

# Bond Market Insight

## Budget receives new funds

### Comment on government bond placement

Since there are no debt redemptions today, all funds from yesterday's auction are new investments in local-currency bills. Demand, and, therefore, proceeds were low. However, there were bids for all offered maturities, and the MoF had some maneuver room in setting rates.

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

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000203921	0.00	@Mty	6-May-20	212,667	982.29	208.90	212.67	9.40	5,801.50
UA4000207989	9.63	SA	21-Jul-21	473,600	1,005.60	476.25	473.60	10.18	1,617.45
UA4000203236	17.25	SA	5-Jan-22	600,875	1,143.46	687.08	600.88	10.28	5,791.17
UA4000207518	9.79	SA	26-May-27	225,350	1,014.16	228.54	225.35	10.23	3,874.92
<b>Total UAH</b>				<b>1,512,492</b>	<b>1,600.77</b>	<b>1,512.49</b>			<b>17,085.03</b>

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 24.56/USD, 26.01/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Two-month bills were the shortest maturity offered, and the Ministry was able to slightly decrease interest rates. Demand was lower than the offered amount; however, the MoF decided not to increase rates and accepted two-thirds of demand with rates not higher than 9.4%. The level was the same for both the lowest and weighted-average rate, which indicates that probably only one competitive bid was accepted and the other four bids were non-competitive.

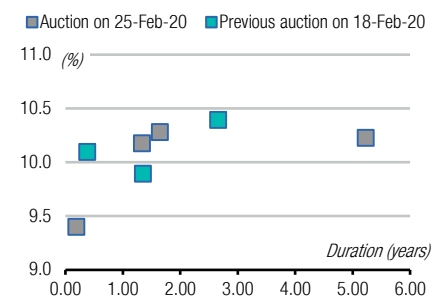
Rates were increased for the 1.5-year bills and came in very close to two-year paper. The cut-off rate was up 35bp to 10%, the same as for the two-year maturity. The weighted-average rate rose 27bp to 9.9%, or just 10bp below the same rate for two-year paper. Demand for 1.5-year bills exceeded the offered amount, but the Ministry sold a bit less, and rejected UAH60m of demand.

Most bidders for the two-year instrument were looking for higher rates than two weeks ago, but this demand was just 16% from total amount of bids for this maturity, and it was rejected. The Ministry sold just 60% of the offering, keeping interest rates unchanged at 10%.

The seven-year note offering did not have a cap, but demand was low. The MoF was resolved in keeping interest rates unchanged, and rejected 40% of demand, keeping the cut-off rate unchanged at 9.95%. But the weighted-average rate was up

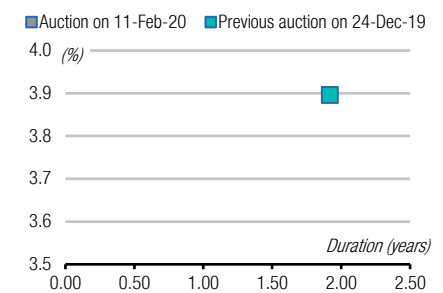
### WEDNESDAY, 26 FEBRUARY 2020

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



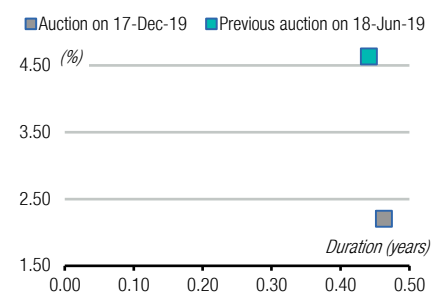
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

16bp to 9.95%, the same level as the cut-off rate.

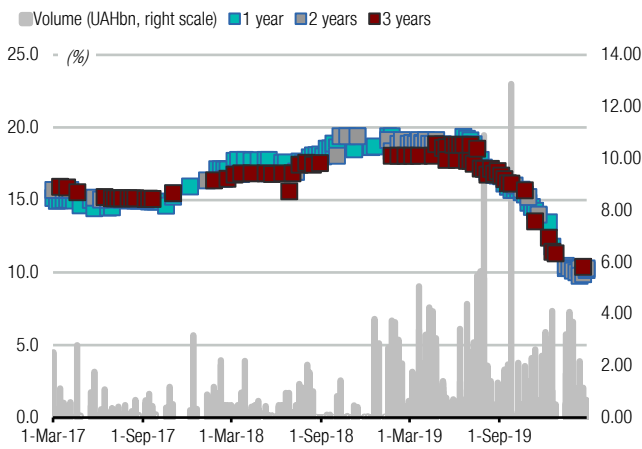
Taking into the account the unstable global situation due to CoVID-19, borrowings of UAH1.6bn of new funds for the budget was a quite positive result. However, the amount of funds raised was small, especially compared with last year's active foreign investment in local-currency debt.

Next week, we anticipate the auction will be more active, as at the beginning of March about UAH4.2bn will be due in principal repayments. So, as the next review of the key policy rate by the NBU is coming soon, a large part of redemptions will be reinvested in new instruments to be offered next week.

