

# Bond Market Insight

## Offering of zero-coupon bills

### Comment on government bond placement

At yesterday's auction, the MoF offered only zero-coupon bills with maturities of two, five, and 12 months. The MoF received UAH1.44bn of demand, accepted nearly two-thirds of it, and sold UAH948.2m of bonds at par value. Today, the MoF received UAH901.4m of budget proceeds.

The greatest demand was for 70-day paper for UAH911.6m, but the total offering was limited to UAH500m. Bids were submitted with interest rates ranging from 17.40–17.44%. The Ministry accepted small, non-competitive demand amounting to UAH25.3m. The rest of the offering was distributed among other bidders in proportion to their bids. As the result, each participant with a competitive bid received only part of their demand.

Five-month bills received UAH463.2m of demand, which was below the offered amount (also UAH500m). The lowest rate of demand was, at usual, 17.20%, but other demand was more expensive, with the highest rates down 25bp to 17.75%. Compared with last week's auction, when the MoF rejected more than 90% of demand for this paper, yesterday it decided to increase the cut-off rate by 25bp to 17.50%. The weighted-average rate rose by 18bp to 17.41%. This allowed the MoF to receive UAH417.6m of proceeds.

Rejected bids for five-month instruments and for 12-month bills could increase the amount of budget proceeds insufficiently, and increase total cost of yesterday's borrowings. But likely this would be unacceptable to the Ministry, as it would immediately result in an additional increase in interest rates in bids in the following auctions.

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

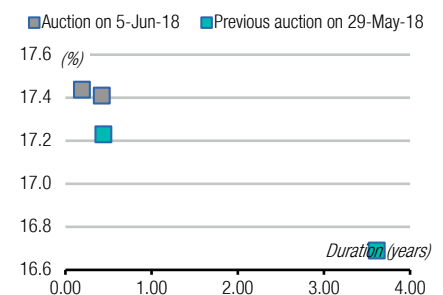
ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000200513	0.00	@Mty	15-Aug-18	500,000	967.64	483.82	500.00	17.44	1,618.94
UA4000200950	0.00	@Mty	7-Nov-18	448,236	931.57	417.56	448.24	17.41	632.73
<b>Total UAH</b>				<b>948,236</b>		<b>901.38</b>	<b>948.24</b>		<b>2,251.67</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 26.08/USD, 30.47/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Actually, one-third of today's debt repayments was refinancing, which is in line with recent weeks, and the focus of demand is being smoothly shifted to FX-denominated borrowings. Next week, we anticipate that more attention will be on FX-denominated instruments, with moderate demand for local-currency papers, and, consequently, partial acceptance.

