

# Bond Market Insight

## Restrained activity

### Comment on government bond placement

As expected, the regular primary auction, a few days away from the NBU's board meeting on monetary policy, was very restrained for local-currency bills, which also spread to FX-denominated paper. Total demand was UAH16m and US\$21m, respectively. The MoF accepted all bids for local-currency paper, and more than half of demand for FX-denominated bills.

Hryvnia-denominated bills were sold at the usual 18% rate, including the 12-month instrument for which the MoF hiked the rate by 10bp compared with a week ago. The state budget will get approximately UAH15m of proceeds, the lowest amount this year.

For USD-denominated bills, the MoF decided to accept only part of demand. Most likely, only one competitive bid was accepted for each instrument, and non-competitive demand—bids that were submitted without rates since the bidders were ready to buy bills at any rate—made up the difference. This indicates that FX-denominated bills are more attractive than local-currency bonds, especially when the hryvnia sufficiently weakens. The Ministry kept cut-off rates below 6%, which it tried to maintain in the local market.

So, prior to the review of the key rate, and given the high probability of an increase, demand for local-currency bills declined, but bids were submitted for all offered paper. Remember that in July, due to negative inflation expectations, most members of the monetary committee voted for a larger increase in the key rate than the NBU board did, so a new hike is very likely this week. This could result in increased demand for local-currency bills next week.

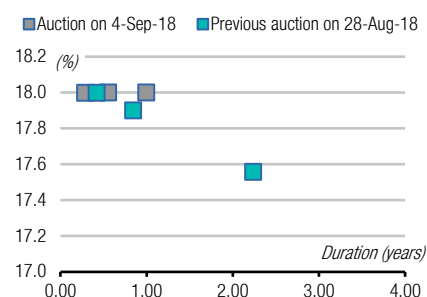
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

| 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> |
|------------------|-----------------|--------------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000202055     | 0.00            | @Mty                           | 19-Dec-18 | 7,099             | 950.77      | 6.75                         | 7.10                       | 18.00                | 1,109.57                     |
| UA4000202287     | 0.00            | @Mty                           | 27-Mar-19 | 2,146             | 909.00      | 1.95                         | 2.15                       | 18.00                | 2.15                         |
| UA4000202295     | 0.00            | @Mty                           | 4-Sep-19  | 7,390             | 847.81      | 6.27                         | 7.39                       | 18.00                | 7.39                         |
| <b>Total UAH</b> |                 |                                |           | <b>16,635</b>     |             | <b>14.97</b>                 | <b>16.64</b>               |                      | <b>1,119.11</b>              |
| UA4000201453     | 0.00            | @Mty                           | 19-Jun-19 | 7,956             | 955.45      | 216.21                       | 226.30                     | 5.93                 | 2,033.88                     |
| UA4000201396     | 5.62            | SA                             | 15-Jan-20 | 4,992             | 1,003.38    | 142.47                       | 141.99                     | 6.04                 | 6,656.55                     |
| <b>Total USD</b> |                 |                                |           | <b>12,948</b>     |             | <b>358.68</b>                | <b>368.29</b>              |                      | <b>8,690.43</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 28.44/USD, 31.3/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

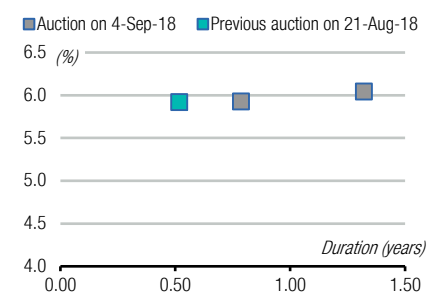
WEDNESDAY, 5 SEPTEMBER 2018

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



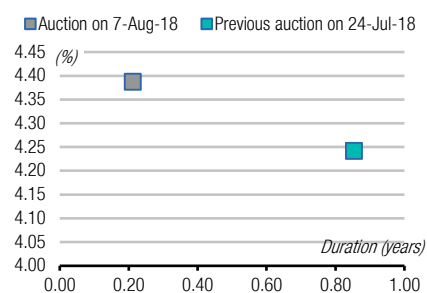
Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

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



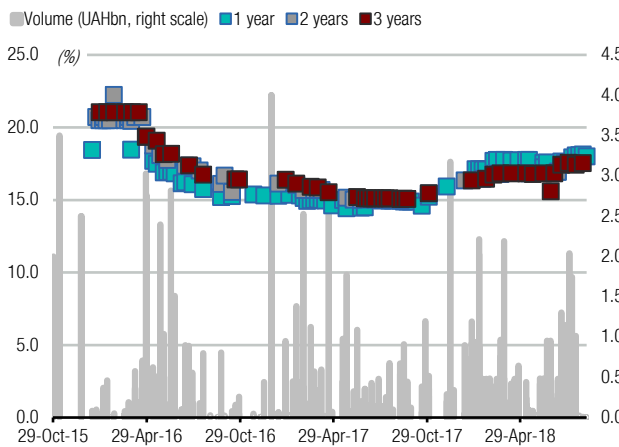
Source: Ministry of Finance of Ukraine, ICU.

