

# Bond Market Insight

## Budget financing in FX

### Comment on government bond placement

The Ministry shifted its focus to FX-denominated bills, and increased budget financing from yesterday's auction to UAH6.6bn. Interest rates mostly remained steady.

There may have been some demand for bills with maturities over one year, but most likely it was low such that the MoF decided to not include these maturities in yesterday's offering. The main reason for this decision could be because of the instability in global financial markets, but also because of local instability as today there could be some changes in the government.

**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>
UA4000198873	14.50	SA	19-Aug-20	1,000,000	1,025.72	1,025.72	1,000.00	10.17	5,430.73
<b>Total UAH</b>				<b>1,000,000</b>	<b>1,025.72</b>	<b>1,000.00</b>			<b>5,430.73</b>
UA4000208151	2.22	SA	19-Nov-20	200,000	1,006.39	5,622.58	5,586.86	2.23	5,586.86
<b>Total EUR</b>				<b>200,000</b>	<b>5,622.58</b>	<b>5,586.86</b>			<b>5,586.86</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, 27.93/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

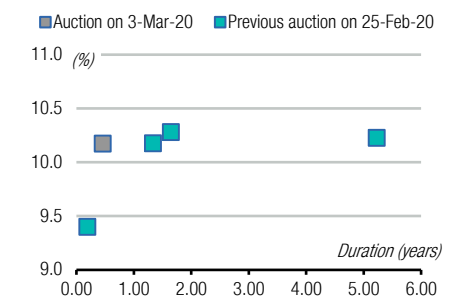
This decision favoured six-month bills. Demand was UAH1.5bn for an offering that was UAH1bn. Interest rates in bids ranged between 9.8–12%, but most were at or below 10%. This allowed the Ministry to sell all offered bills, keeping the cut-off rate unchanged at 10% with a slight increase in the weighted-average rate by 8bp to 9.9%.

The offering of FX-denominated bills, which actually replaced medium-term bills, also received good demand. It was EUR38.8m larger than the offering, so the MoF sold the needed amount of bills. The cut-off rate was reduced by 5bp to 2.25%, while the weighted-average rate remained the same as last December, 2.22%. Proceeds from this issue were at EUR201.3m.

So, yesterday's auction was quite positive considering current market conditions. The proceeds replenished not only local-currency funds, but also FX, which had seen a decline after recent interest repayments on Ukrainian Eurobonds. The total amount of proceeds was also positive for the Ukrainian state budget.

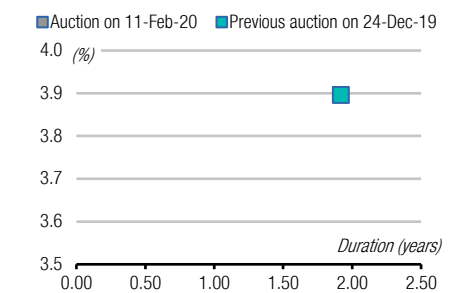
### WEDNESDAY, 4 MARCH 2020

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



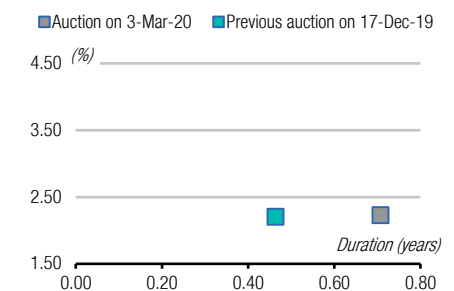
Source: Ministry of Finance of Ukraine, ICU.

