

Bond Market Insight

Borrowings decline

Comment on government bond placement

Yesterday, the MoF accepted all demand, but the amount of funds raised was low. However, rates decreased for some issues.

In total, bids amounted to UAH293m, which was inadequate to cover today's debt repayments of UAH7bn. Bidders did not request rates increase. Instead some bids had rates lower than at previous auctions.

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 (%)	Out-standing (m) ⁴
UA4000202469	17.25	SA	30-Sep-20	272,802	1,068.58	291.51	272.80	7.39	8,213.80
UA4000194567	16.65	SA	30-Jun-21	4,788	1,068.62	5.12	4.79	9.75	109.64
UA4000209886	10.57	SA	23-Feb-22	15,570	1,043.81	16.25	15.57	10.49	2,024.26
Total UAH				293,160		312.88	293.16		10,347.69

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

Most of demand was for three-month bills. Three bids came in with rates at 7.1–7.24%, which was not higher than last week. The MoF accepted all bids keeping the cut-off and weighted-average rates unchanged at 7.24%.

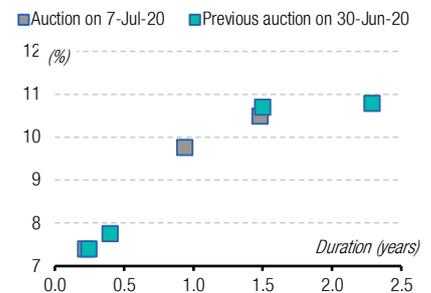
Twelve-month bills received just one bid with a rate 20bp below the auction of two weeks ago. Therefore, it made no sense to reject this demand.

The Ministry decreased rates for two-year bills also. There were three bids; likely only one was competitive. Therefore, bids were accepted using the rate from the competitive bid, which decreased the cut-off rate by 20bp and weighted-average rate by 19bp, both to 10.2%.

It appeared that most investors who received today's debt repayments preferred not to reinvest funds in the primary bonds market. They likely prefer to purchase new bills in the secondary market where yields are a bit higher with a better assortment of maturities. It is possible that recent fluctuations in the foreign exchange market have not added to the attractiveness of UAH-denominated instruments.

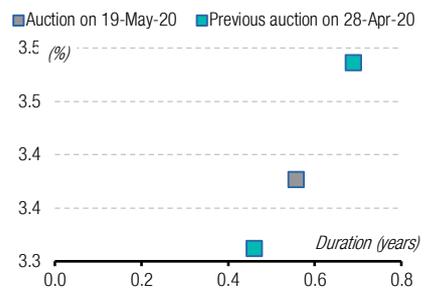
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



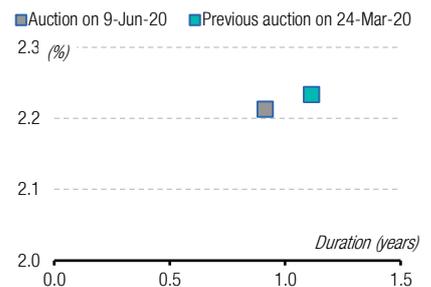
Source: Ministry of Finance of Ukraine, ICU.

