

Bond Market Insight

Demand and yields up

Comment on government bond placement

The recent hike in the key rate pushed up interest rates for government bills, but the MoF's conservative view on accepting bids limited this increase to 50bp, the same as key-rate increase. Consequently, the majority of demand for hryvnia-denominated instruments was rejected.

Demand for local-currency paper amounted to UAH1.9bn, far greater than during recent weeks. However, the majority of this demand was submitted at rates significantly above the MoF's accepted level. For short-term bills with maturities up to one year, rates were up 50bp, similar to the key rate hike, and for all these instruments, the cut-off rate was set at 18.5%. Nonetheless, for the three-year paper, a single bid was submitted at 17.25%, 45bp above the auction two weeks ago, but it was rejected. Therefore, the MoF received just UAH134.6m in local currency, two times more than during the past three weeks.

For USD-denominated paper, the MoF once more refused to raise rates, rejecting some bids, and keeping cut-off rates at 5.95%. Only US\$10.3m of proceeds were received, and only a tenth of the repayments in FX were refinanced.

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

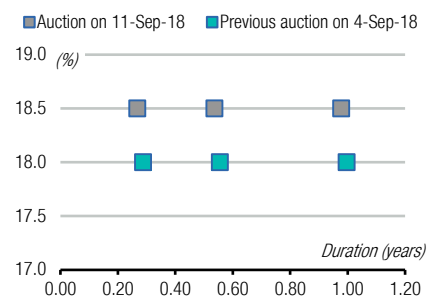
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000202055	0.00	@Mty	19-Dec-18	115,946	952.68	110.46	115.95	18.50	1,225.52
UA4000202287	0.00	@Mty	27-Mar-19	16,858	909.63	15.33	16.86	18.50	19.00
UA4000202295	0.00	@Mty	4-Sep-19	10,448	846.78	8.85	10.45	18.50	17.84
Total UAH				143,252		134.64	143.25		1,262.36
UA4000201453	0.00	@Mty	19-Jun-19	4,336	956.50	116.35	121.65	5.93	2,127.75
UA4000201743	5.65	SA	22-Jul-20	6,145	1,002.46	172.82	172.40	6.05	1,795.66
Total USD				10,481		289.18	294.04		3,923.41

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 28.06/USD, 31.3/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

In total, the Ministry refinanced part of debt repayments, especially in FX, which did not improve the situation with FX availability in government accounts for future debt repayments. At the same time, demand for local-currency bills rose. Part of the rejected demand could move to next week with changing interest

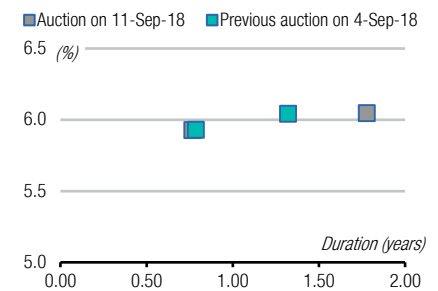
WEDNESDAY, 12 SEPTEMBER 2018

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



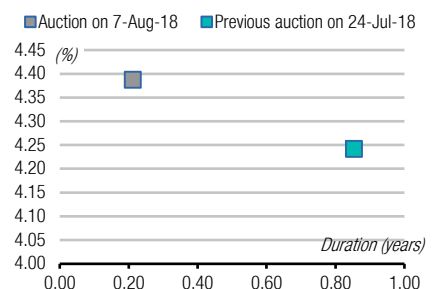
Source: Ministry of Finance of Ukraine, ICU.

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.

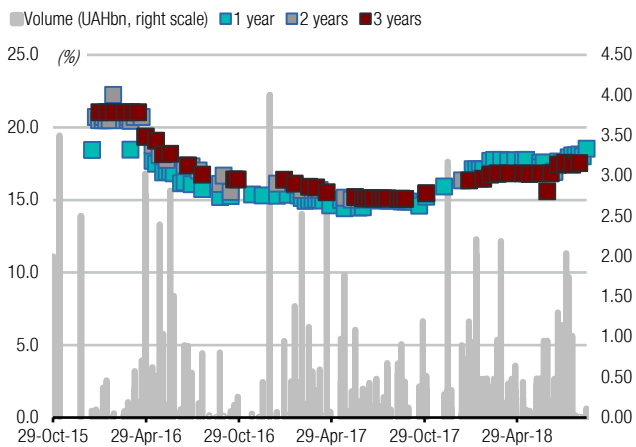
rates moving them to yesterday's cut-off rate.

As for FX-denominated bills, currently, the MoF is not ready for rates to increase due to low demand and possible budget proceeds. But they will continue to offer FX-denominated bills in anticipation refinancing repayments.

