

Bond Market Insight

Preparations for future repayments failed

Comment on government bond placement

Yesterday, the Ministry of Finance could have raised some of the funds needed for debt repayments next week, but did not, and borrowed only UAH1.1bn (US\$39m) from all five bills offered.

Overall, demand was low, about UAH1.4bn (US\$49m), and most of it was accepted. Minimal increases in rates for the three-month and 1.5-year bills were rejected, so there has been no talk of raising rates so far.

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
UA4000194567	16.65	SA	30-Jun-21	500,000	1,064.36	532.18	500.00	7.94	4,112.69
UA4000215156	11.73	SA	9-Mar-22	280,129	1,017.22	284.95	280.13	11.07	13,380.10
UA4000216774	11.10	SA	23-Nov-22	172,358	1,040.26	179.30	172.36	11.44	1,628.37
UA4000201255	16.00	SA	24-May-23	64,802	1,135.28	73.57	64.80	12.18	6,535.41
UA4000207880	9.99	SA	22-May-24	18,354	983.72	18.06	18.35	12.45	10,728.52
Total UAH				1,035,643	1,088.05	1,035.64			36,385.09

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

More than a half of demand was submitted for three-month paper at UAH811m in 14 bids. But due to the cap, only nine of them were accepted at a rate of 7.77% or 21bp lower than a week ago. This paper was the only issue where rates declined.

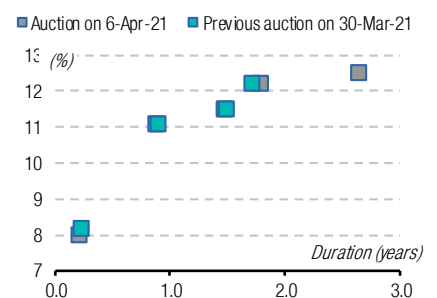
The opposite was the case for 11-month bills. The weighted-average rate was up by a mere 1bp to 10.75%, the same level as the cut-off rate. Demand was unanimous so the MoF did not have a choice.

The Ministry could have increased rates for the 1.5-year instrument, where one bid had a rate 20bp higher, but this demand was rejected.

The Ministry borrowed enough to meet repayments due today of UAH0.4bn, but was not able to borrow a larger amount prior to repayments of UAH13bn (almost US\$0.5bn) coming due next week. Now the Ministry will have to refinance these repayments so as not use budget funds from other sources. This refinancing will be especially important prior to the NBU key policy rate revision next week.

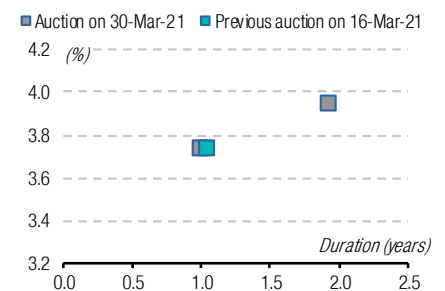
WEDNESDAY, 7 APRIL 2021

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



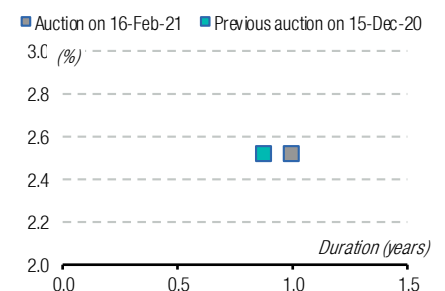
Source: Ministry of Finance of Ukraine, ICU.

