

Bond Market Insight

Borrowings and rates increase

Comment on government bond placement

The amount of borrowings from yesterday's auction was almost four times larger than last week. However, the Ministry had to increase rates for UAH-denominated instruments. In total, the state budget received UAH7.2bn (US\$255m) of proceeds, mostly from USD-denominated paper.

This week's offering of USD-denominated bills was the most active for some time, receiving 27 bids at US\$140m. Out of this demand, 24 bids were accepted with UAH3.8bn (US\$135m) of proceeds, or 53% of yesterday's borrowings. Just three bids at US\$4.3m were rejected to keep interest rates unchanged at 3.39%.

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

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000212468	0.00	@Mty	27-Jan-21	1,603,874	978.42	1,569.26	1,603.87	7.19	1,603.87
UA4000204986	15.36	SA	29-Sep-21	1,047,842	1,052.82	1,103.19	1,047.84	10.17	6,174.56
UA4000207682	9.84	SA	15-Feb-23	735,588	990.44	728.55	735.59	11.28	2,712.67
Total UAH				3,387,304		3,401.00	3,387.30		10,491.11
UA4000207898	3.39	SA	8-Apr-21	135,343	1,000.00	3,833.81	3,833.81	3.43	10,364.05
Total USD				135,343		3,833.81	3,833.81		10,364.05

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 28.33/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 UAH-denominated bills, interest rates were increased for all offered maturities.

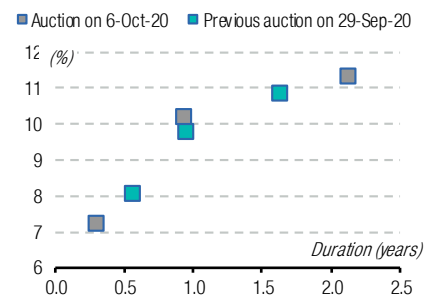
For three-month paper, the interest rate remained mostly unchanged, after declining to 7% in July. Yesterday, a small part of demand came in with this rate. Most of bids were a bit higher, up to 7.2%, which allowed the Ministry to borrow almost UAH1.6bn (US\$55m). The decision to accept this rate was made and all bids were accepted.

Similarly, all demand for bills with maturity in February 2023 was accepted. It was half the demand that the three-month paper attracted, but it included a small part with a 10.5% rate, the same as two weeks ago. Most demand had higher rates, and the Ministry decided to increase rates by 45bp to 10.95%.

Only the placement of 12-month UAH-denominated bills was a bit different, where part of demand was rejected. The reason was the high interest rate, 10.25% or 75bp above the cut-off rate set last week. By rejecting this bid, the Ministry increased the

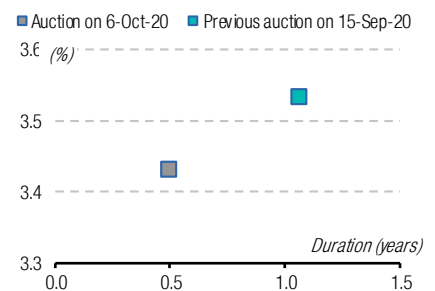
WEDNESDAY, 7 OCTOBER 2020

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



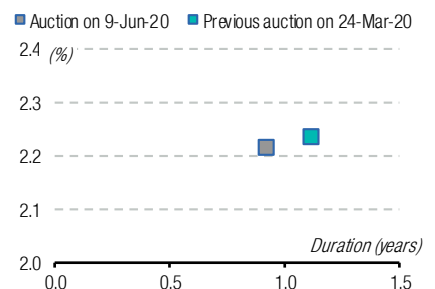
Source: Ministry of Finance of Ukraine, ICU.

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.

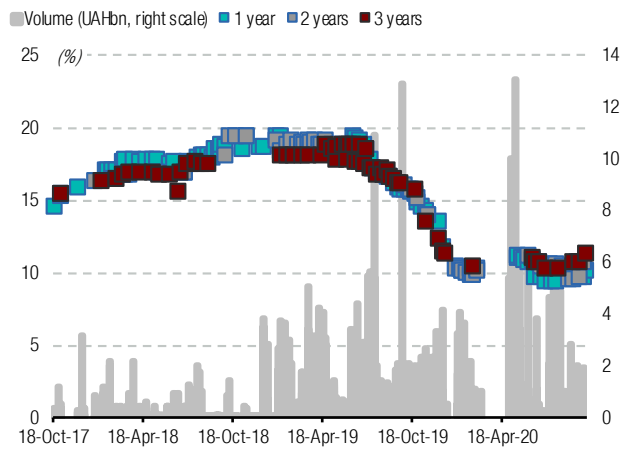
cut-off rate by 50bp to 10%. A large part of accepted demand had lower rates, starting from 9.5%, as the weighted-average rate was set at 9.89%.

Rates for the longer maturities continue to rise, and has now spread to the shortest maturities. But this increase in rates allowed an increase in demand and borrowings, which was positive for the budget, especially since there are no debt principal repayments scheduled for this week.