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

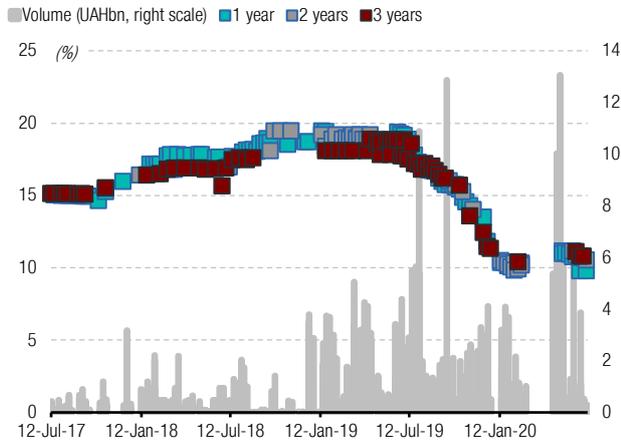


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

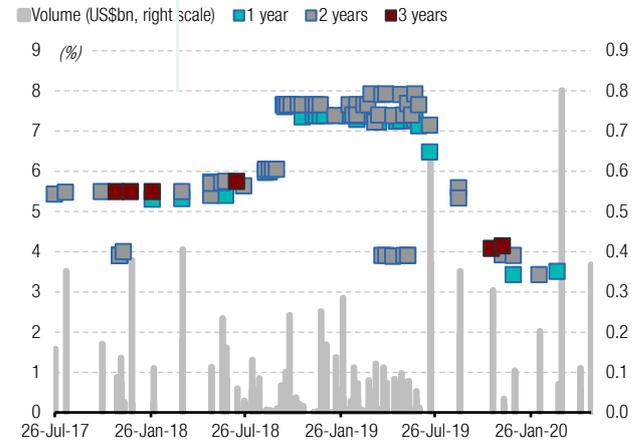
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

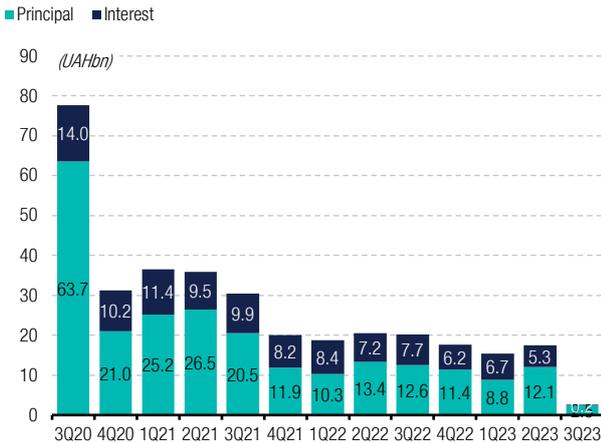
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

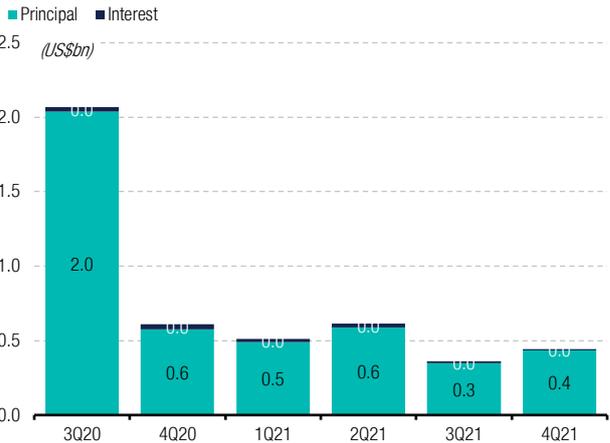
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

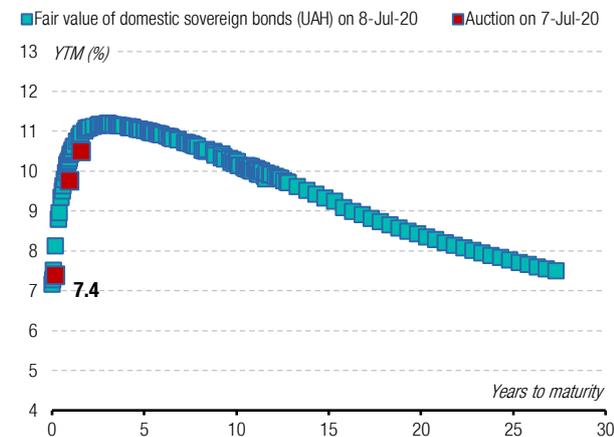
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

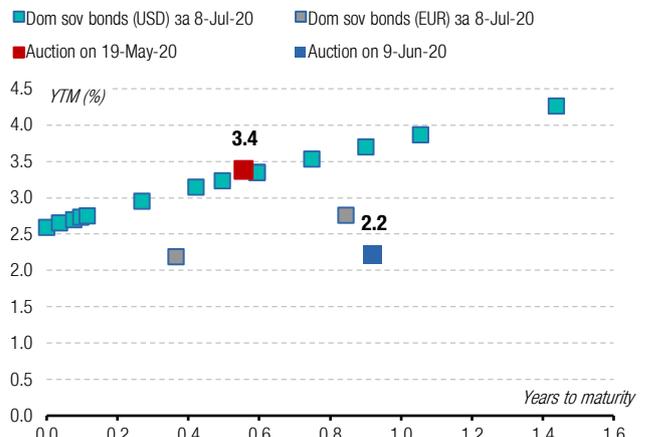
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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