

# Bond Market Insight

## Budget borrowed UAH1bn

### Comment on government bond placement

Tuesday's primary bond auction came in close to our expectations. The Ministry of Finance refused to increase interest rates for local-currency bills, rejecting nearly a quarter of demand for these instruments. At the same time, 97% of demand for FX-denominated bills was accepted.

The Ministry refused to sell five-month and 12-month bills at 19% and three-month bills at 19.2%. So, for most offered bills, the cut-off rates were set at the same level as recent weeks. For FX-denominated bills, rates were close to previous auctions. The MoF offered two USD-denominated bills, one 14-month that matures in January 2020, and a new 12-month bill that matures at the end of October 2019. The 12-month bill was an unusual maturity in recent months. For this tenor, the Ministry set cut-off rate between nine-month and 14-month bills.

As the result, the budget received UAH469.5m and US\$20.8m, which at the current exchange rate, provided the budget with UAH1bn of proceeds. This has been within the general view seen from the Ministry in the last week, accepting bids without a rate increase, and receiving a low level of proceeds. Currently, it appears that all local-currency repayments were successfully paid, and the budget does not need to borrow more funds. Likely, the Ministry sold FX or used revenues from taxes to repay debt. At the same time, demand remains too low to cause a rate increase or provide a large amount of funds for the budget.

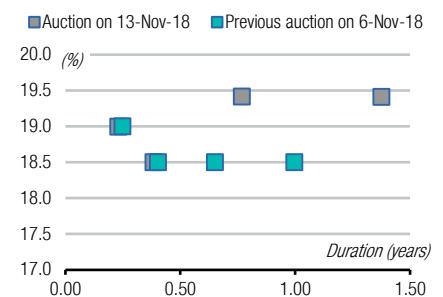
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m) <sup>4</sup>
UA4000200968	0.00	@Mty	6-Feb-19	427,322	958.11	409.42	427.32	19.00	1,364.21
UA4000201370	0.00	@Mty	3-Apr-19	57,112	933.74	53.33	57.11	18.50	592.24
UA4000195580	15.75	SA	4-Sep-19	1,000	1,009.67	1.01	1.00	19.41	413.50
UA4000166805	14.30	SA	6-May-20	6,057	950.31	5.76	6.06	19.41	2,051.61
<b>Total UAH</b>				<b>491,491</b>		<b>469.51</b>	<b>491.49</b>		<b>4,421.56</b>
UA4000199244	5.40	SA	23-Oct-19	16,989	986.99	466.40	472.55	7.35	7,573.27
UA4000202568	7.50	SA	15-Oct-20	4,018	1,005.68	112.40	111.76	7.65	864.60
<b>Total USD</b>				<b>21,007</b>		<b>578.80</b>	<b>584.31</b>		<b>8,437.87</b>

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 27.82/USD, 31.8/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

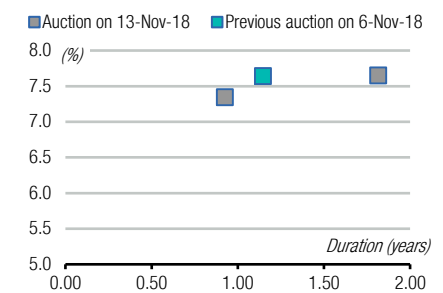
### THURSDAY, 15 NOVEMBER 2018

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



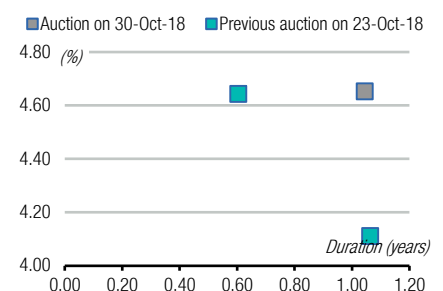
Source: Ministry of Finance of Ukraine, ICU.

