

# Bond Market Insight

## Interest rates and volumes decline

### Comment on government bond placement

Demand was down threefold yesterday to UAH2.16bn and interest rates for some bonds declined significantly, enabling the MoF to satisfy nearly 70% of demand and receive UAH1.47bn of proceeds. With demand concentrated at the shortest 3-month and 6-month maturities, providing a majority of the budget proceeds, only UAH500m of each maturity was offered.

The 3-month bond received 15 bids for a total of UAH875.14m at interest rates from 15.89% to 17.00%, significantly wider than before. As more than UAH500m of bids were submitted at rates up to 16.00%, the MoF was able to decrease the cut-off rate by 50bp and accepted only six bids, including some non-competitive demand. Similarly, the 6-month bond received 21 bids for a total of UAH604.18bn at interest rates from 15.89% to 17.00%. In this case, the MoF's 16.50% remained unchanged, but the weighted-average rate declined to 16.24%.

The MoF set no limits for the other offerings, but demand was low. For the 9-month, the cut-off rate was 16.50% and for the 12-month, 16.40%, both unchanged from previous auctions. The 2-year bond's cut-off rate was increased to 15.80%, with the MoF accepting bids at 15.74%-15.80% and rejecting those up to 16.50%. The cut-off rate was increased to the same level as the 5-year bond sold two weeks ago.

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

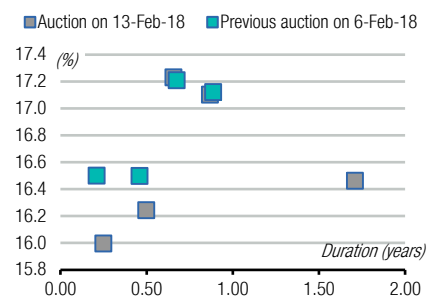
ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000200505	0.00	@Mty	16-May-18	500,000	961.65	480.82	500.00	16.00	500.00
UA4000200513	0.00	@Mty	15-Aug-18	500,000	925.07	462.54	500.00	16.24	500.00
UA4000176093	14.25	SA	24-Oct-18	132,080	1,029.00	135.91	132.08	17.23	2,857.36
UA4000178891	14.25	SA	9-Jan-19	130,205	996.01	129.69	130.21	17.10	2,412.27
UA4000196620	15.74	SA	15-Jan-20	262,000	1,010.92	264.86	262.00	16.46	2,567.87
<b>Total UAH</b>				<b>1,524,285</b>		<b>1,473.82</b>	<b>1,524.29</b>		<b>8,837.50</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 27.82/USD, 32.26/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

In implementing limits on the amount of short-term bonds, the MoF forced bidders to compete for bonds and decrease rates. However, some bidders rejected rates below 16.50%. Most likely, the cheapest demand was from non-residents who can accept lower rates as most of their CLN had coupon rates below 15%. Rates could decrease even further if demand from non-residents continues and the hryvnia's exchange rate remains stable.

