

Bond Market Insight

Hryvnia bills favoured

Comment on government bond placement

Demand for local-currency bills remains high, allowing the MoF to borrow more funds than needed for debt repayments. Foreign investors purchased more than UAH8bn during recent weeks, and yesterday's possible purchases for an additional portion of this instrument could create sufficient impact.

Yesterday's borrowings totaled UAH8.2bn, including only UAH0.5bn of funds from FX-denominated bills. Unlike in past weeks, medium-term bills did not dominate, representing only one quarter of local-currency funds raised. However, UAH1bn of funds were borrowed for one year. So, the trend for extending the average maturity of borrowings remains, although the main portion of yesterday's demand was for four-month bills.

Interest rates for UAH-denominated bills remained steady, despite attempts to move them in both directions. Higher rates were traditionally rejected as they did not have sufficient impact on the amount of borrowings. Bids with lower rates were for low amounts, so they did not have much impact on weighted-average rates.

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

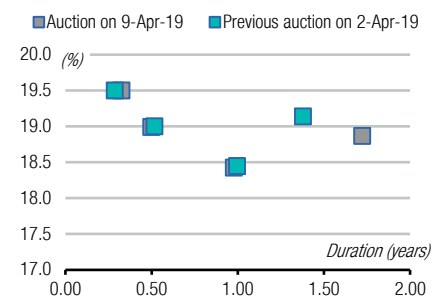
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000203301	0.00	@Mty	7-Aug-19	4,526,791	940.22	4,256.18	4,526.79	19.50	5,889.89
UA4000203624	0.00	@Mty	9-Oct-19	656,527	913.50	599.73	656.53	18.99	2,968.08
UA4000203749	0.00	@Mty	1-Apr-20	1,098,905	847.29	931.09	1,098.91	18.43	3,628.12
UA4000203723	18.00	SA	24-Mar-21	1,927,597	1,006.65	1,940.42	1,927.60	18.87	4,003.85
Total UAH				8,209,820		7,727.43	8,209.82		16,489.94
UA4000203764	0.00	@Mty	2-Apr-20	10,071	933.95	251.34	269.12	7.21	298.35
UA4000201743	5.65	SA	22-Jul-20	4,103	992.67	108.84	109.64	7.39	2,227.95
Total USD				14,174		360.18	378.76		2,526.30
UA4000200711	4.12	SA	27-Nov-19	2,541	1,012.17	77.41	76.48	4.64	8,609.70
Total EUR				2,541		77.41	76.48		8,609.70

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 26.72/USD, 30.1/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Only a small portion of repayments for FX-denominated bills falls due this week was refinanced. Reinvesting of debt repayments is important for these bills, as is the mismatch of the cash flows of repayments and settlement of new bills, which both affect demand. Therefore, next week, demand could rise, especially if the MoF offers

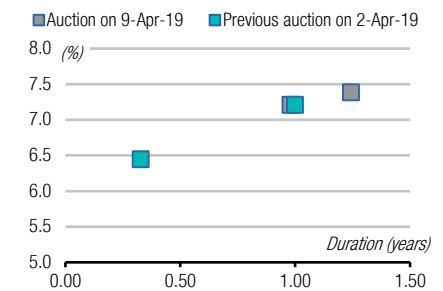
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



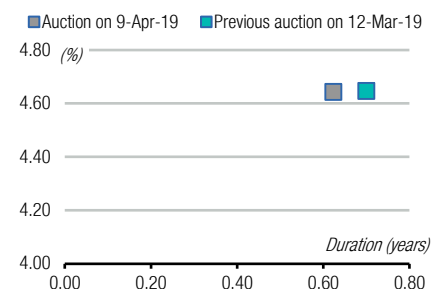
Source: Ministry of Finance of Ukraine, ICU.

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.

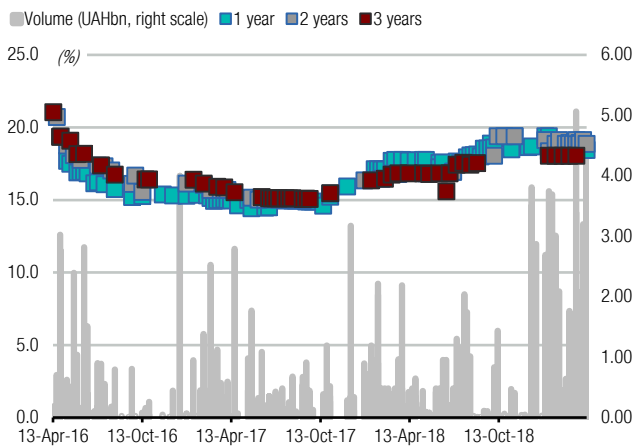
shorter maturities than yesterday's 12-month bills. This will be very important as the amount of repayments will be also larger.

Generally, yesterday's auction was positive for the budget, provided additional financing in local currency, and maintained the trend toward longer maturities. Demand for local-currency bills is still strong, with rates being different from recent cut-off rates. Some market participants see this as a sign that there will be a cut in the key policy rate as soon as two weeks from now. But the Ministry of Finance has been holding rates steady, since decreasing rates now could cut into the amount it can borrow.

