

Bond Market Insight

More borrowings in FX

Comment on government bond placement

Borrowing in the domestic bonds market still relies on demand from foreign investors, which, in turn, depends on which instruments are offered. This week, demand once again favoured FX-denominated bills, which allowed the MoF to refinance part of today's debt repayments.

Unlike last week when most of the proceeds were from UAH-denominated paper and demand for FX-denominated bills was insufficient, this week 76% of proceeds were from FX-denominated bills. After the MoF repaid EUR254.6m last Wednesday, yesterday it received EUR112.7 from new bills in this currency, the main portion of proceeds in FX. Three USD-denominated bills provided the state budget with US\$100.2m; however, debt repayments today are x5 larger. At the same time, some of today's repayments can be reinvested in new bills during next week's scheduled offering.

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

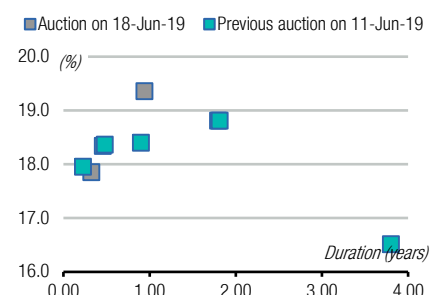
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000204184	0.00	@Mty	16-Oct-19	500,000	945.00	472.50	500.00	17.85	500.00
UA4000203632	0.00	@Mty	4-Dec-19	500,000	922.16	461.08	500.00	18.34	3,356.42
UA4000198006	14.64	SA	10-Jun-20	699,612	969.88	678.54	699.61	19.36	4,255.32
UA4000195176	16.00	SA	11-Aug-21	290,180	1,021.03	296.28	290.18	18.81	1,913.07
Total UAH				1,989,792		1,908.40	1,989.79		10,024.81
UA4000203764	0.00	@Mty	2-Apr-20	34,646	946.21	864.16	913.29	7.20	3,154.46
UA4000197396	5.49	SA	13-May-20	53,202	990.26	1,388.77	1,402.43	7.38	8,258.80
UA4000204069	7.53	SA	3-Jun-21	14,753	998.91	388.47	388.90	7.91	431.94
Total USD				102,601		2,641.40	2,704.61		11,845.20
UA4000200711	4.12	SA	27-Nov-19	112,605	1,000.41	3,324.10	3,322.74	4.63	12,300.92
Total EUR				112,605		3,324.10	3,322.74		12,300.92

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 26.36/USD, 29.51/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand for UAH-denominated bills was concentrated in the two shortest issues, which were offered in limited amounts, although the Ministry decided to not cancel these limits. These two bills were sold at UAH500m each, satisfying only 41% and 63% of demand for four-month and six-month bills, decreasing cut-off rates by 15bp and 4bp, respectively.

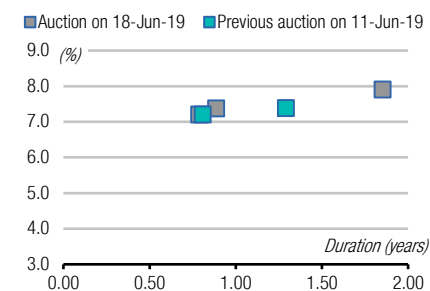
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



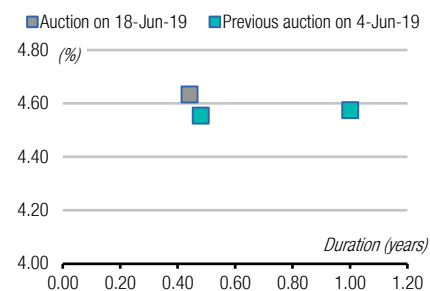
Source: Ministry of Finance of Ukraine, ICU.

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.

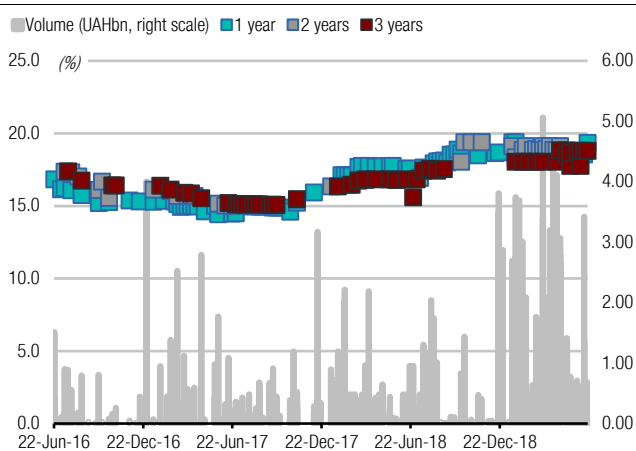
For six-month bills, the cut-off rate moved down for the second consecutive week, in total declining by 15bp since the beginning of May. At the same time, the cut-off rate for three-month bills has been volatile at around 18%. After the NBU decreased its key policy rate at the end of April, the cut-off rate slid to 18.5%, then fell to 17.89% based on demand, rose to 18%, and yesterday declined once more. Due to limits, MoF accepted only part of demand with the lowest rates, which has caused volatility in rates.