# Appendix: Yields-to-maturity, repayments

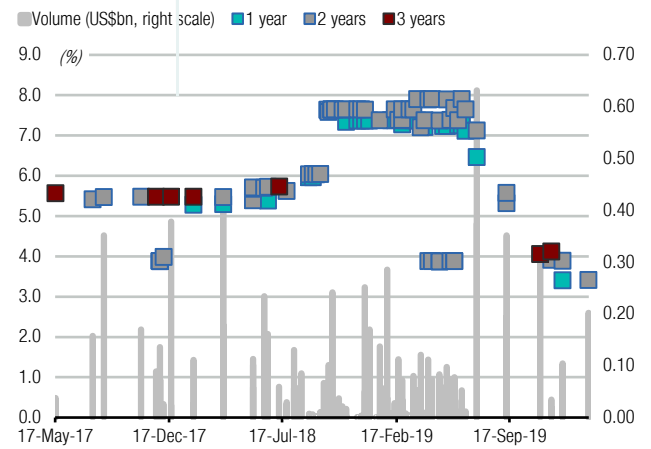
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

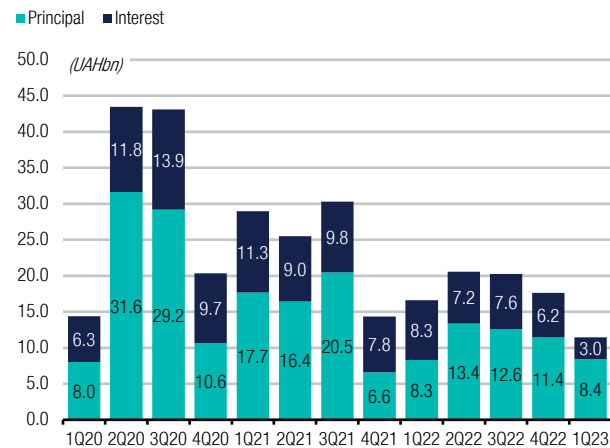
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

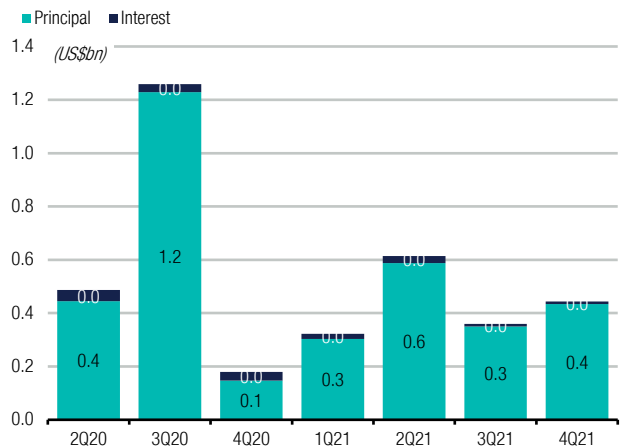
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

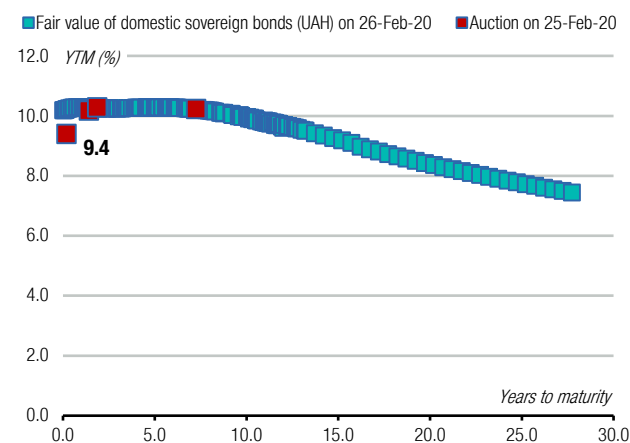
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

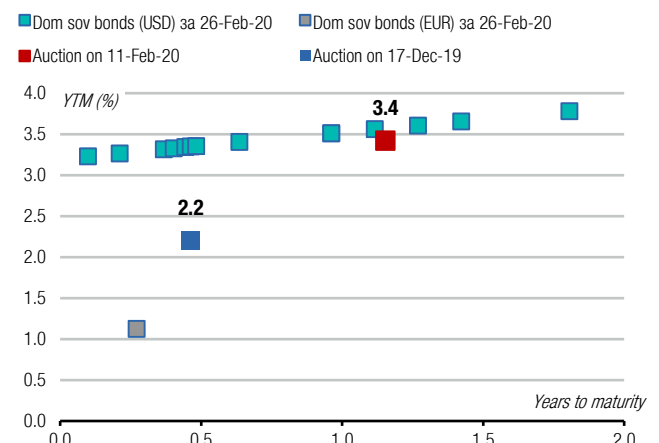
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kyiv, 01030 Ukraine  
Phone/Fax +38 044 3777040

**WEB** [www.icu.ua](http://www.icu.ua)



## RESEARCH

**Alexander Martynenko** 

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Mykhaylo Demkiv** 

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Taras Kotovych** 

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Dmitriy Dyachenko**

Junior financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

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