

Bond Market Insight

Demand remains low

Comment on government bond placement

Once again, at yesterday's auction the MoF was only able to refinance part of the debt repayments scheduled for the current week, and again, for FX-denominated bills. In total, the MoF borrowed UAH4.7bn, including UAH3.6bn in FX-denominated bills.

Demand for local-currency bills remained low, but this week it was up more than double to UAH1.1bn. Most was concentrated in bills up to six-month maturities, although nearly a quarter was for two-year paper. This is very important, as at the end of last year, the MoF did not offer these maturities due lack of demand for it. This week's borrowings in local currency will be enough to cover repayments, and also to improve the balances in budget accounts.

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
UA4000201388	0.00	@Mty	12-Jun-19	675,872	946.88	639.97	675.87	19.50	3,504.85
UA4000203301	0.00	@Mty	7-Aug-19	179,367	922.67	165.50	179.37	19.00	1,327.25
UA4000203244	0.00	@Mty	29-Jan-20	2,713	854.48	2.32	2.71	18.50	567.07
UA4000200174	15.70	SA	20-Jan-21	254,298	978.83	248.91	254.30	18.87	1,710.67
Total UAH				1,112,250		1,056.70	1,112.25		7,109.84
UA4000201453	0.00	@Mty	19-Jun-19	73,625	980.62	1,952.60	1,991.19	6.44	9,997.70
UA4000202576	0.00	@Mty	18-Jul-19	18,958	974.95	499.88	512.72	6.65	7,457.77
UA4000203566	0.00	@Mty	12-Dec-19	37,028	946.07	947.42	1,001.42	7.22	1,001.42
UA4000199491	5.40	SA	12-Feb-20	2,625	985.35	69.95	70.99	7.38	10,194.59
UA4000201743	5.65	SA	22-Jul-20	3,753	984.55	99.93	101.50	7.39	2,143.91
UA4000203392	7.50	SA	11-Feb-21	4,229	1,002.84	114.70	114.37	7.65	258.79
Total USD				140,218		3,684.47	3,792.20		31,054.18

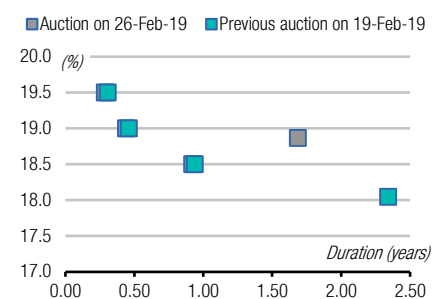
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.05/USD, 31.84/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

But for FX-denominated bills, things are less positive. Once more, demand for these bills is lower than budget requirements for FX. Due to the steady hryvnia exchange rate, these bills are still less attractive than local-currency bills due to the significant difference in interest rates.

This week, the MoF did not offer bills in FX with maturity less than one month, and this decision was positive. Instead, they offered bills with maturities from four months and up to two years, but collected only US\$140m of demand, or about one-third

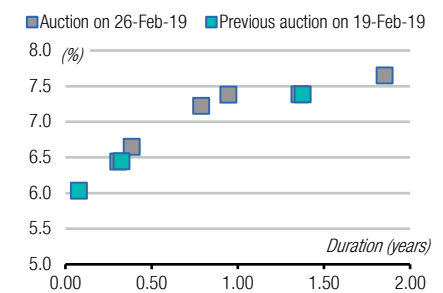
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



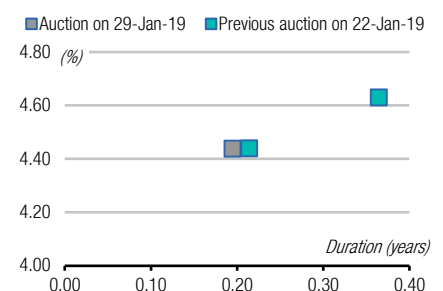
Source: Ministry of Finance of Ukraine, ICU.

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.

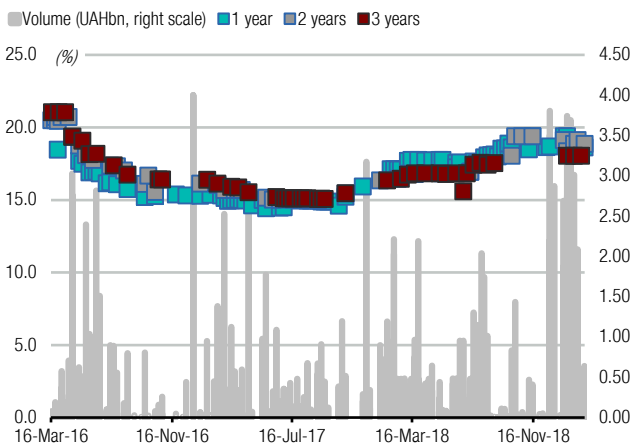
of this week's repayments.

