

Bond Market Insight

MoF borrows FX

Comment on government bond placement

After making sufficient debt repayments of FX-denominated bonds last week, yesterday, the MoF continued to offer FX-denominated bills and successfully sold them. At this auction, FX-denominated proceeds were nearly 99% of total proceeds.

Yesterday, the MoF offered four-month and 10-month local-currency bills, which received five and one bid, respectively. Total demand amounted to UAH29.2m. Interest rates were at the same level as cut-off rates of recent auctions: 18% and 17.9%, respectively. All bids were accepted.

Also, the MoF satisfied all demand for six-month USD-denominated bills. The lowest rate was 5.85%, while the highest was 5.95%, the recent cut-off rate for this issue. All 13 bids were accepted, which amounted to US\$88m, with the MoF receiving US\$85.4m.

The MoF rejected all four bids for the euro-denominated bills, as interest rates were at 4.7%, or above the MoF's expectations and level they would accept.

As a result, the MoF borrowed new funds in FX, a part of last week's redemption. This borrowing should increase FX reserves in the MoF's accounts prior to large external debt repayments, especially interest payments on Eurobonds issued in 2015. But the MoF likely will announce for the next week a new FX-denominated bills offering, not included in auction schedule now.

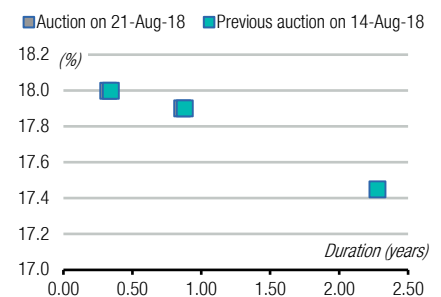
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency 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	26,797	944.57	25.31	26.80	18.00	1,102.48
UA4000201768	0.00	@Mty	3-Jul-19	2,423	866.19	2.10	2.42	17.90	32.37
Total UAH				29,220		27.41	29.22		1,134.84
UA4000201446		@Mty	27-Feb-19	88,014	970.26	2,366.89	2,439.44	5.92	12,681.30
Total USD				88,014		2,366.89	2,439.44		12,681.30

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

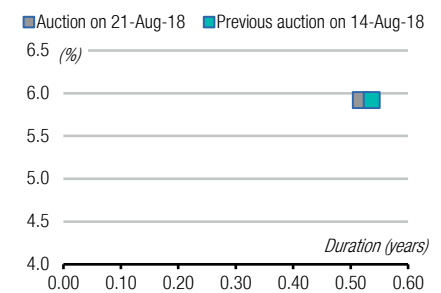
WEDNESDAY, 22 AUGUST 2018

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



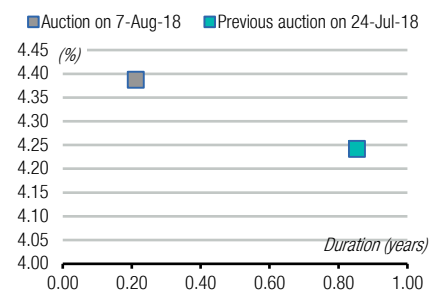
Source: Ministry of Finance of Ukraine, ICU.

