

Bond Market Insight

Ministry of Finance borrowed UAH2.4bn

Comment on government bond placement

At the yesterday's auction, the Ministry of Finance attracted UAH1bn and US\$50m (UAH1.4bn) in local-currency and FX, respectively. At the same time, it was decided not to place instruments in foreign currency with terms of 14 months and two years in the absence of sufficient interest and market demand for higher rates. Thus, the MoF wasn't ready to borrow FX at higher than 6% rate.

Consequently, the local-currency bills' interest rates remained almost unchanged, so UAH1.01bn was borrowed from four-month bonds at the rate of 18% and UAH2.8m of one-year instruments at 17.9%. However, for the three-year bonds, the rate was reduced by 15bp. to 16.7%, and UAH4.8m was attracted, while total demand amounted to 15.6m.

For semi-annual foreign currency bonds, rates remained unchanged at 5.95% and, with total demand of US\$54.5m, three out of 19 bids were rejected, and slightly more than US\$50m was raised.

As a result, the issuer satisfied the need for foreign currency for internal debt payments, along with hryvnia instruments, so it was possible to decrease the cut-off rates on longer bonds by rejecting more expensive bids.

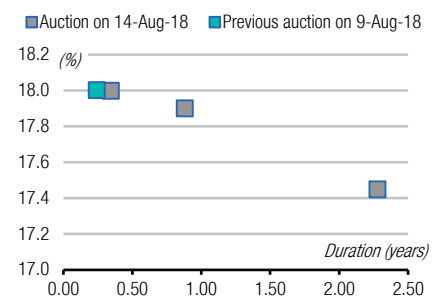
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000202055	18.00	@Mty	19-Dec-18	1,075,678	941.50	1,012.75	1,075.68	18.00	1,075.68
UA4000201768	0.00	@Mty	3-Jul-19	3,207	863.62	2.77	3.21	17.90	29.94
UA4000194377	16.75	SA	2-Jun-21	4,644	1,032.50	4.79	4.64	17.45	3,579.00
Total UAH				1,083,529		1,020.32	1,083.53		4,684.62
UA4000201446		@Mty	27-Feb-19	51,874	969.19	1,375.04	1,418.75	5.92	10,106.43
Total USD				51,874		1,375.04	1,418.75		10,106.43

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

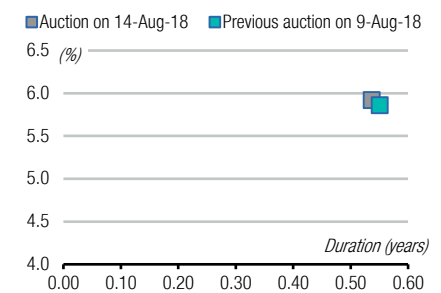
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



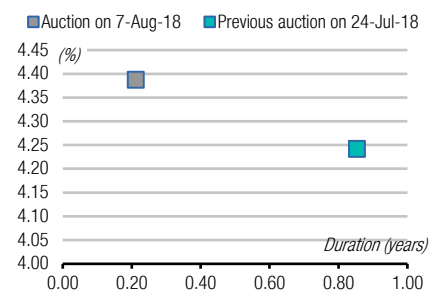
Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

