

# Bond Market Insight

## Successful reopening

### Comment on government bond placement

For the first time since the lockdown, yesterday, at what was the debut primary auction in April, the Ministry of Finance offered UAH-denominated bills. In general, the auction was successful, and the budget will get nearly UAH10bn of proceeds.

There have been many attempts to offer UAH-denominated bills since the beginning of March, but the MoF did not receive support from the primary dealers; FX-denominated bills likely were not interesting for the market in April. Decreasing maturities to three and six months did not improve the attractiveness of new bills.

Tuesday's auction meant that the MoF and some primary dealers found a compromise on interest rates for new issues, especially after last week's decrease in the NBU key policy rate. It is not clear now why these bills were purchased, if the reason was to access NBU liquidity loans. We'll see after the bills settle, and after Thursday's tender on liquidity support.

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

ISIN	Coupon rate (%)	Payment frequency <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>
UA4000209001	0.00	@Mty	5-Aug-20	5,537,943	971.01	5,377.39	5,537.94	11.12	5,537.94
<b>Total UAH</b>				<b>5,537,943</b>		<b>5,377.39</b>	<b>5,537.94</b>		<b>5,537.94</b>
UA4000202568	7.50	SA	15-Oct-20	52,149	1,021.97	1,438.93	1,408.00	3.31	5,384.99
UA4000208417	0.00	@Mty	6-Jan-21	113,724	976.50	2,998.35	3,070.50	3.49	5,058.11
<b>Total USD</b>				<b>165,873</b>		<b>4,437.28</b>	<b>4,478.50</b>		<b>10,443.09</b>

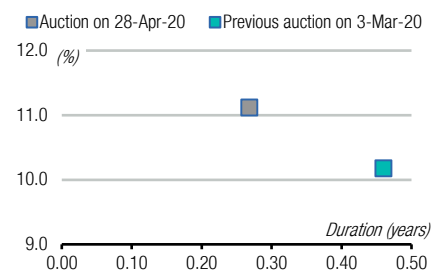
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.USD, 30.44/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

This long break in auctions resulted in high interest rates without new borrowings. The MoF this week borrowed UAH5.4bn in local currency of new funds for three months with an 11.3% cut-off rate, which is just 190bp above the level seen in February, while the weighted-average rate rose 184bp.

However, rates remained mostly unchanged for USD-denominated bills. Five-month bills have not been offered since last year, but for this maturity, the cut-off rate slid a mere 5bp to 3.3% while the weighted-average rate remained steady at 3.29%. The eight-month bills were similar. Interest rates remained unchanged since March at 3.5%, both cut-off and weighted-average rate. But to keep this rate, the Ministry rejected most of demand for these bills, which had higher rates.

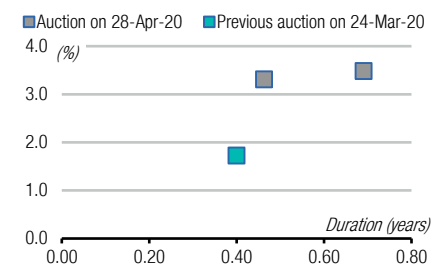
### WEDNESDAY, 29 APRIL 2020

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



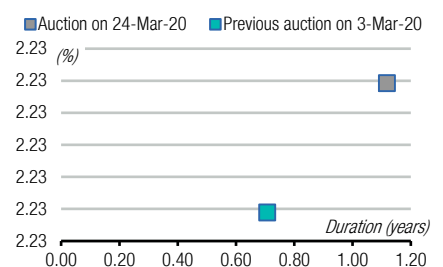
Source: Ministry of Finance of Ukraine, ICU.

#### 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



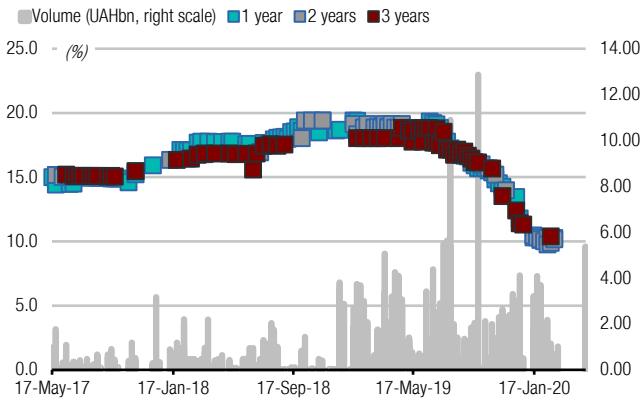
Source: Ministry of Finance of Ukraine, ICU.