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

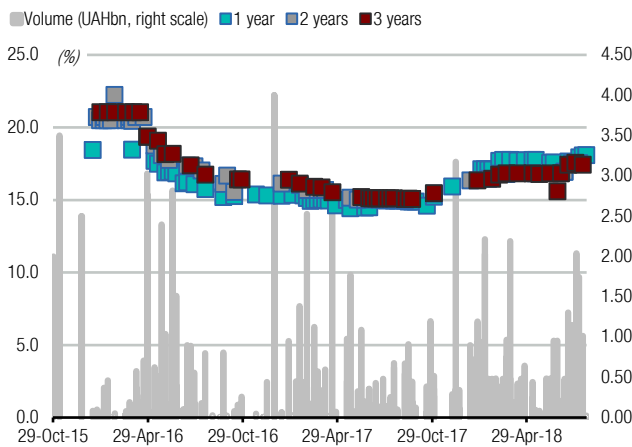


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

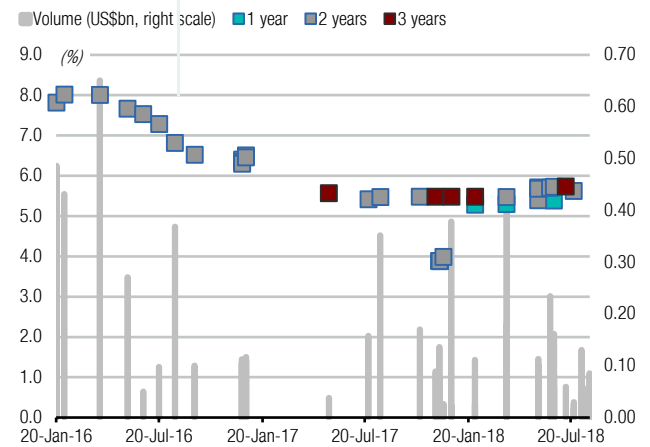
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

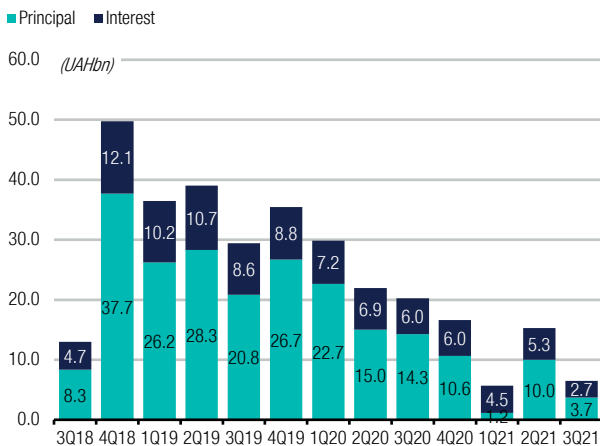
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

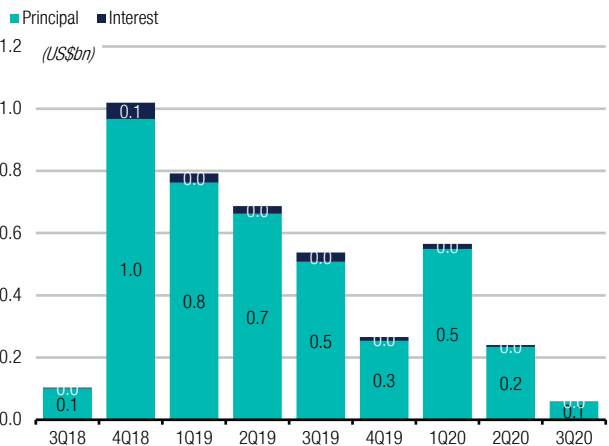
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

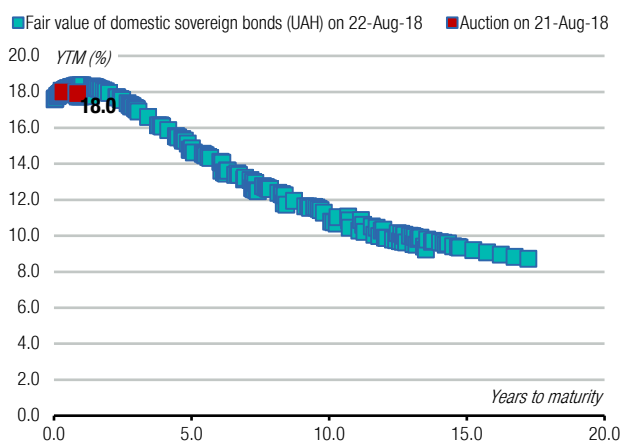
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

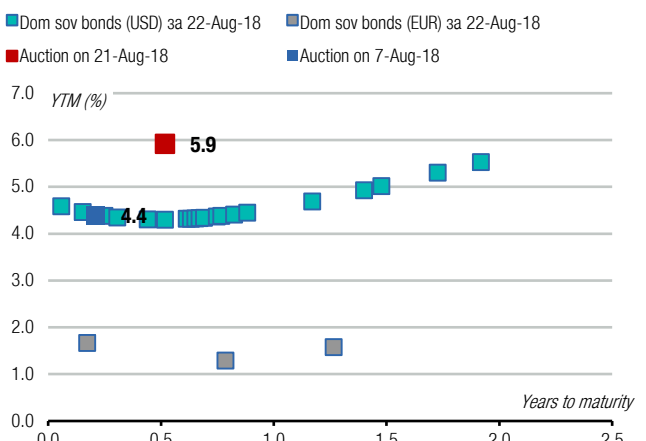
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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