Appendix: Yields-to-maturity, repayments

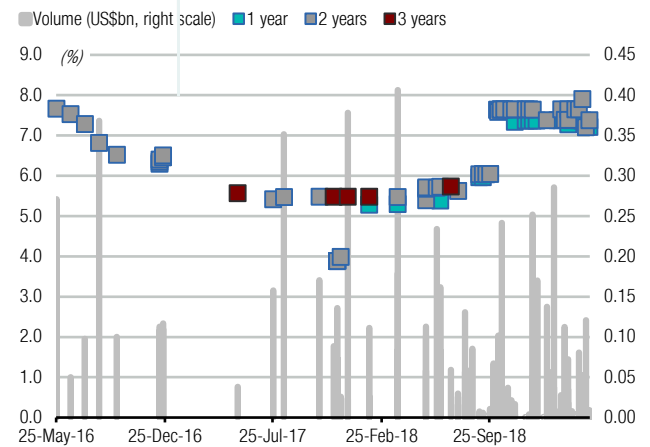
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

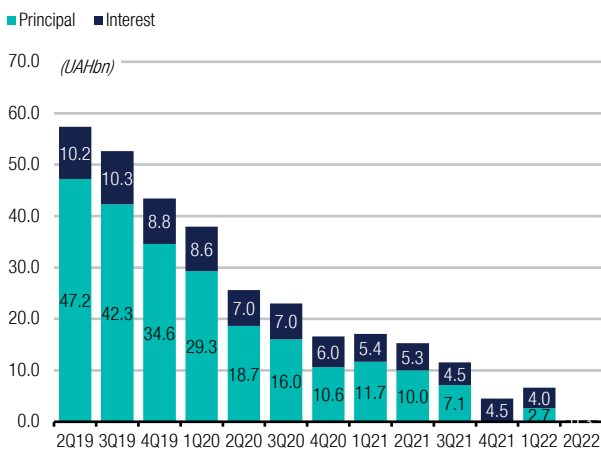
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

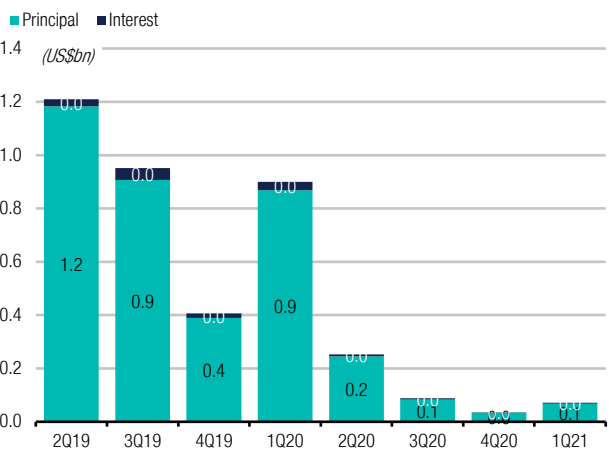
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

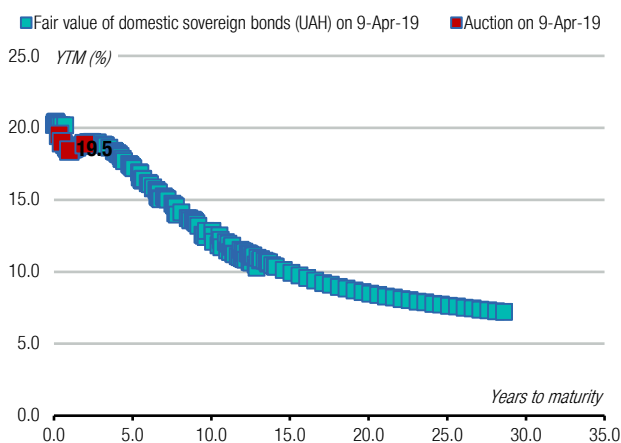
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

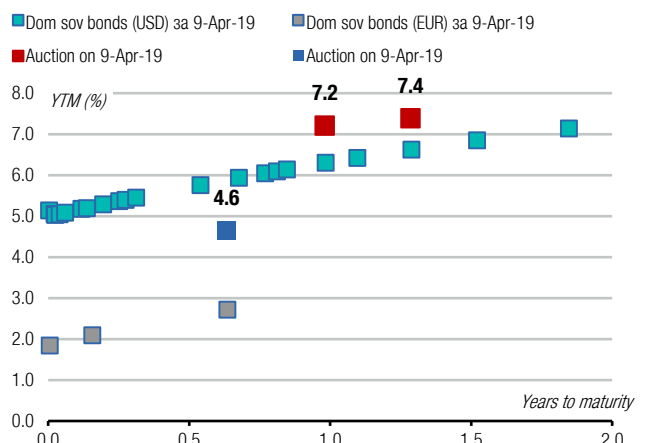
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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