

Bond Market Insight

FX-denominated bonds prevail

Comment on government bond placement

As expected, at this week's primary auction, FX-denominated bonds prevailed. They were offered in five issues; only two hryvnia bills were offered. The cut-off interest rates were changed for some issues, and the MoF received nearly UAH5bn of proceeds.

For the second time in a row, the MoF did not limit the offerings of the shortest maturities in the local currency, yesterday borrowing UAH1.1bn for 70 days at the same cut-off rate as a week ago, 18%. It accepted all bids for this maturity. Two-year bills were offered for the first time after the NBU increased its key rate, so interest rates for this maturity had to be increased, too, as it was for other maturities last week. The MoF accepted all bids, and collected UAH61m.

The MoF offered FX-denominated bonds with quite unusual maturities. USD-denominated bills were offered with maturities from 140 days to 19 months, and a euro-denominated bill with a 10-month maturity. All these instruments saw demand, but some bids were rejected. Nonetheless, the MoF had to increase the rate to refinance FX-denominated debt repayments.

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

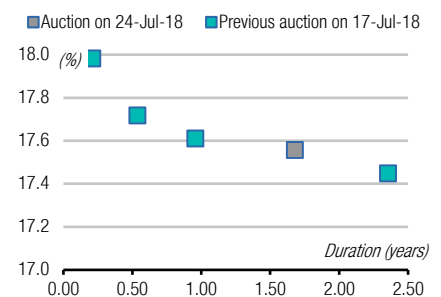
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000200778	0.00	@Mty	3-Oct-18	1,189,090	966.63	1,149.41	1,189.09	18.00	4,907.20
UA4000198006	14.64	SA	10-Jun-20	61,049	982.67	59.99	61.05	17.56	3,553.96
Total UAH				1,250,139		1,209.40	1,250.14		8,461.16
UA4000196190	6.40	SA	12-Dec-18	15,850	1,012.34	425.86	420.67	5.14	3,517.47
UA4000201446	0.00	@Mty	27-Feb-19	30,841	969.86	793.86	818.54	5.23	5,262.74
UA4000199244	5.40	SA	23-Oct-19	25,257	1,011.37	677.96	670.33	5.66	6,720.35
Total USD				71,948		1,897.68	1,909.54		15,500.55
UA4000199665	3.95	SA	5-Jun-19	60,301	1,003.29	1,876.56	1,870.41	4.24	4,770.58
Total EUR				60,301		1,876.56	1,870.41		4,770.58

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 26.54/USD, 31.02/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The MoF set cut-off rate for the shortest maturity in US dollars at 5.2%, for seven-month USD-denominated bills at 5.4%, and for 15-month instrument in US dollars at 5.55%. Bids with highest rates were rejected: the MoF did not accept bids for 140-days and seven-month bills, which had rates up to 5.5% and 5.65%, respectively.

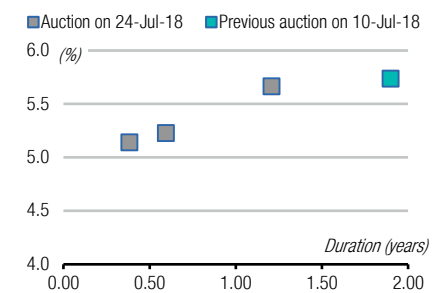
WEDNESDAY, 25 JULY 2018

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.

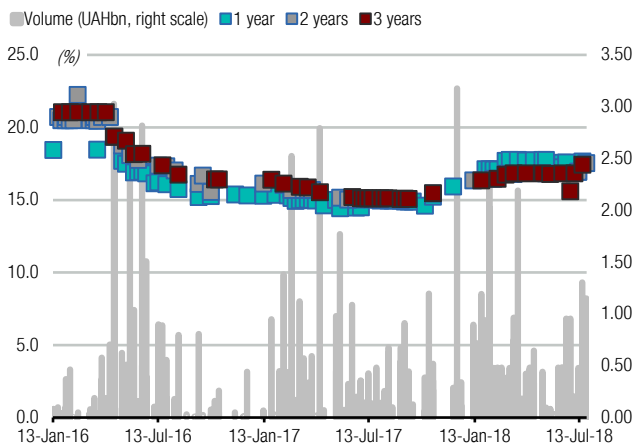
Also, all bids at 6% for 19-month USD-denominated bills were rejected. For bills in euros, the MoF set the cut-off rate at 4.2%, slightly higher than for longer maturities which were sold earlier this year.

As the result of the auction, all debt repayments in FX were refinanced yesterday, and some extra funds in FX were received. At the same time, in hryvnia, the MoF refinanced a bit more than a fourth of principal repayments scheduled for today. But taking into the account accumulation of funds done by Treasury starting last Monday (see our [weekly](#)), it looks like the Ministry should be ready for all debt repayments scheduled for today.

