

Bond Market Insight

Borrowings fall

Comment on government bond placement

There was less demand for local-currency bills this week and, as a result, proceeds for the budget fell more than ten times. Despite this, the Ministry was able to decrease rates for some issues.

In total, the auction received UAH4bn of demand, but a large portion was rejected for different reasons, and borrowings amounted to UAH1bn. There were important limits for some maturities, and high rates for the nine-month bills.

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

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000198873	14.50	SA	19-Aug-20	500,000	1,048.19	524.09	500.00	10.48	6,930.73
UA4000209225	0.00	@Mty	25-Nov-20	208,986	951.00	198.75	208.99	10.33	7,914.82
UA4000209381	0.00	@Mty	19-May-21	347,820	903.10	314.12	347.82	10.97	4,157.38
Total UAH				1,056,806		1,036.96	1,056.81		19,002.93

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 26.73/USD, 30.44/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Due to the offering being limited to UAH500m (US\$19m), the Ministry rejected most of the demand for the three-month bills, and sold only the offered amount. This decision allowed a decrease in the cut-off rate by 25bp and weighted-average by 31bp to 10.25% and 10.19%, respectively.

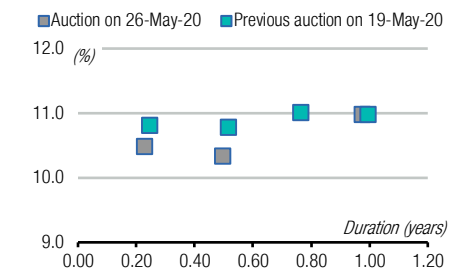
However, for six-month bills, demand was two times lower than the offering. Interest rates were mostly very low, between 9.99% and 11%, and the Ministry decided to reject just one bid at 11%, which amounted to UAH20m (US\$0.7m). With this decision, the cut-off rate slid by 5bp to 10.95% while the weighted-average rate declined 45bp to 10.33%.

The nine-month and 12-month bills were offered without limits, but demand was low, less than UAH2.5bn (US\$93m) for both maturities. The Ministry did not sell the nine-month bill, as demand was at the simple rate of 11.24%, 24bp above last week's cut-off rate.

Demand for 12-month bills varied, allowing the Ministry keep the cut-off rate unchanged and borrow UAH314m (US\$12m), although with an increase in the weighted-average rate by 2bp to 10.97%.

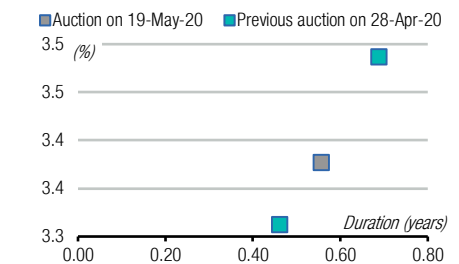
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



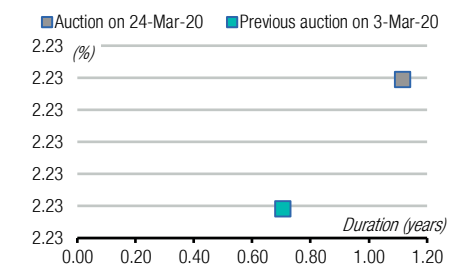
Source: Ministry of Finance of Ukraine, ICU.

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



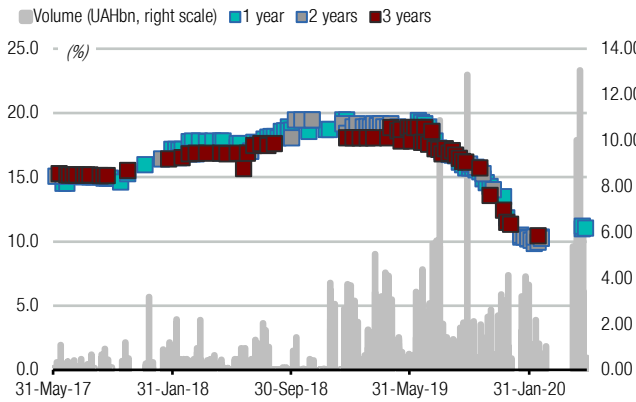
Source: Ministry of Finance of Ukraine, ICU.

The mood of the market for this auction was not optimistic. It is the end of month and banking-sector liquidity is falling, two factors that are not supportive of banks demand for new bills, while debt interest repayments this week will be just UAH1.6bn. Additionally, banks could already have filled their limits for government debt, while foreigners have become a bit more active in selling local-currency debt, probably at better conditions than the Ministry offered. We expect the primary market to be more active in June, when the Ministry will have to repay a large portion of domestic debt.

