

# Bond Market Insight

## MoF increases FX-denominated

### Comment on government bond placement

In response to low demand for local currency bonds, the MoF amended the auction schedule to offer FX-denominated bonds at higher interest rates.

The 3-month and 3-year local currency offering attracted less than UAH500m of demand, from which UAH165m at par value was sold. The budget received a similar amount of proceeds, equally divided between the two issues. The cut-off rate for the 3-month bond remained unchanged at 17.44% while the weighted-average rate rose 1bp to 17.41%, while the 3-year bond rate slid 5bp to 16.10%.

FX-denominated bond rates increased 20-25%. The 2-year bond's cut-off rate was set at 5.65%, those maturing in February 2010 – at 5.60%, and the 1.5-year bond rate was unchanged at the usual 5.40%.

The MoF raised more than UAH7bn of budget financing, a very large amount for recent months. Considering the FX needs for debt repayments, new borrowings will be spent on current budget needs, and FX will be purchased by the NBU for FX reserves.

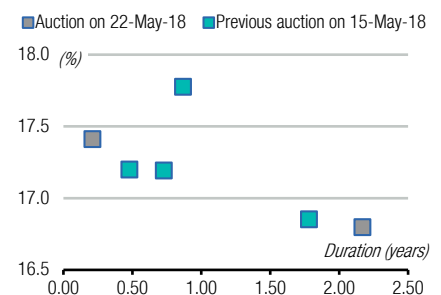
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

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>
UA4000200943	0.00	@Mty	8-Aug-18	85,794	964.57	82.75	85.79	17.41	547.16
UA4000200174	15.70	SA	20-Jan-21	78,759	1,042.22	82.08	78.76	16.80	922.49
<b>Total UAH</b>				<b>164,553</b>		<b>164.84</b>	<b>164.55</b>		<b>1,469.65</b>
UA4000199244	5.40	SA	23-Oct-19	57,640	1,005.34	1,509.25	1,501.23	5.39	5,937.06
UA4000199491	5.40	SA	12-Feb-20	100,164	1,011.34	2,638.36	2,608.77	5.68	8,338.25
UA4000197396	5.49	SA	13-May-20	113,238	998.60	2,945.16	2,949.28	5.72	3,941.13
<b>Total USD</b>				<b>271,042</b>		<b>7,092.77</b>	<b>7,059.29</b>		<b>18,216.45</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 26.05/USD, 31.93/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

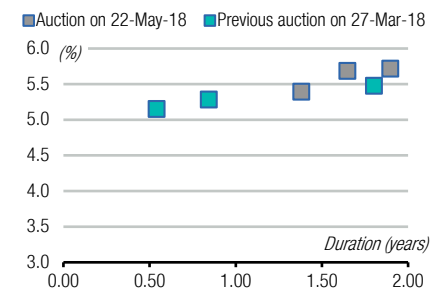
### WEDNESDAY, 23 MAY 2018

#### 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

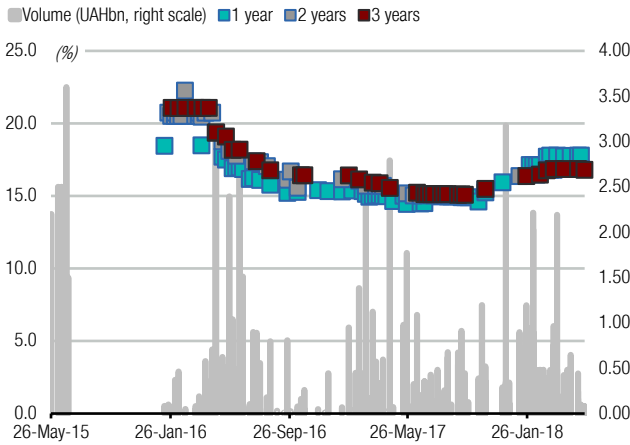


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

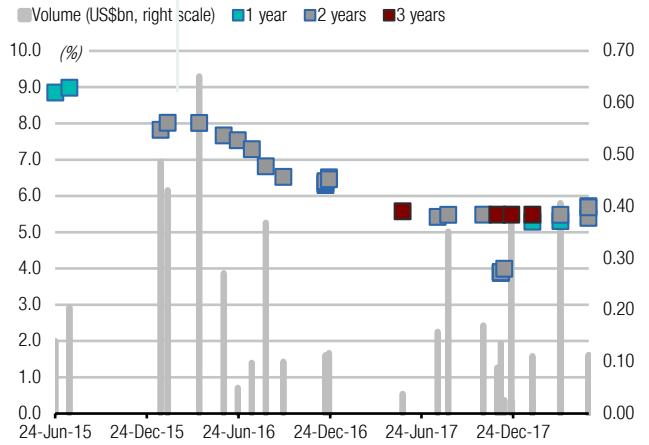
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