Appendix: Yields-to-maturity, repayments

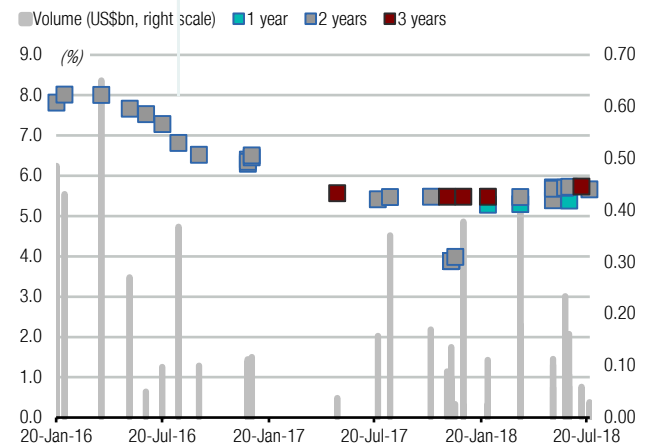
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

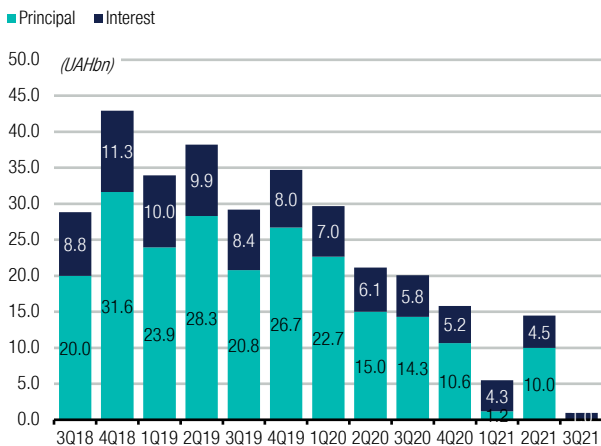
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

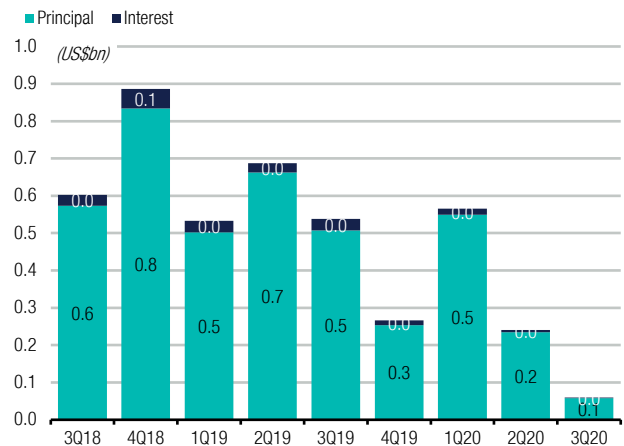
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

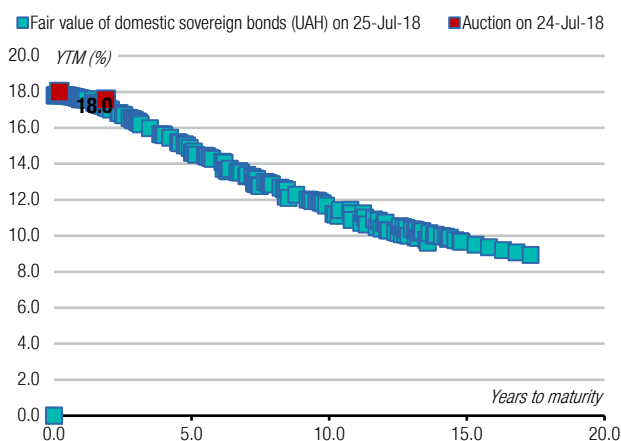
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

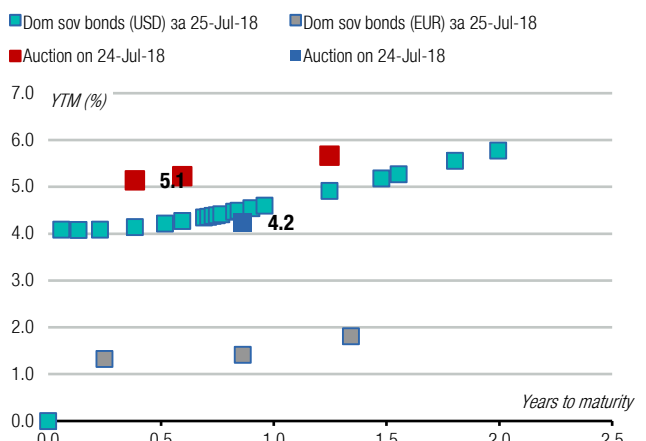
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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