So, there is demand for domestic government debt, despite having to increase rates and change maturities offered since the lockdown. It is very likely that this increase in interest rates for local-currency bills was the first step to reenter the market, and in following weeks, rates can rise further. But for now, the budget received additional funds for current needs and budget expenditures, and will be able to create some reserves for next week's debt repayments.

# Appendix: Yields-to-maturity, repayments

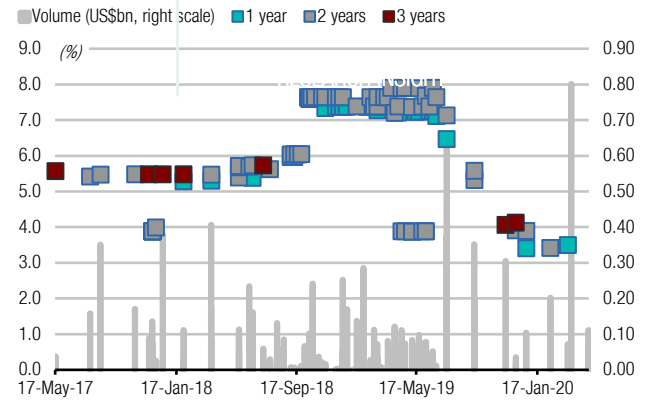
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

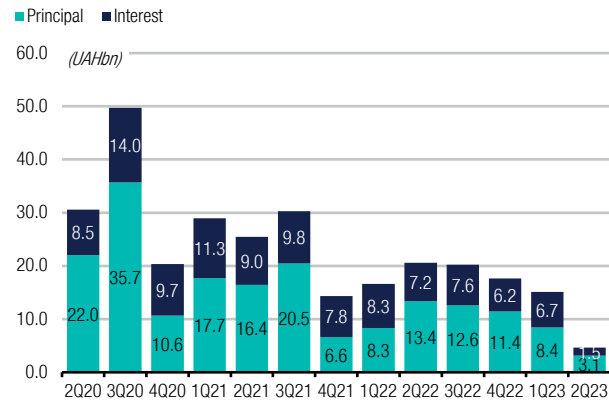
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

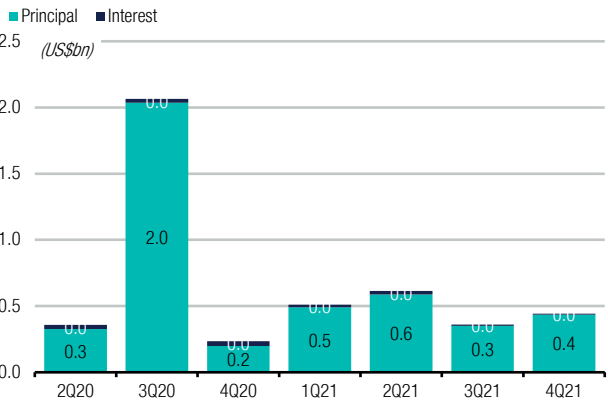
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

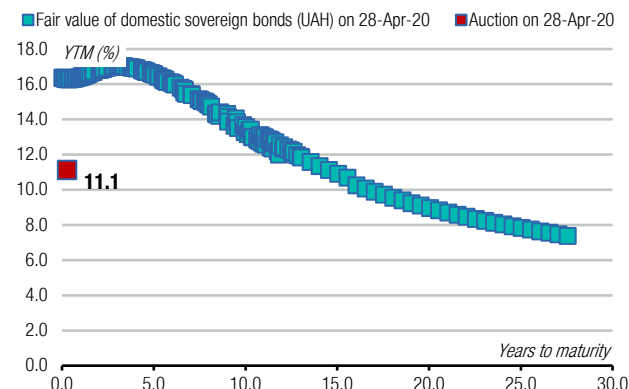
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

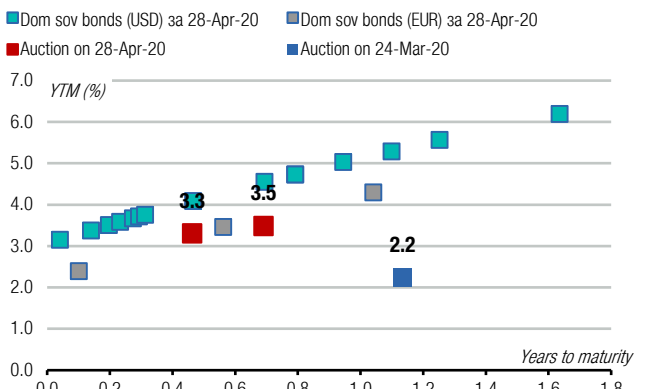
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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