

# Bond Market Insight

## Borrowings decline

### Comment on government bond placement

Yesterday, the Ministry of Finance rejected most of the demand for UAH-denominated bills, keeping interest rates unchanged. Budget proceeds amounted to just UAH894m, including most funds in US dollars of US\$29.8m (UAH816m).

There were four bids for local-currency paper. Just one competitive bid was at 7%, the same as two weeks before. Two other competitive bids had higher rates. The MoF rejected these two bids, and most of UAH1.2bn of demand, selling UAH80.2m of bills, including UAH11.2m to a non-competitive bidder.

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

ISIN	Coupon rate (%)	Payment freq <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>
UA4000210769	0.00	@Mty	16-Dec-20	80,151	978.97	78.47	80.15	7.00	10,130.15
<b>Total UAH</b>				<b>80,151</b>		<b>78.47</b>	<b>80.15</b>		<b>10,130.15</b>
UA4000211502	3.50	SA	21-Oct-21	29,431	1,012.08	815.36	805.63	3.53	805.63
<b>Total USD</b>				<b>29,431</b>		<b>815.36</b>	<b>805.63</b>		<b>805.63</b>

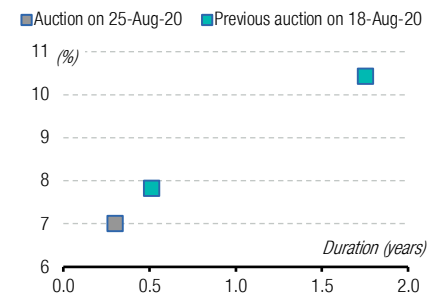
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.37/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

However, for USD-denominated paper, the Ministry rejected just two bids out of the 24 bids received, or US\$0.9m out of US\$30.3m of demand. A bit more than a half of accepted demand was non-competitive. The Ministry kept the cut-off rate at the same level, 3.5%, as was seen for the same tenor in February; however, the weighted-average rate was up 11bp to 3.5%.

The Ministry borrowed a small amount of funds this week. Demand was low, as this week banks have to support month-end tax payments, nor were there any principal repayments to reinvest in new bills. We anticipate an increase in primary market activity later in September when the MoF will need to replenish FX accounts after large debt repayments and investors will receive redemptions in hryvnia, part of which can be reinvested in new paper.

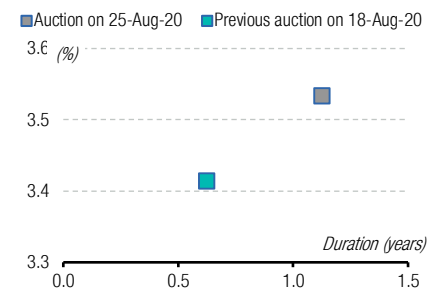
### WEDNESDAY, 26 AUGUST 2020

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



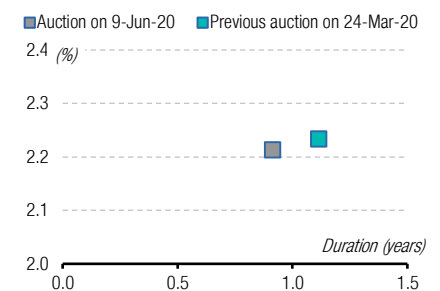
Source: Ministry of Finance of Ukraine, ICU.

