

Bond Market Insight

Non-competitive demand share

Comment on government bond placement

Accepting 82% of demand and leaving the cut-off rates unchanged for most bonds, the MoF rejected only three (at higher rates) out of 22 bids at yesterday's auction. Total demand of UAH413m was equally divided among the offerings, the largest being for the 2-year bond.

6-month bond cut-off and weighted-average rates remained unchanged at 17.2%; only one bid at UAH20m with rate 5bp higher was rejected. For the 11-month bond, the MoF rejected only one bid for UAH5m at 5bp higher than the cut-off rate. The 9-month bond cut-off rate was unchanged, but the weighted average rate declined 3bp to 17.19% from last week. The MoF accepted all bids for this bond.

Only for the 2-year bonds did the MoF increase the rate by 5bp to 16.15% since the last auction of a similar maturity was held in March. The MoF rejected only one bid for UAH48m at 16.25%.

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
UA4000200950	0.00	@Mty	7-Nov-18	97,409	923.82	89.99	97.41	17.20	150.50
UA4000200968	0.00	@Mty	6-Feb-19	84,896	888.66	75.44	84.90	17.19	268.87
UA4000180426	14.30	SA	10-Apr-19	55,000	991.52	54.53	55.00	17.78	3,480.69
UA4000166805	14.30	SA	6-May-20	100,650	972.31	97.86	100.65	16.85	2,045.55
Total UAH				337,955		317.83	337.96		5,945.61

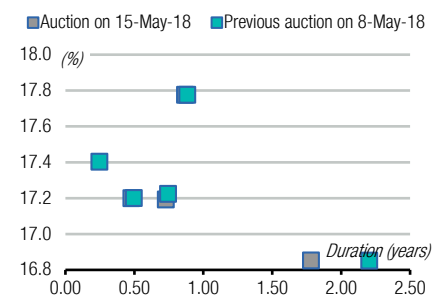
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.46/USD, 31.93/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Over the last two weeks, non-competitive demand rose to 36% of total demand; it had been as high as 45% at the beginning of April. Non-competitive bids were 44% of the accepted demand. In this type of bid, bidders hedge their risks from the MoF's unpredictable decisions to change the cut-off rate which would prevent them from getting a bond allocation.

While the MoF accepted more than 80% of demand, it received only UAH318m of budget proceeds, far below this week's UAH2bn in scheduled local currency debt repayments. As a result, while excess funds from debt repayments could be spent on FX purchases or current budget needs, they probably could be held back for next week's 3-month bond offering.

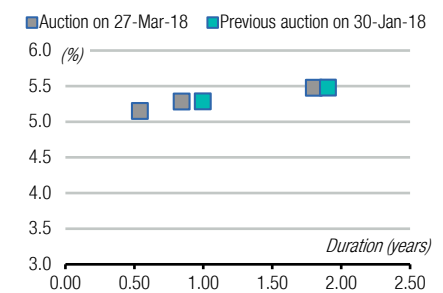
WEDNESDAY, 16 MAY 2018

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

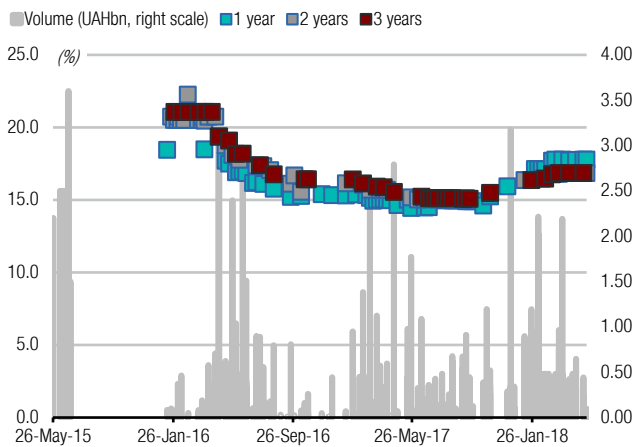


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

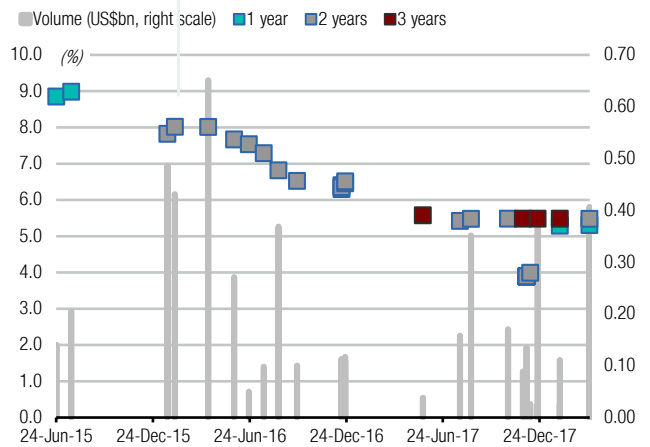
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

