

# Bond Market Insight

## Refinancing debt repayments

### Comment on government bond placement

For the first time in a month, local-currency bills were more popular than FX-denominated. Out of UAH5.7bn of borrowings, 96%, or UAH5.5bn, were in local currency.

Last week, the MoF used the World Bank guarantee for EUR529m loans, and yesterday, the MoF offered only one-year bills. This offering attracted 23 bids. The bids amounted to only US\$8m, and likely all were from individuals. The Ministry rejected only one bid, and received US\$7.9m.

However, for local-currency paper, demand was significant. As usual, it was concentrated in short-term bills, but yesterday, interest moved from three and six-month paper to seven and nine-month instruments. Demand was at the usual levels for these maturities. The MoF rejected only one bid for nine-month bills in the amount of UAH25m.

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

| ISIN             | Coupon rate (%) | Payment frequency <sup>1</sup> | Maturity  | Qty of bonds sold | Price (UAH) | Proceeds <sup>2</sup> (UAHm) | Volume <sup>2</sup> (UAHm) | YTM <sup>3</sup> (%) | Outstanding (m) <sup>4</sup> |
|------------------|-----------------|--------------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000201388     | 0.00            | @Mty                           | 12-Jun-19 | 1,828,285         | 950.25      | 1,737.33                     | 1,828.29                   | 19.50                | 5,333.13                     |
| UA4000202295     | 0.00            | @Mty                           | 4-Sep-19  | 155,820           | 913.46      | 142.34                       | 155.82                     | 19.00                | 314.96                       |
| UA4000203624     | 0.00            | @Mty                           | 9-Oct-19  | 1,056,540         | 898.51      | 949.31                       | 1,056.54                   | 19.00                | 1,056.54                     |
| UA4000203632     | 0.00            | @Mty                           | 4-Dec-19  | 2,010,000         | 878.45      | 1,765.68                     | 2,010.00                   | 18.50                | 2,010.00                     |
| UA4000198873     | 14.50           | SA                             | 19-Aug-20 | 213,121           | 961.18      | 204.85                       | 213.12                     | 18.95                | 2,445.72                     |
| UA4000200174     | 15.70           | SA                             | 20-Jan-21 | 691,723           | 982.08      | 679.33                       | 691.72                     | 18.87                | 2,402.39                     |
| UA4000203236     | 17.25           | SA                             | 5-Jan-22  | 2,458             | 1,025.78    | 2.52                         | 2.46                       | 18.05                | 125.60                       |
| <b>Total UAH</b> |                 |                                |           | <b>5,957,947</b>  |             | <b>5,481.35</b>              | <b>5,957.95</b>            |                      | <b>13,688.34</b>             |
| UA4000199491     | 5.40            | SA                             | 12-Feb-20 | 7,983             | 986.70      | 209.74                       | 212.57                     | 7.38                 | 10,249.97                    |
| <b>Total USD</b> |                 |                                |           | <b>7,983</b>      |             | <b>209.74</b>                | <b>212.57</b>              |                      | <b>10,249.97</b>             |

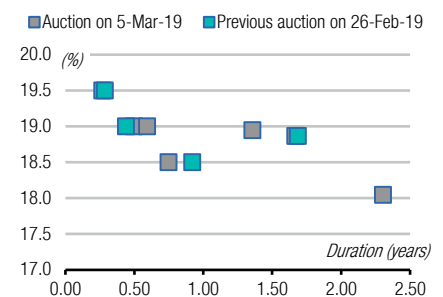
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.63/USD, 31.84/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Importantly, there was an increase in demand for medium-term bills, which amounted to UAH1.5bn, more than 20% of total demand for local-currency bills.

Demand for two-year bills rose more than 2x to UAH0.7bn, and was fully accepted. A bit lower demand – UAH0.6bn – was seen for the three-year paper. The Ministry did not accept an increase in rates, and accepted two bids for only UAH25m. Demand

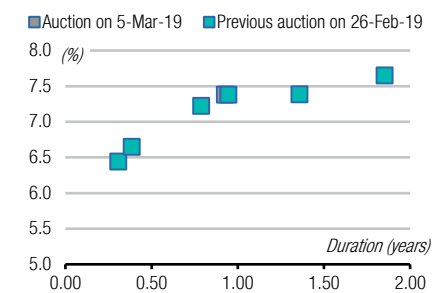
WEDNESDAY, 6 MARCH 2019

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



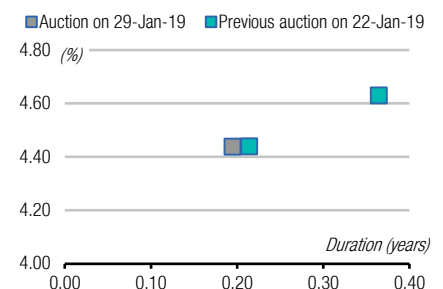
Source: Ministry of Finance of Ukraine, ICU.

### 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.

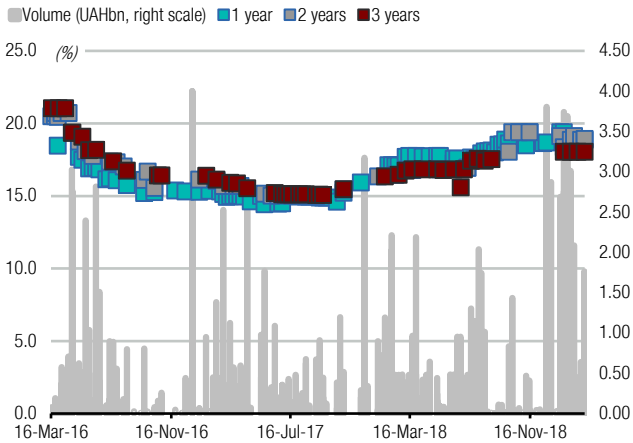
also rose for one-year bills, with redemption next summer. The Ministry received UAH0.2bn from this issue yesterday, with a decline in the weighted average rate to 18.07%, while recently, it has been steady at 18.25%.