#### 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

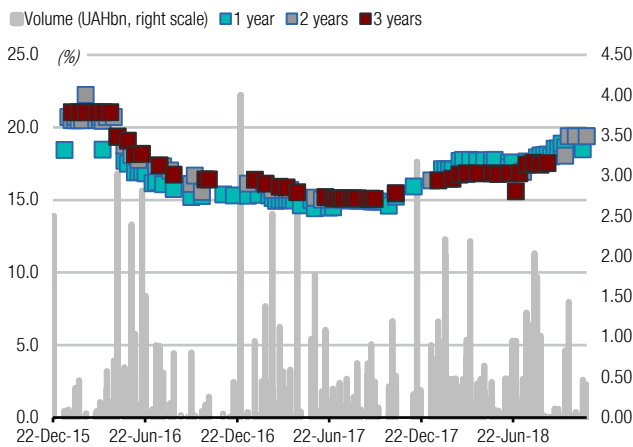


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

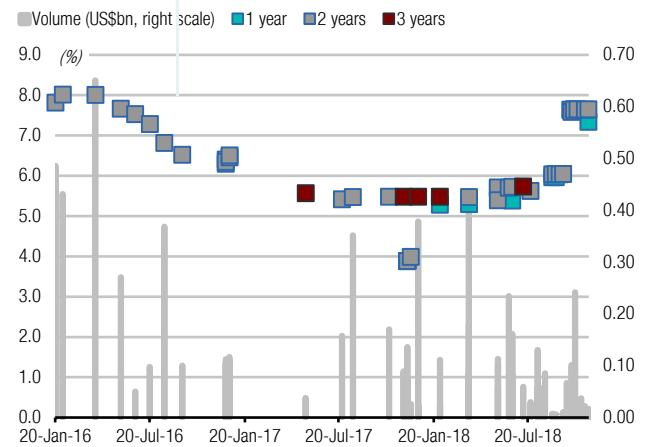
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

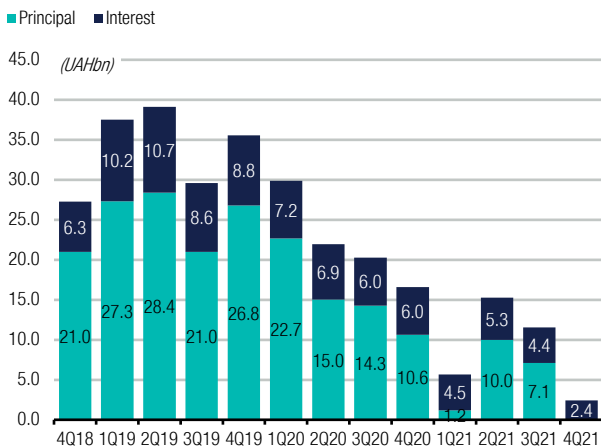
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

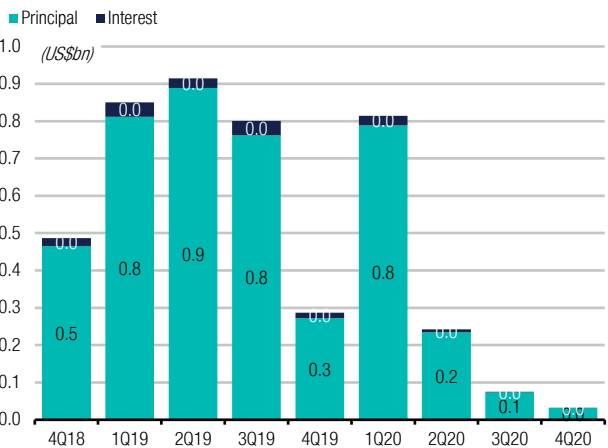
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

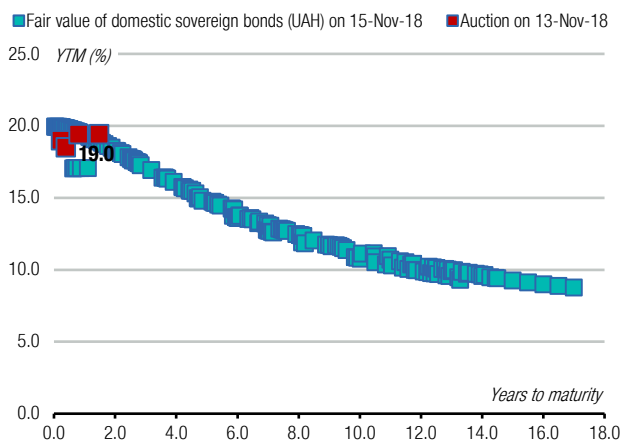
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

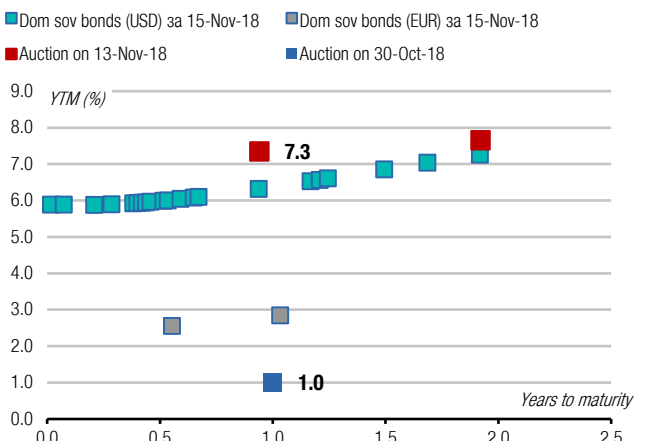
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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