

Bond Market Insight

Refinancing with a decline in rates

Comment on government bond placement

Yesterday, the MoF was not only able to refinance most of its debt redemptions, but it also decreased rates for all offered bills at the primary auction.

Six-month bills were more than four times oversubscribed, which resulted in a decline in the cut-off rate by 110bp and weighted-average rate by 69bp, both to 9.2%, or just 5bp above the cut-off rate for three-month paper last week.

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
UA4000195176	16.00	SA	11-Aug-21	500,000	1,036.08	518.04	500.00	9.44	10,653.03
UA4000215495	0.00	@Mty	2-Feb-22	1,500,000	907.86	1,361.79	1,500.00	10.80	4,500.00
UA4000214506	11.75	SA	15-Jun-22	2,000,000	1,029.38	2,058.75	2,000.00	11.49	13,533.35
UA4000200885	15.97	SA	19-Apr-23	1,700,751	1,132.12	1,925.45	1,700.75	12.18	6,140.03
UA4000207880	9.99	SA	22-May-24	1,286,283	970.53	1,248.38	1,286.28	12.45	9,671.41
Total UAH				6,987,034		7,112.41	6,987.03		44,497.82
UA4000214787	0.00	@Mty	13-Jan-22	126,550	968.40	3,422.89	3,534.57	3.69	4,932.31
Total USD				126,550		3,422.89	3,534.57		4,932.31

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 27.93USD, 33.42EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

However, for longer instruments, the rate decline was less material. For 12-month and 16-month bills, the MoF increased caps by UAH0.5bn to UAH1.5bn and UAH2bn, respectively, restraining a possible decline in rates. Demand was large for these instruments, as well, about two times greater than the offered amount. Therefore, the decline in rates was just 20bp and 30bp, respectively, for 12-month and 16-month paper.

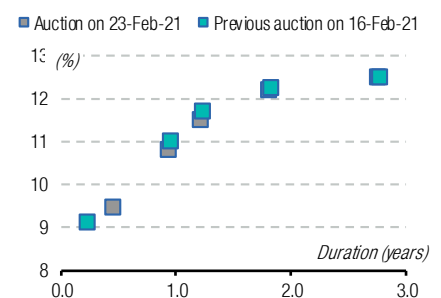
For two-year and three-year instruments, cut-off rates slid without capped offerings by 10bp to 11.6% and 12.05% respectively. The MoF rejected just three bids for the two-year paper and accepted all demand for the three-year.

Rates for USD-denominated paper declined, too. The Ministry set a cap for this issue, but demand was lower, just UAH128m vs a cap of US\$200. However, the MoF rejected three small bids and decreased both cut-off and weighted-average rates by 10bp to 3.7% compared with the previous auction in January.

As the result of this auction, the Ministry of Finance refinanced 70% of redemptions

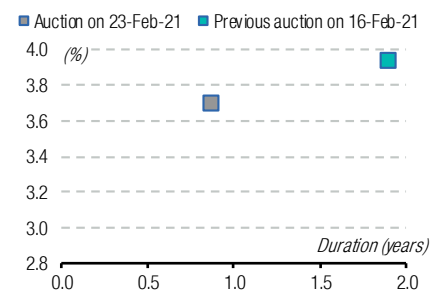
WEDNESDAY, 24 FEBRUARY 2021

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



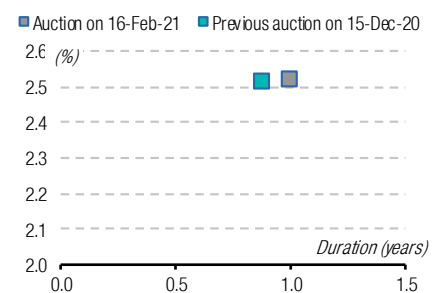
Source: Ministry of Finance of Ukraine, ICU.

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



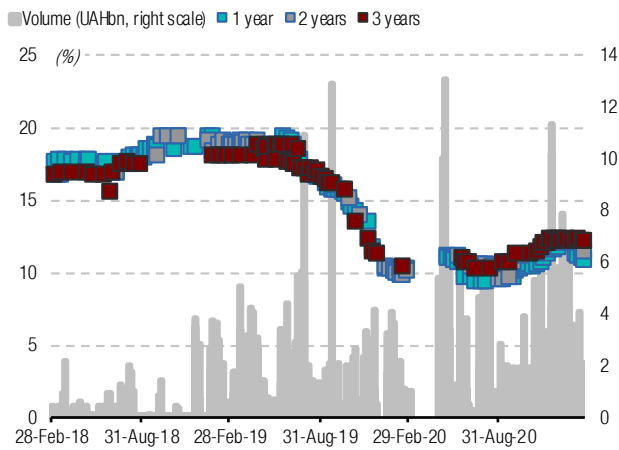
Source: Ministry of Finance of Ukraine, ICU.

scheduled for today. It could have borrowed a significantly larger amount and refinanced all of today's debt repayments in full. However, the decision to set caps and reject a large part of demand indicates that the Ministry has enough funds in budget accounts to meet debt repayments and is not interested in short-term borrowings.

