

Bond Market Insight

Year goes out with a bang

Comment on government bond placement

At the last primary auction in 2020, the Ministry of Finance borrowed UAH23.6bn (US\$836m) for budget financing with insufficient changes in interest rates.

For this auction, the Ministry offered the same bonds as a week before, excluding the four-month bills and replacing the 10-month USD-denominated with a new bill with a three-month maturity.

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	5,280,729	979.34	5,171.63	5,280.73	10.00	6,897.29
UA4000214480	0.00	@Mty	7-Jul-21	906,352	947.27	858.56	906.35	10.75	4,311.81
UA4000214498	0.00	@Mty	1-Dec-21	6,393,243	902.79	5,771.75	6,393.24	11.70	12,079.65
UA4000214506	11.75	SA	15-Jun-22	986,539	1,004.40	990.88	986.54	12.13	2,491.95
UA4000207682	9.84	SA	15-Feb-23	653,970	998.72	653.13	653.97	12.24	4,787.79
UA4000213227	10.95	SA	1-Nov-23	616,213	991.81	611.17	616.21	12.40	4,070.10
UA4000207880	9.99	SA	22-May-24	109,076	950.59	103.69	109.08	12.56	3,087.54
UA4000204150	15.84	SA	26-Feb-25	278,365	1,165.97	324.57	278.37	12.66	41,080.41
Total UAH				15,224,487		14,485.37	15,224.49		78,806.54
UA4000214597	0.00	@Mty	31-Mar-21	325,185	992.82	9,101.47	9,167.29	2.87	9,167.29
Total USD				325,185		9,101.47	9,167.29		9,167.29

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 28.19USD, 33.88EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

After months of rate increases, the three-month USD-denominated paper saw a decline in the rate. The last time this paper was offered in March 2020. By comparison, rates slid by 10bp to 2.9%, while the amount raised being almost three times lower.

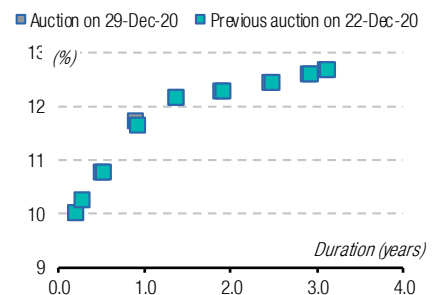
For UAH-denominated instruments, interest rates were up for only the 11-month bills. This increase was not material, just 5bp for cut-off rate and 8bp for the weighted-average rate, resulting in both being set at 11.7%.

However, to keep rates unchanged, part of demand was rejected. For six-month bills, the Ministry rejected almost 30% of demand while for 1.5- and two-year paper, they rejected almost 10% of demand.

Once again, borrowings were mostly with redemption next year, while longer maturities that are usually attractive to foreigners received low demand. Most likely,

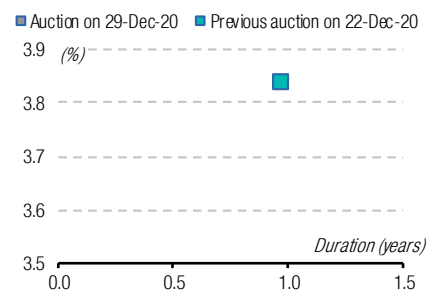
WEDNESDAY, 30 DECEMBER 2020

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



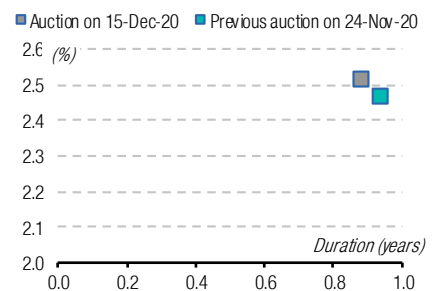
Source: Ministry of Finance of Ukraine, ICU.

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.

this was due to the year end and holiday season.

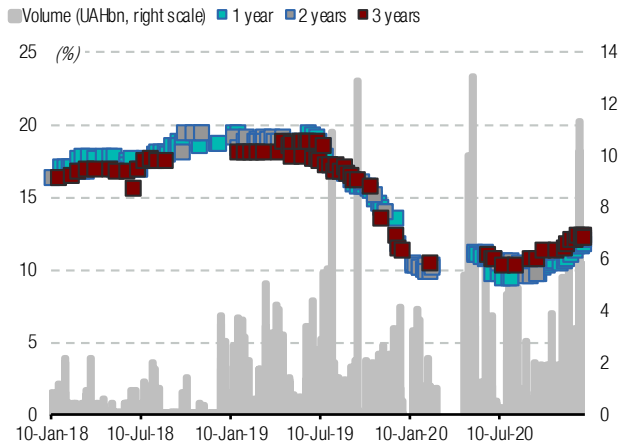
Nevertheless, the last auction in 2020 made a definite impression: movements in interest rates were insufficient, amounts raised were generous, and an unusual placement of three-month USD-denominated paper that provided the budget with large amount of funds and low price was well received.

