

Bond Market Insight

Pace of borrowing remains high

Comment on government bond placement

At yesterday's primary auction, interest rates declined only for bills that had caps. For other paper, rates were unchanged. However, the pace of borrowings for budget financing remains high. Yesterday, borrowings amounted to UAH11.5bn and, year-to-date, UAH87bn.

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
UA4000194567	16.65	SA	30-Jun-21	500,000	1,054.26	527.13	500.00	8.67	2,612.69
UA4000215495	0.00	@Mty	2-Feb-22	2,000,000	910.58	1,821.15	2,000.00	10.67	6,500.00
UA4000214506	11.75	SA	15-Jun-22	1,500,000	1,032.74	1,549.11	1,500.00	11.38	15,033.35
UA4000200885	15.97	SA	19-Apr-23	2,126,013	1,134.62	2,412.22	2,126.01	12.18	8,266.04
UA4000207880	9.99	SA	22-May-24	629,989	972.73	612.81	629.99	12.45	10,301.40
Total UAH				6,756,002	6,922.42	6,756.00		42,713.48	
UA4000215909	3.89	SA	2-Feb-23	162,999	1,002.78	4,560.13	4,547.49	3.94	5,711.88
Total USD				162,999	4,560.13	4,547.49		5,711.88	

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 27.9USD, 33.42EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The most sizable decline was for four-month bills where the cap was set at UAH0.5bn and was oversubscribed more than three times. The lowest rate in bids declined 50bp to 8.4%. Overall, demand came in with rates not higher than 9%, while last week the cut-off rate was 9.15%. So, no wonder the only accepted bids were with rates not higher than 8.5% with the weighted-average rate at 8.47%. These rates are 65bp and 60bp lower than two weeks ago, respectively.

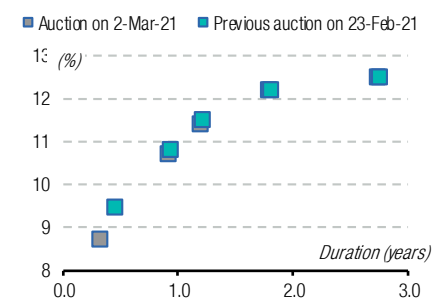
For 11-month bills, demand was double the offered amount, while the cap was UAH2bn, UAH0.5bn larger than a week ago. Despite the lowest rate declining by 45bp to 10.3%, the Ministry accepted bids with rates up to 10.75%, or 10bp lower than last week. The weighted-average rate for this paper slid 13bp to 10.67%.

The placement of 16-month paper was similar. The cut-off rate was down the same 10bp to 11.05%, while the weighted-average rate slid 11bp to 11.04%. Demand for this maturity was just UAH0.5bn larger than the offering.

Rates remained unchanged for two and three-year paper. There was a lack of competition among investors as there were not any caps. Therefore, rates remained

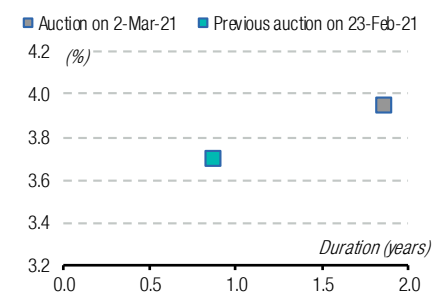
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



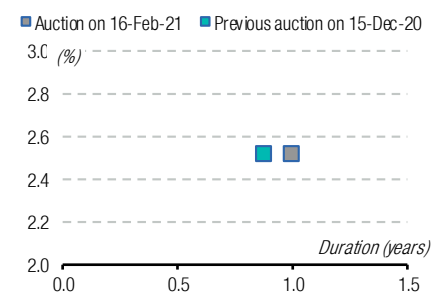
Source: Ministry of Finance of Ukraine, ICU.

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.

steady at 11.8% and 12.05%, respectively.

Also unchanged were the rates for the USD-denominated instrument. These bills were sold at 3.9% and only the weighted-average rate was up 1bp to the same level as the cut-off rate.

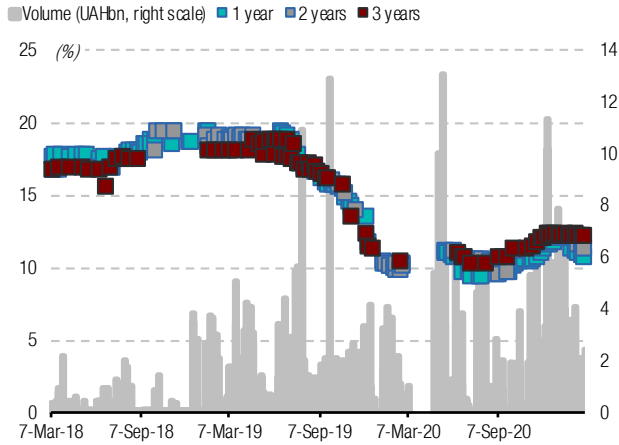
With UAH11.5bn in principal having to be repaid today, the Ministry was able to refinance this repayment. More than a third of new funds were borrowed in hard currency. In total, today's debt repayments amount to UAH15bn. Therefore, by accepting less than 60% of demand for local-currency bills, the Ministry deliberately raised enough for partial redemption refinancing and will use other sources for repayments.

