

Bond Market Insight

Debt redemption fully refinanced

Comment on government bond placement

Yesterday, the MoF fully refinanced today's debt redemptions, although they had to increase rates for some issues to borrow the amount needed.

More than just a rate increase was seen yesterday. The MoF set the limit for the offering of three-month bills at UAH500m (US\$18m) at par value. This limit increased competition, as MoF accepted just 22 out of 31 bids, and likely, not all were accepted in full. By imposing a limit, the MoF was able to decrease the cut-off rate by 55bp to 9.45%. The weighted-average rate was down sharply by 82bp to 9.18%, which is just 18bp above the lowest rate in demand. So, most of yesterday's demand was close to 9%.

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
UA4000213771	0.00	@Mty	14-Apr-21	500,000	979.31	489.65	500.00	9.18	11,684.69
UA4000215156	11.73	SA	9-Mar-22	5,885,398	1,042.50	6,135.53	5,885.40	12.11	5,885.40
UA4000207682	9.84	SA	15-Feb-23	3,962,801	1,003.85	3,978.05	3,962.80	12.33	9,116.54
UA4000207880	9.99	SA	22-May-24	604,142	957.08	578.21	604.14	12.56	3,983.03
UA4000207518	9.79	SA	26-May-27	1,282,711	896.68	1,150.18	1,282.71	12.92	5,157.63
Total UAH				12,235,052	12,331.62	12,235.05			35,827.29

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

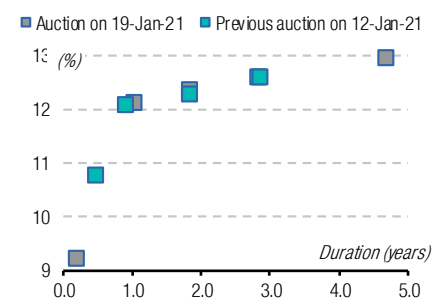
The MoF did have to increase rates for the one and two-year bills. These two instruments received most of yesterday's demand, more than UAH10bn (US\$369m) out of total demand of UAH13.6bn (US\$483m). But this demand was aggressive. The Ministry had to increase the cut-off rate for one-year bills by 5bp to 11.75% and for two-year paper by 10bp to 11.95%.

Investors and the Ministry kept their view for the three-year note. Most demand was at 12.15%, and the Ministry rejected just two bids amounting to UAH50m (US\$1.8m).

The placement of the six-year note was interesting. A year ago, the Ministry attempted to sell seven-year paper and was able to place UAH3.9bn (US\$150m) in two auctions. It was a debut offering of such long maturity. In January 2020, demand exceeded UAH9bn (US\$225m) for this paper, but a month later, demand fell off. With pandemic fears and lockdowns, demand evaporated, and this issue was not offered again last

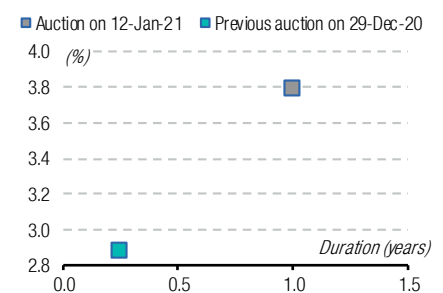
WEDNESDAY, 20 JANUARY 2021

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



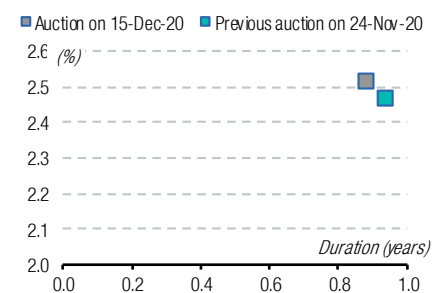
Source: Ministry of Finance of Ukraine, ICU.

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.

year at all.

Yesterday, the MoF reopened this issue, and quite successfully. Demand was in 20 bids and amounted to UAH1.3bn. Rates in the bids ranged between 12.4–12.6%, and most were accepted. Only one bid in the amount of UAH50m (US\$1.8m) at 12.6% was rejected. The cut-off rate was set at 12.5% or just 25bp above the rate for the four-year paper sold by the MoF at the end of last year.

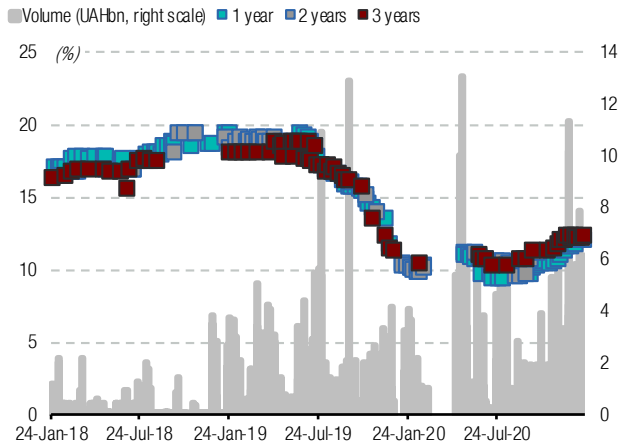
Overall, yesterday, the Ministry borrowed UAH12.3bn (US\$438m). These funds should fully cover UAH11.9bn (423m) of debt redemption scheduled for today, while for interest repayments—an additional UAH2bn (US\$70m)—should be covered by funds borrowed earlier this year.