Keeping rates mostly unchanged can be seen as a message that next year, the Ministry is not going to actively increase rates. Of course, that will depend on the balance in Treasury accounts at the beginning of 2021.

Appendix: Yields-to-maturity, repayments

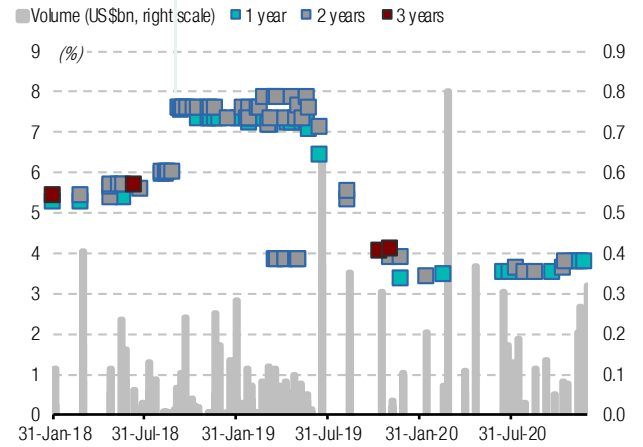
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

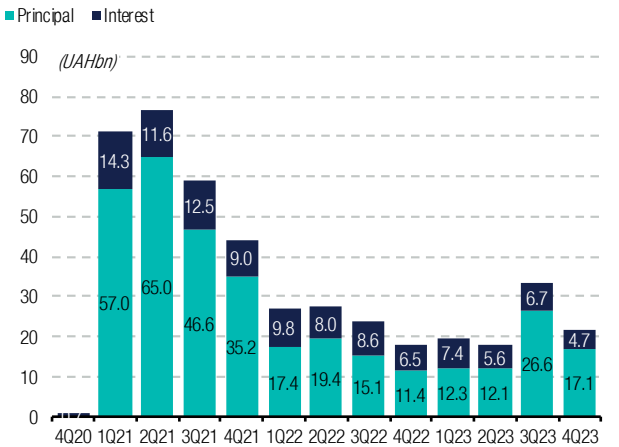
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

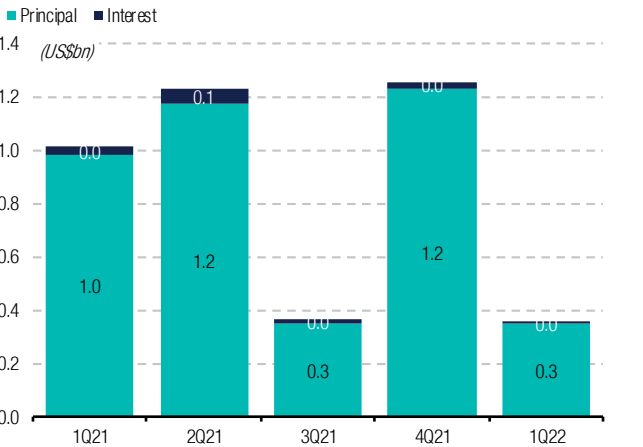
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

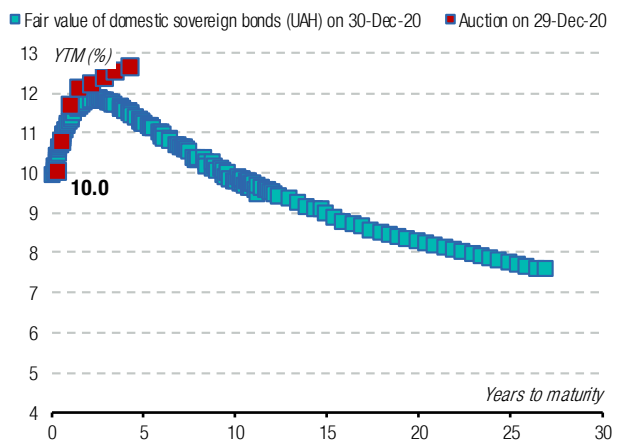
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

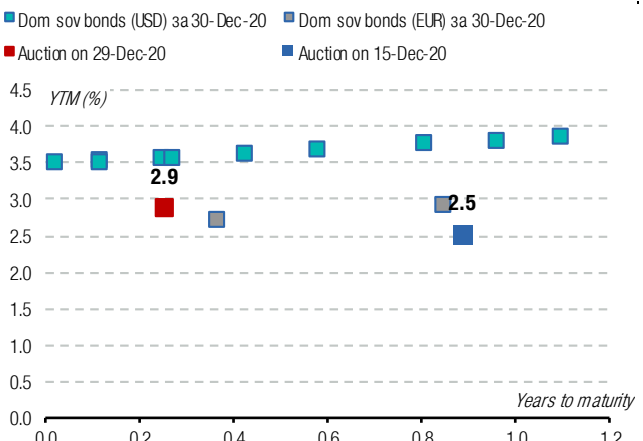
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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