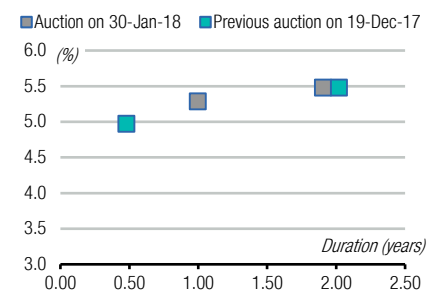
### WEDNESDAY, 14 FEBRUARY 2018

#### 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

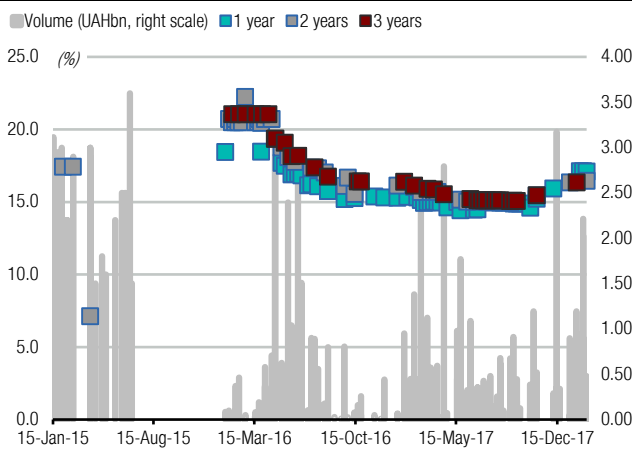


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

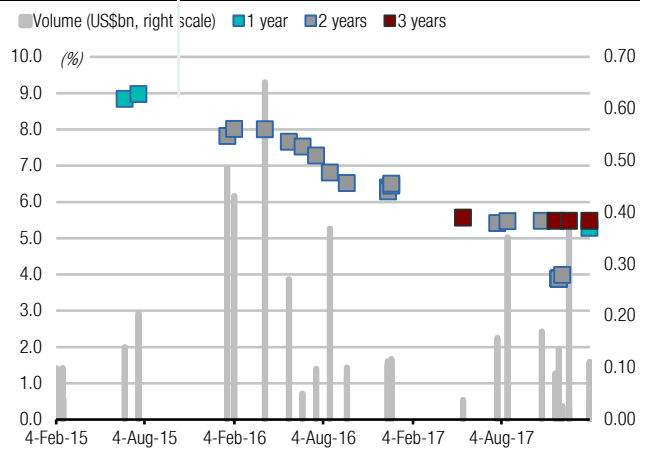
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

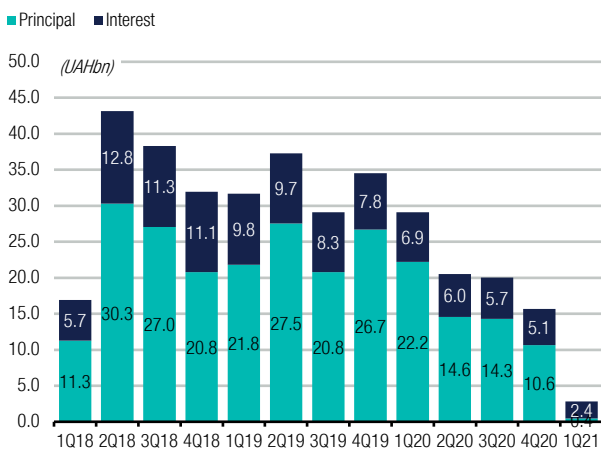
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

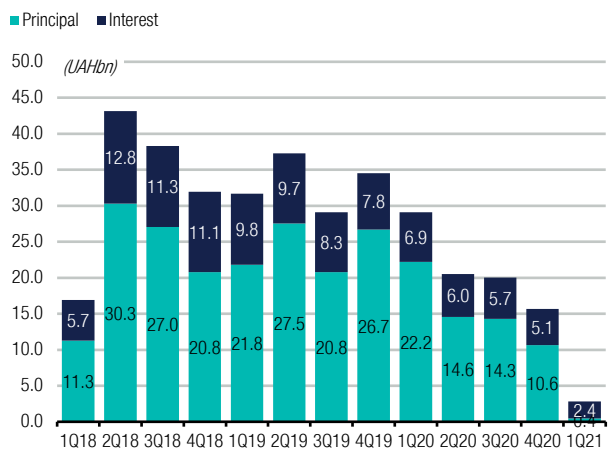
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

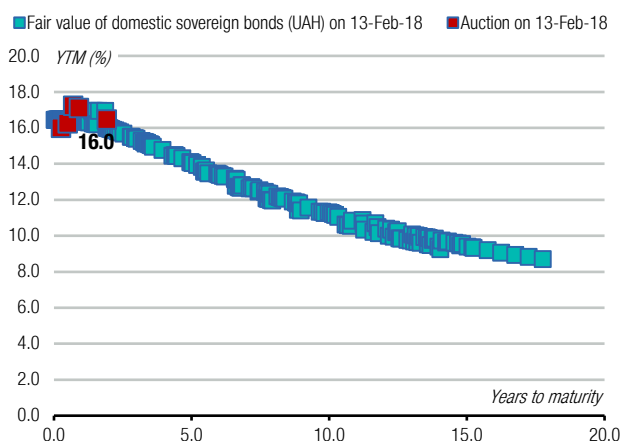
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

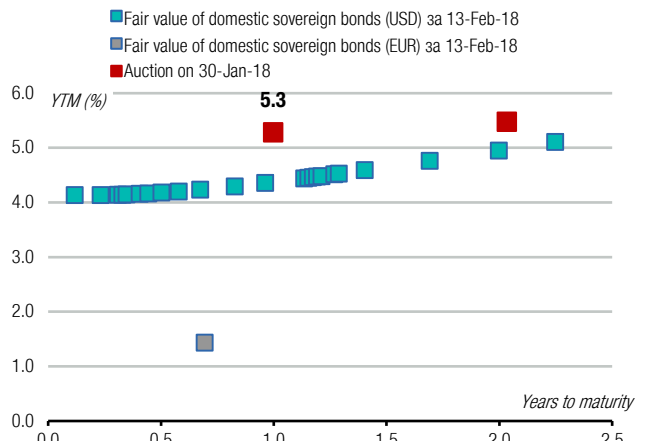
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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