

Bond Market Insight

Successful placements continue

Comment on government bond placement

Another new year started with increased activity in the primary bonds market. So far, each auction held by the Ministry of Finance has been larger than the previous one. This week, borrowings amounted to UAH18bn, and half of the funds came from local-currency bills.

For bills with maturities up to one year, the Ministry kept cut-off rates unchanged. They received 61 bids for these bills, and rejected just two: one for three-month bills at 20.5% in the amount of UAH140m, and one for six-month bills at 19.5% for only UAH30m. In the end, short-term bills provided the budget with UAH9.3bn of proceeds, mostly with the longest maturity November 2019.

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

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000203228	0.00	@Mty	1-May-19	3,871,268	953.64	3,691.80	3,871.27	19.50	6,434.18
UA4000201768	0.00	@Mty	3-Jul-19	2,132,693	925.87	1,974.60	2,132.69	18.98	6,318.50
UA4000194658	16.65	SA	10-Jul-19	1,806,326	999.83	1,806.02	1,806.33	19.92	2,693.81
UA4000202667	0.00	@Mty	6-Nov-19	1,528,785	875.72	1,338.79	1,528.79	18.50	2,241.45
UA4000203244	0.00	@Mty	29-Jan-20	207,568	844.44	175.28	207.57	18.47	207.57
Total UAH				9,546,640		8,986.49	9,546.64		17,895.51
UA4000203251	0.00	@Mty	21-Feb-19	286,617	996.42	7,939.43	7,967.95	5.96	7,967.95
UA4000203202	0.00	@Mty	18-Apr-19	38,106	986.47	1,045.01	1,059.35	6.42	6,423.72
UA4000201453	0.00	@Mty	19-Jun-19	500	975.12	13.55	13.90	6.65	8,181.76
UA4000199244	5.40	SA	23-Oct-19	7,019	1,001.67	195.45	195.13	7.37	9,718.69
Total USD				332,242		9,193.45	9,236.33		32,292.12
UA4000202972	0.00	@Mty	11-Apr-19	5,682	991.44	179.05	180.60	4.44	2,230.65
Total EUR				5,682		179.05	180.60		2,230.65

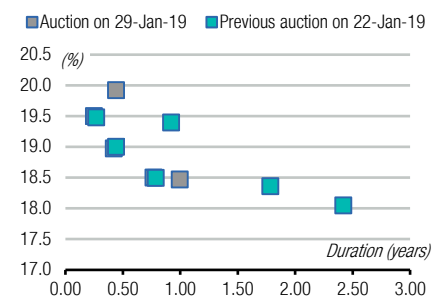
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.8/USD, 31.78/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The Ministry also rejected demand for five-year notes with rates in the range of 17-18%. Although this issue could provide additional funds of more than UAH300m, it was an insufficient amount for this auction. It is important to note that this maturity received demand at this particular rate. The question is, which level will be acceptable for both sides of the deal.

There were large offerings of FX-denominated bills, with five different

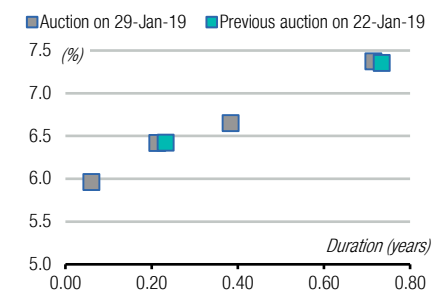
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



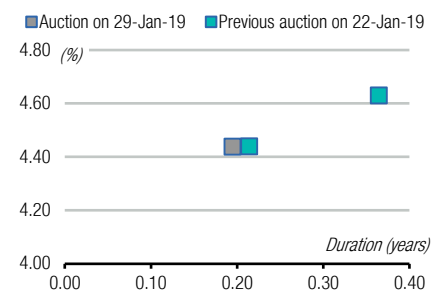
Source: Ministry of Finance of Ukraine, ICU.

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.

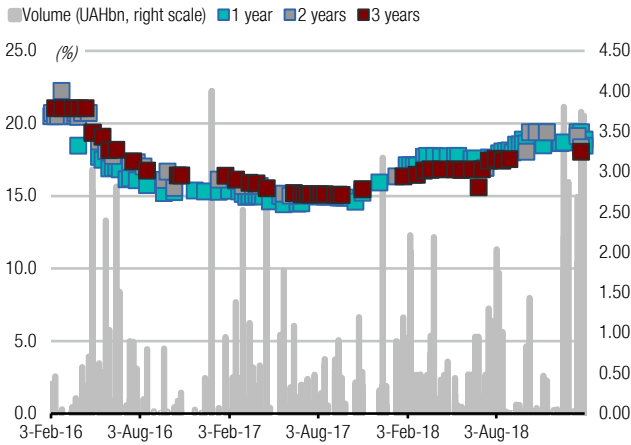
maturities. One issue was in euros and four in US dollars, including an issue with maturity in 22 days, which collected the main part of the proceeds. US\$285.6m were borrowed with a redemption date of 21 February. With other issues, the MoF refinanced nearly 100% of today's repayments in FX.

