

Bond Market Insight

Repayments successfully refinanced

Comment on government bond placement

Funds borrowed yesterday should allow the MoF to cover most debt repayments scheduled for today, especially in local currency. At the same time, interest rates remained steady.

In this auction, demand was concentrated in short-term bills. Out of UAH7.5bn of demand, only UAH0.3bn was for 1.5-year bills, while most of demand was submitted for bills with tenors of less than one year. Nearly one-third of demand was for 12-month bills. A bit less than a half of demand was for three-month bills. This redistribution of demand to zero-coupon bills could be the result of offering only bills with up to 1.5-year maturities, and not offering the two-year bills, which had large demand in recent weeks. By the way, the budget received UAH6.8bn of proceeds in hryvnia, which covered all debt repayments in local currency scheduled for today.

For FX-denominated bills, the MoF borrowed US\$122m, which covered most of today's debt repayments, which amounted to US\$137.6m. So, for this repayment, the MoF is likely to use borrowings from last week's auction, when there were no debt repayments in FX.

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

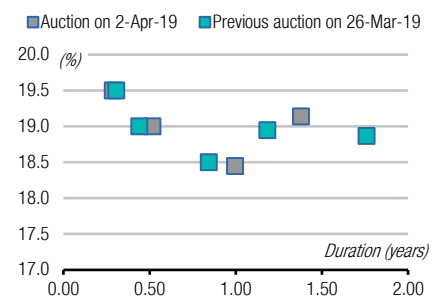
| ISIN | Coupon rate (%) | Payment frequency ¹ | Maturity | Qty of bonds sold | Price (UAH) | Proceeds ² (UAHm) | Volume ² (UAHm) | YTM ³ (%) | Outstanding (m) ⁴ |
|------------------|-----------------|--------------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000203715 | 0.00 | @Mty | 17-Jul-19 | 3,379,588 | 946.88 | 3,200.07 | 3,379.59 | 19.50 | 4,637.82 |
| UA4000203624 | 0.00 | @Mty | 9-Oct-19 | 1,255,016 | 910.43 | 1,142.60 | 1,255.02 | 19.00 | 2,311.56 |
| UA4000203749 | 0.00 | @Mty | 1-Apr-20 | 2,529,213 | 844.63 | 2,136.25 | 2,529.21 | 18.45 | 2,529.21 |
| UA4000202469 | 17.25 | SA | 30-Sep-20 | 296,408 | 987.37 | 292.66 | 296.41 | 19.14 | 322.78 |
| Total UAH | | | | 7,460,225 | | 6,771.59 | 7,460.23 | | 9,801.37 |
| UA4000203756 | 0.00 | @Mty | 1-Aug-19 | 123,543 | 979.25 | 3,290.04 | 3,359.75 | 6.45 | 3,359.75 |
| UA4000203764 | 0.00 | @Mty | 2-Apr-20 | 1,094 | 932.75 | 27.75 | 29.75 | 7.21 | 29.75 |
| Total USD | | | | 124,637 | | 3,317.79 | 3,389.50 | | 3,389.50 |

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

So, the total amount of borrowing remains at a level sufficient to cover debt repayments, and the maturity of new bills continues to increase. Despite instability in demand and migration from short-term to medium-term bills and back again,

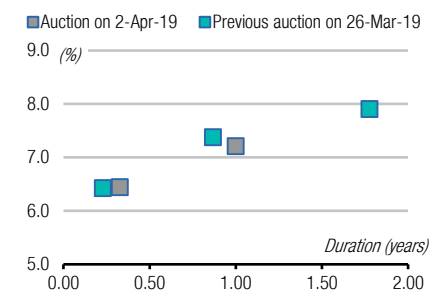
WEDNESDAY, 3 APRIL 2019

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



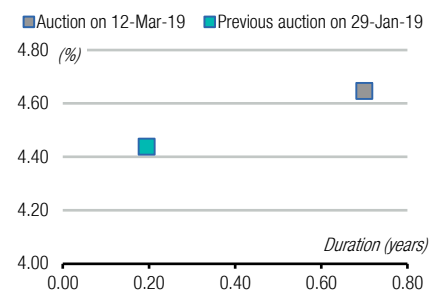
Source: Ministry of Finance of Ukraine, ICU.

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.

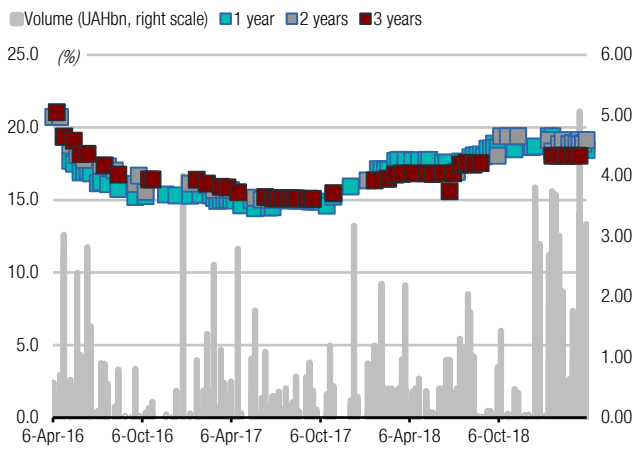
there was enough demand to provide longer funds for the Ministry than there was at the end of last year.

