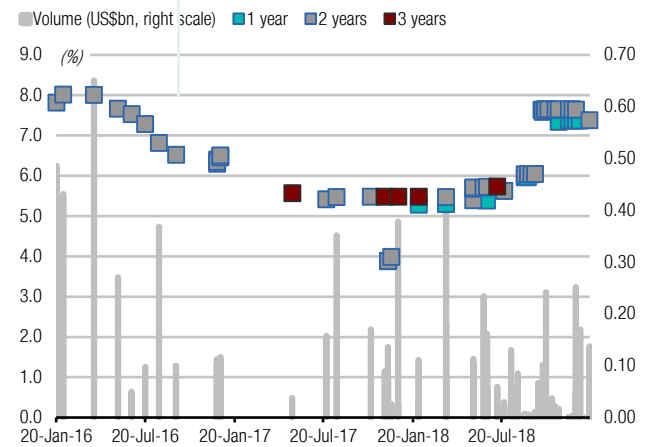
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

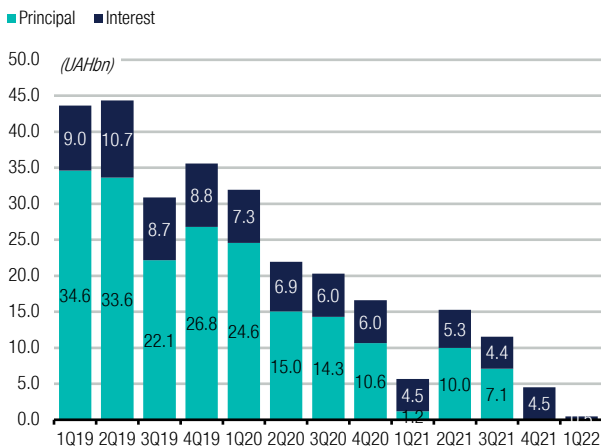
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

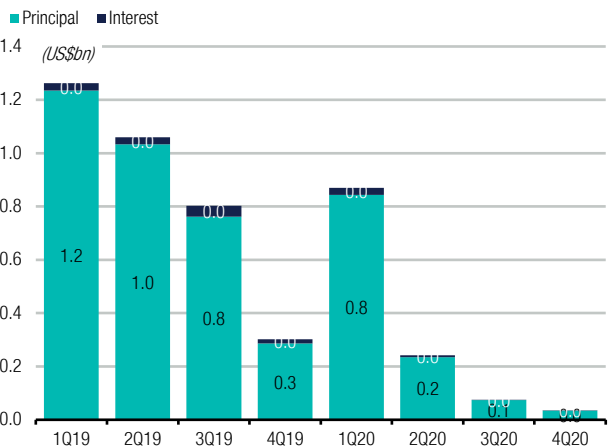
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

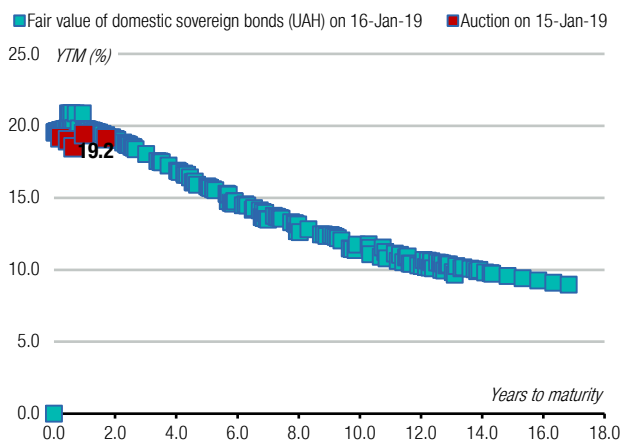
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

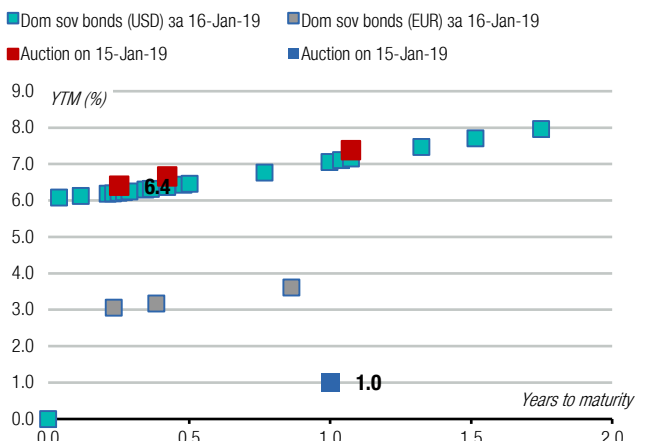
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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