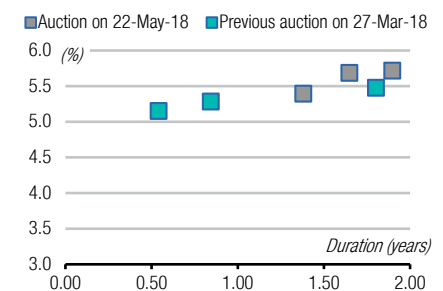
### WEDNESDAY, 6 JUNE 2018

#### 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

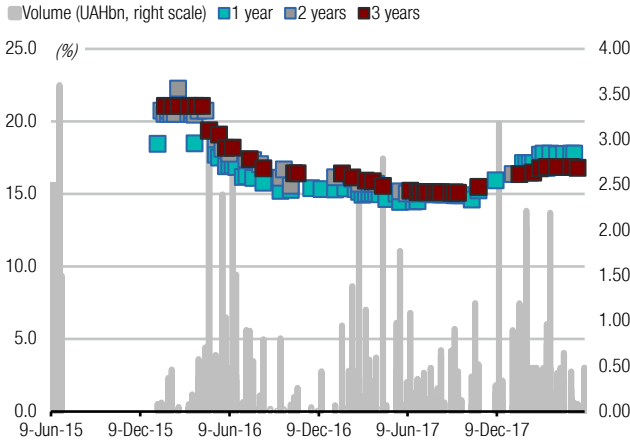


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

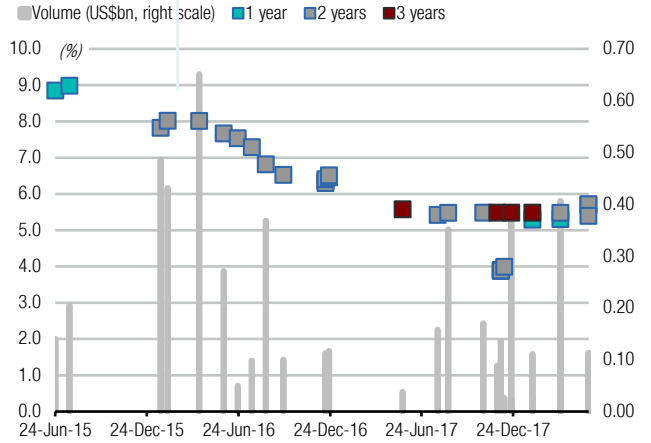
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

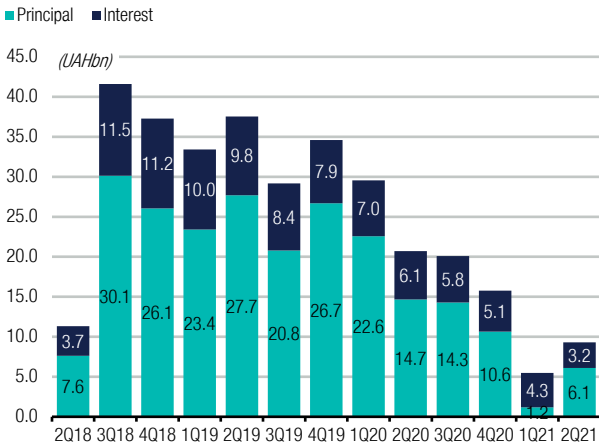
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

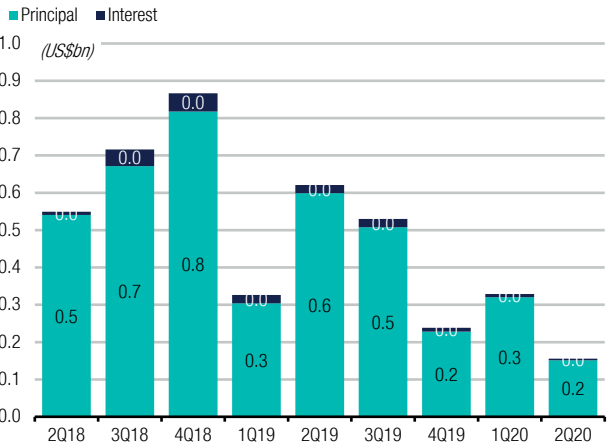
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

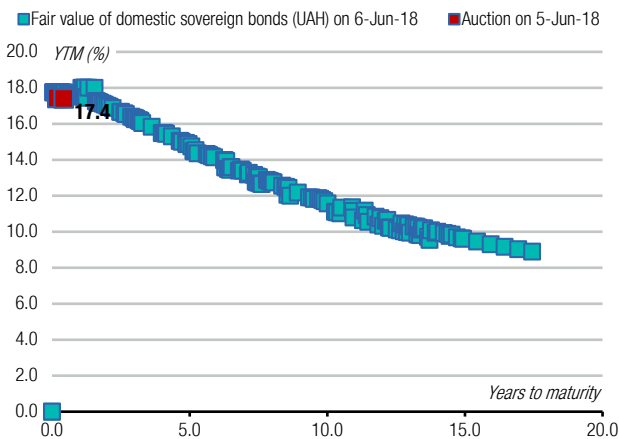
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

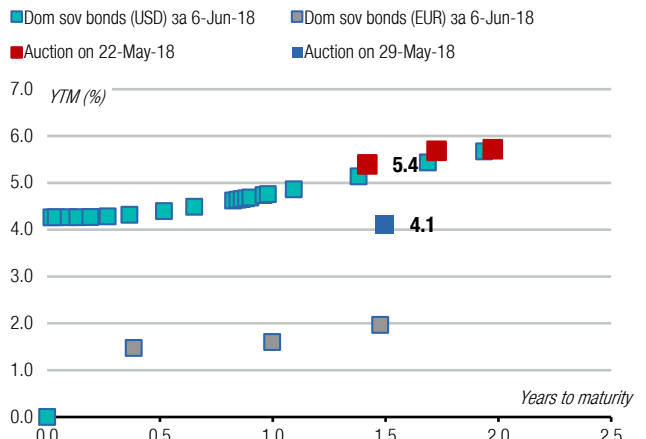
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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