

# Bond Market Insight

## Yield curve mostly unchanged

### Comment on government bond placement

Again concentrated on 3-month bonds, with the cut-off rate last week increased to 17.50%, demand was at the highest level of the yield curve at yesterday's primary auction. Most budget proceeds came from 12-month and 2-year maturities.

Per routine over the recent weeks, the MoF limited the offerings to UAH500m for the 3-month and 6-month bonds. It accepted 10 out of 11 bids for the 3-month bond but only half of the demand at par value. Interest rates for 3-month bonds came in at 17.30-18.00%, from which the MoF rejected only one bid at the highest rate as it accepted the full amount at interest rates below the cut-off rate of 17.50%. It accepted partial bids of the cut-off rate until it hit the limit of UAH500m.

**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>
UA4000200653	0.00	@Mty	6-Jun-18	500,000	961.42	480.71	500.00	17.44	684.45
UA4000200661	0.00	@Mty	5-Sep-18	92,589	924.64	85.61	92.59	17.00	236.84
UA4000200604	0.00	@Mty	28-Nov-18	11,000	892.36	9.82	11.00	17.00	469.60
UA4000197081	15.09	SA	6-Mar-19	237,393	986.18	234.11	237.39	17.77	1,128.16
UA4000196620	15.74	SA	15-Jan-20	265,000	1,018.01	269.77	265.00	16.80	2,932.87
<b>Total UAH</b>				<b>1,105,982</b>	<b>1,080.02</b>	<b>1,105.98</b>			<b>5,451.92</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.

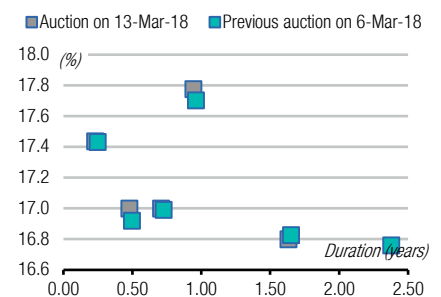
For other bonds, demand was much lower. The MoF accepted only partial demand at interest rates no higher than last week's cut-off rates. For bonds with maturity from six to 12 months, the cut-off and weighted-average rates were set at 17.00%. While the MoF accepted all bids in full at this rate for the 12-month bond, it rejected most demand for 6-month and 9-month bonds at this rate.

Only for the 2-year bond did the MoF decrease the cost of funds. Receiving two competitive bids at 16.10% and 17.00%, the MoF accepted one at the lowest rate and also accepted a non-competitive bid which fulfill 90% of demand.

The MoF rejected UAH0.50bn of possible budget financing to maintain last week's yield curve. Considering the new interest rates in these bids, this decision was a bit late. Had this occurred last week, the yield curve could have been locked with the new key policy rate.

