

# Bond Market Insight

## MoF accumulates FX

### Comment on government bond placement

Yesterday, the Ministry of Finance gave preference to FX-denominated bonds so as to be ready for next week's FX debt repayments without having to resort to using reserves from other sources. At the beginning of the month, UAH21bn was in the government's accounts in FX. The MoF offered short-term bills and accepted higher rates to collect about US\$187m and EUR69m, and an additional UAH2.8bn in local currency.

For local-currency bills, interest rates remained mostly steady, and UAH1.75bn and UAH1.04bn were borrowed at the expected level of cut off rates of 18%, as was UAH1.7m borrowed for two years at 16.8%. However, for 12-month bills, the cut-off rate was increased 20bp to get UAH11.8m of proceeds.

Because it needed FX funds, the MoF was forced to increase rates for FX-denominated bills. Yesterday, 3.5-month bills were sold at 5.55%, which was 35bp above the previous auction when longer maturities had lower rates. For six-month bills, the rate was increased 55bp to 5.95%. A higher rate was also set for euro-denominated bills, which were sold at 4.5%, higher than two weeks ago.

As a result, the MoF received about US\$268m in FX, which will enable it to refinance about 70% of FX-denominated repayments in the local market next week, in the amount of US\$389m. And with new FX borrowings next week, the MoF will be able to refinance domestic FX repayments scheduled for this month. Successful borrowings next week will allow the MoF to use funds for external debt repayments.

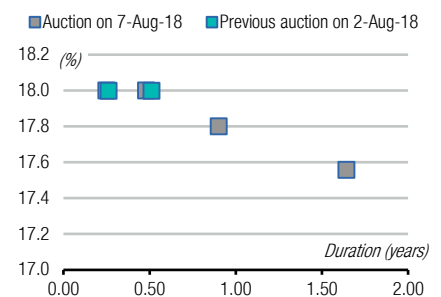
**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

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> (%)	Out-standing (m) <sup>4</sup>
UA4000200950	0.00	@Mty	7-Nov-18	1,823,809	957.05	1,745.48	1,823.81	18.00	4,592.01
UA4000201735	0.00	@Mty	30-Jan-19	1,127,682	920.55	1,038.09	1,127.68	18.00	2,745.53
UA4000201768	0.00	@Mty	3-Jul-19	13,636	861.74	11.75	13.64	17.80	26.74
UA4000198006	14.64	SA	10-Jun-20	1,754	988.78	1.73	1.75	17.56	3,555.71
<b>Total UAH</b>				<b>2,966,881</b>		<b>2,797.05</b>	<b>2,966.88</b>		<b>10,919.99</b>
UA4000201891	0.00	@Mty	21-Nov-18	132,835	984.51	3,528.45	3,583.95	5.47	3,583.95
UA4000201446	0.00	@Mty	27-Feb-19	58,301	968.44	1,523.35	1,572.99	5.86	6,922.98
<b>Total USD</b>				<b>191,136</b>		<b>5,051.80</b>	<b>5,156.94</b>		<b>10,506.94</b>
UA4000195663	4.00	@Mty	24-Oct-18	68,270	1,010.80	2,159.57	2,136.49	4.39	6,559.05
<b>Total EUR</b>				<b>68,270</b>		<b>2,159.57</b>	<b>2,136.49</b>		<b>6,559.05</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 26.98/USD, 31.29/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

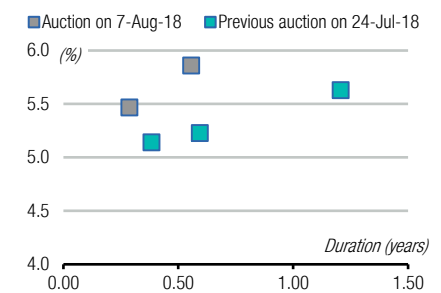
### WEDNESDAY, 8 AUGUST 2018

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



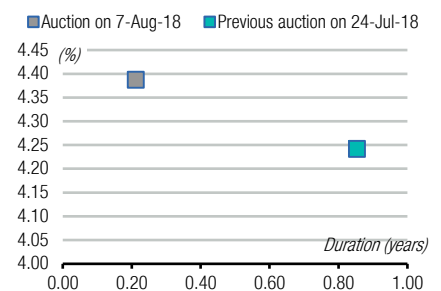
Source: Ministry of Finance of Ukraine, ICU.

