

# Bond Market Insight

## Tenor of borrowings extended

### Comment on government bond placement

Financing for the budget has increased gradually, and the tenor of instruments has extended. Out of UAH17bn of total proceeds borrowed yesterday, only UAH1bn has redemption this year. For most instruments sold, interest rates decreased, which was expected prior to the NBU's key rate revision.

Two bills with shortest maturities had offerings limited to UAH500m, which resulted in a rate decline of 61-90bp. Compared with last week, cut-off rates were decreased by 90bp and 77bp, to 9% and 9.5% for the three-month and six-month bills, respectively. These rates are below pre-lockdown levels, but were the result of a limited offering.

Rates for nine-month and 12-month bills also declined, but less sufficient. For nine-month bills, the cut-off rate was set 14bp lower than a week ago at 10.75% and for the 12-month at 10.79% or 10bp lower.

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

ISIN	Coupon rate (%)	Payment frequency	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	500,000	1,054.50	527.25	500.00	9.23	7,930.73
UA4000209225	0.00	@Mty	25-Nov-20	500,000	958.11	479.06	500.00	9.50	8,914.82
UA4000209373	0.00	@Mty	24-Feb-21	221,080	929.42	205.48	221.08	10.70	7,401.56
UA4000209381	0.00	@Mty	19-May-21	228,255	908.65	207.40	228.26	10.70	5,815.10
UA4000204556	16.42	SA	17-Nov-21	5,324,150	1,082.50	5,763.39	5,324.15	11.12	11,923.21
<b>Total UAH</b>				<b>6,773,485</b>	<b>7,182.58</b>	<b>6,773.49</b>			<b>41,985.42</b>
UA4000208490	2.22	SA	13-May-21	352,632	1,001.88	10,633.65	10,613.70	2.21	12,872.59
<b>Total EUR</b>				<b>352,632</b>	<b>10,633.65</b>	<b>10,613.70</b>			<b>12,872.59</b>

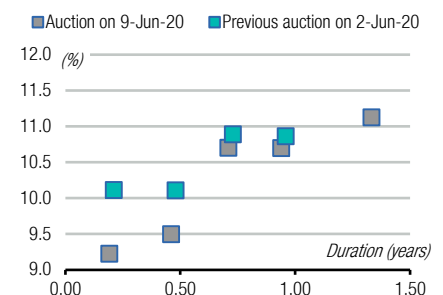
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.73/USD, 30.1/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Most interesting was the placement of 1.5-year bills with redemption next November. Demand for this paper was almost UAH6bn, and the Ministry rejected only one bid at UAH600m (par value). This bid was with a 10.98% rate, which seems to be quite high. The Ministry decided to accept all demand except this one, setting all rates at the simple level of 10.8%, both the cut-off and weighted-average. This rate of 10.8% is 115bp above the rate for this issue in February 2020.

The Ministry decreased the rate for FX-denominated paper, too. After last week's debt repayment of EUR218m, the Ministry borrowed EUR353.3m or an additional

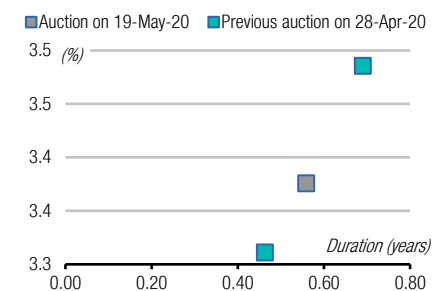
### WEDNESDAY, 10 JUNE 2020

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



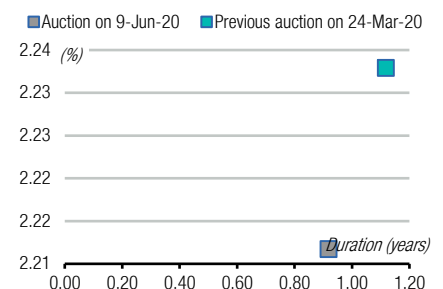
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

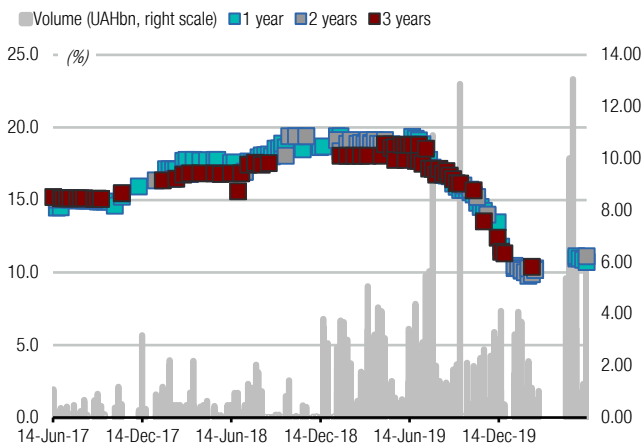
EUR135m. All rates were set at 2.2%, or 2bp lower than for the same paper in March 2020, the last time offered.

