

Bond Market Insight

Larger and cheaper borrowings

Comment on government bond placement

The Ministry of Finance continues to use the primary market sentiment to decrease interest rates on government bills. Yesterday, all offered instruments had lower rates. Despite this, the Ministry borrowed a record amount of funds, over UAH33bn.

Although the longest maturity offered at this auction was two years, demand exceeded expectations, and amounted to UAH10.5bn, concentrated in the two-year bills. Demand for short-term bills was about half. As a result, cut-off rates for all UAH-denominated bills were decreased by 20-26bp. For the shortest, the three month, the rate was lowered to 17%, while for one and two-year bills, it was set at similar level, 17.74% and 17.75%, respectively. This level now is the highest for local-currency bills in the primary bond market.

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 (%)	Out-standing (m) ⁴
UA4000204184	0.00	@Mty	16-Oct-19	500,000	959.43	479.72	500.00	16.96	2,420.47
UA4000203244	0.00	@Mty	29-Jan-20	500,000	915.39	457.69	500.00	17.21	2,387.97
UA4000171094	14.30	SA	8-Jul-20	1,000,000	973.36	973.36	1,000.00	18.52	5,099.77
UA4000195176	16.00	SA	11-Aug-21	5,290,974	1,038.71	5,495.81	5,290.97	18.54	9,653.03
Total UAH				7,290,974	7,406.57	7,290.97			19,561.24
UA4000204457	0.00	@Mty	9-Jul-20	671,623	940.38	16,316.89	17,351.38	6.46	17,351.38
UA4000204069	7.53	SA	3-Jun-21	367,530	1,017.78	9,663.97	9,495.14	7.13	10,017.00
Total USD				1,039,153	25,980.86	26,846.52			27,368.38

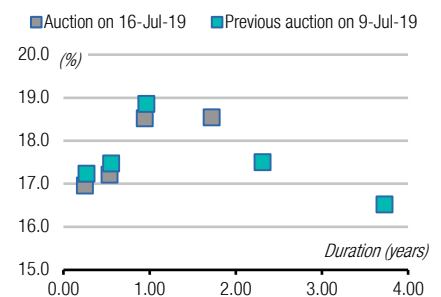
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 25.84/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The MoF did not offer FX-denominated bills for the previous two weeks. Last week, US\$0.5bn was repaid, and this week, nearly US\$.3bn has to be paid, so demand amounting to US\$1.1bn was not a surprise. Taking into account that as autumn approaches, which usually means a weakening of the hryvnia, demand for these bills usually increases.

At the same time, the Ministry also decreased cut-off rates for these bills, rejecting just 8% of demand, in the amount of US\$86m. For both US dollars issues with one and two-year maturities, the Ministry decreased cut-off rates by 50bp since last time

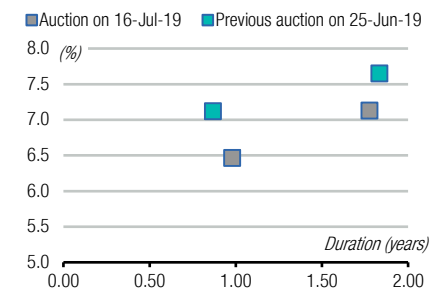
WEDNESDAY, 17 JULY 2019

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



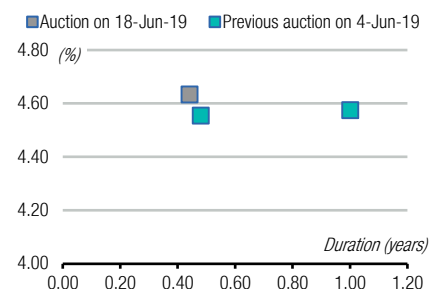
Source: Ministry of Finance of Ukraine, ICU.

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.

they were sold in June, to 6.5% and 7%, respectively.

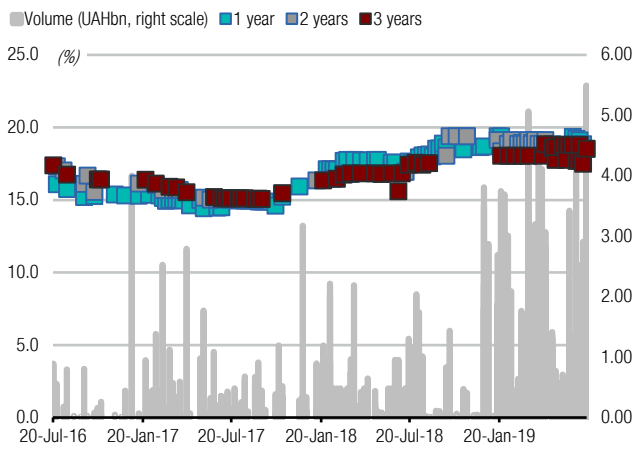
Expectations that the NBU will decrease its key rate on Thursday supported demand for UAH-denominated bills, while limited offerings increased competition for bills up to one year, allowing the Ministry to once again decrease interest rates. Competition for FX-denominated bills contributed to lower rates, as all demand is concentrated in one auction per month.

