

# Bond Market Insight

## Borrowings increase

### Comment on government bond placement

The Ministry of Finance raised approximately UAH19.4bn from yesterday's primary auction. All redemptions will take place this year.

For the third consecutive week, the Ministry sold a large amount of short-term bills that mature this year. During the previous two weeks, the MoF sold UAH15.8bn of bills that mature in August. Yesterday, UAH13.4bn of bills sold had a maturity at the end of July and UAH6.4bn mature at the end of November.

For three-month paper, interest rates remained unchanged: an 11.3% cut-off level and an 11.26% weighted-average rate.

**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> |
|------------------|-----------------|--------------------------------|-----------|-------------------|------------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000209217     | 0.00            | @Mty                           | 29-Jul-20 | 13,377,870        | 976.80           | 13,067.53                    | 13,377.87                  | 11.26                | 13,377.87                    |
| UA4000209225     | 0.00            | @Mty                           | 25-Nov-20 | 6,705,836         | 942.89           | 6,322.87                     | 6,705.84                   | 11.28                | 6,705.84                     |
| <b>Total UAH</b> |                 |                                |           | <b>20,083,706</b> | <b>19,390.40</b> | <b>20,083.71</b>             |                            |                      | <b>20,083.71</b>             |

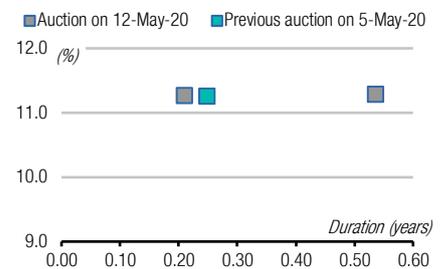
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.94/USD, 30.44/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

There was a large increase in rates for the six-month bills compared with the pre-lockdown auctions. However, this increase was less significant than for the three-month paper sold two weeks ago. For three-month paper, the cut-off rate was set two weeks ago at 11.3%, up 190bp compared with the pre-lockdown auction. For six-month bills, the cut-off rate was up 128bp and the weighted-average rate rose by 138bp. Both rates for six-month bills were set at 11.28%, very close to the three month. The cut-off rate was 2bp below the same rate for three-month bills, while the weighted-average rate was 2bp above the rate for three-month paper.

The budget brought in a considerable amount of funds, which solved the current problems with the Treasury account balance. But globally, 2H20 becomes with a larger debt burden and financing needs (see Chart 2 below), requiring more attention from the Ministry to attract different investors.

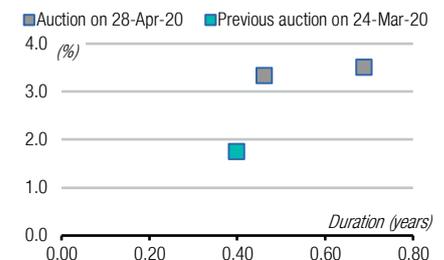
WEDNESDAY, 13 MAY 2020

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



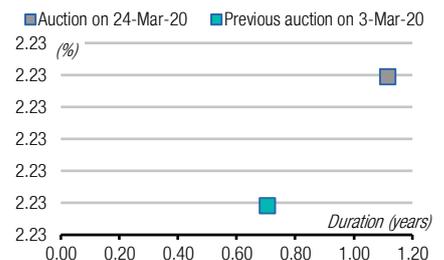
Source: Ministry of Finance of Ukraine, ICU.

