

Bond Market Insight

Hryvnia borrowings increase

Comment on government bond placement

In July's first auction, demand for local-currency bills exceeded UAH10bn, and the amount of borrowings exceeded UAH8bn. These amounts were greater than at any auction during the previous two months. Yesterday's demand was spread across all instruments, while interest rates in the bids allowed a decrease in the cost of borrowings.

The usual limits were set for the two shortest bills, the three-month and seven-month, despite the fact that the seven-month bills mature in 2020. Due to these limits, most demand for these bills was rejected, and cut-off rates were decreased by 31bp for each of them, to 17.44% and 17.94%, respectively.

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
UA4000204184	0.00	@Mty	16-Oct-19	500,000	952.23	476.12	500.00	17.44	1,420.47
UA4000203244	0.00	@Mty	29-Jan-20	500,000	906.58	453.29	500.00	17.91	1,387.97
UA4000198006	14.64	SA	10-Jun-20	2,129,893	978.26	2,083.60	2,129.89	19.12	7,212.07
UA4000202469	17.25	SA	30-Sep-20	1,330,000	1,034.37	1,375.72	1,330.00	18.84	3,064.54
UA4000195176	16.00	SA	11-Aug-21	2,448,990	1,027.96	2,517.46	2,448.99	18.80	4,362.06
UA4000204002	17.00	SA	11-May-22	1,110,024	1,023.74	1,136.37	1,110.02	17.70	2,809.02
Total UAH				8,018,907	8,042.55	8,018.91			20,256.13

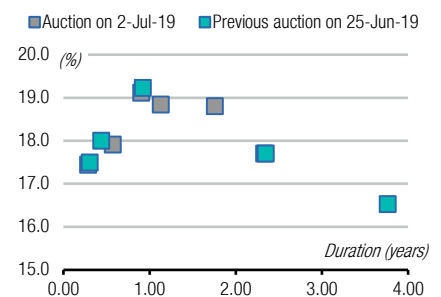
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.18/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

At the same time, for longer bills that had no limits, the MoF also decreased some rates. For one-year bills, the cut-off rate was cut by 10bp, and for the three-year, it was cut by 5bp. The MoF kept unchanged rates for 1.5-year and two-year bills. For all of these issues, the Ministry accepted most of demand including all of the demand for two-year paper.

As the result of the auction, the Ministry received more than UAH8bn of proceeds, and only UAH0.5bn has to be paid in 2019. The other bills will have redemptions in 2020-22. These borrowings improve the schedule of debt repayments and the maturity structure, as they refinanced repayments on six-month bills issued earlier this year. In our view, the increase in hryvnia-denominated borrowings and their concentration in longer bills is due to demand from foreign investors.

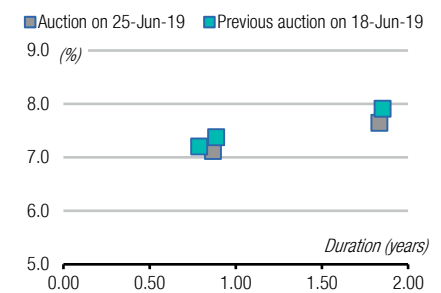
WEDNESDAY, 3 JULY 2019

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



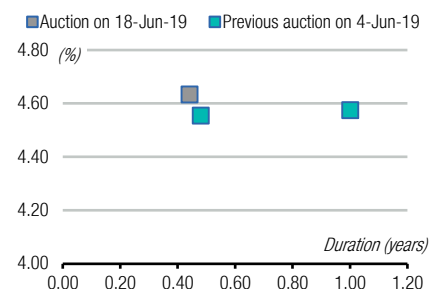
Source: Ministry of Finance of Ukraine, ICU.

