

Bond Market Insight

Slight changes in rates

Comment on government bond placement

Yesterday's demand was expectedly concentrated at FX-denominated paper, which allowed the MoF to refinance all of June's principal repayments and interest payments. Interest rates for all bonds in local and FX saw slight changes by a few basis points.

Demand for local-currency instruments amounted to UAH1.6bn, most of which was accepted. The Ministry rejected just four bids out of the 17 received. Two non-competitive bids for 12-month and two-year bills were rejected due to lack of competitive demand for these issues.

For two-month and nine-month paper, cut-off rates slid 1bp to 17.43% and 17.29%, respectively. For five-month bills, the cut-off rate slid 5bp to 17.20%.

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

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000200661	0.00	@Mty	5-Sep-18	135,026	964.58	130.24	135.03	17.41	871.86
UA4000200604	0.00	@Mty	28-Nov-18	1,027,812	929.48	955.33	1,027.81	17.20	5,281.08
UA4000201370	0.00	@Mty	3-Apr-19	421,135	880.32	370.73	421.14	17.29	496.99
Total UAH				1,583,973	1,456.31	1,583.97			6,649.93
UA4000201446	0.00	@Mty	27-Feb-19	167,450	965.48	4,274.54	4,427.38	5.18	4,427.38
UA4000201453	0.00	@Mty	19-Jun-19	63,550	949.03	1,594.62	1,680.26	5.39	1,680.26
UA4000197396	5.49	SA	13-May-20	82,952	1,002.59	2,198.92	2,193.25	5.73	6,194.15
Total USD				313,952	8,068.09	8,300.89			12,301.79

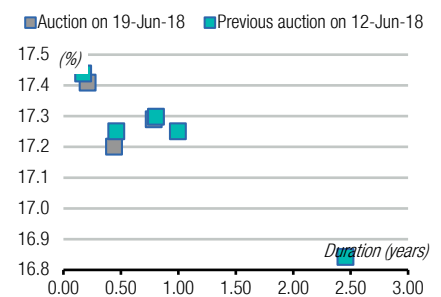
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.44/USD, 30.47/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

At the same time, for FX-denominated instruments, interest rates continued to rise. For bills with maturity in February 2019, the cut-off rate was set at 5.2%, similar to the yield-curve for March. The MoF sold USD-denominated bills with seven-month and 10-month maturities at 5.1% and 5.3%. For 12-month instruments, the cut-off rate was set at 5.4%, the same level as in March for two-year bills. At the same time, for two-year instruments, the cut-off rate was set at 5.65%, just 3bp higher than last week's auction, as expected.

The MoF received UAH9.5bn (including proceeds in FX at the NBU's exchange rate) and increased proceeds in FX received this month to US\$539m, or US\$8m more

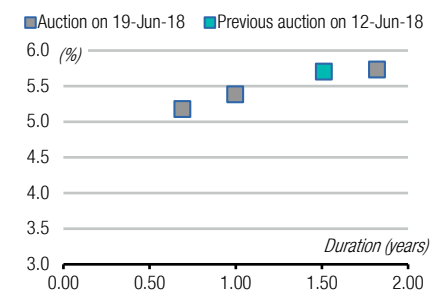
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



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.

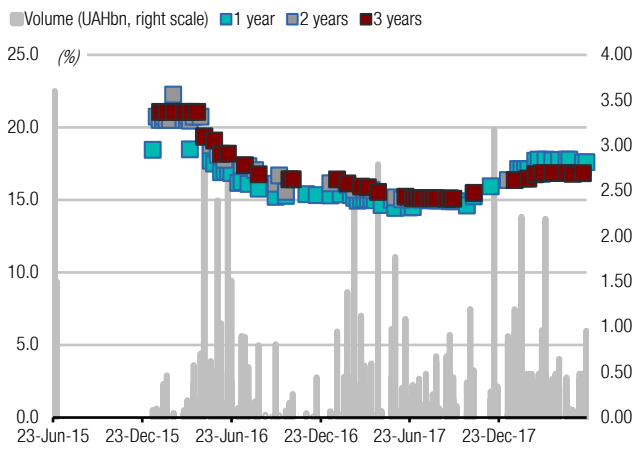
than principal repayments during June. So, the impact to FX-accounts will be insufficient due interest payments in FX.

Next week, the MoF has scheduled only offerings of local-currency instruments. Demand is expected to be moderate due to the low amount of repayments, which are slightly above UAH1bn. Demand is unlikely to exceed UAH1bn, and interest rates should be steady. Of course, the MoF can announce additional offering of USD-denominated bonds to accumulate funds for future debt repayments in July.

