

Bond Market Insight

Significant financing from FX-denominated bonds

Comment on government bond placement

Today's auction budget proceeds amounted to US\$4.56bn from 2-year local-currency and predominantly from FX-denominated bonds which were sold for the first time since the beginning of the year. Demand for FX-denominated bonds was quite high at US\$ 462.5m in 34 bids at 5.30%-5.50%. The MoF set the cutoff rate at 5.40%, or 10 bp below that of the 3-year FX-denominated bond sold in May. Only four bids for a total of US\$305.0m were rejected and the weighted average rate was 5.34%. Two-thirds of total demand was satisfied, raising US\$157.5m, fulfilling 30 bids, but about 80% of this volume was sold to non-competitive bidders.

As for the 2-year local currency bonds, demand amounted to US\$473.2m from four bids, which were all fulfilled at 14.46%, unchanged for two months. The volume of demand and borrowed money for the 2-year instrument was the highest seen for the period.

According to our estimates, the total volume of hryvnia debt principal and interest repayments this week is about UAH2bn, of which UAH1bn should be paid in favor of the NBU. The MoF refinanced about a quarter of all payments and half of the payments to market players. Taking into account the proceeds from the FX-denominated bonds sold, all debt repayments were refinanced and additional funds were attracted.

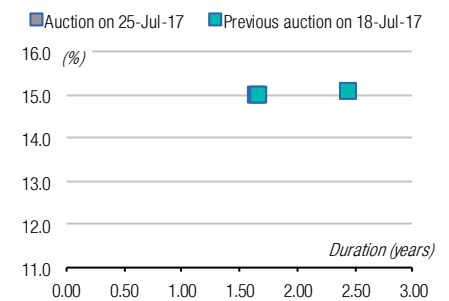
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000142137	14.13	SA	22-May-19	473,250	1,018.76	482.13	473.25	15.03	2,999.55
Total				473,250		482.13	473.25		2,999.55
UA4000198469	5.34	SA	10-Jul-19	157,564	1,002.17	4,080.28	4,071.45	5.42	4,071.45
Total				157,564		4,080.28	4,071.45		4,071.45

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 last price of USD/UAH exchange rate; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

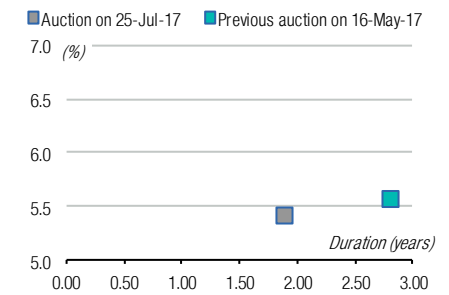
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

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

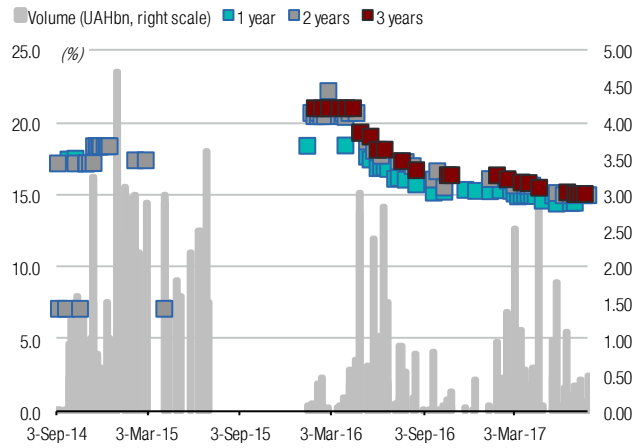


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

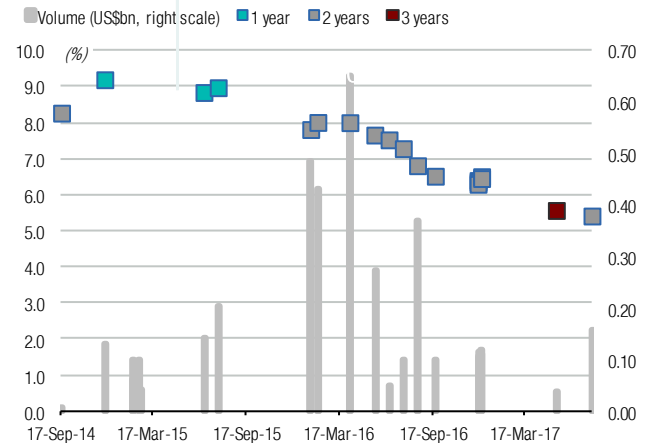
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