#### 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

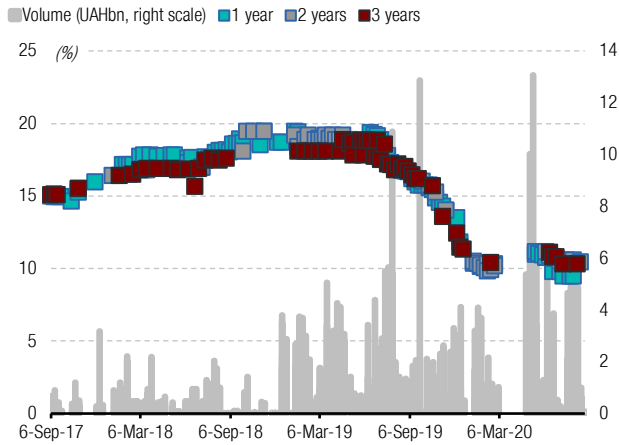


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

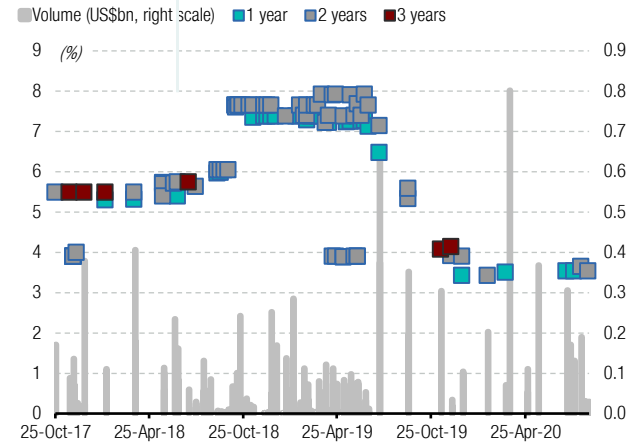
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

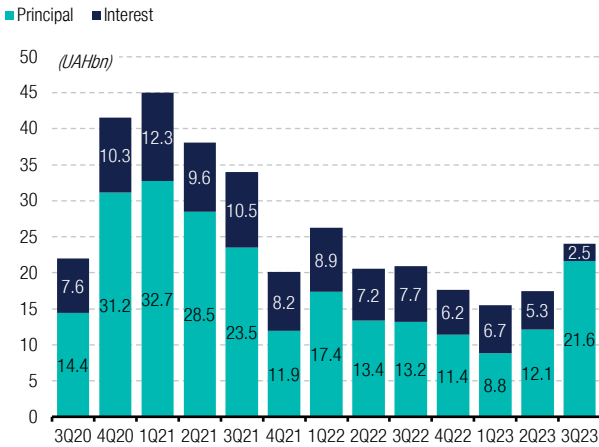
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

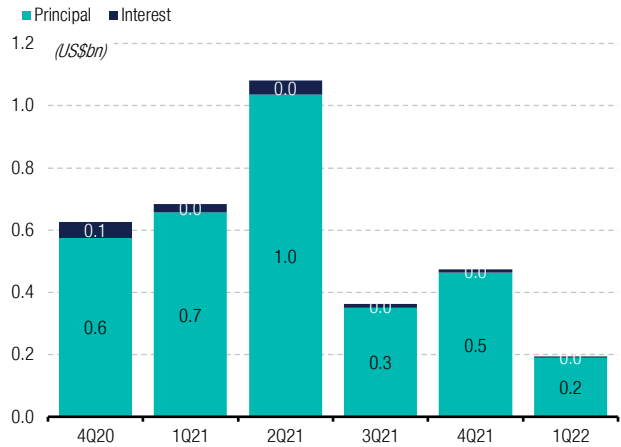
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

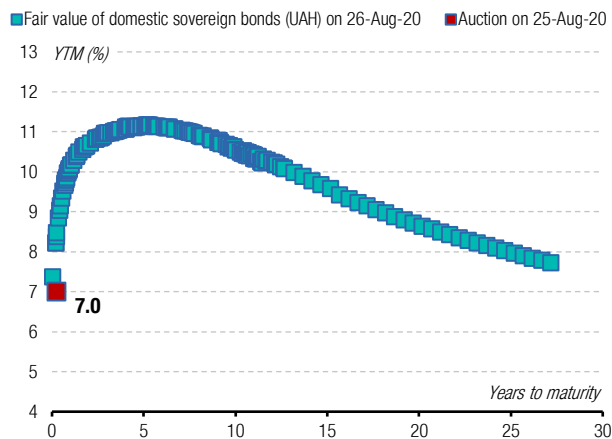
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

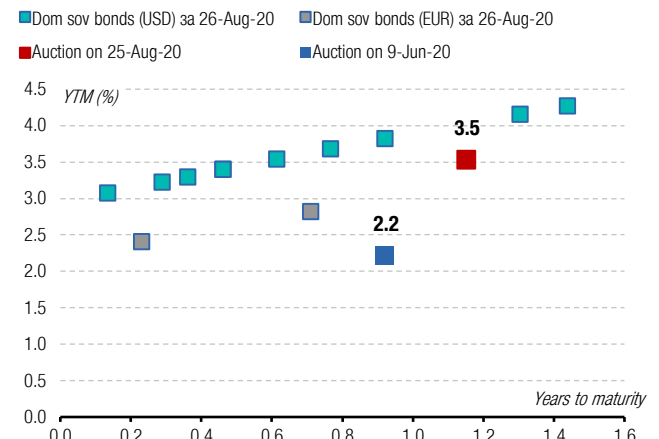
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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