Appendix: Yields-to-maturity, repayments

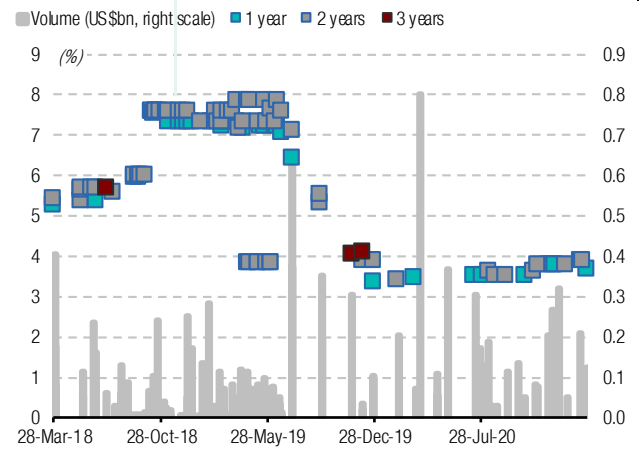
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

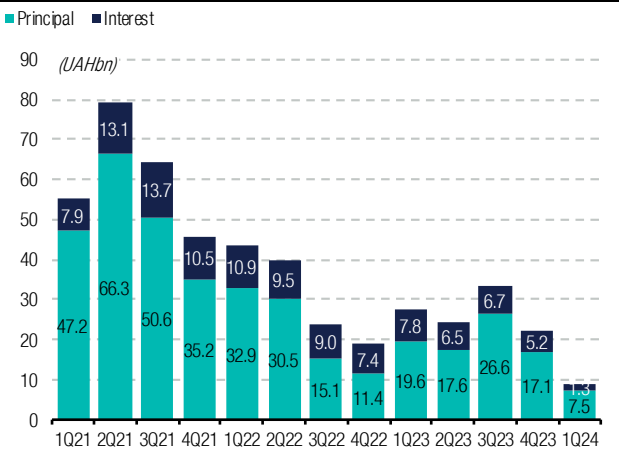
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

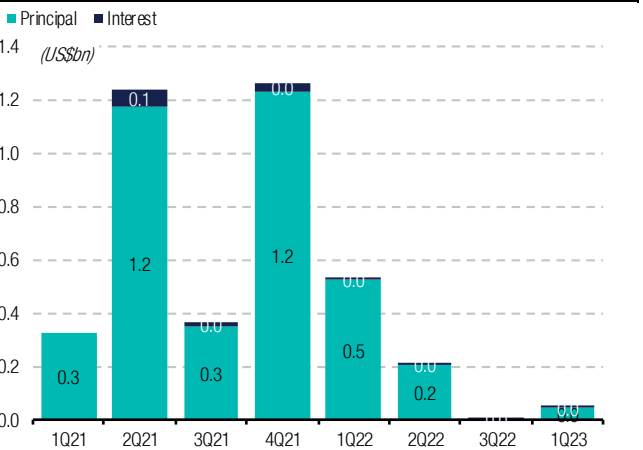
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

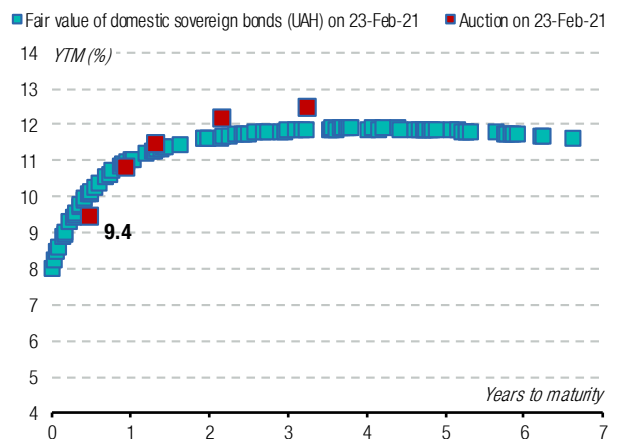
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

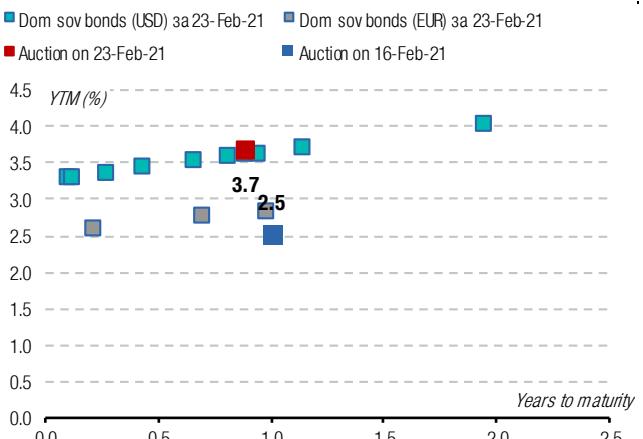
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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