

Bond Market Insight

Borrowing structure improves

Comment on government bond placement

For the second consecutive week, the MoF took down a large amount of mostly new funds. This week, the structure of demand and borrowings was a bit more favourable, as most of funds mature next year. Compared with last week when more than 90% of borrowings mature this March, yesterday, borrowings due this year were just 26% of the total.

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 (%)	Outstanding (m) ⁴
UA4000214480	0.00	@Mty	7-Jul-21	2,485,911	951.07	2,364.29	2,485.91	10.73	6,797.72
UA4000203236	17.25	SA	5-Jan-22	4,432,251	1,053.41	4,668.97	4,432.25	12.06	10,887.93
UA4000207682	9.84	SA	15-Feb-23	262,254	1,003.15	263.08	262.25	12.24	5,153.74
UA4000207880	9.99	SA	22-May-24	283,688	954.91	270.90	283.69	12.56	3,378.89
Total UAH				7,464,104		7,567.23	7,464.10		26,218.28
UA4000214787	0.00	@Mty	13-Jan-22	50,044	963.49	1,351.68	1,402.90	3.79	1,402.90
Total USD				50,044		1,351.68	1,402.90		1,402.90

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

The largest demand was for 12-month bills, where some bids were rejected. Out of 43 bids, the Ministry accepted 37, rejecting just 6% of demand due to an unwillingness to increase rates. Therefore, out of US\$4.7bn of demand, the MoF sold UAH4.4bn of bills (par value), and borrowed almost UAH4.7bn. However, rates were unchanged, as the cut-off rate is still 11.7%, while the weighted-average rate was up by a mere 2bp to 11.69%.

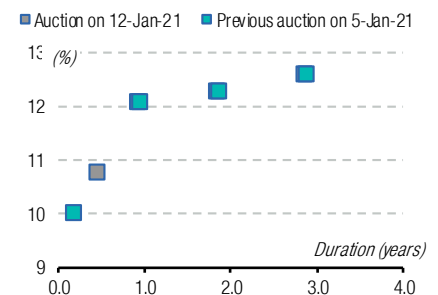
There was a slight decline in the rate for half-year paper. Demand was two times lower, but rates were more consistent, ranging between 10.69% and 10.75%, or no higher than at the end of December 2020. The MoF was able to accept all demand with a slight decline in the weighted-average rate by the same 2bp to 10.73%, with the cut-off rate at 10.75%.

Demand was almost five times higher for longer maturities. Likely, most demand was from foreigners. All rates in bids were at the same level as last week, so the Ministry accepted them all in full, with proceeds about UAH0.5bn.

However, the USD-denominated bills did not receive large demand, which was

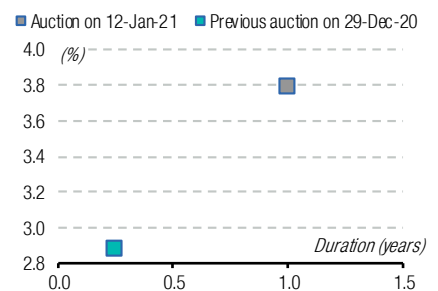
WEDNESDAY, 13 JANUARY 2021

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



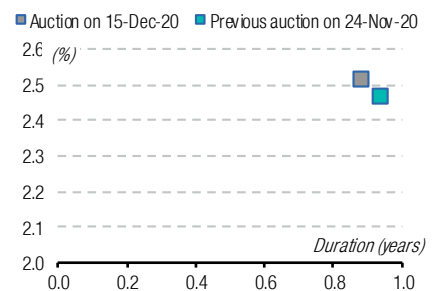
Source: Ministry of Finance of Ukraine, ICU.

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.

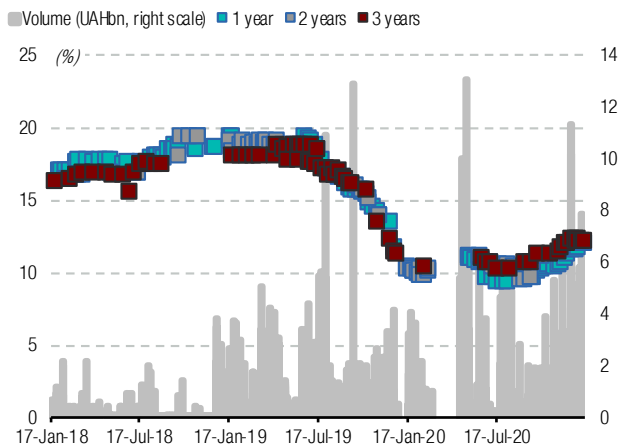
only US\$50m after last week's debt repayment of US\$187m. We assume a partial exchange in hryvnia in anticipation of local currency further appreciation soon.

Nonetheless, the structure of borrowings improved, as most of yesterday's proceeds will be included in budget financing without the need to refinance them this year. At the same time, the cost of borrowing remains unchanged, while the size of demand allowed the MoF to reject some bids and not increase rates.