This restrained activity spread to FX-denominated bills, but some bids were at higher rates than before. Bidders tried to move domestic FX-bonds yields closer to the recent Eurobonds issue, but did not offer large enough amounts at the new rates for this to happen. Next week, demand for FX-denominated bills could rise due to US\$100m of redemptions.

# Appendix: Yields-to-maturity, repayments

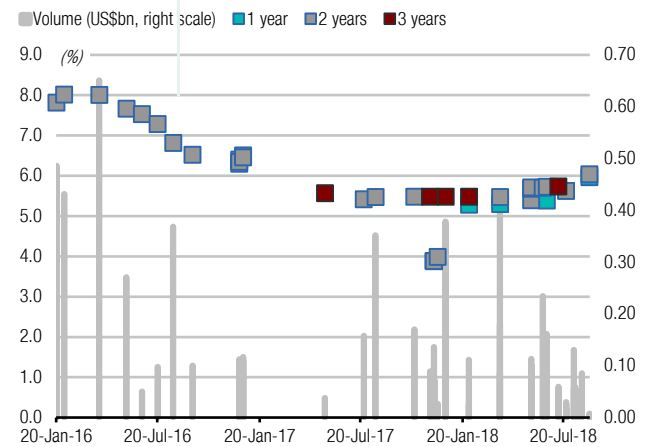
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

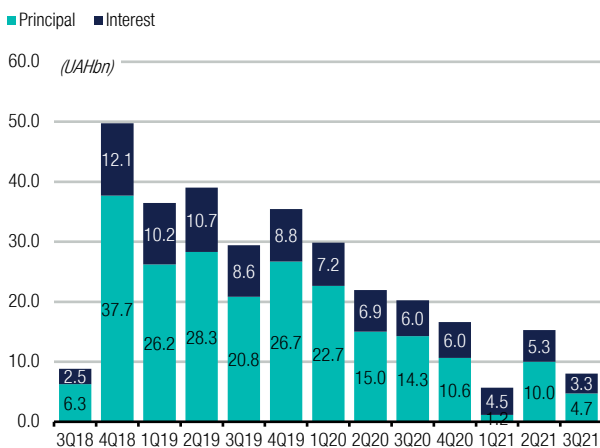
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

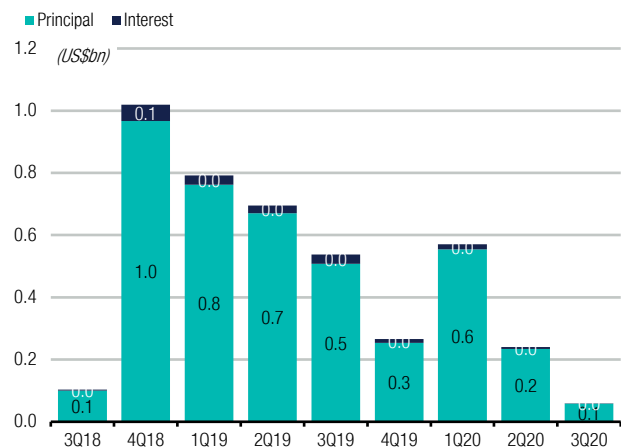
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

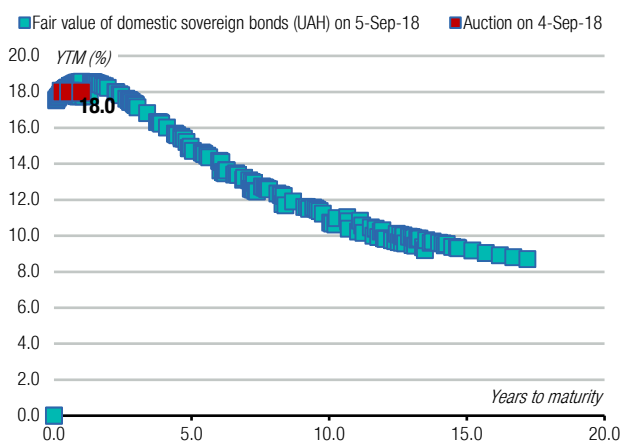
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

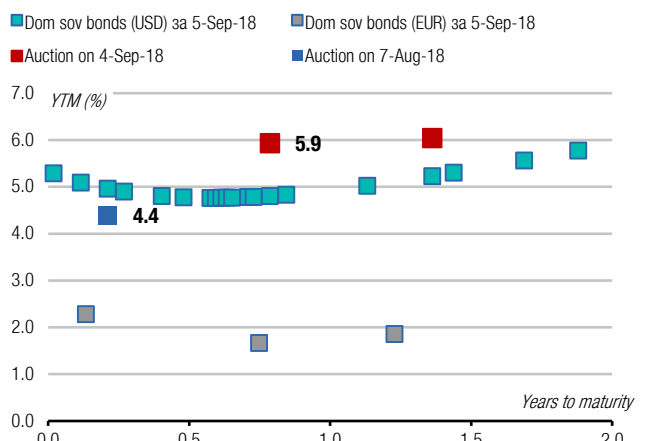
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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