#### 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

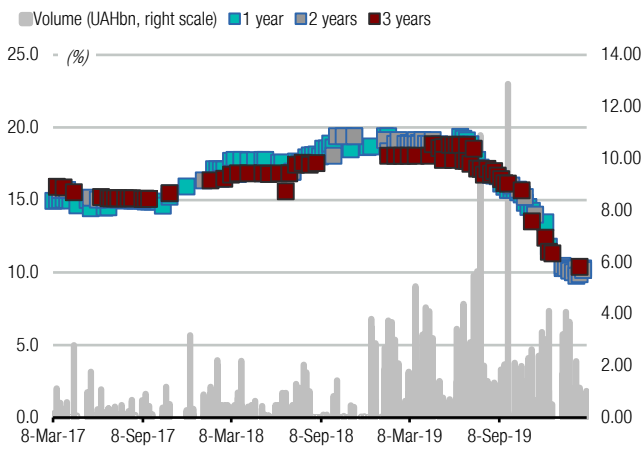


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

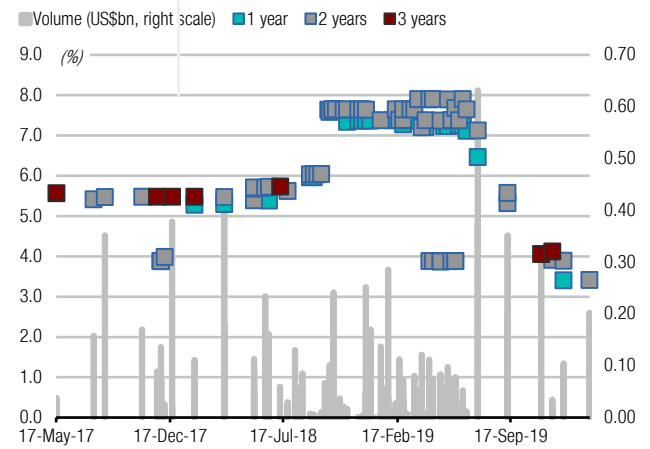
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

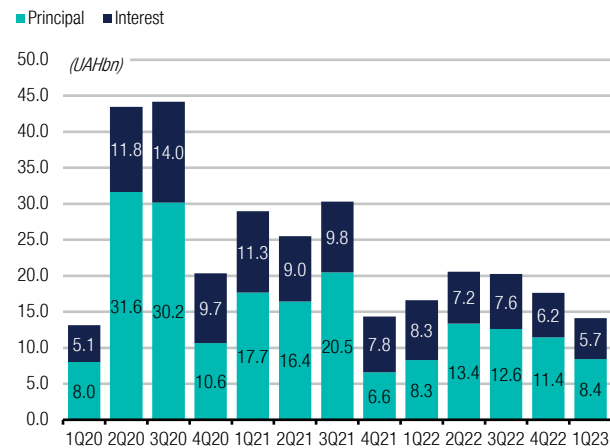
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

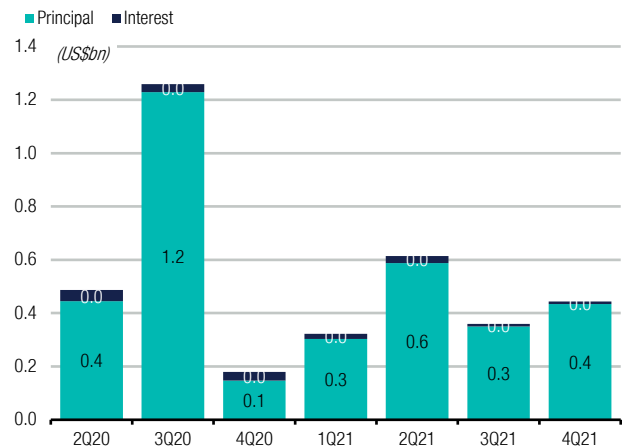
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

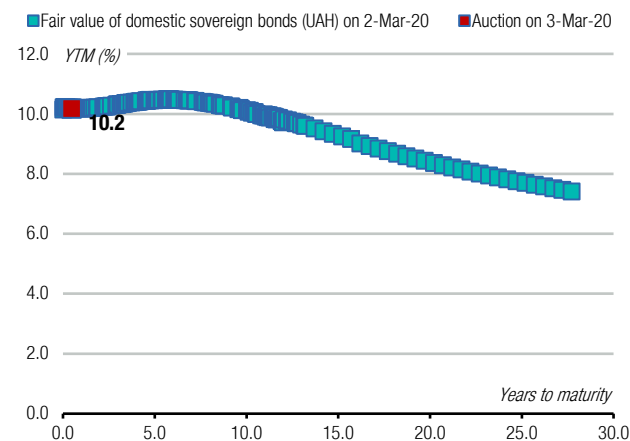
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

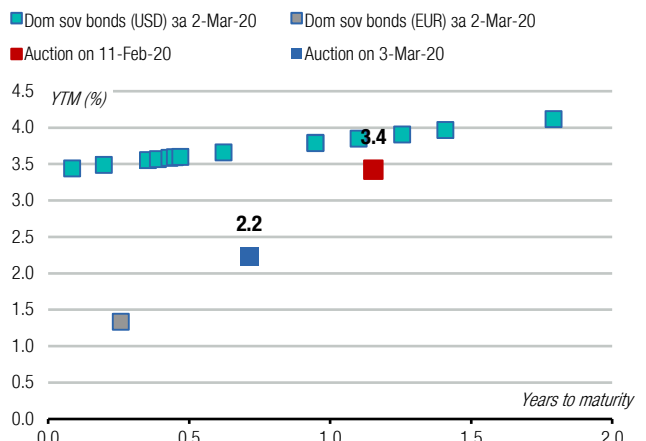
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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