

Bond Market Insight

Borrowings up in all currencies

Comment on government bond placement

Yesterday, the Ministry of Finance significantly increased the amount of proceeds in both local and foreign currencies. At the same time, cut-off rates remained unchanged with insufficient movements of weighted-average rates.

The most important result was the issuance of FX-denominated bills. This week, redemption of US\$113m of bills that were issued at the end of February 2019, falls due. At least a partial refinancing of this redemption will be covered by yesterday's proceeds, especially since weekly proceeds of US\$8-10m has been the norm recently. Also important was increasing the maturity to at least a few months.

The Ministry offered three US\$-denominated bills with 3-month, 11-month, and 2-year maturities. In total, the Ministry accepted US\$86m of demand, including US\$82m for three-month bills. US\$85m of proceeds allowed the Ministry to refinance 75% of this week's FX repayments.

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

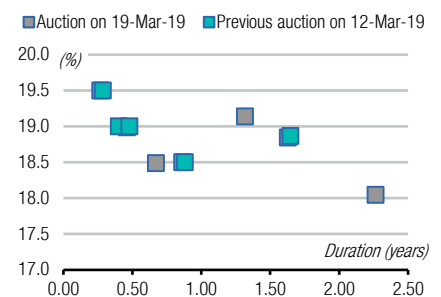
ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000203640	0.00	@Mty	26-Jun-19	5,330,085	950.25	5,064.91	5,330.09	19.50	6,715.33
UA4000202295	0.00	@Mty	4-Sep-19	669,130	919.63	615.35	669.13	18.99	1,043.22
UA4000203319	0.00	@Mty	20-Nov-19	662,651	889.60	589.50	662.65	18.49	679.48
UA4000203244	0.00	@Mty	29-Jan-20	40,458	862.32	34.89	40.46	18.50	883.94
UA4000198873	14.50	SA	19-Aug-20	508,284	965.53	490.76	508.28	19.14	2,954.01
UA4000200174	15.70	SA	20-Jan-21	3,430,700	988.88	3,392.55	3,430.70	18.85	7,448.34
UA4000203236	17.25	SA	5-Jan-22	30,000	1,032.33	30.97	30.00	18.05	155.60
Total UAH				10,671,308	10,218.93	10,671.31			19,879.90
UA4000201453	0.00	@Mty	19-Jun-19	82,025	984.23	2,201.95	2,237.23	6.43	12,319.95
UA4000199491	5.40	SA	12-Feb-20	1,992	989.40	53.76	54.33	7.38	10,553.35
UA4000203392	7.50	SA	11-Feb-21	2,488	1,007.10	68.34	67.86	7.65	442.13
Total USD				86,505	2,324.05	2,359.42			23,315.43

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 27.28/USD, 30.29/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The local-currency part of yesterday's auction was very active. Keeping the key policy rate unchanged at 18% for the next six weeks increased demand for both three-month bills and for longer maturities. Cut-off rates remained unchanged, although for some,

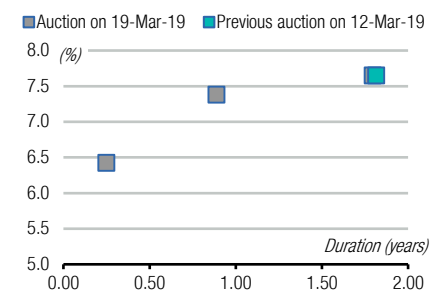
WEDNESDAY, 20 MARCH 2019

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



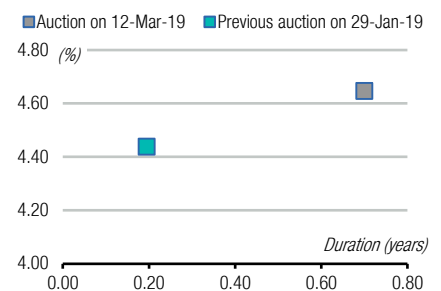
Source: Ministry of Finance of Ukraine, ICU.

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.

the weighted-average rates slid by a mere 1-2bp, which could be the result of large demand.

Demand for bills with maturities longer than a year remained high, with only slight decline of its share compared with last week. Yesterday, it was 37% of total demand for UAH-denominated bills, which was concentrated in the two-year maturity. In nominal terms, this was more than double compared with last week.

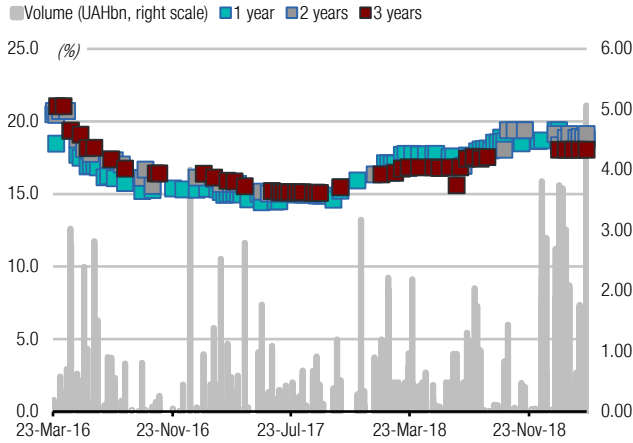
The Ministry rejected a small portion of demand for eight-month and three-year bills, which had insufficient impact on total proceeds. Rejected bids had rates 50-175bp above cut-off rates with insufficient amounts.

