

Bond Market Insight

Borrowings exceed UAH13bn

Comment on government bond placement

As the result of yesterday's auction, the Ministry of finance borrowed UAH13.5bn, including US\$199m in FX. All bills were sold at the usual levels of interest rates seen recently.

For the fourth consecutive week, the Ministry offered bills with the shortest maturity which exceed 100 days, and yesterday sold more than UAH4bn of 4-month bills, while 6-month and 12-month bills provided sufficiently lower amounts, UAH0.1bn and UAH0.6bn, respectively. Higher interest rates for shorter instruments supported demand.

At the same time, there was a high level of demand for medium-term bills, which were offered with two and three-year maturities. As usual in this category, demand was concentrated in the two-year bills, which provided UAH3bn of proceeds.

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

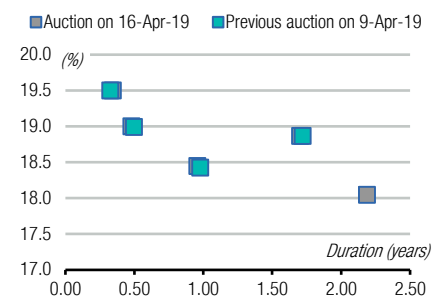
ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000203830	0.00	@Mty	21-Aug-19	4,388,999	936.93	4,112.18	4,389.00	19.50	4,389.00
UA4000203624	0.00	@Mty	9-Oct-19	136,387	916.51	125.00	136.39	19.00	3,104.47
UA4000203749	0.00	@Mty	1-Apr-20	679,187	849.68	577.09	679.19	18.45	4,307.31
UA4000203723	18.00	SA	24-Mar-21	2,979,646	1,009.99	3,009.41	2,979.65	18.87	6,983.49
UA4000203236	17.25	SA	5-Jan-22	310,167	1,045.55	324.30	310.17	18.05	465.76
Total UAH				8,494,386	8,147.98	8,494.39		19,250.03	
UA4000203566	0.00	@Mty	12-Dec-19	117,150	954.86	2,988.67	3,129.96	7.22	4,119.25
UA4000203848	3.85	SA	13-Aug-20	73,000	1,006.62	1,963.29	1,950.38	3.89	1,950.38
UA4000203392	7.50	SA	11-Feb-21	13,491	1,008.85	363.64	360.45	7.90	2,186.69
Total USD				203,641	5,315.60	5,440.78		8,256.32	

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

In spite of large proceeds in local currency, the most interesting offering was for FX-denominated bills. Large repayments in FX are scheduled this week, while in recent past weeks, there was a low level of refinancing of FX-denominated repayments. This week, the Ministry in addition to offering the usual bills; offered issue of bills with a put option. They were sold at the pre-announced fixed rate 3.85% denominated in US\$. During the month of April, redemption will occur for some issues sold in

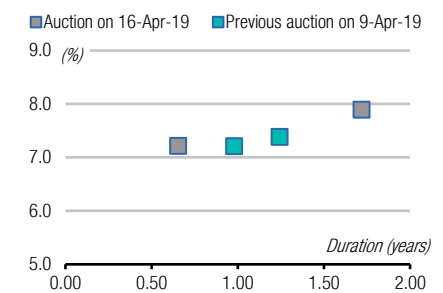
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



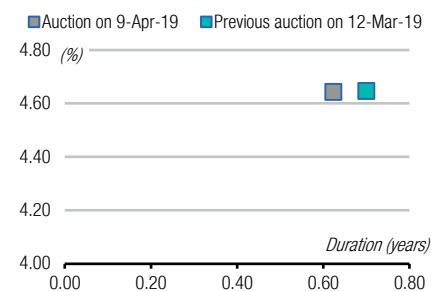
Source: Ministry of Finance of Ukraine, ICU.

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.

November 2017, at a 5.4% coupon rate, and this week, repayment of US\$73m on these borrowings is scheduled. We think that this repayment was reinvested in the new bills with the put option.

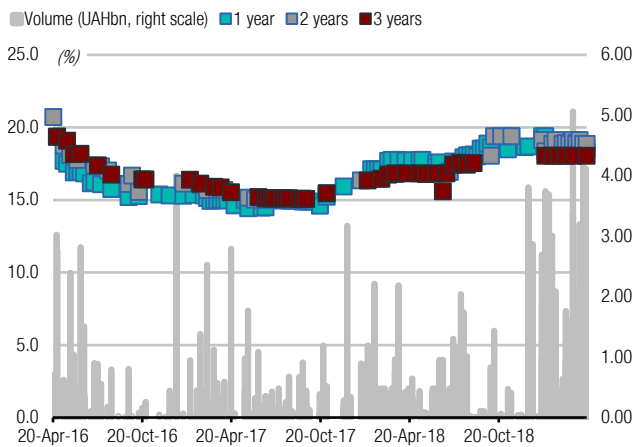
Thanks to these reinvestments and demand for two other FX-denominated instruments, the MoF borrowed US\$199m and refinanced nearly 60% of debt repayments in FX.