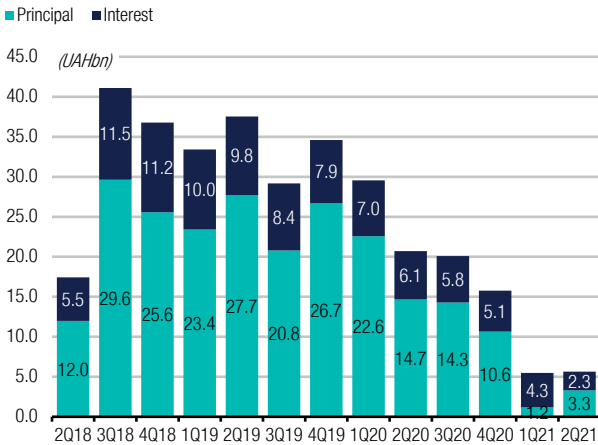
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

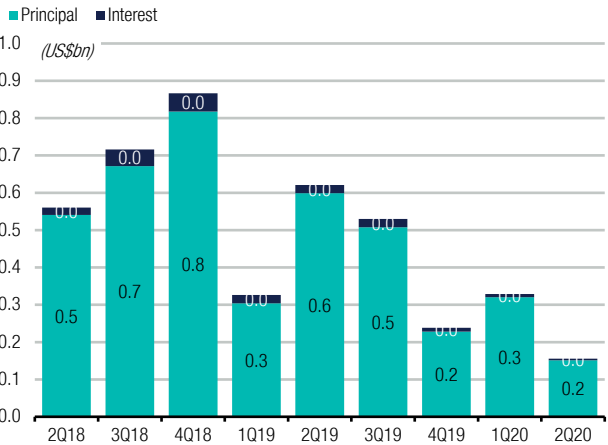
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

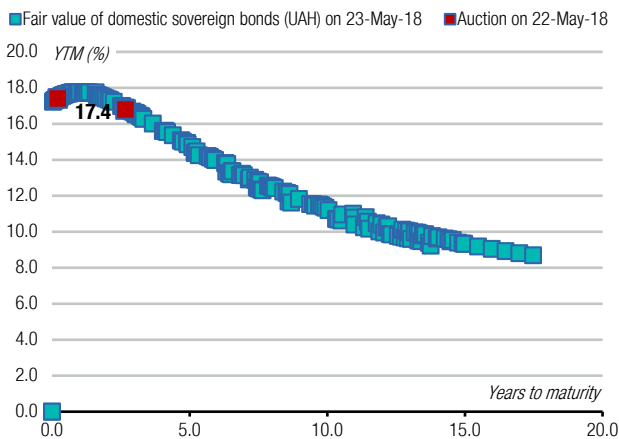
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

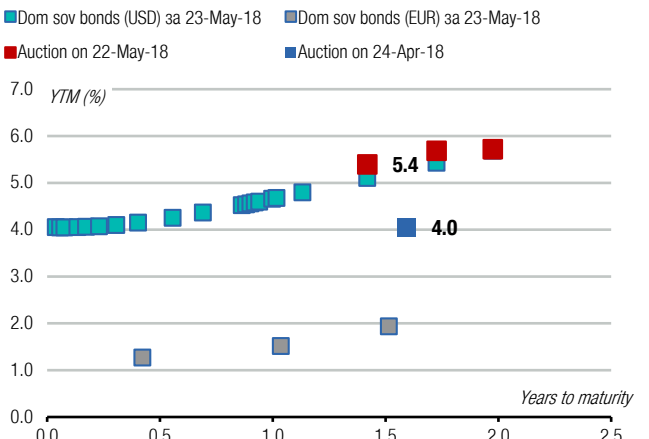
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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