

Bond Market Insight

Refinancing debt repayments

Comment on government bond placement

At June's debut auction, the MoF borrowed more than UAH8bn, mostly in FX-denominated bills. Demand was sufficient to fully refinance local-currency repayments and most repayments in FX.

Demand for UAH-denominated bills remained low. Expectations that the NBU will keep the key policy rate unchanged did not increase activity yesterday, nor did the link to Clearstream. The total amount of bids for local-currency bills was UAH2.4bn, out of which the MoF accepted UAH2bn, keeping cut-off rates unchanged. However, these borrowings covered all local-currency debt repayments scheduled for this week.

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

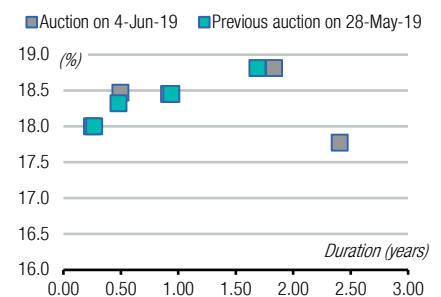
ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000202295	0.00	@Mty	4-Sep-19	110,945	957.05	106.18	110.95	18.00	3,645.68
UA4000203632	0.00	@Mty	4-Dec-19	346,422	915.67	317.21	346.42	18.47	2,356.42
UA4000203921	0.00	@Mty	6-May-20	712,614	854.82	609.16	712.61	18.45	4,219.18
UA4000195176	16.00	SA	11-Aug-21	220,650	1,014.31	223.81	220.65	18.81	260.65
UA4000204002	17.00	SA	11-May-22	568,000	1,009.46	573.37	568.00	17.78	658.00
Total UAH				1,958,631	1,829.72	1,958.63			11,139.93
UA4000202535	7.50	SA	30-Jan-20	76,212	1,027.39	2,125.83	2,069.16	7.37	7,028.70
UA4000197396	5.49	SA	13-May-20	25,725	987.55	689.74	698.43	7.38	7,061.72
UA4000203848	3.85	SA	13-Aug-20	26,000	1,011.80	714.23	705.90	3.89	4,669.80
UA4000203947	3.85	SA	20-Aug-20	73,000	1,011.06	2,003.87	1,981.95	3.89	4,235.40
UA4000204069	7.53	SA	3-Jun-21	1,633	999.97	44.33	44.34	7.68	44.34
Total USD				202,570	5,578.00	5,499.78			23,039.95
UA4000200711	4.12	SA	27-Nov-19	18,198	999.03	555.40	555.93	4.56	9,294.99
UA4000204085	4.60	@Mty	4-Jun-20	17,965	956.25	524.81	548.82	4.58	548.82
Total EUR				36,163	1,080.20	1,104.75			9,843.80

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 27.15/USD, 30.55/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

At the same time, the MoF had to refinance the main part of FX-denominated debt repayments. The Ministry included in the offering seven bills in two currencies. Five issues were denominated in US dollars, including two with a put option, and two issues were denominated in euro. This variety of issues with different conditions provided US\$205m and EUR35m, covering nearly 80% of this week's debt repayments in FX.

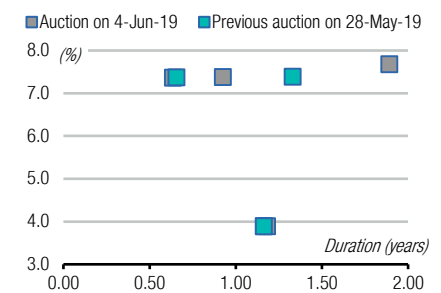
WEDNESDAY, 5 JUNE 2019

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



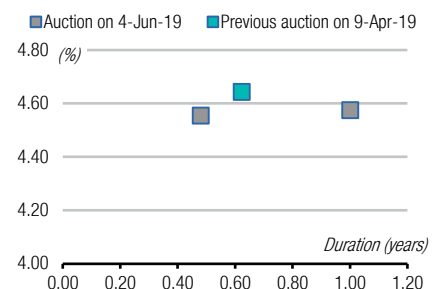
Source: Ministry of Finance of Ukraine, ICU.

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



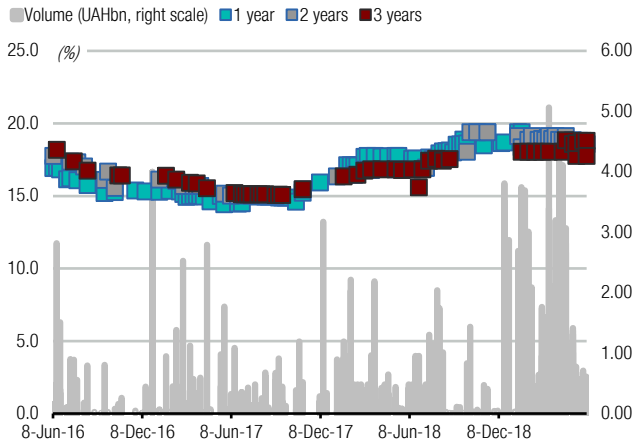
Source: Ministry of Finance of Ukraine, ICU.

