

Bond Market Insight

Short-term borrowings cover current needs

Comment on government bond placement

New maturities were offered, but they did not result in increased proceeds. Yesterday, the MoF borrowed just UAH22.2bn (US\$0.8bn). A few instruments saw further increases in rates.

On one hand, the MoF is trying to spread the debt burden more smoothly over the year and offered bills with new maturity dates. Out of four bills with redemptions next year, three are new issues. These instruments were well received and brought in most of the proceeds. Also, the new bills that mature next December, a month that currently does not have redemptions scheduled, attracted the largest amount of proceeds.

But on the other hand, launching new issues will make amount outstanding of each smaller, decreasing their liquidity, and, as the result, lowering demand from investors. So, the negatives are less secondary market activity and a negative impact on foreigners' demand.

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

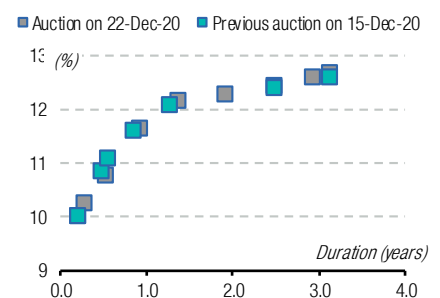
ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000214472	0.00	@Mty	17-Mar-21	1,616,563	977.50	1,580.19	1,616.56	10.00	1,616.56
UA4000213771	0.00	@Mty	14-Apr-21	3,961,322	969.52	3,840.58	3,961.32	10.25	11,184.69
UA4000214480	0.00	@Mty	7-Jul-21	3,405,455	945.42	3,219.59	3,405.46	10.75	3,405.46
UA4000214498	0.00	@Mty	1-Dec-21	5,686,402	901.58	5,126.74	5,686.40	11.62	5,686.40
UA4000214506	11.75	SA	15-Jun-22	1,505,408	1,002.20	1,508.72	1,505.41	12.13	1,505.41
UA4000207682	9.84	SA	15-Feb-23	182,765	996.51	182.13	182.77	12.24	4,133.82
UA4000213227	10.95	SA	1-Nov-23	402,431	989.59	398.24	402.43	12.40	3,453.89
UA4000207880	9.99	SA	22-May-24	315,996	948.45	299.71	316.00	12.55	2,978.47
UA4000204150	15.84	SA	26-Feb-25	1,865,795	1,163.24	2,170.37	1,865.80	12.66	40,802.04
Total UAH				18,942,137		18,326.27	18,942.14		74,766.74
UA4000205736	4.02	SA	16-Dec-21	138,093	1,002.86	3,935.40	3,924.17	3.84	16,270.27
Total USD				138,093		3,935.40	3,924.17		16,270.27

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 28.42USD, 33.88EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Longer bonds were sold yesterday, also: 1.5-year bills and notes ranging from two to four years in maturity. Amounts were mostly low, except the four-year paper, which provided important support for the state budget. We assume that foreigners continued to purchase these notes, but not as actively.

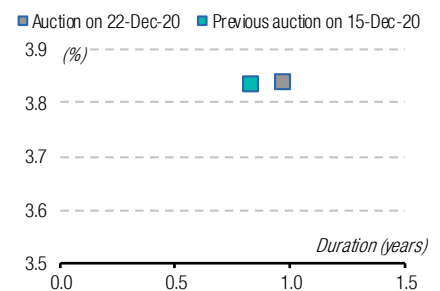
WEDNESDAY, 23 DECEMBER 2020

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



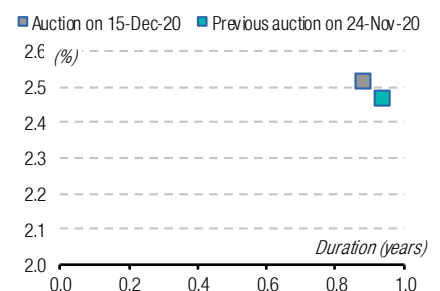
Source: Ministry of Finance of Ukraine, ICU.

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.

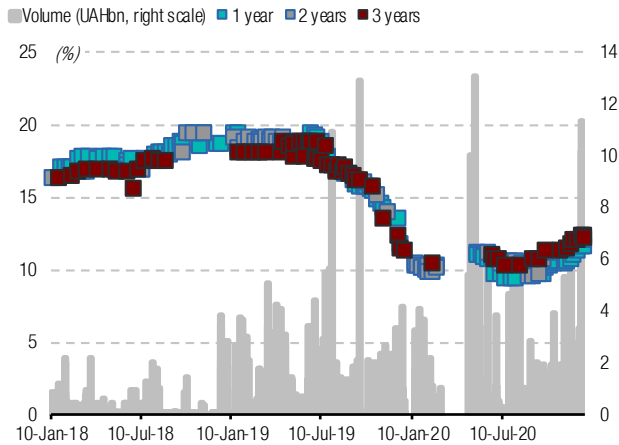
According to our estimates, most of the new instruments were purchased by local banks. Foreigners were responsible for about 10-15% of total funds raised yesterday, or UAH2-3bn (US\$80-100m).