The yield curve at the primary market has steadied, and with the NBU's key rate unchanged, it should stay at this level. At the same time, longer instruments received demand, but interest rates are still a subject for discussion. Nevertheless, with significant financing, the refinancing of foreign currency payments and the increase in the terms of borrowings in FX remains a key issue for the Ministry of Finance, since the practice of short issues with maturity of less than a month only increases the risk of being able to borrow the necessary amount of funds.

Appendix: Yields-to-maturity, repayments

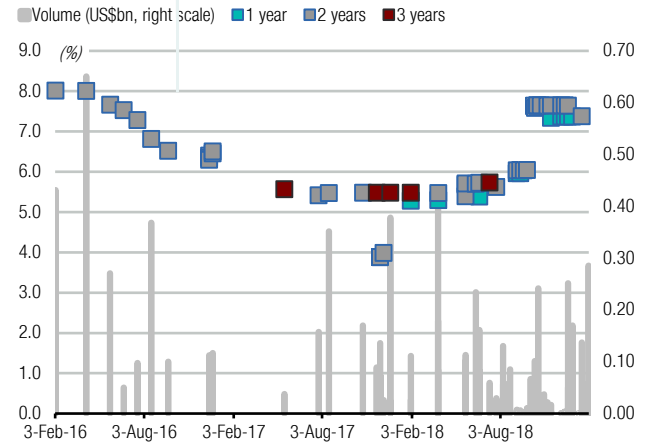
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

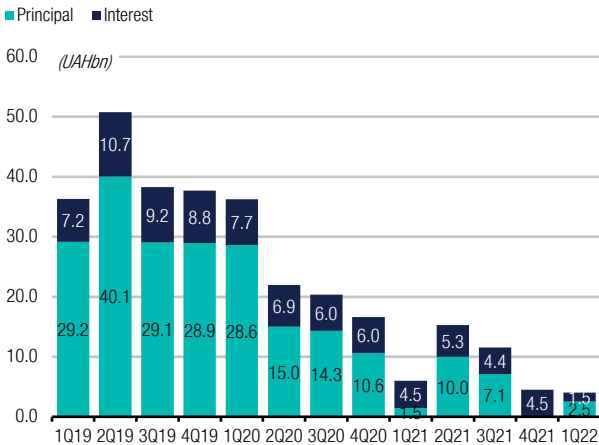
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

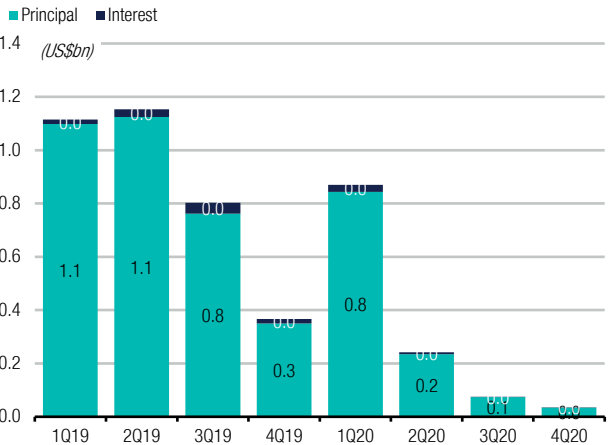
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

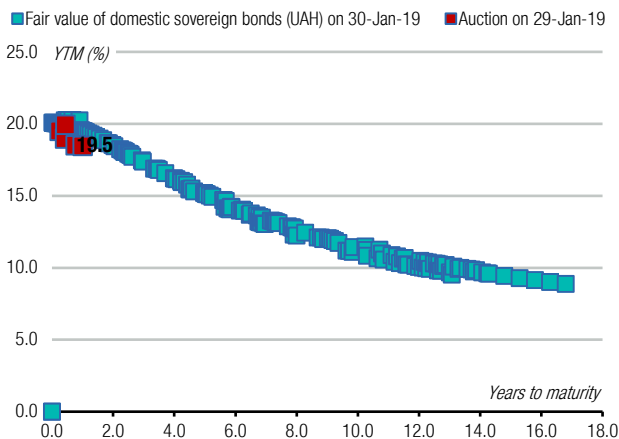
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

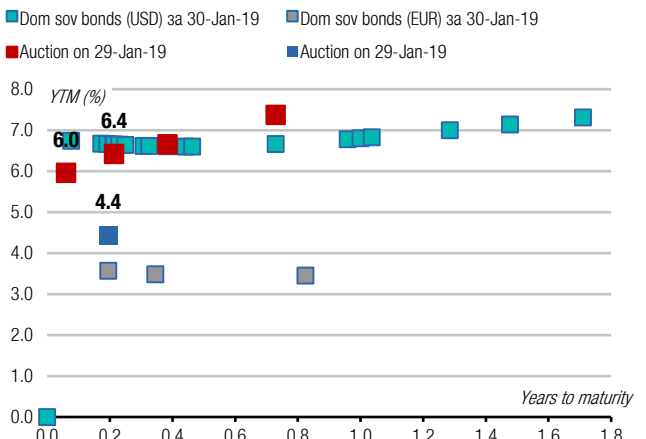
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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