

Bond Market Insight

Level of Borrowing Falls

Comment on government bond placement

Yesterday's auction saw abysmally low demand for UAH-denominated bills, although this did not prevent the MoF from further cutting interest rates by rejecting some bids.

Total demand was UAH86.8m, the lowest amount seen this year for local-currency bills. But in terms of actual borrowings, the lowest amount was at the beginning of this year, when MoF borrowed in hryvnia just UAH41.9m. Yesterday's proceeds were UAH77.2m.

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
UA4000196620	15.74	SA	15-Jan-20	18,597	1,032.54	19.20	18.60	16.42	2,951.47
UA4000202469	17.25	SA	30-Sep-20	15,000	1,019.38	15.29	15.00	15.71	3,079.54
UA4000204986	15.36	SA	29-Sep-21	42,700	1,000.03	42.70	42.70	16.00	42.70
Total UAH				76,297		77.19	76.30		6,073.71

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 24.94/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

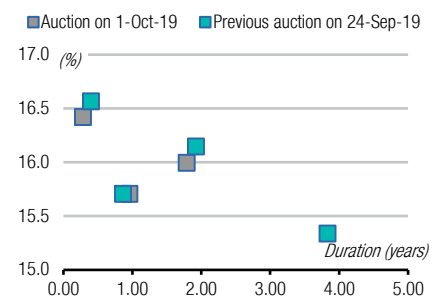
For three-month and two-year bills, the MoF rejected only one bid for each, decreasing rates for these maturities. For three-month paper, rates were down 25bp, to 15.75%. The decline in the two-year instrument was less significant at just 11bp for cut-off and 14bp for weighted-average rates, to 15.39% and 15.36%, respectively.

The rate was unchanged only for one-year bills, for which the MoF received only one non-competitive bid. The Ministry accepted this bid at the same level as last week.

In sharp contrast to last week's auction, demand was insufficient, and, therefore, had low impact on budget financing. This could be because of the amount of investment last week. In addition, the hryvnia has weakened, which adds uncertainty and risk to holding local-currency bills, making investors cautious.

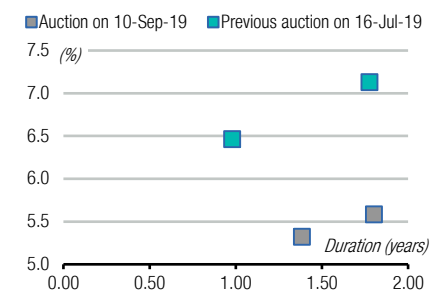
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



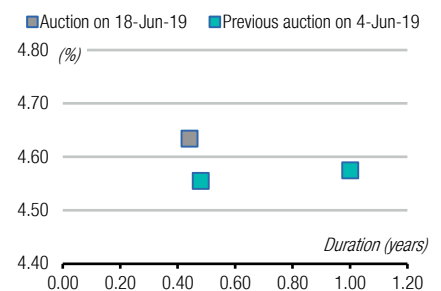
Source: Ministry of Finance of Ukraine, ICU.

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

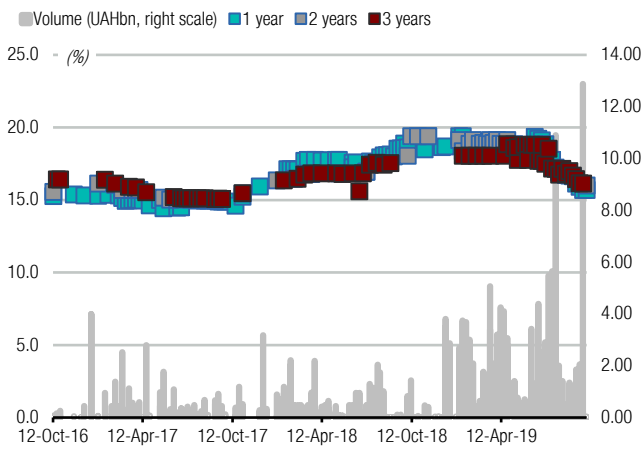


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

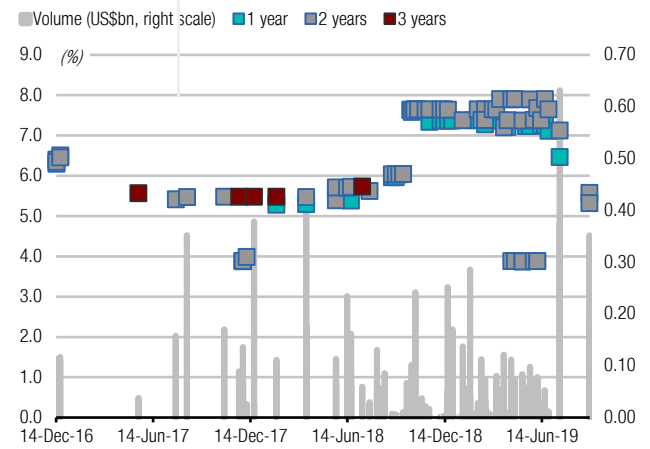
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