### 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

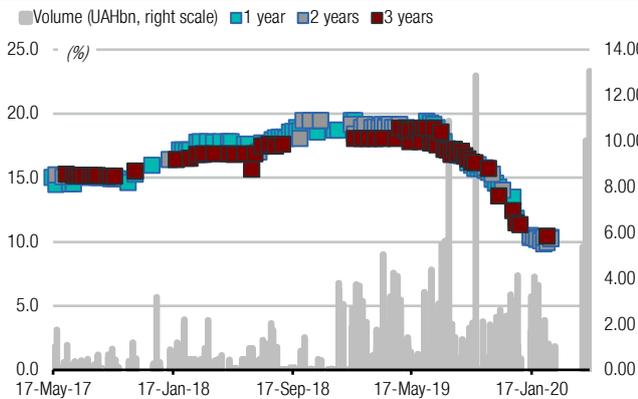


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

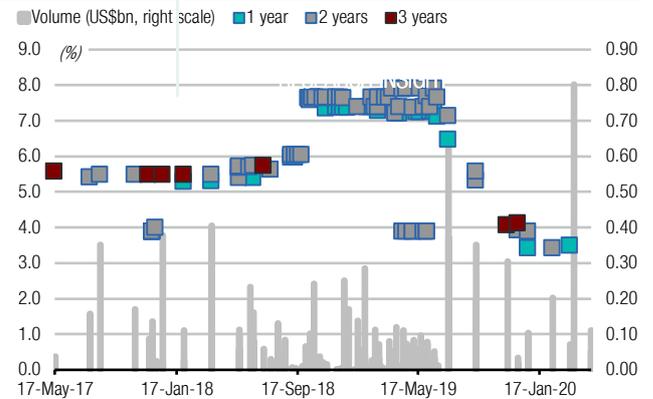
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

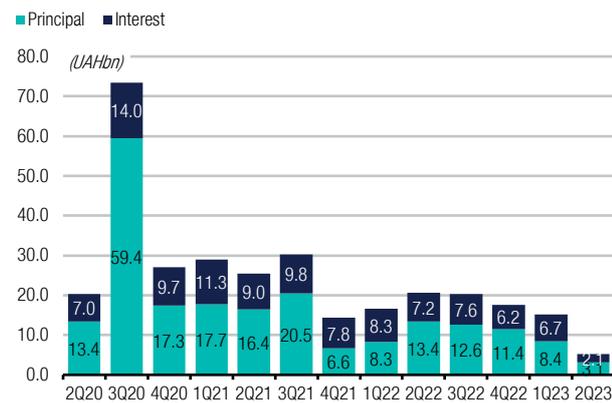
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

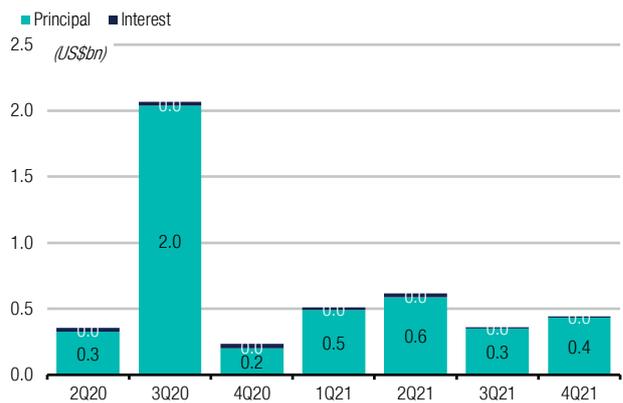
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

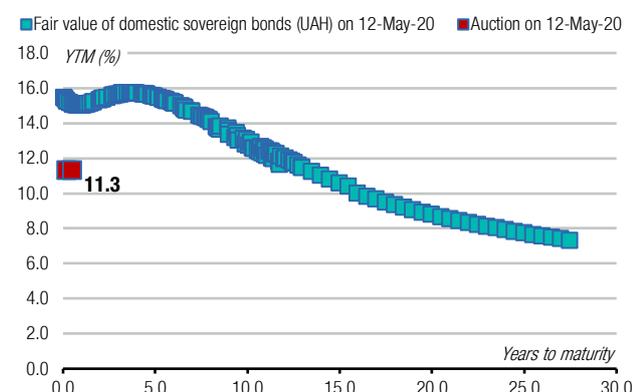
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

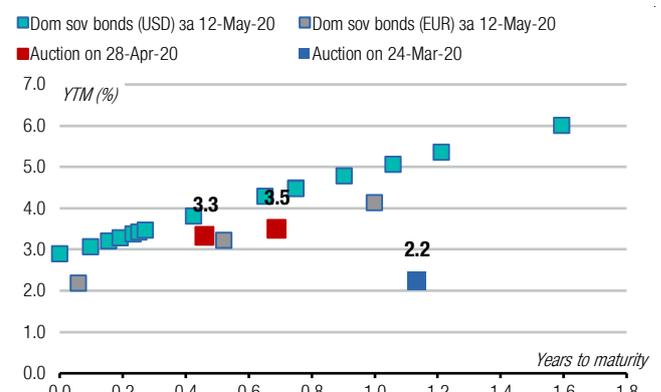
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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