Generally, borrowings for budget financing are high and concentrated in local currency, which is positive for debt policy. But with low refinancing of repayments in FX, the FX balance in the government's accounts has declined, making new external borrowing and greater domestic borrowing in FX a necessity.

Appendix: Yields-to-maturity, repayments

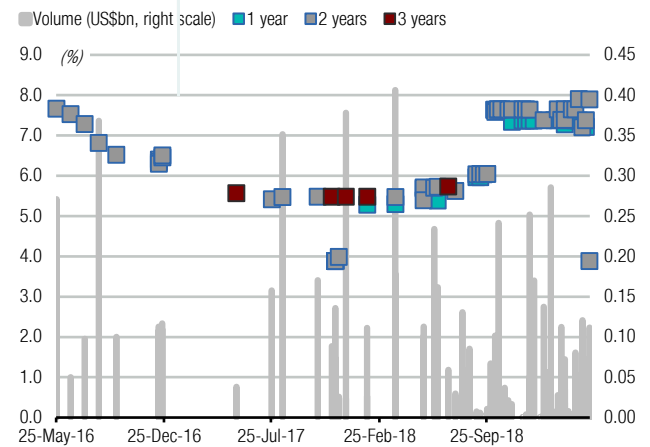
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

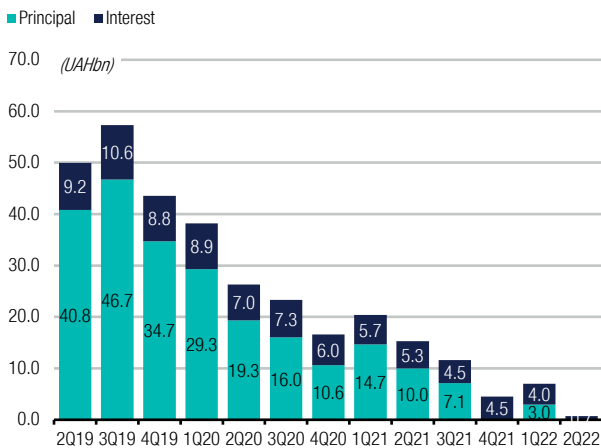
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

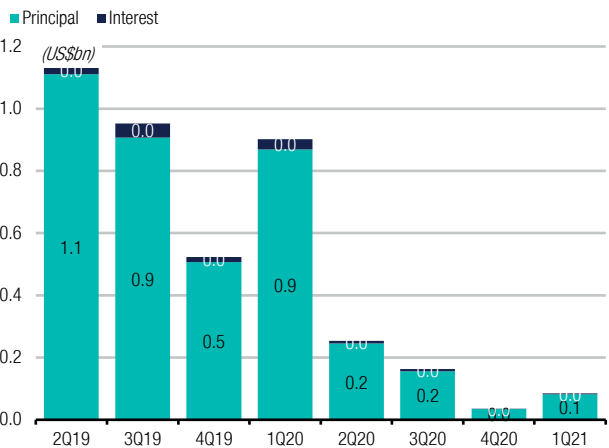
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

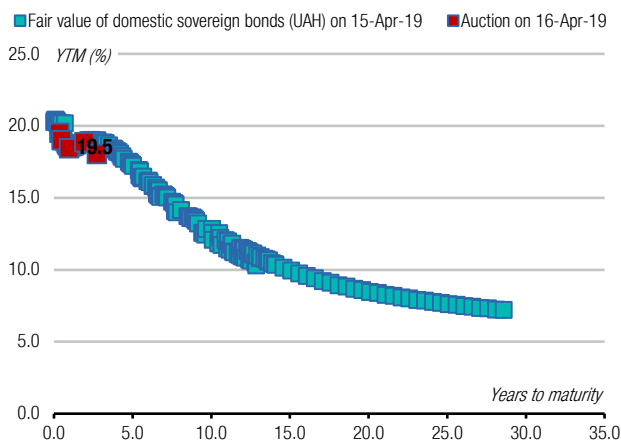
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

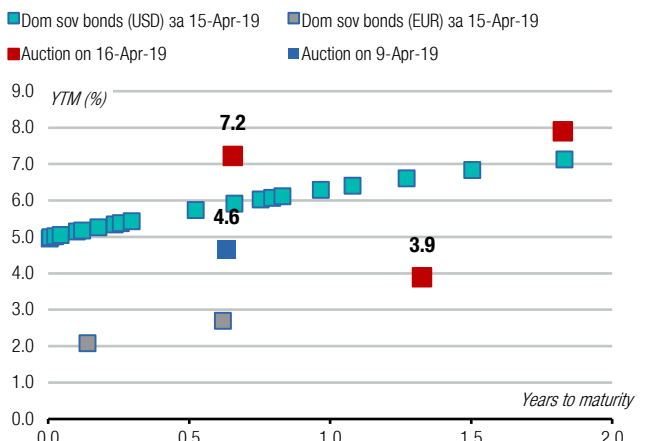
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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