We did not see an increase in foreign investors' activity due to opening a link with Clearstream, but they likely did buy part of the local-currency debt offered. Locals expect the key policy rate to remain unchanged, and are very concerned about the recent weakening of hryvnia, so they prefer to buy FX-denominated bills in small amounts.

Appendix: Yields-to-maturity, repayments

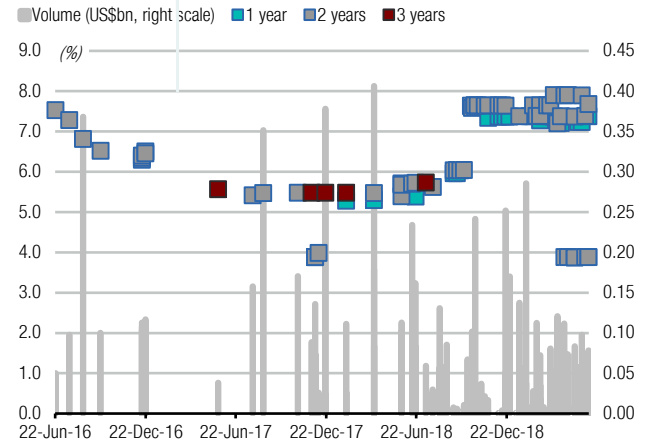
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

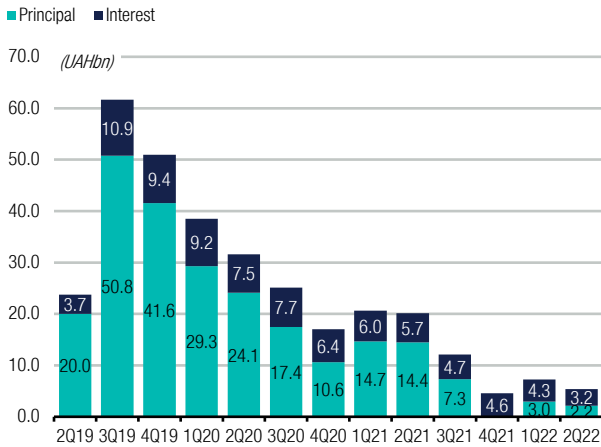
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

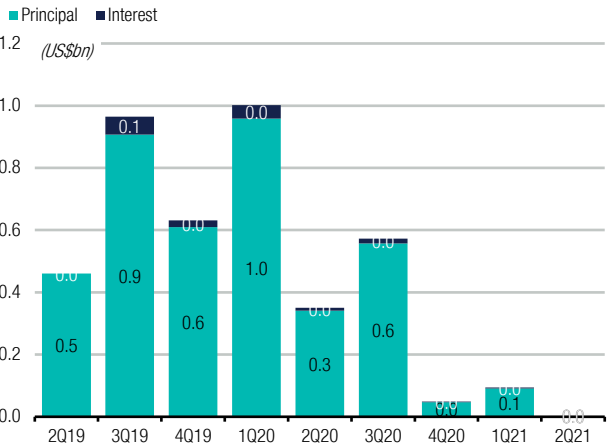
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

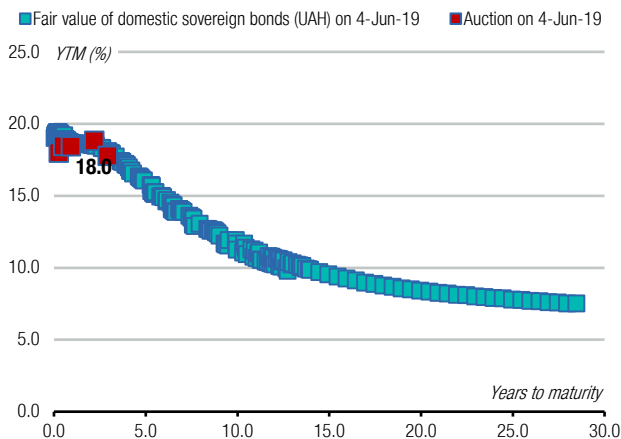
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

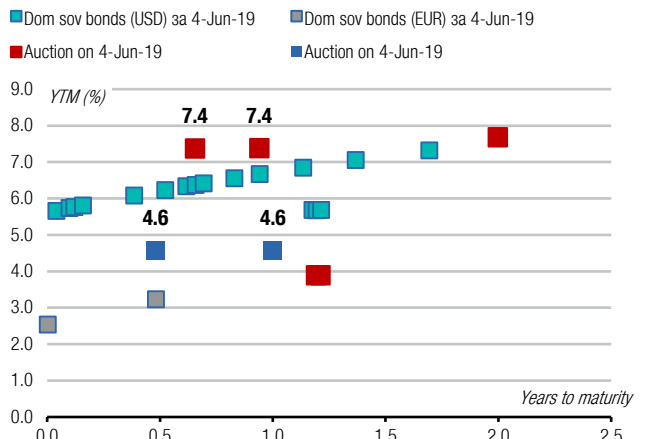
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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