

Bond Market Insight

Demand remains low

Comment on government bond placement

This week, primary auction demand hit below UAH500m (par value). After rejecting some bids, the state budget received only UAH455.1m. The MoF changed interest rates just by a few basis points.

Demand for 6-month bonds was the lowest, at UAH16.6m, but the MoF accepted only three out of seven bids and borrowed only UAH4.2m. Interest rates in bids ranged from 17.1% to 17.5%, of which the MoF accepted only bids at 17.1%. It increased the cut-off and weighted-average rates by 10bp, and accepted all non-competitive demand.

At the same time, for 11-month bonds the MoF kept the cut-off rate at the previous level of 17.0% while the weighted-average rate declined 5bp to 16.95%, the lowest rate in bids for these bonds. Demand came from five bids with little being non-competitive. As the weighted-average rate slid to the level of the lowest rate in demand, it was mostly at this rate.

Also, 3-year bond demand was just UAH26.6m in competitive bids all at 16.15%, all of which were accepted.

In sum, the MoF borrowed UAH455.1m of new funds, covering only one-third of local currency debt redemption this week. Low demand could be due to the possible change of the key policy rate from 13 April and also an increase of cut-off rates at the primary auction to increase borrowing amounts. But the MoF probably will not rush to increase rate and could instead extend an FX-denominated bond offering.

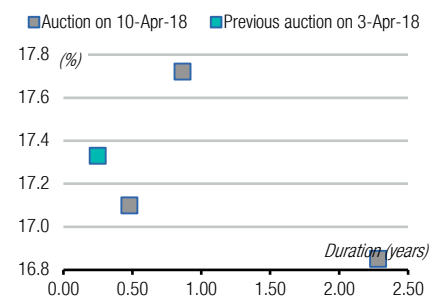
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000200778	0.00	@Mty	3-Oct-18	4,530	924.23	4.19	4.53	17.10	4.53
UA4000197081	15.09	SA	6-Mar-19	424,137	999.03	423.72	424.14	17.72	1,592.30
UA4000200174	15.70	SA	20-Jan-21	26,567	1,022.68	27.17	26.57	16.85	609.53
Total UAH				455,234		455.08	455.23		2,206.36

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 26.46/USD, 32.45/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

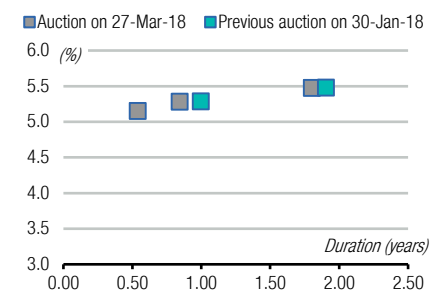
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

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

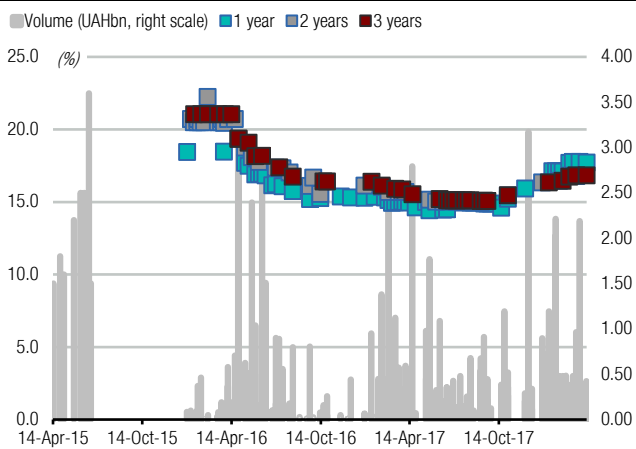


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

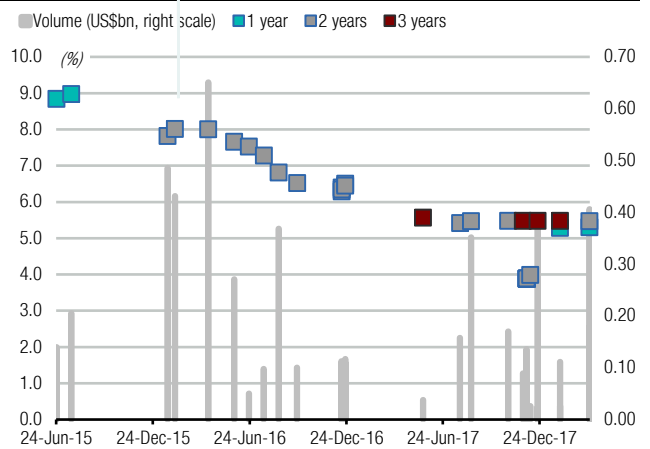
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