So, demand for UAH-denominated bills rose, covering all of this week's debt repayments, and provided the budget with extra funds. If this trend holds, it will help the Ministry in budget financing and the successful offering of FX-denominated bills will improve its FX accounts. Since demand was concentrated in the short maturities that provided attractive 18.5-19.5% interest rates, refinancing needs later this year will be greater.

# Appendix: Yields-to-maturity, repayments

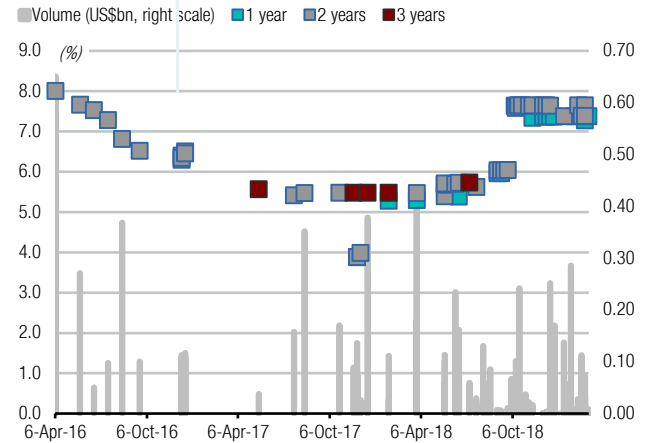
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

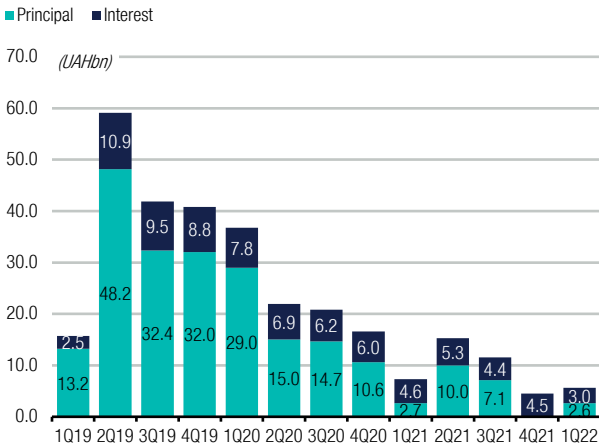
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

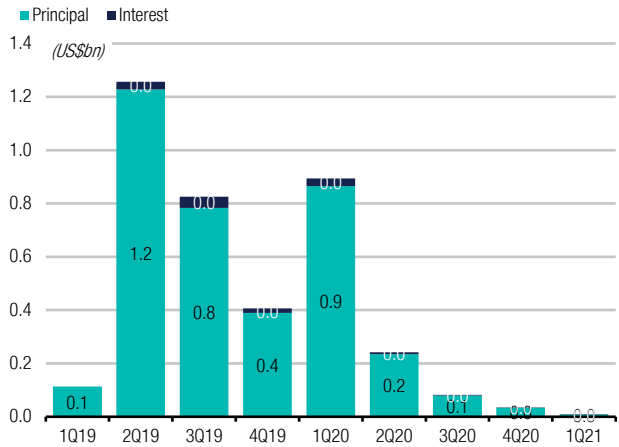
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

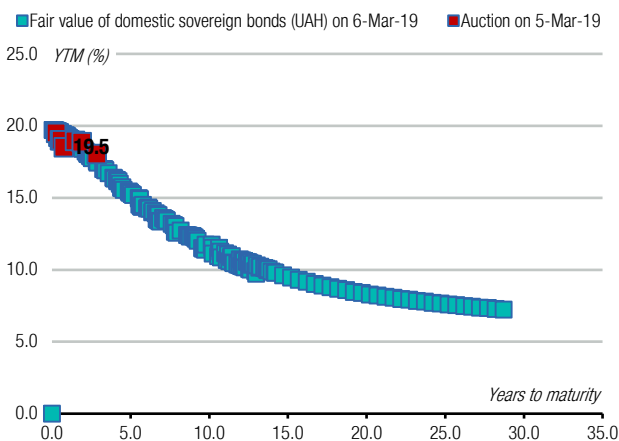
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

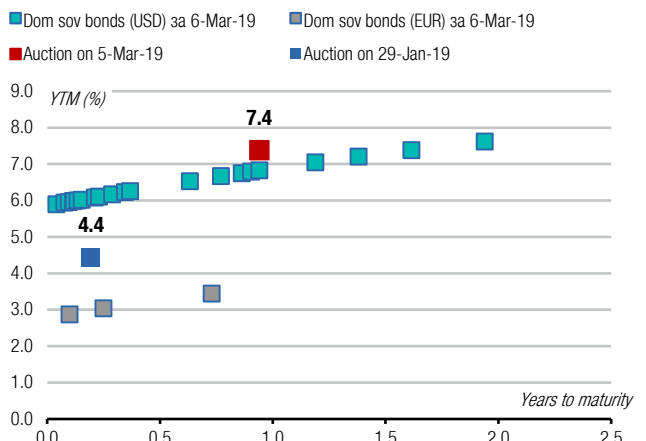
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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