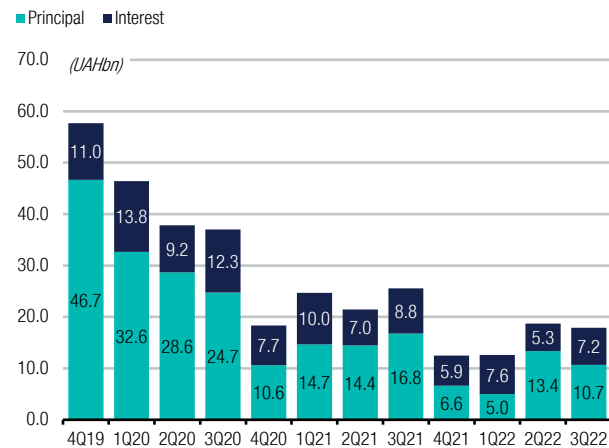
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

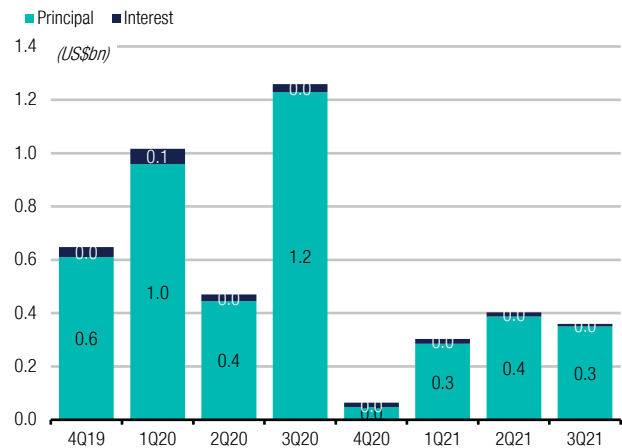
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

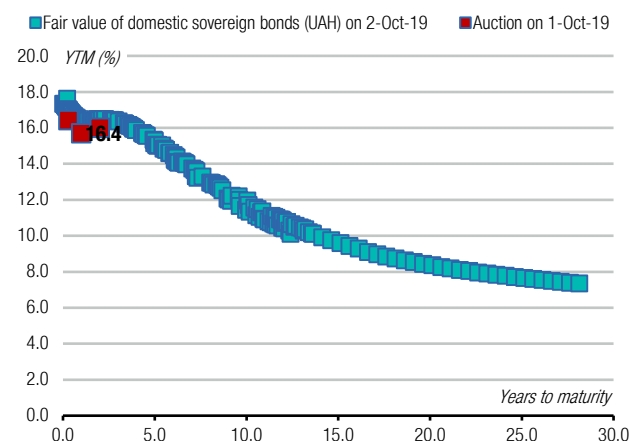
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

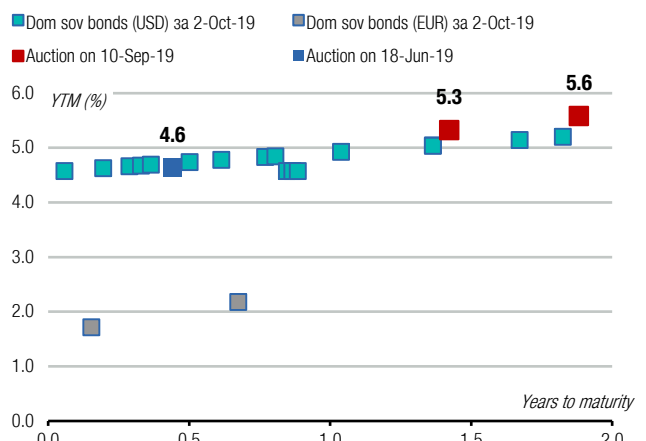
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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