The Ministry was able to improve its position in FX, and was able to borrow a large amount in hryvnia prior large repayments scheduled for next week and the beginning of April. High demand at current rates should help the MoF refinance payments. An increase in borrowings from medium-term instruments should improve the schedule of domestic debt repayments.

Appendix: Yields-to-maturity, repayments

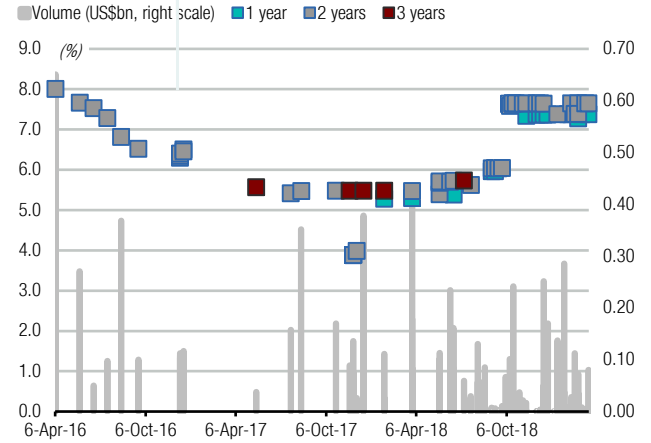
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

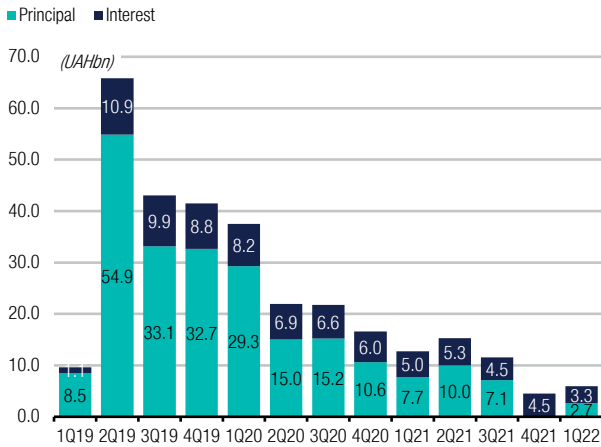
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

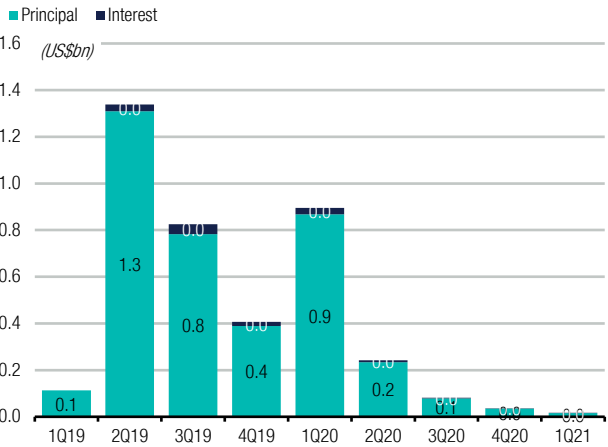
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

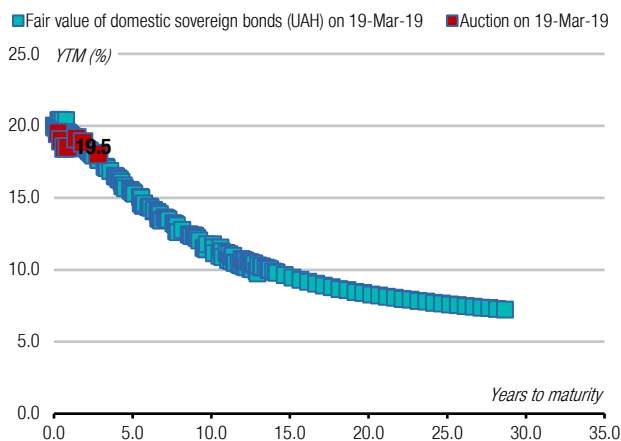
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

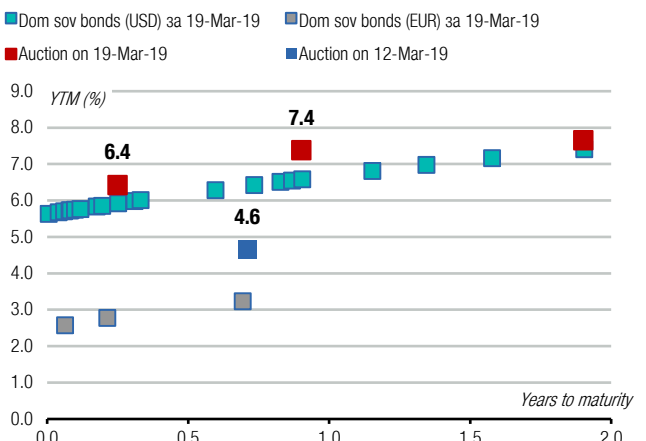
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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