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

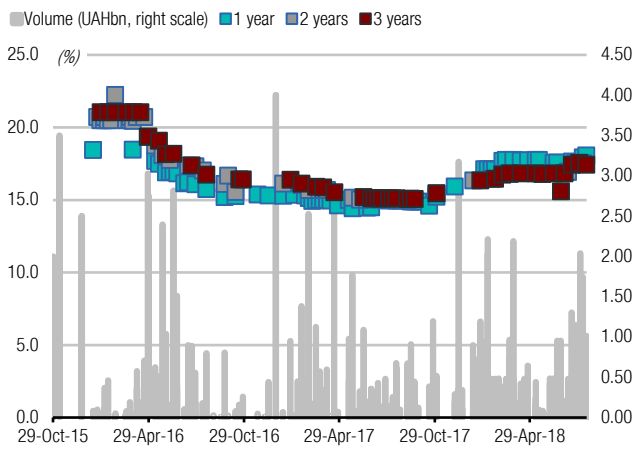


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

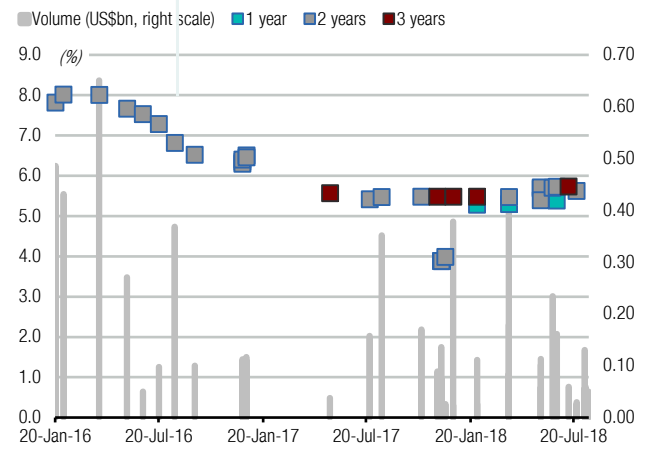
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

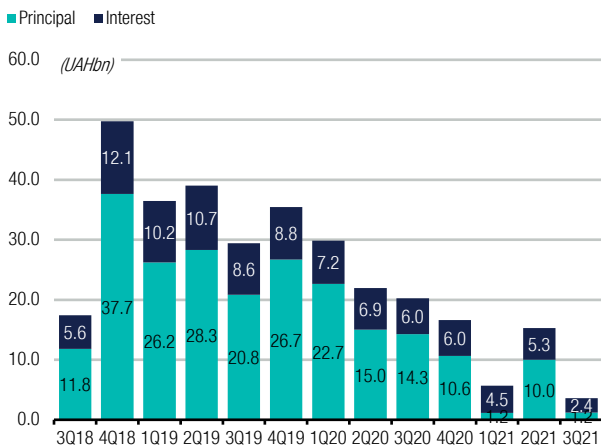
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

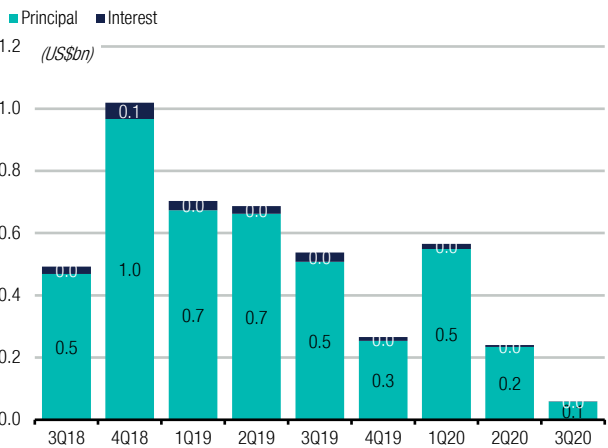
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

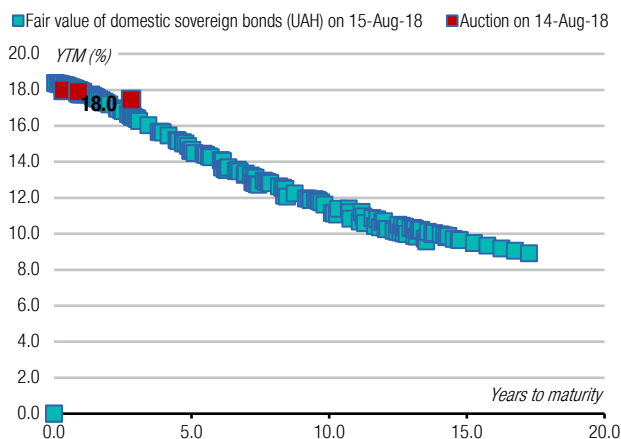
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

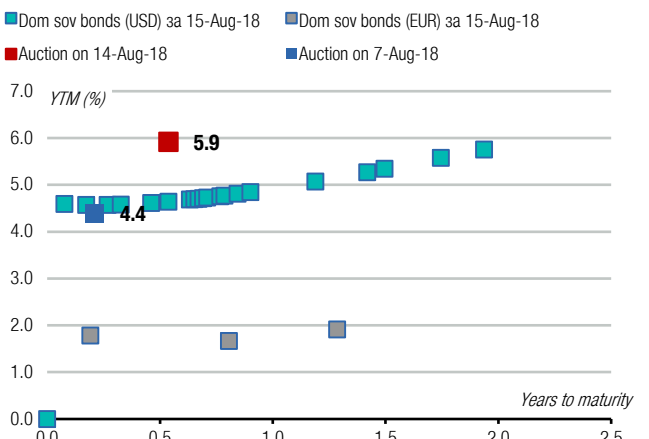
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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