

# Bond Market Insight

## MoF increases borrowings

### Comment on government bond placement

At yesterday's primary auction, the MoF offered an unscheduled EURO-denominated bond in place of a 12-month local currency bond offering. With budget proceeds UAH6.37bn, including EUR123.3m, the MoF saw increased demand for local currency bonds.

For the 3-month bond, the MoF increased the limit to UAH1.0bn and with UAH1.84bn of demand, it reduced the cut-off rate by 6bp to 17.44%. The weighted-average rate was also 17.44% as the lowest rate of 17.39% did not influence it. Demand for the 6-month bond exceeded UAH0.70bn and the MoF satisfied demand within the limit of UAH0.50bn at an unchanged 17.00% rate.

After rejecting the majority of demand for the 9-month bond last week, the MoF received higher demand yesterday. It increased the cut-off rate by 10bp to 17.10% and weighted-average rate by 1bp to 17.01% to raise UAH0.75bn.

**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000200653	0.00	@Mty	6-Jun-18	1,000,000	964.51	964.51	1,000.00	17.44	1,684.45
UA4000200661	0.00	@Mty	5-Sep-18	500,000	927.43	463.72	500.00	17.00	736.84
UA4000200604	0.00	@Mty	28-Nov-18	837,867	894.92	749.82	837.87	17.01	1,307.47
UA4000157671	14.30	SA	12-Feb-20	2,505	984.78	2.47	2.51	16.80	1,763.31
UA4000200174	15.70	SA	20-Jan-21	170,695	1,013.55	173.01	170.70	16.85	582.96
<b>Total UAH</b>				<b>2,511,067</b>	<b>2,353.52</b>	<b>2,511.07</b>			<b>6,075.02</b>
UA4000200711	4.12	SA	27-Nov-19	121,770	1,012.68	3,975.57	3,925.78	4.17	3,925.78
<b>Total EUR</b>				<b>121,770</b>	<b>3,975.57</b>	<b>3,925.78</b>			<b>3,925.78</b>

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 26.34/USD, 32.26/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

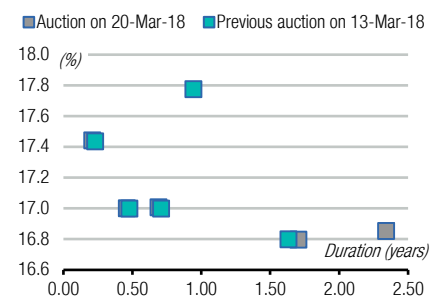
The 2-year and 3-year bonds had lower demand while cut-off rates remained unchanged at 16.10% for the 2-year and 16.15% for the 3-year bond.

EURO-denominated bonds received seven bids which were accepted in full. Three months ago, when similar bonds were offered, the 1.5-year maturity was sold at 3.95%. Yesterday, the 20-month bond was sold at a weighted average rate up 17bp to 4.12% with a cut-off rate at 4.17%.

The yield curve remained close to that of the key policy rate as the 3-month rate

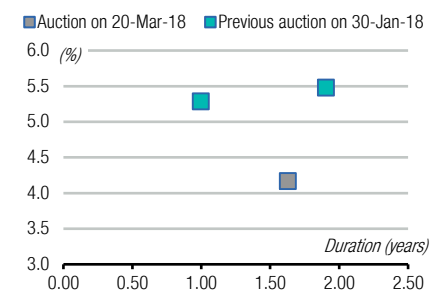
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### UAH-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

### USD- and EUR-denominated domestic gov't bonds: yield curve in past two auctions



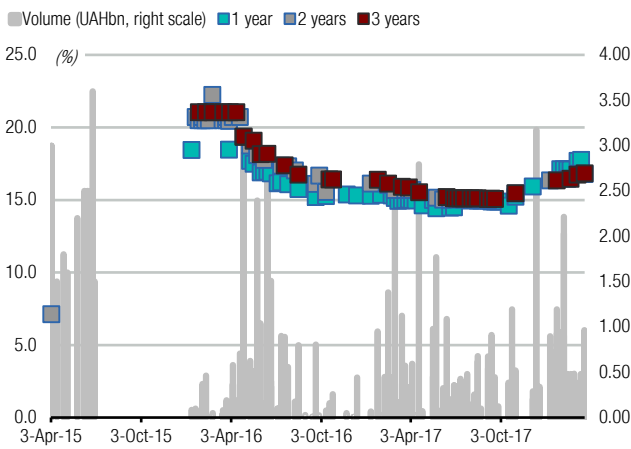
Source: Ministry of Finance of Ukraine, ICU.

declined slightly while the 9-month rose slightly. While the MoF rejected nearly a half of the demand for local currency bonds which was slightly more expensive than the accepted bids, it started to use FX proceeds to cover budget needs at a cost four times lower than that of local currency bonds.