#### 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

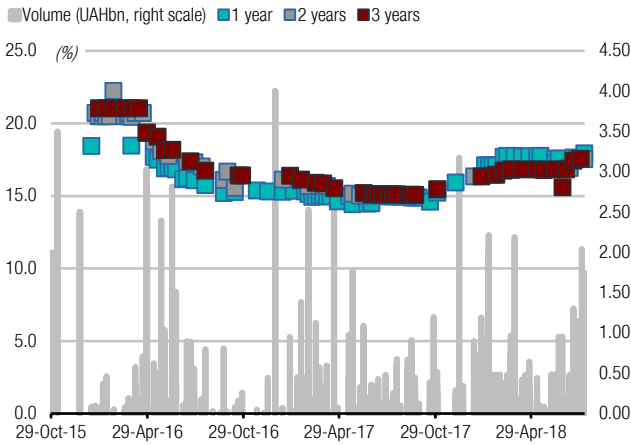


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

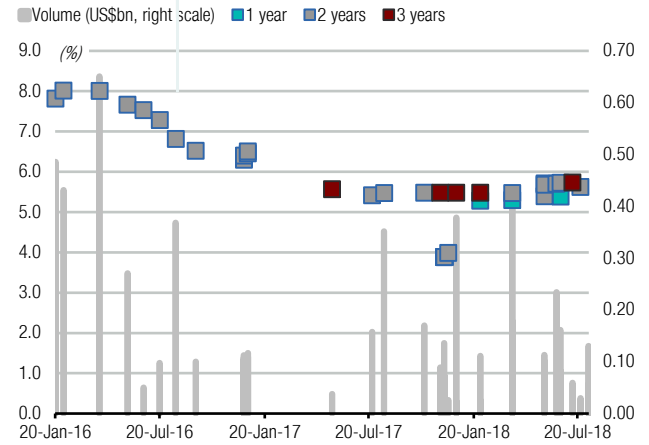
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

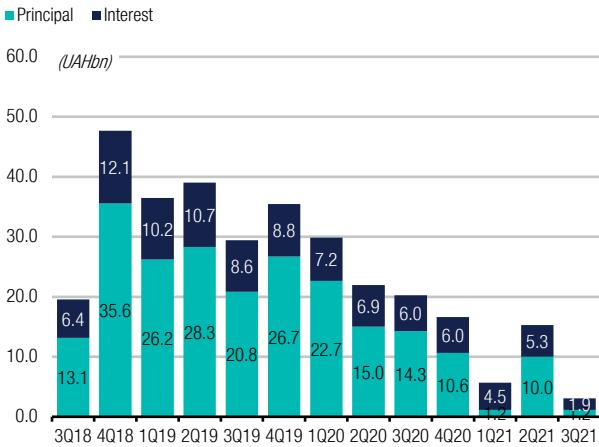
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

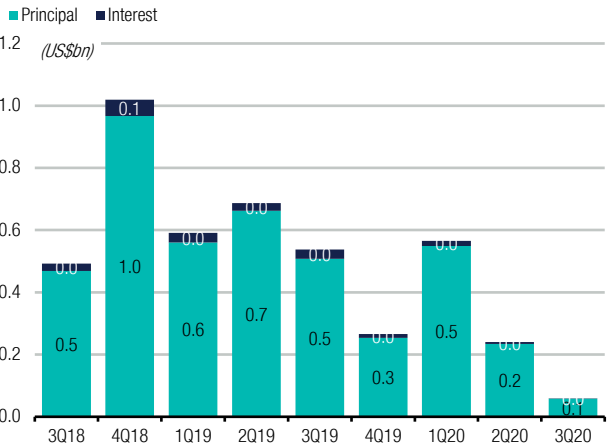
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

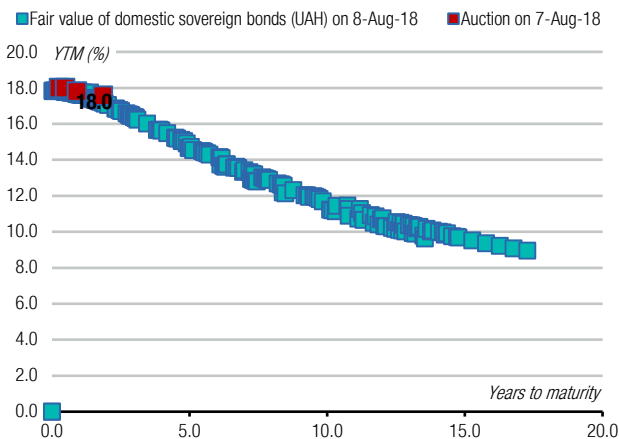
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

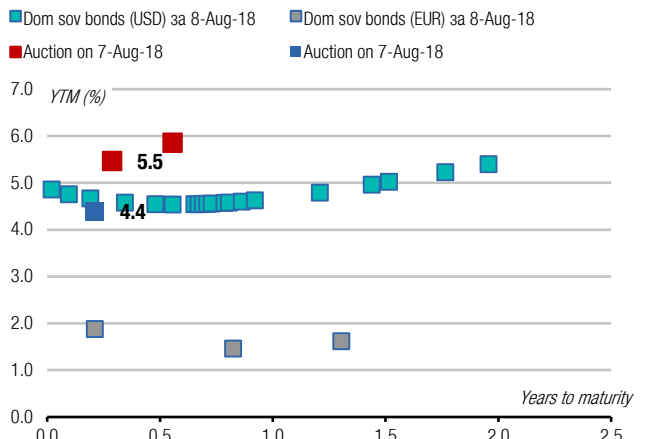
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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