Most likely, the Ministry's strategy was to lower the short-end of yield-curve taking advantage of high investor interest to increase pressure on rates. With low acceptance of bids, the pace of borrowing is still high and should allow the Ministry to refinance all debt redemptions in March, as it did in January and February.

Appendix: Yields-to-maturity, repayments

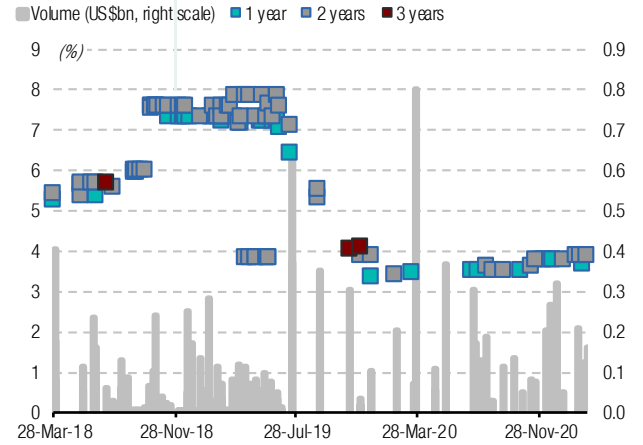
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

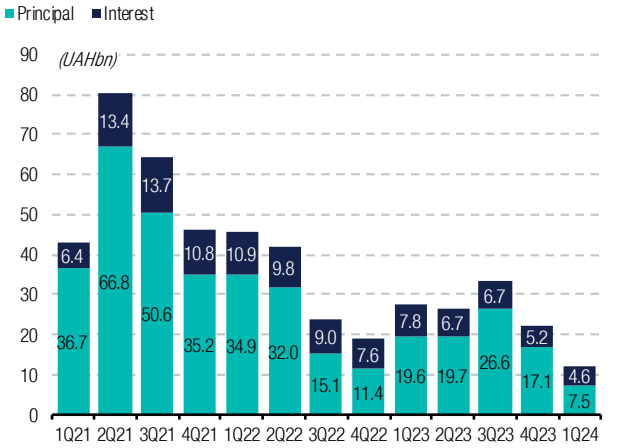
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

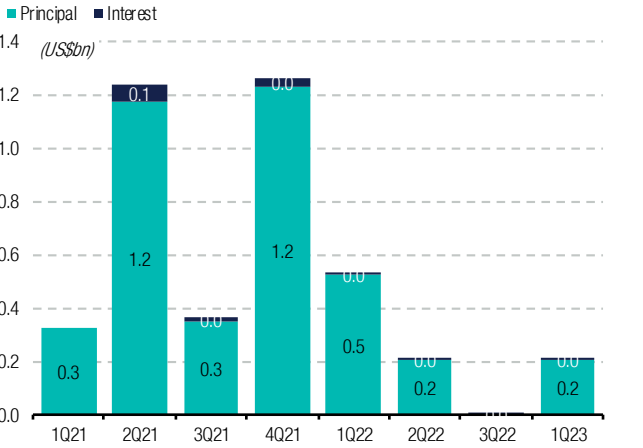
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

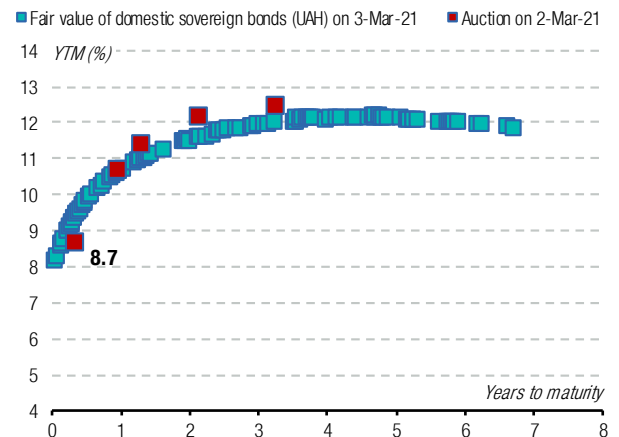
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

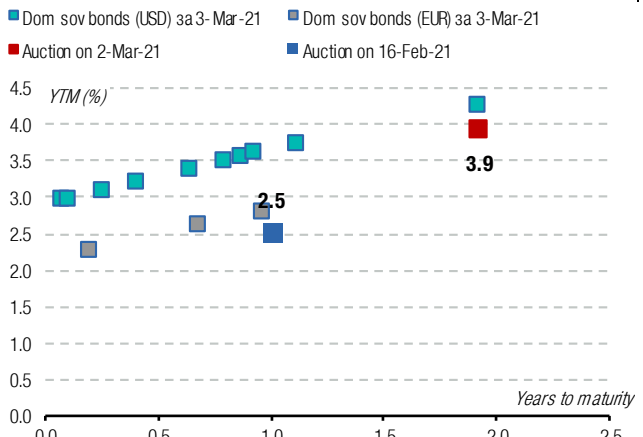
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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