Appendix: Yields-to-maturity, repayments

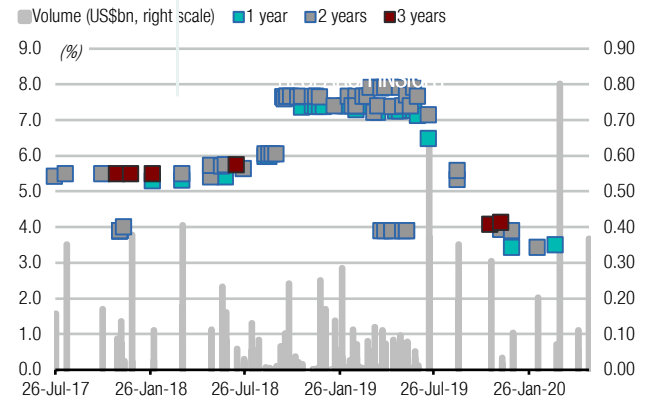
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

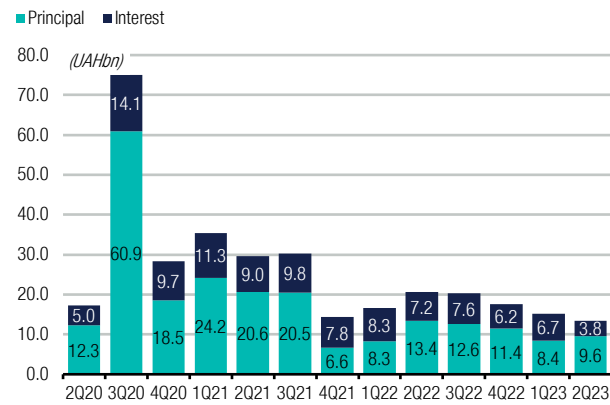
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

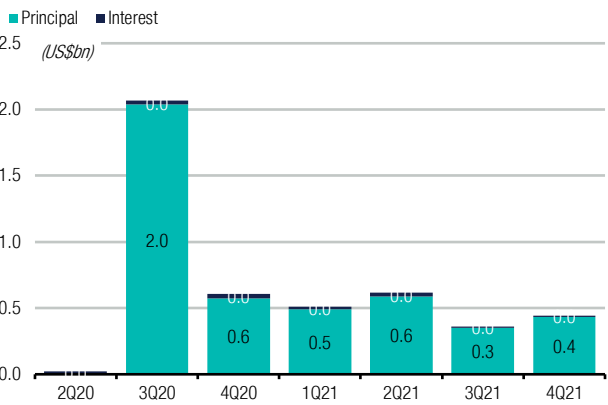
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

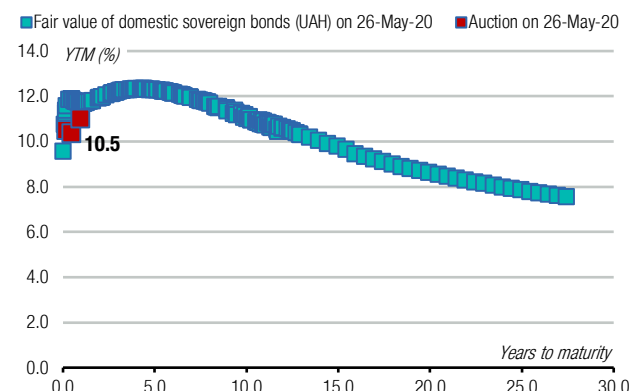
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

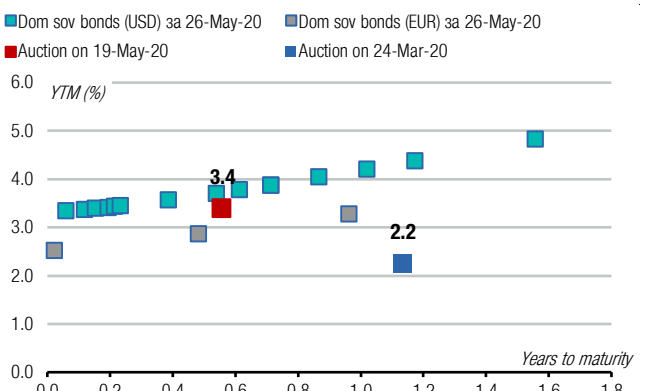
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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