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

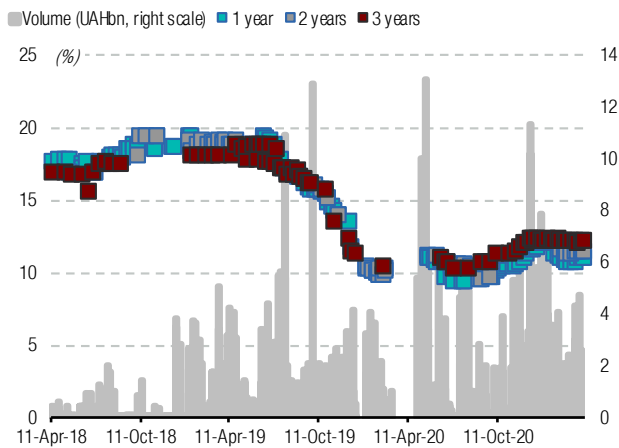


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

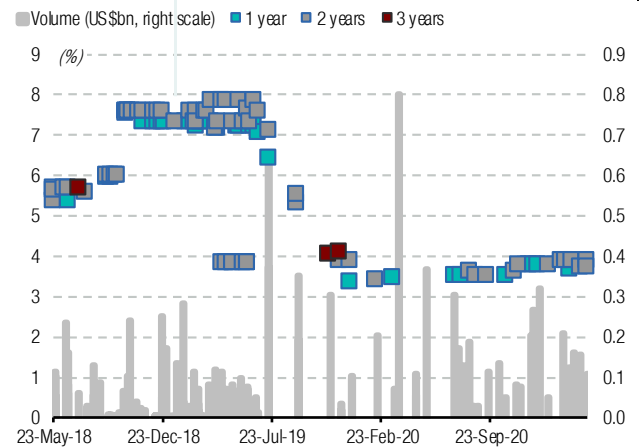
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

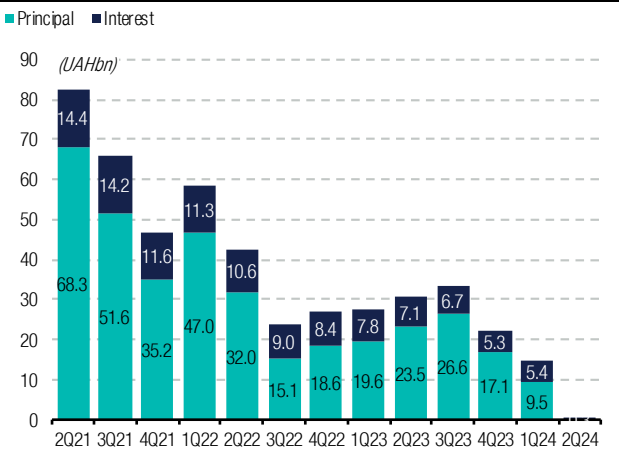
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

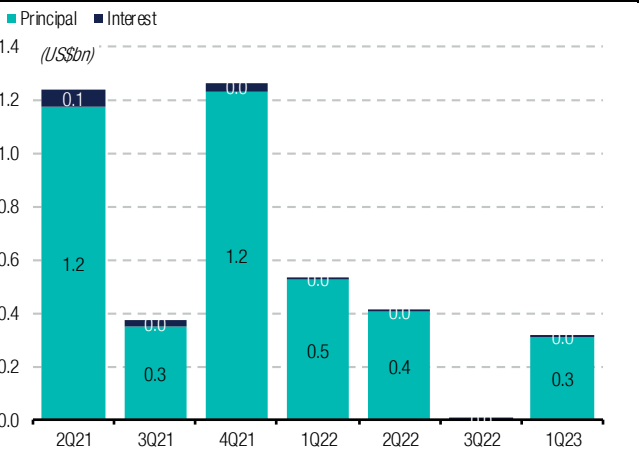
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

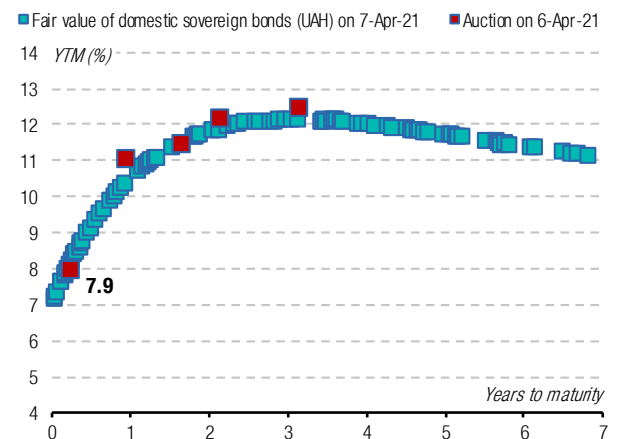
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

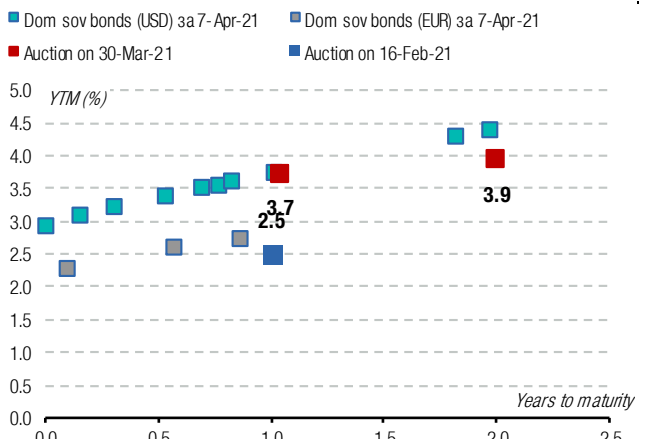
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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