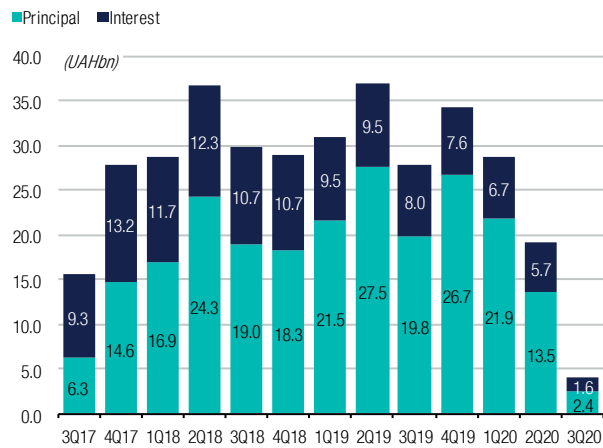
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

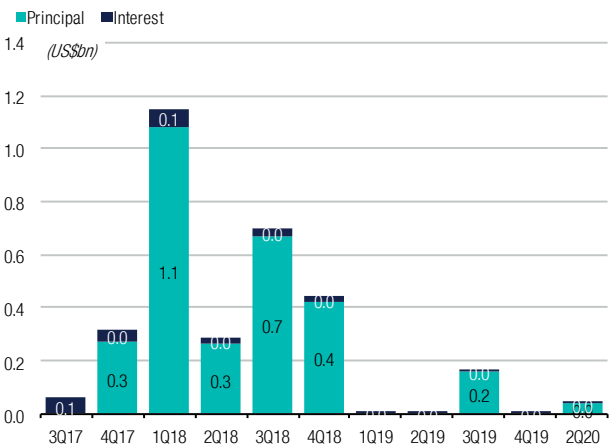
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

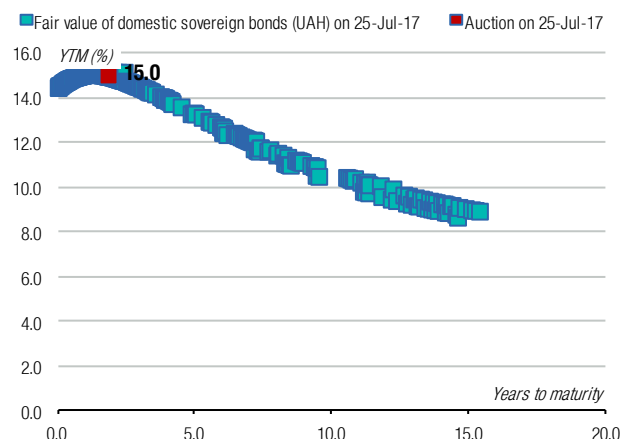
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

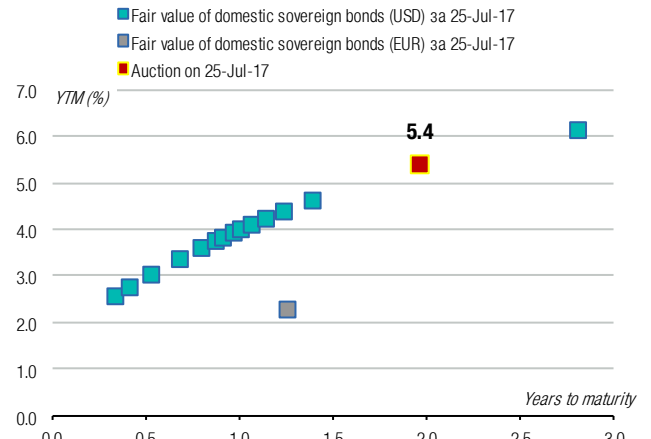
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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