# Appendix: Yields-to-maturity, repayments

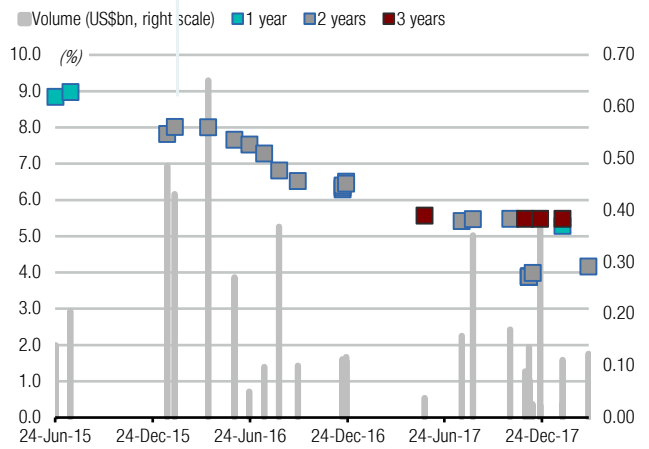
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

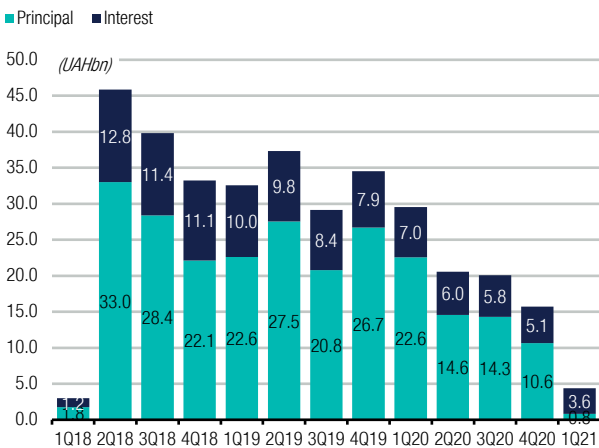
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

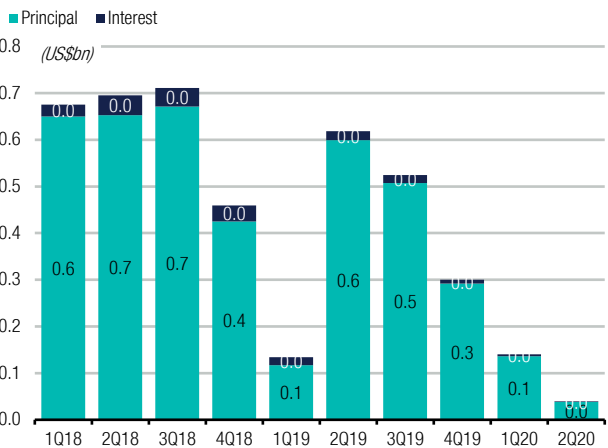
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

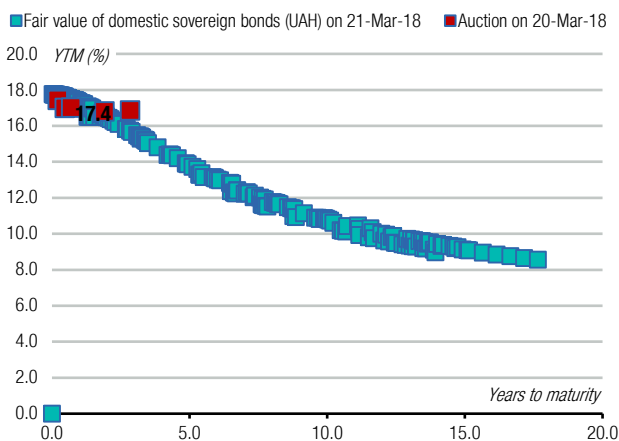
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

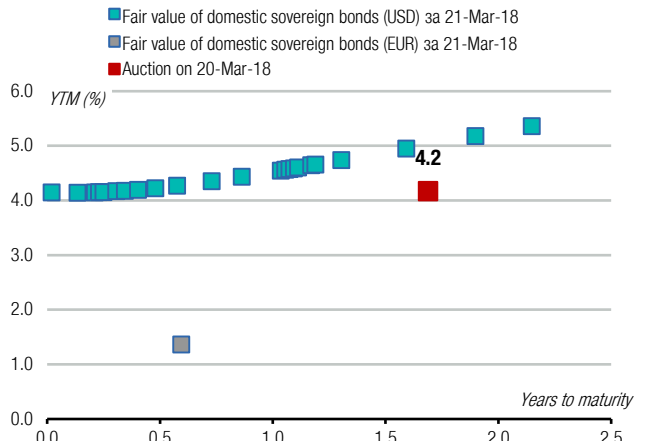
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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