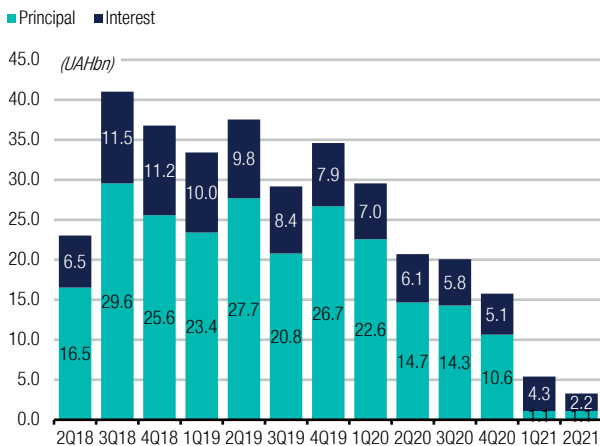
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

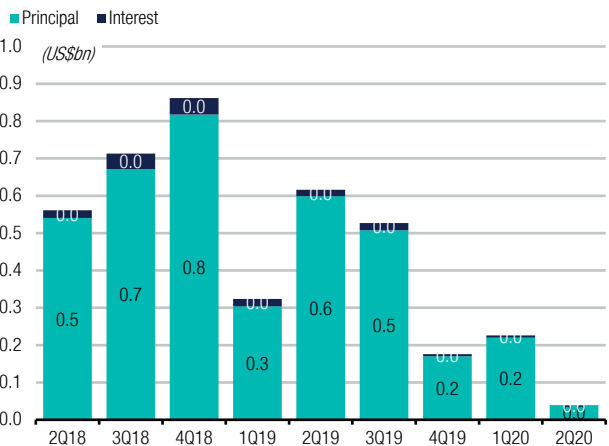
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

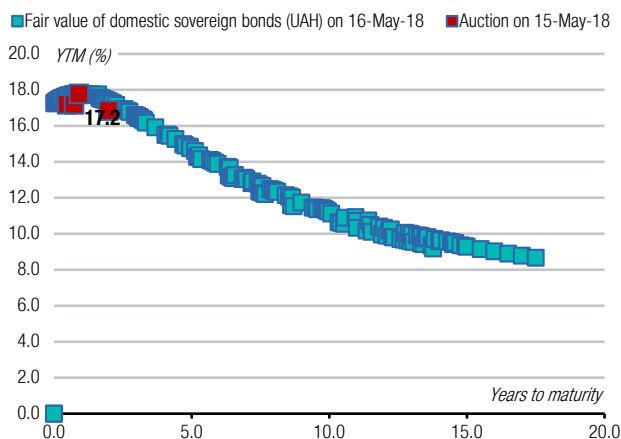
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

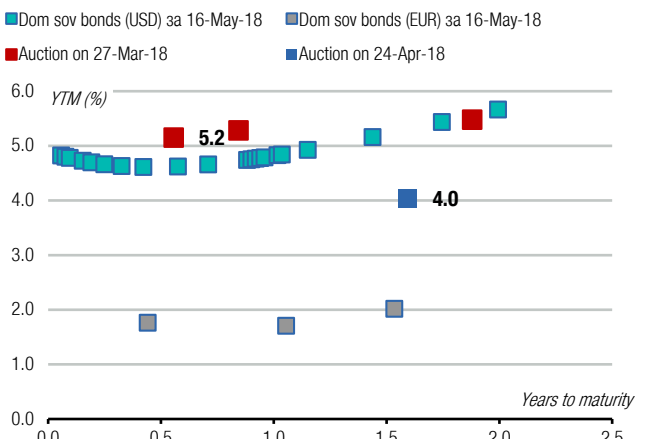
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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