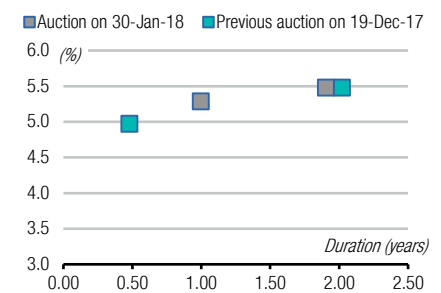
### WEDNESDAY, 14 MARCH 2018

#### 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

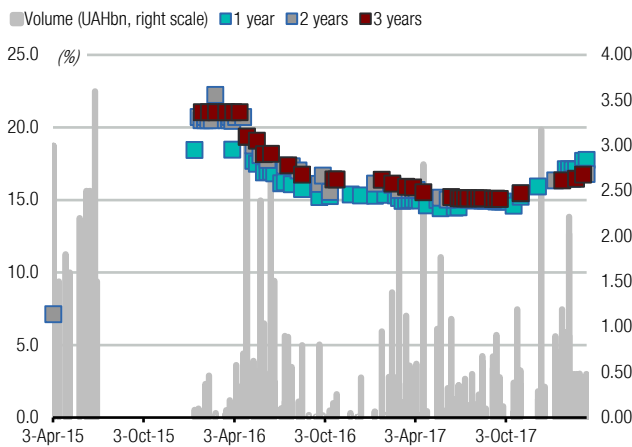


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

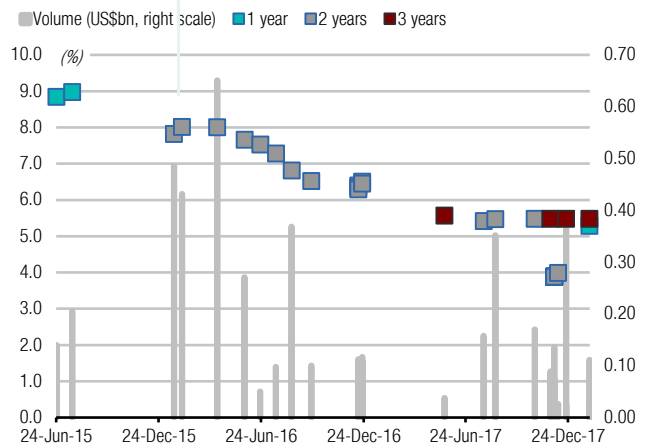
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

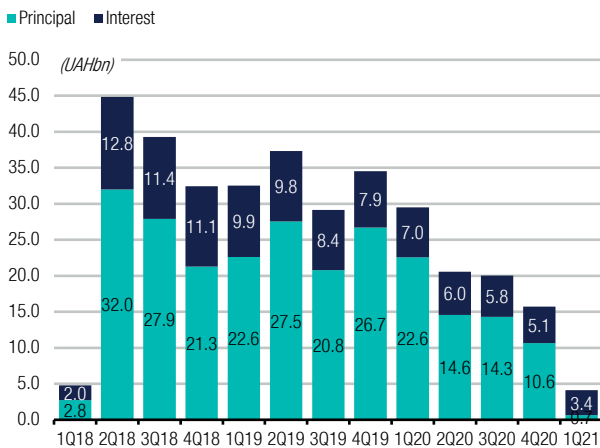
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

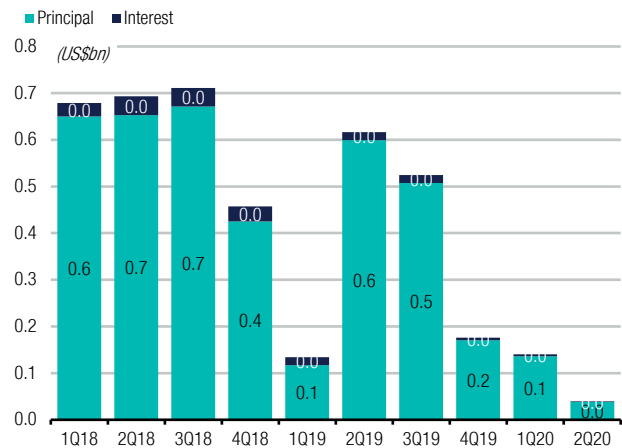
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

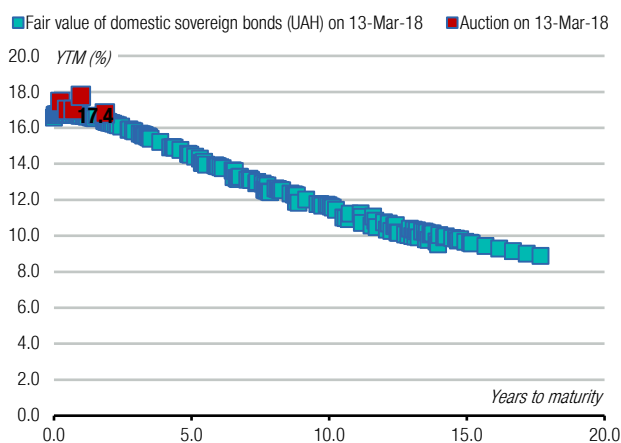
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

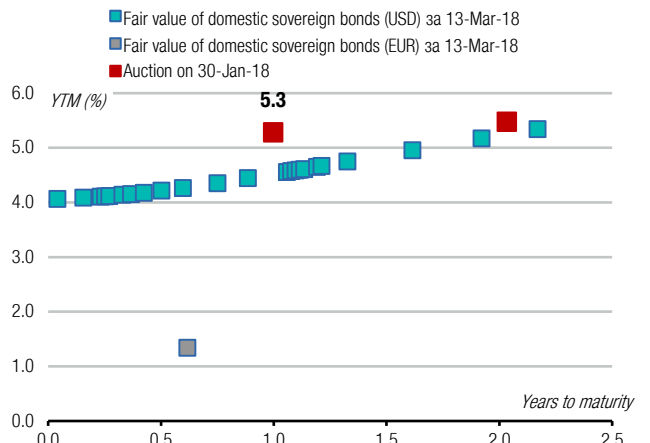
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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