As a result, the cost of borrowing continues to decline, and very likely that will continue, especially for UAH-denominated bills.

Appendix: Yields-to-maturity, repayments

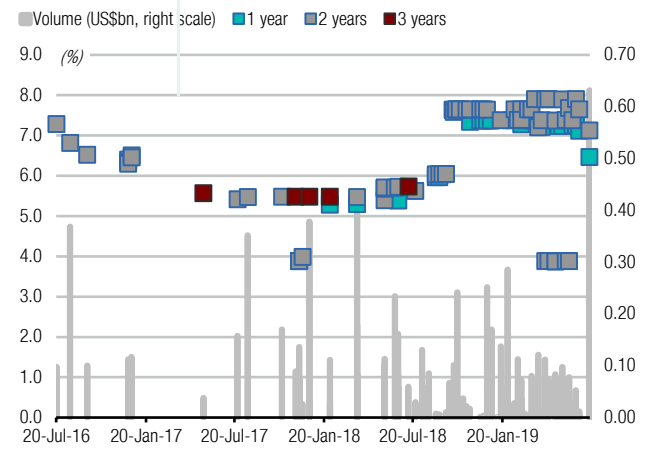
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

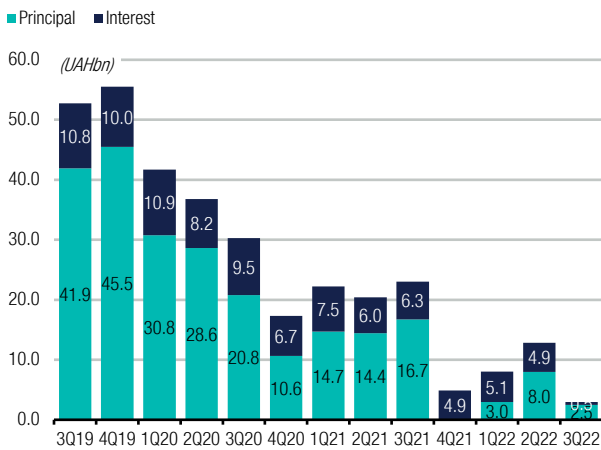
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

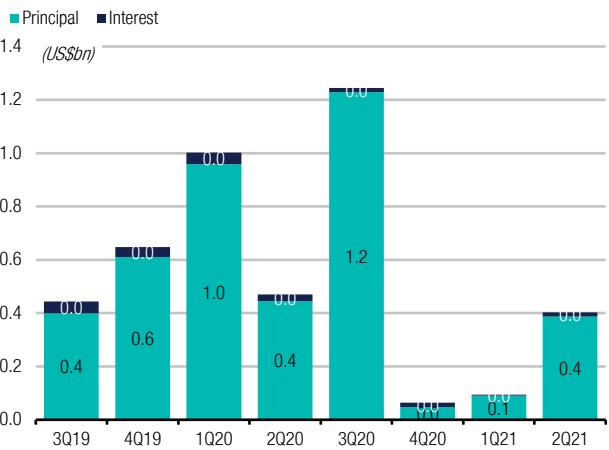
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

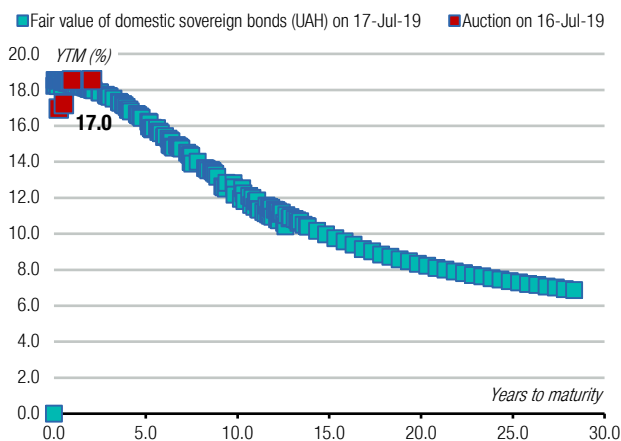
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

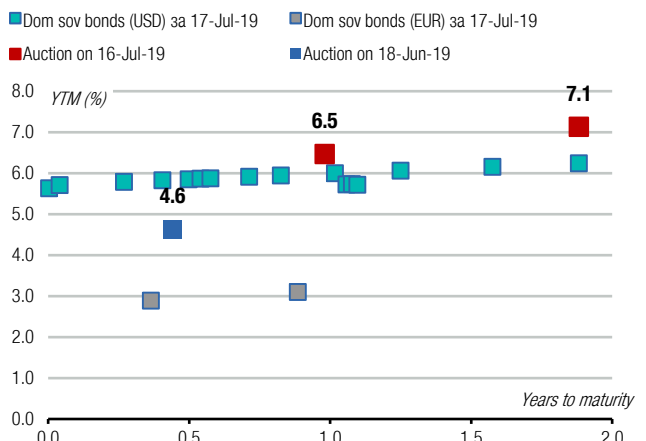
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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