In general, the result of this auction is positive, and the Ministry should not have to exchange hard-currency funds in hryvnia for debt repayments any time soon. Through the end of January, debt repayments will be lower, just UAH6bn (US\$210m) in local and US\$10m in hard currency.

Appendix: Yields-to-maturity, repayments

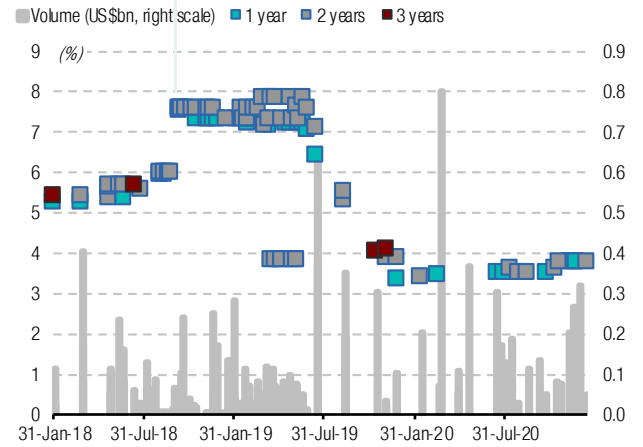
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

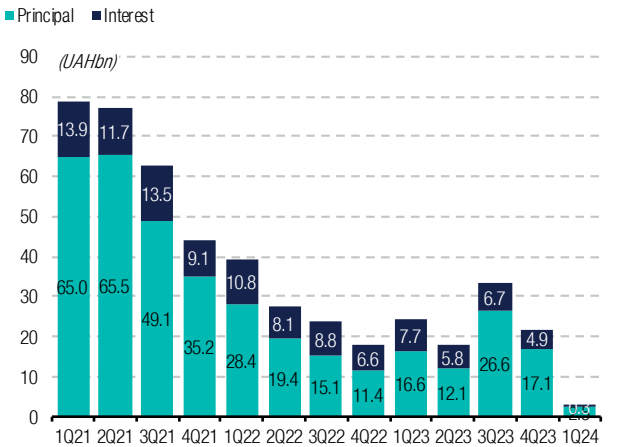
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

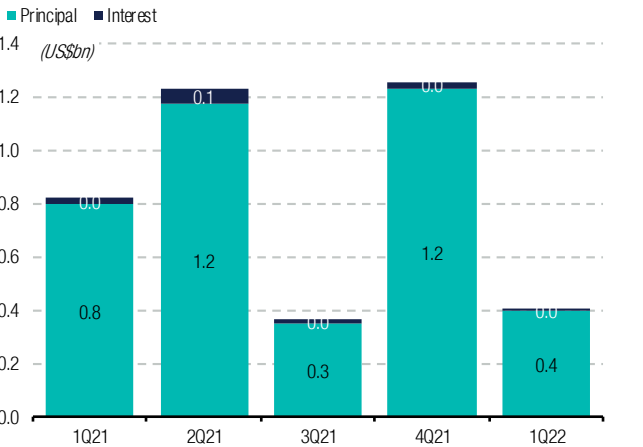
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

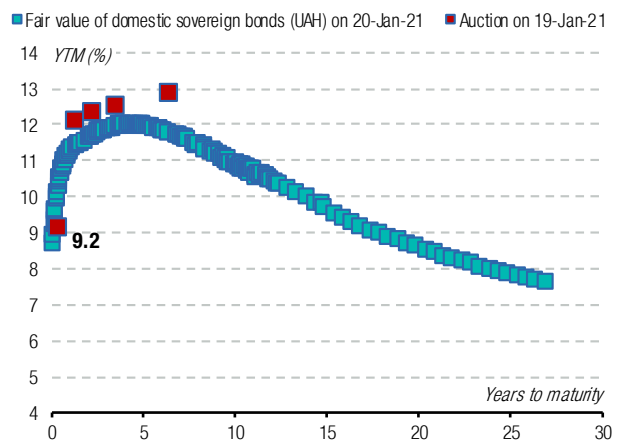
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

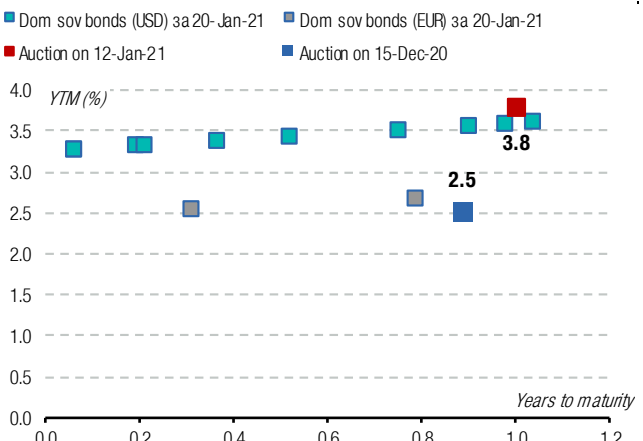
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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