Appendix: Yields-to-maturity, repayments

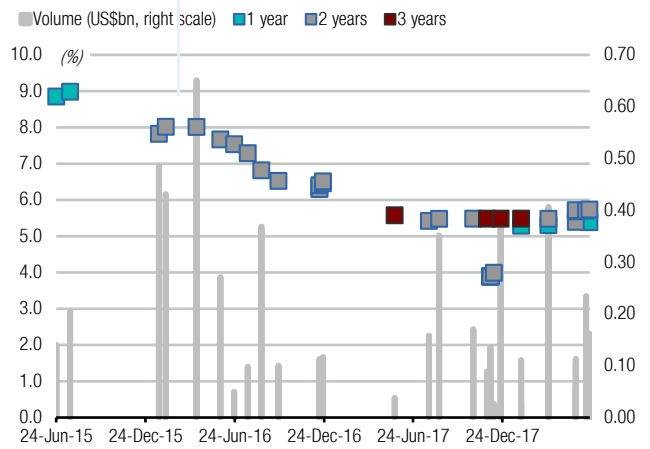
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

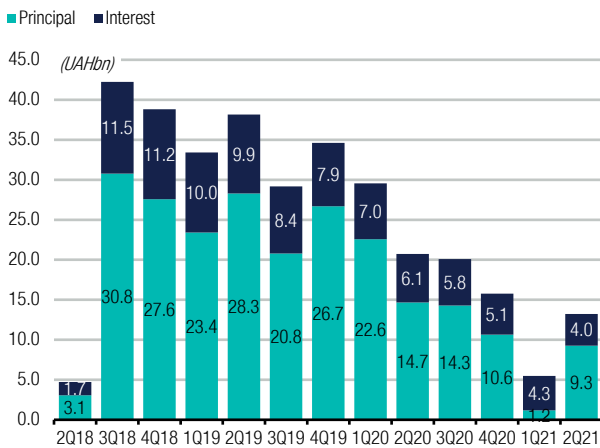
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

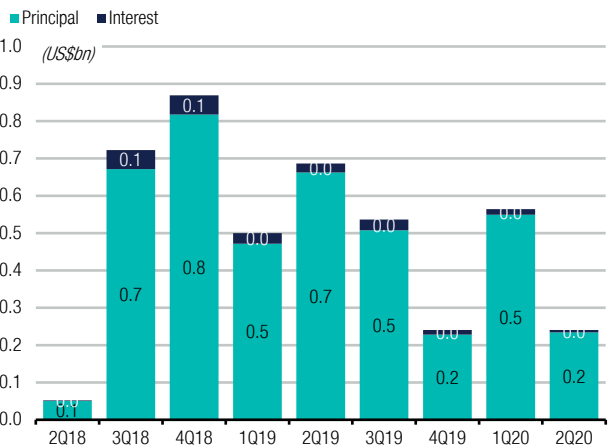
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

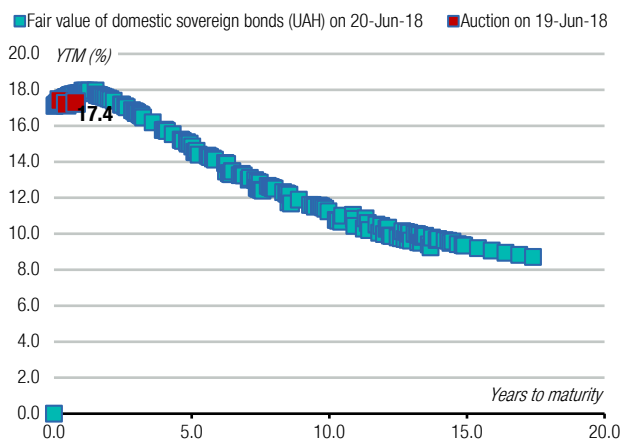
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

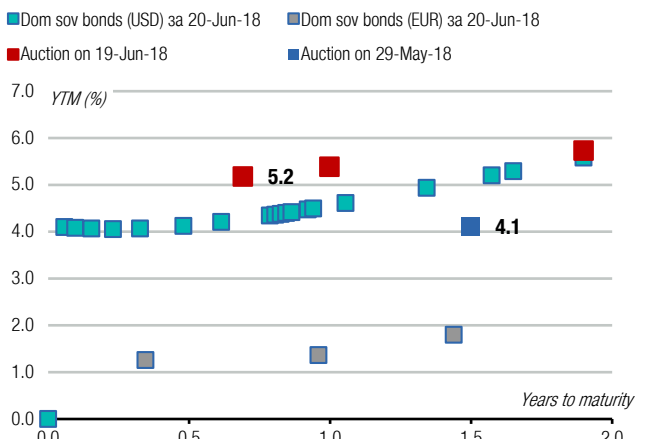
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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