This auction will cover current needs to fund budget expenditures. But with this new strategy, the Ministry will have to pay more attention to the new instruments offered and not slow their efforts to raise new funds next year to refinance debt repayments and borrow additional funds to cover the budget deficit.

Appendix: Yields-to-maturity, repayments

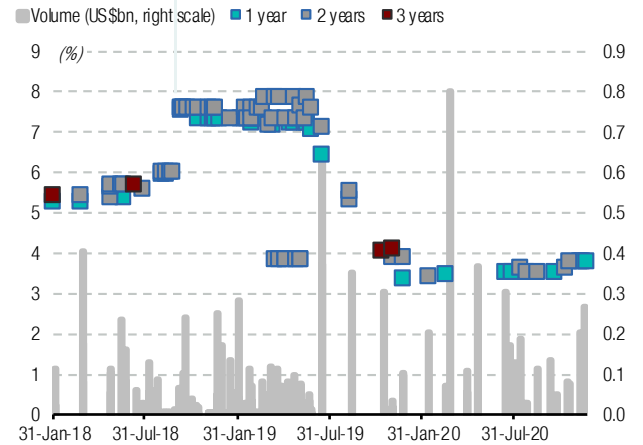
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

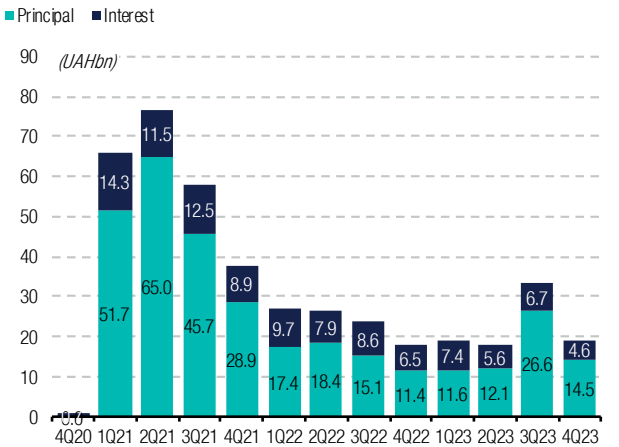
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

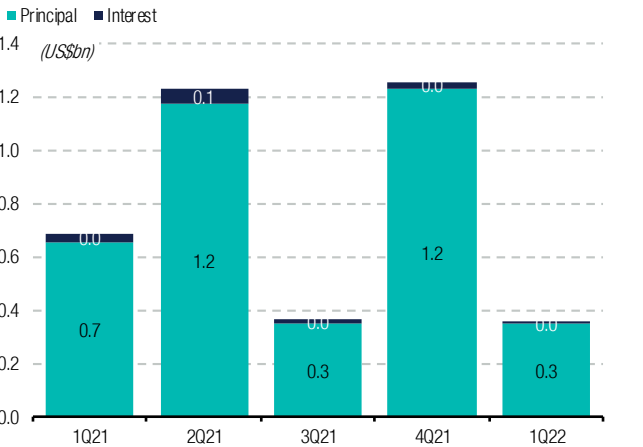
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

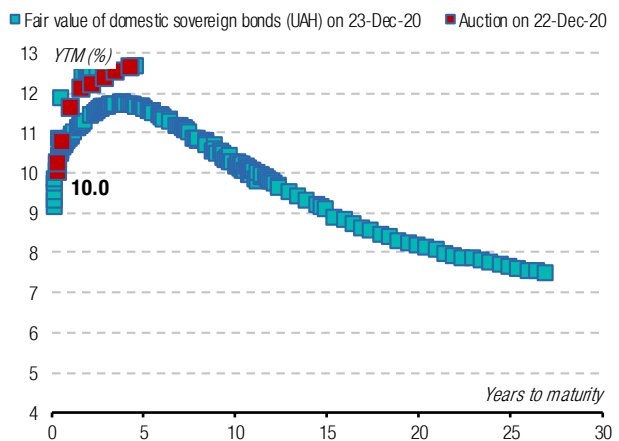
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

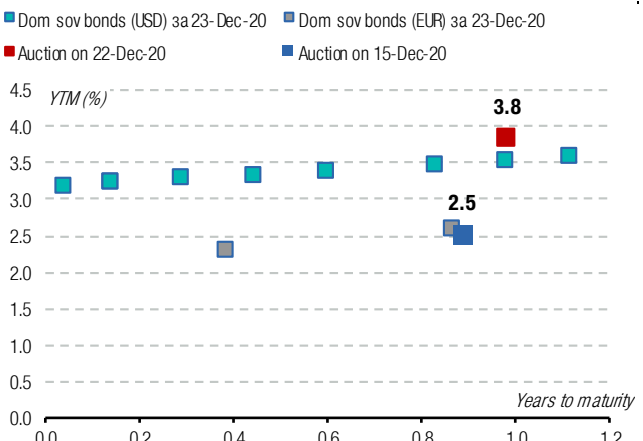
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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