Appendix: Yields-to-maturity, repayments

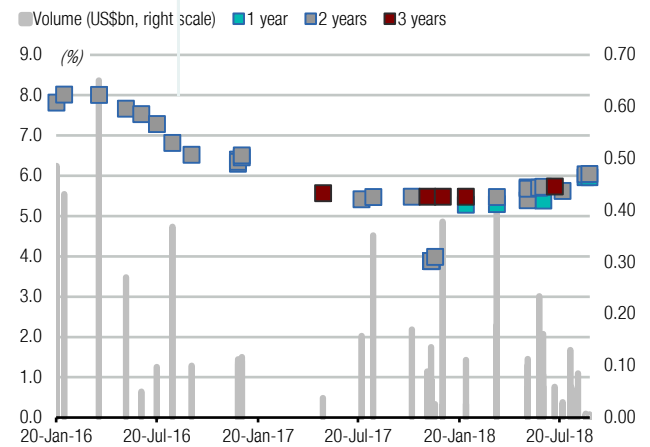
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

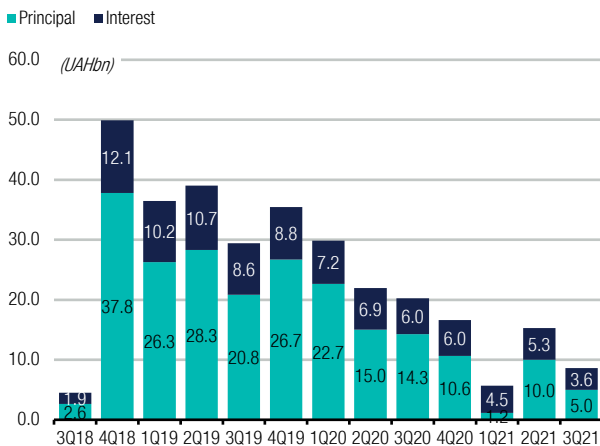
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

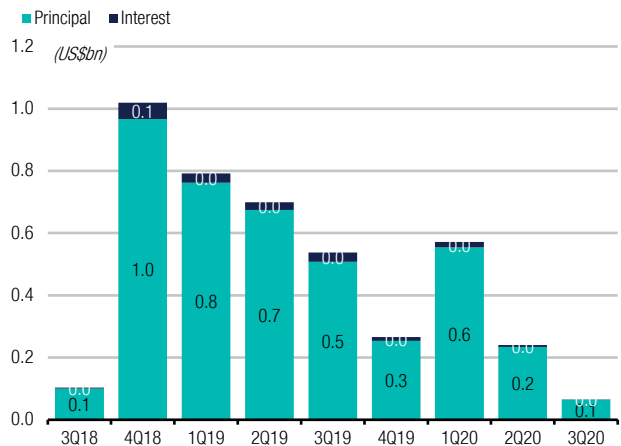
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

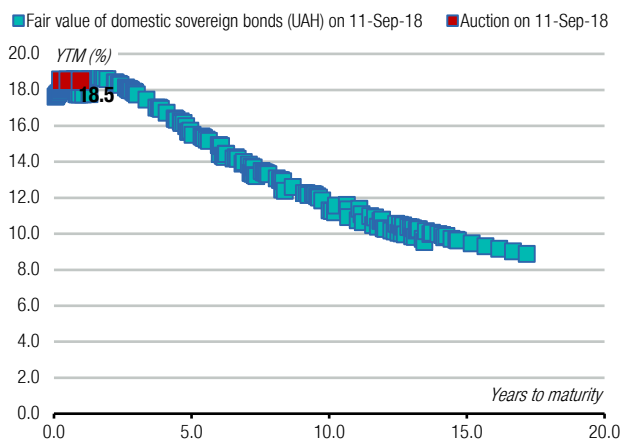
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

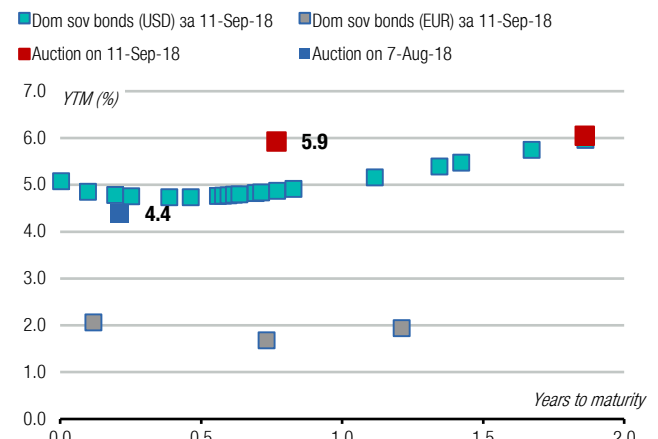
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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