However, the budget borrowed UAH7.2bn in local and UAH10bn in hard currencies, which is very positive and a material replenishment of local-currency and FX accounts, as reserves in hard currency fell significantly after redemption of US-backed Eurobonds at the end of May and last week's redemption of EUR-denominated paper. But the most important gain from this auction was that most borrowings had redemption next year, and will be counted in this year's budget financing.

# Appendix: Yields-to-maturity, repayments

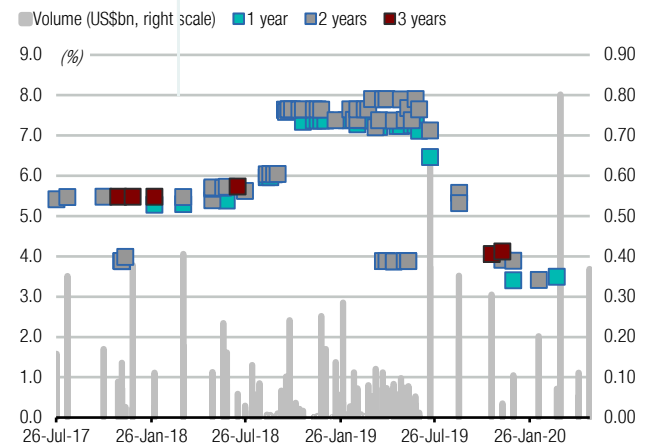
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

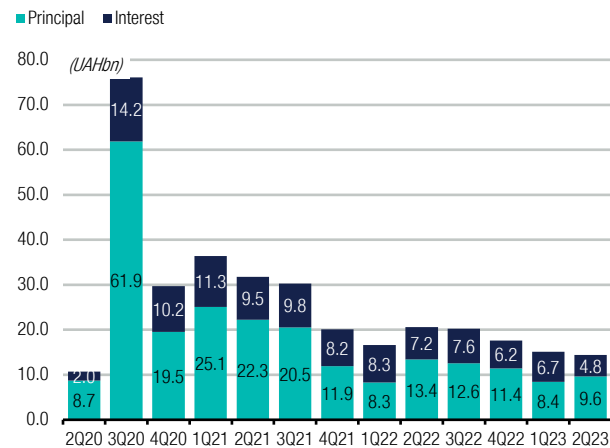
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

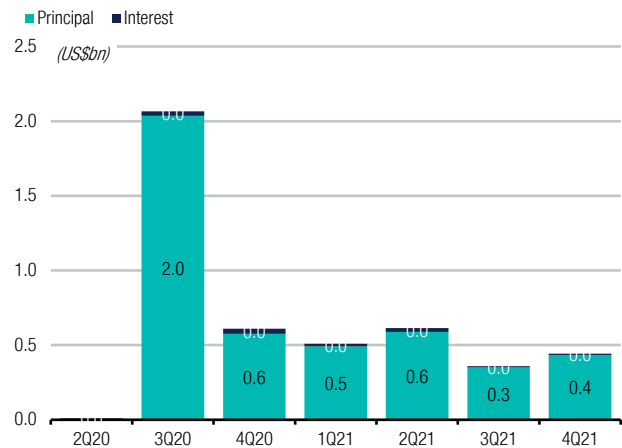
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

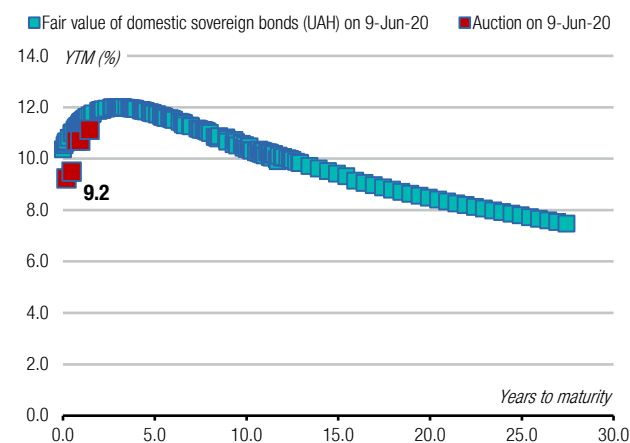
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

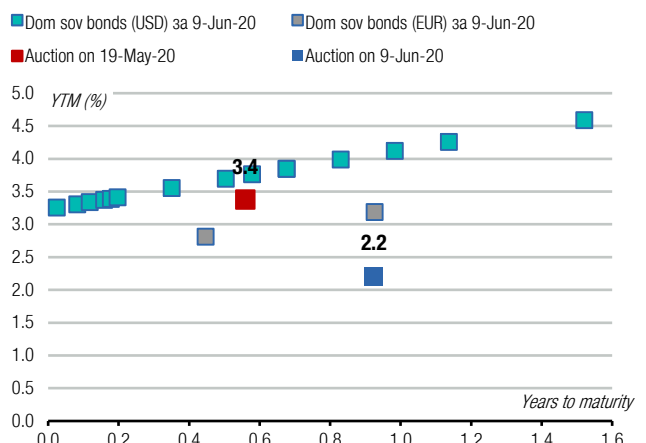
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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