Next week, the MoF will offer six-year notes, which have been the most popular among foreign investors. We expect an increase in demand for UAH-denominated paper, which will provide more borrowings. Today's FX-denominated debt repayments will be partially spent on new bills, while the six-year note should attract new demand from foreigners, allowing the MoF to refinance all UAH7.4bn of debt repayments next week.

Appendix: Yields-to-maturity, repayments

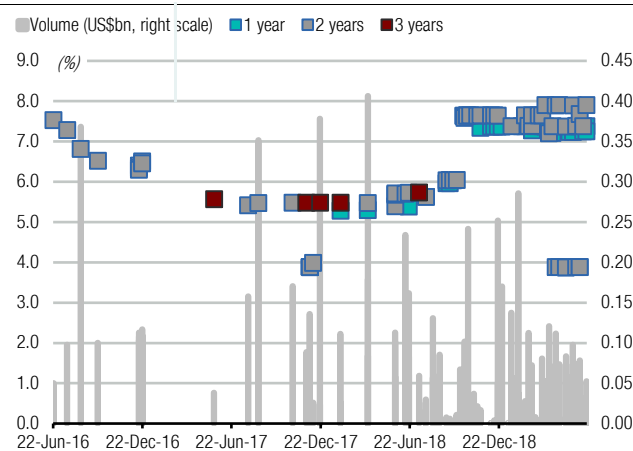
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

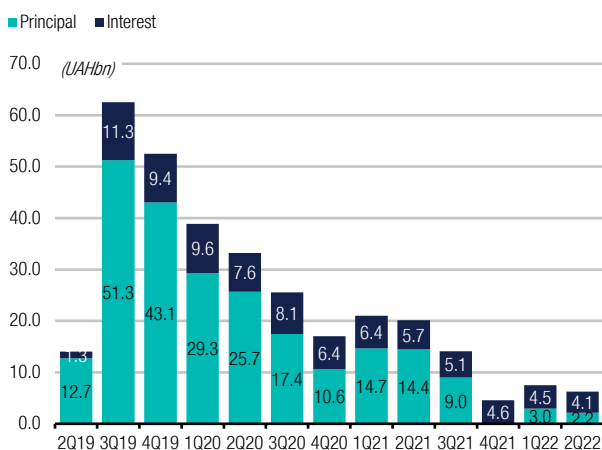
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

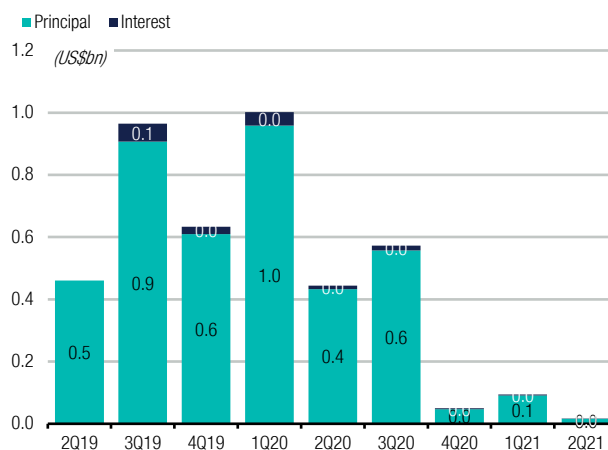
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

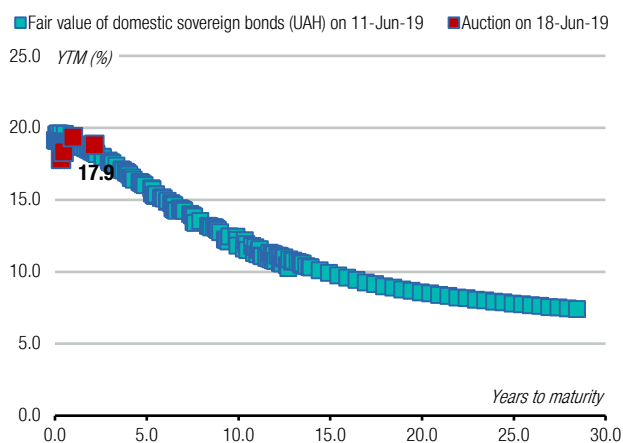
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

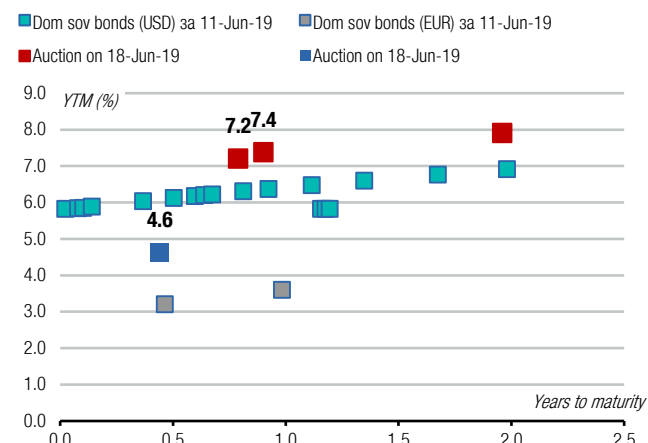
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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