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

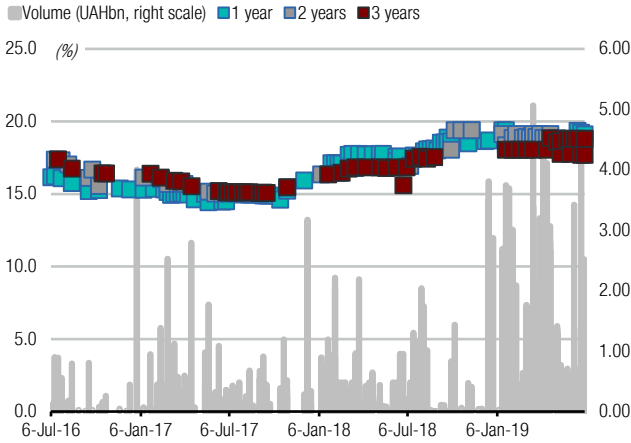


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

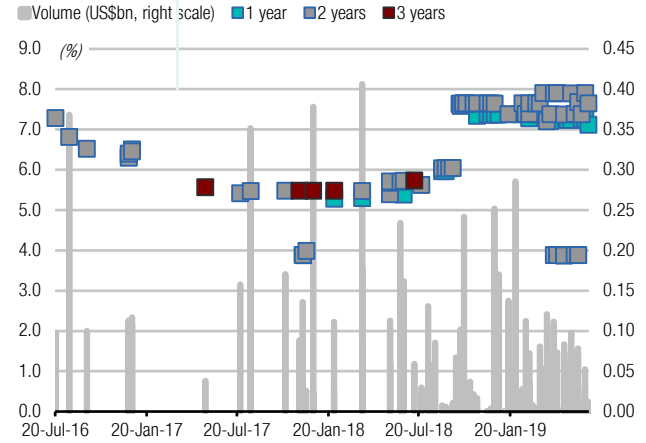
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

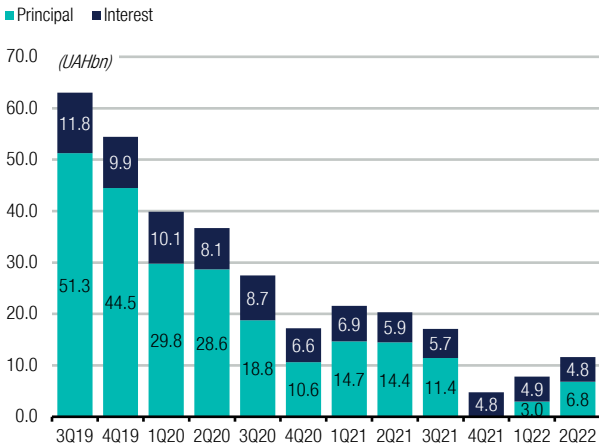
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

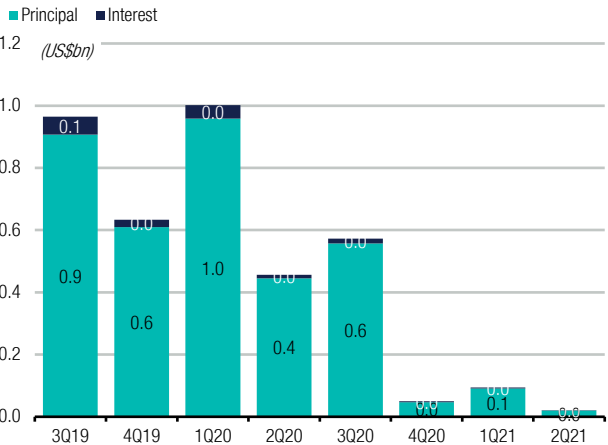
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

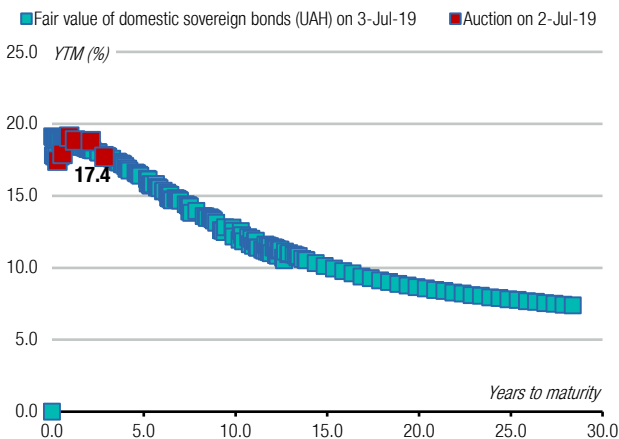
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

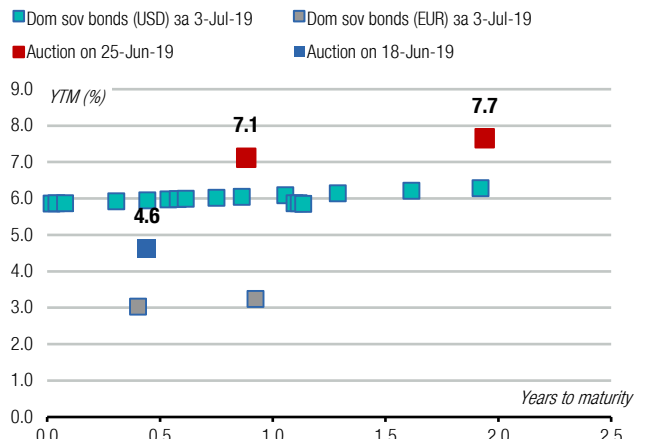
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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