Appendix: Yields-to-maturity, repayments

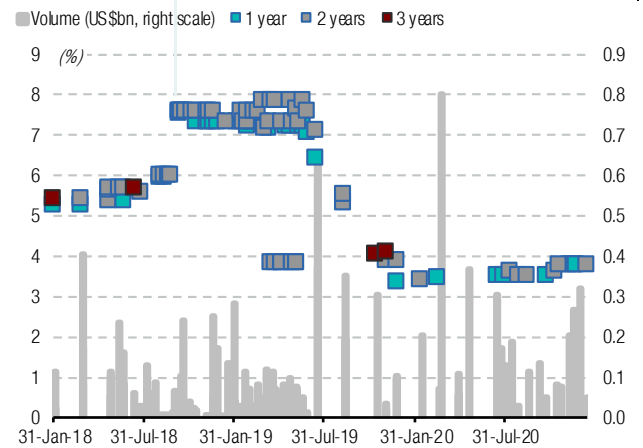
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

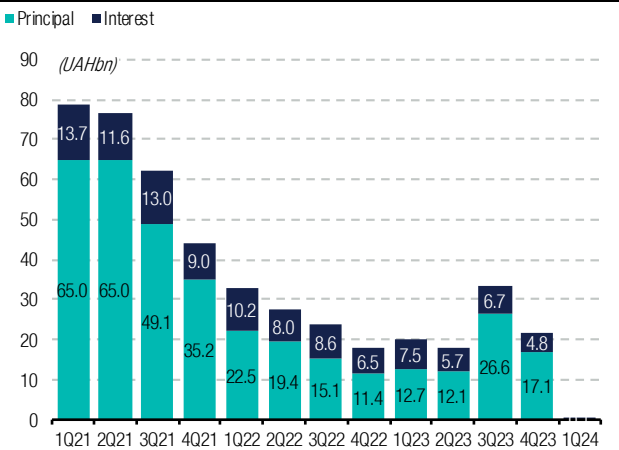
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

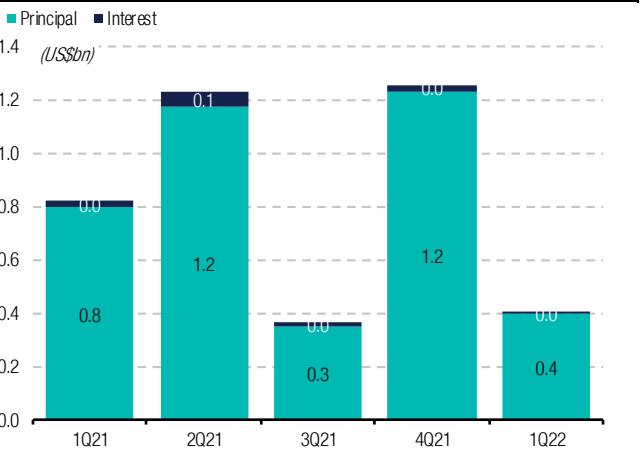
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

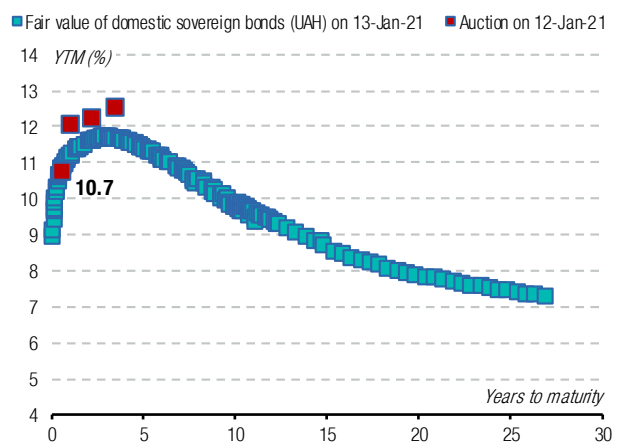
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

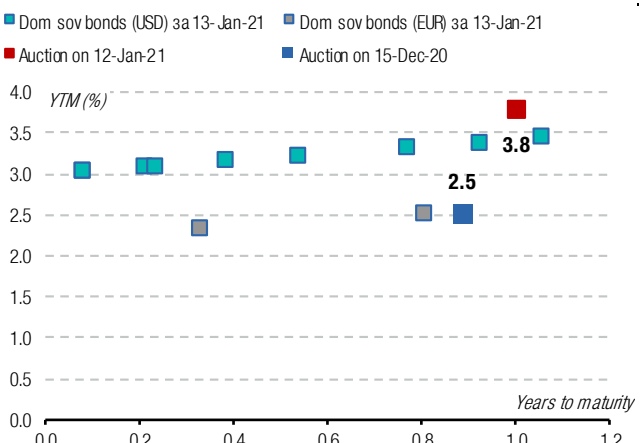
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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