Next week, we should see a similar situation. According to the auction schedule, the MoF will offer two-year bills, and demand could be enough to cover all debt repayments in local currency. Next week there will be repayments in US\$ and Euro, their amount will be similar to this week's repayments. The MoF is scheduled to offer bills in all currencies that are needed for repayments.

Appendix: Yields-to-maturity, repayments

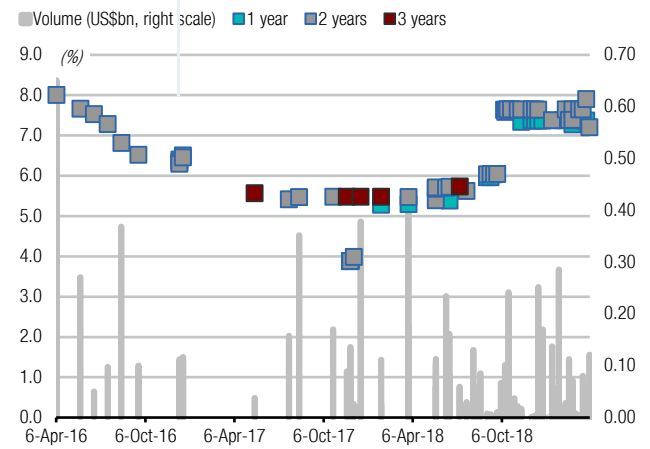
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

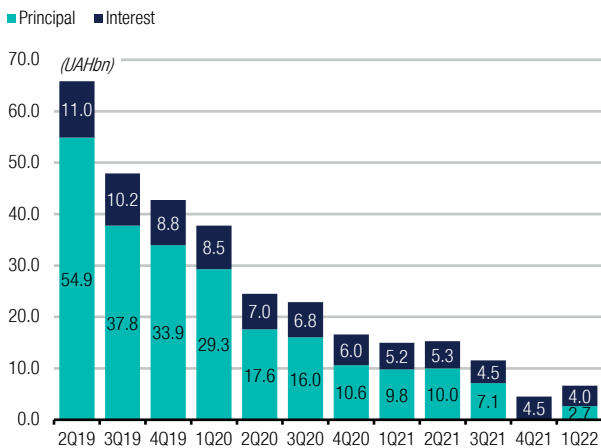
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

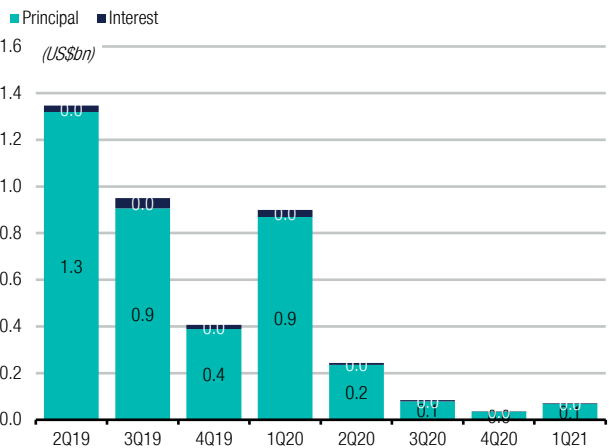
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

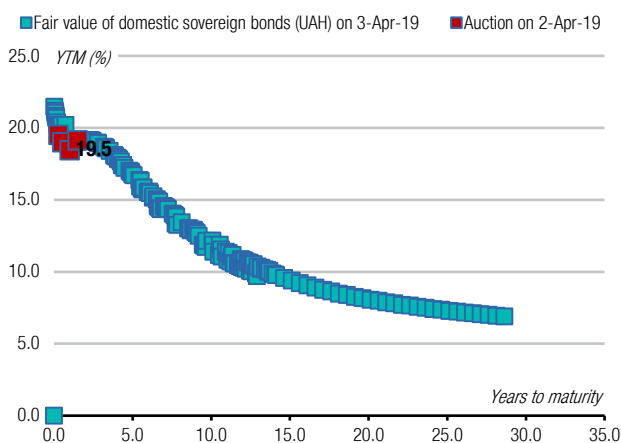
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

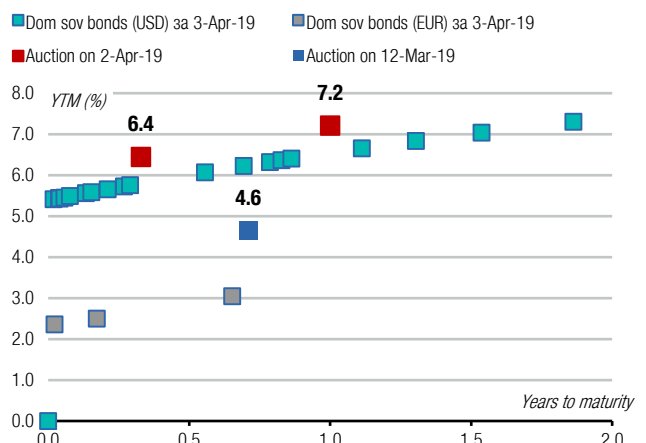
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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