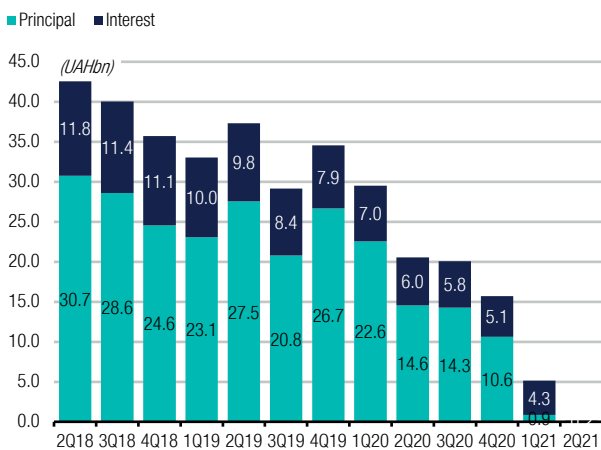
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

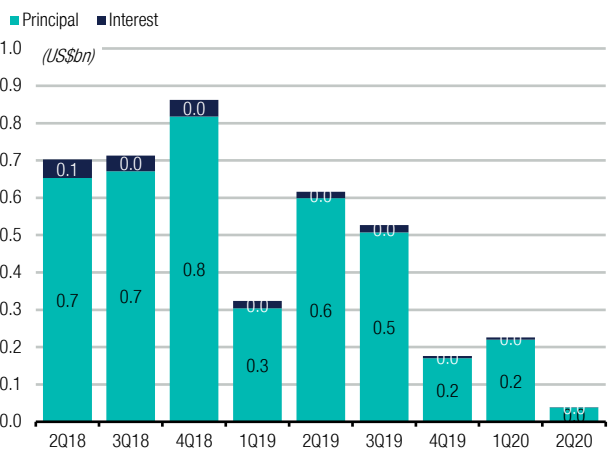
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

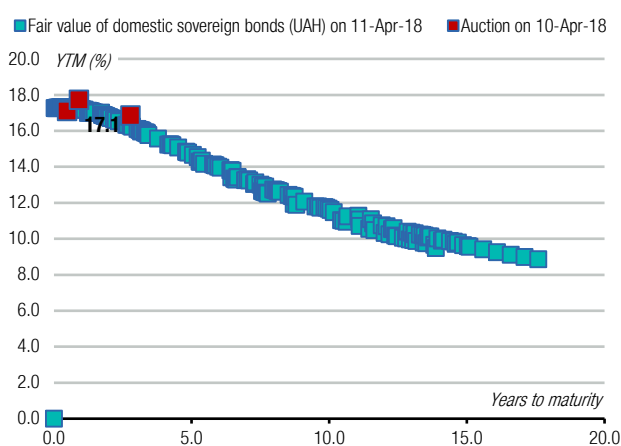
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

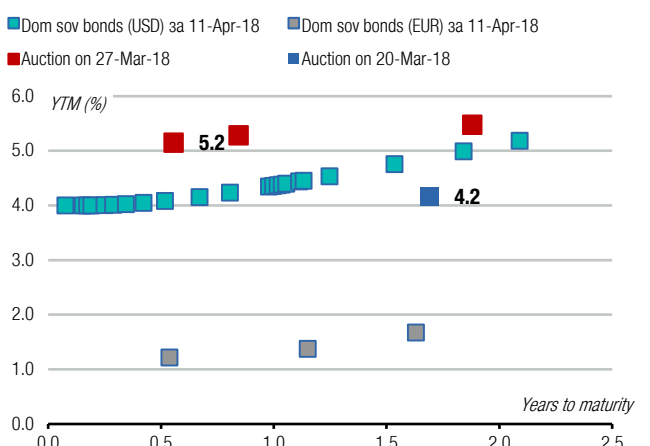
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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