Appendix: Yields-to-maturity, repayments

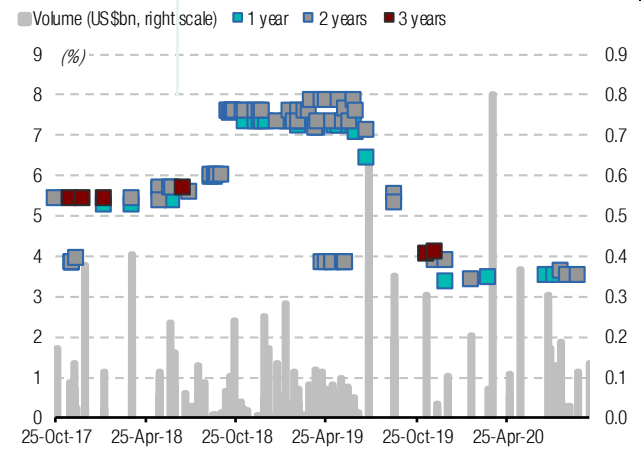
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

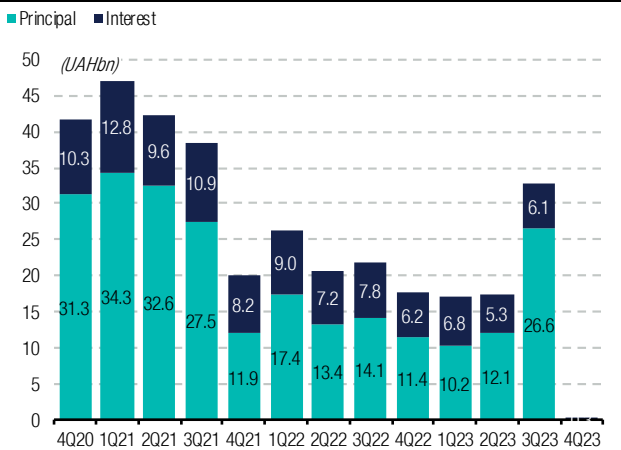
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

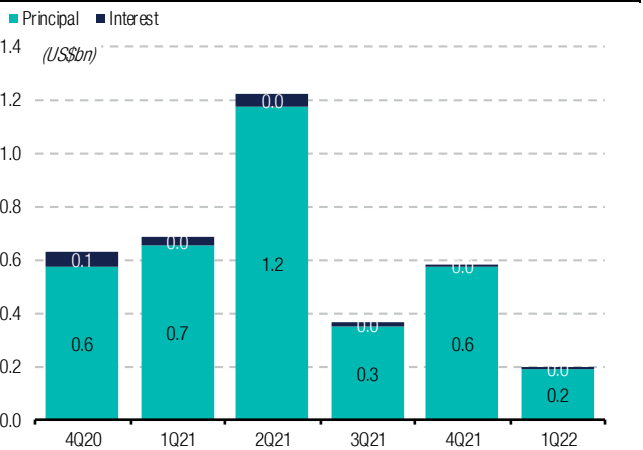
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

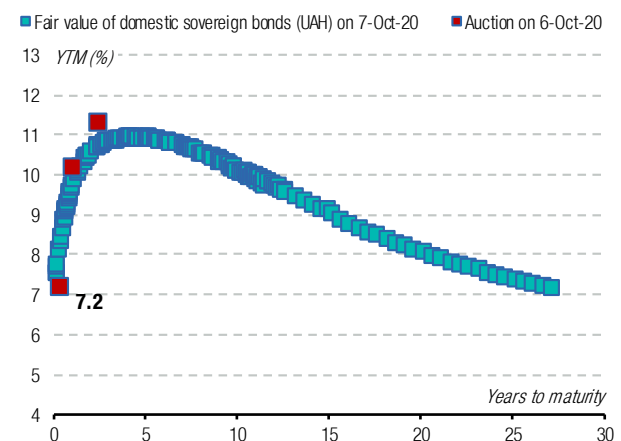
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

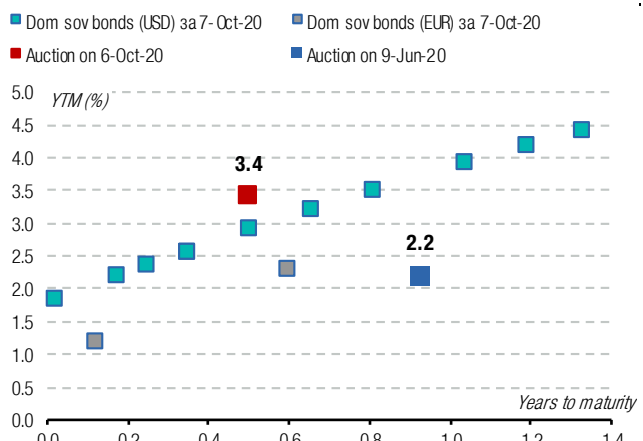
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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