Therefore, we see a low level of domestic FX-denominated repayments, similar to last year. In January 2018, demand for these instruments was low, and in February 2018, the MoF did not offer these bills at all. But demand for FX-denominated bills rose in 2H18, when the hryvnia weakened. Low proceeds in FX decrease the FX balance in government accounts, and make new loans under WB guarantee necessary to cover future debt repayments.

Appendix: Yields-to-maturity, repayments

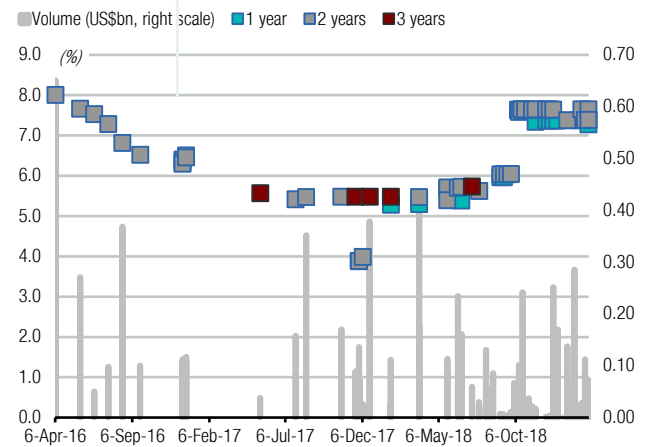
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

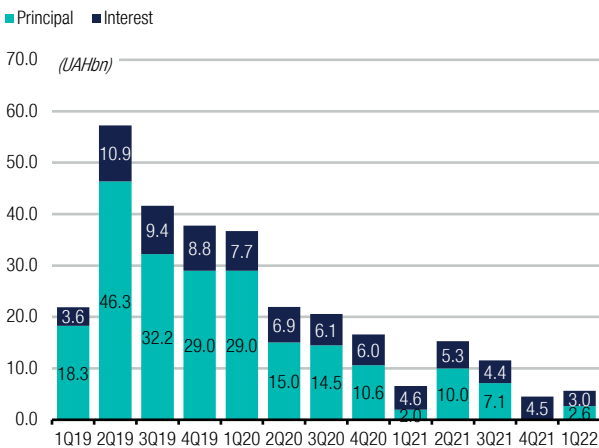
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

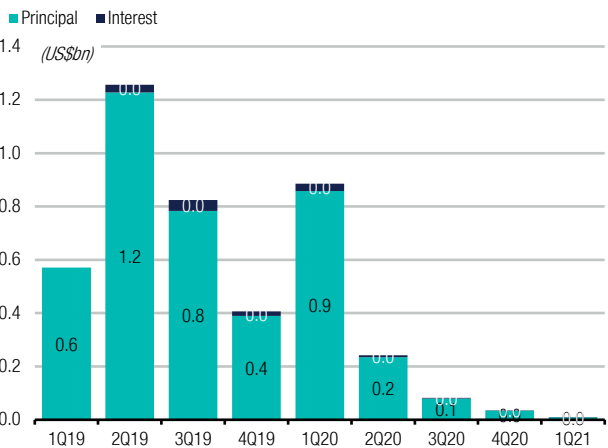
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

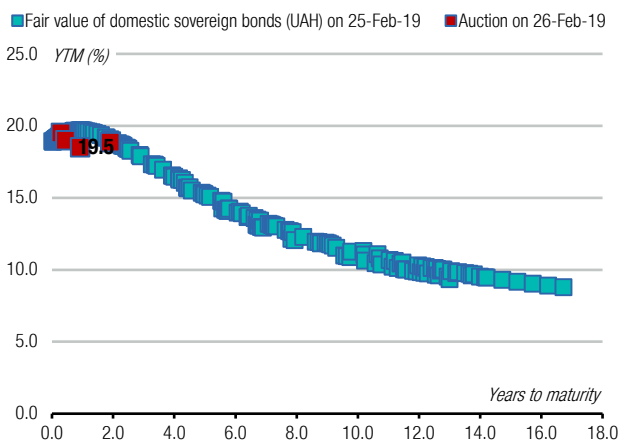
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

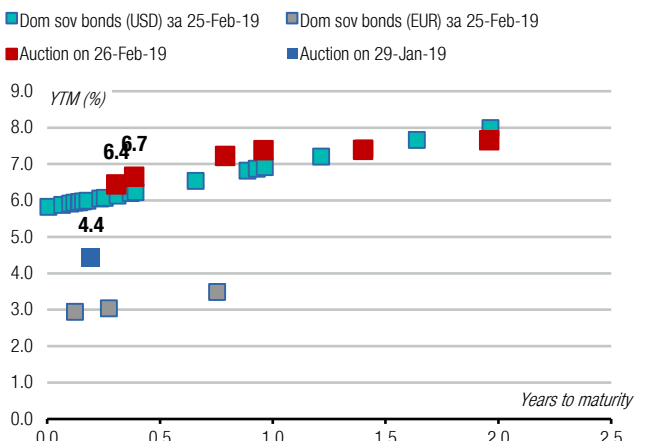
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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