

Bond Market Insight

MoF increases borrowings

Comment on government bond placement

As expected, yesterday's auction resulted in an increase in borrowings, and rates increased for some instruments. Total budget proceeds were UAH1.5bn, US\$127m, and EUR30m, which is very positive prior to large debt repayments. The Ministry's decision to hold rates unchanged when demand was very low brought about yesterday's result. With larger demand, the MoF moved rates up last week and continued this movement yesterday.

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
UA4000202055	0.00	@Mty	19-Гру-18	1,487,637	964.84	1,435.33	1,487.64	19.00	3,703.47
UA4000201370	0.00	@Mty	3-Кві-19	11,177	918.53	10.27	11.18	18.50	521.64
UA4000201768	0.00	@Mty	3-Лип-19	34,263	881.20	30.19	34.26	18.50	78.50
UA4000165773	14.30	SA	8-Кві-20	207	947.08	0.20	0.21	19.41	1,820.21
Total UAH				1,533,284		1,475.99	1,533.28		6,123.82
UA4000201453	0.00	@Mty	19-Чер-19	22,403	954.07	598.90	627.73	6.97	5,094.51
UA4000201396	5.62	SA	15-Січ-20	55,162	990.73	1,531.31	1,545.64	7.64	8,103.08
UA4000202535	7.50	SA	30-Січ-20	50,414	1,014.28	1,432.77	1,412.60	6.48	1,412.60
Total USD				127,979		3,562.98	3,585.97		14,610.19
UA4000199665	3.95	SA	5-Чер-19	29,756	1,009.61	967.28	958.08	4.65	5,910.13
Total EUR				29,756		967.28	958.08		5,910.13

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 28.02/USD, 32.2/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

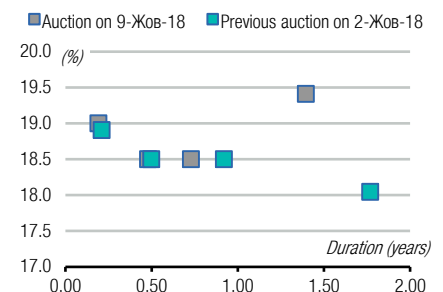
Last week, demand for local-currency bonds was slightly above UAH1bn, while yesterday, it rose x1.5 and budget proceeds were up x1.7. Demand and financing in FX rose more significantly: demand for USD-denominated bills increased two times and, in addition, there was demand for euro-denominated bills. In total, the MoF received US\$170m of demand for FX-denominated bills and took in US\$160m of proceeds.

For local-currency bills the MoF mostly kept rates at the same level as last week, while for 1.5-year bills, the rate was increased to 18.5%, the same level as for bills with maturities from six up to 12 months.

At the same time, the MoF continued to increase the cost of borrowing in FX. For the nine-month bill, the rate remained steady at 7%, but for longer maturities, the rate was

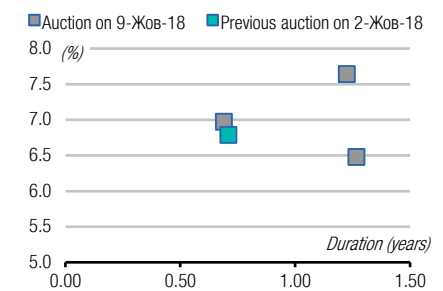
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



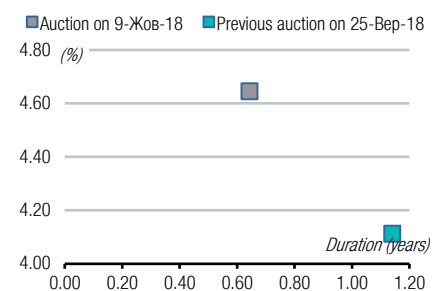
Source: Ministry of Finance of Ukraine, ICU.

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.

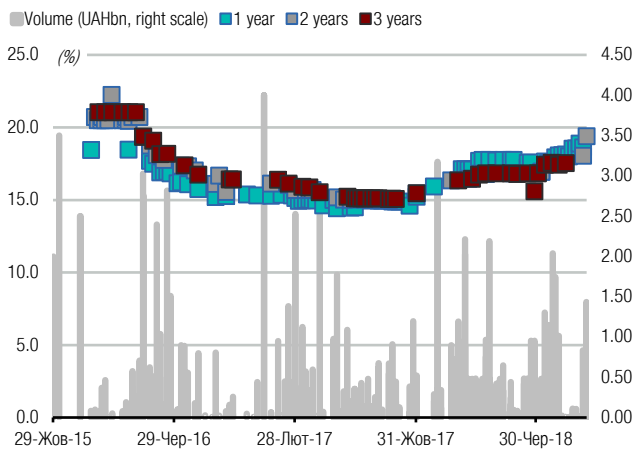
set at 7.5%. For bills denominated in euro, the rate was 4.6%.

The main reason for this decision was FX financing requirements, as in a week, the MoF has to repay more than US\$500m. In two weeks, it must repay more than EUR200m. So, for the MoF, it was very important to increase its FX reserves prior to redemptions and send a message that following the rate increases in international markets, the government is ready to pay a higher rate for a suitable amount of borrowings in the local market.

Appendix: Yields-to-maturity, repayments

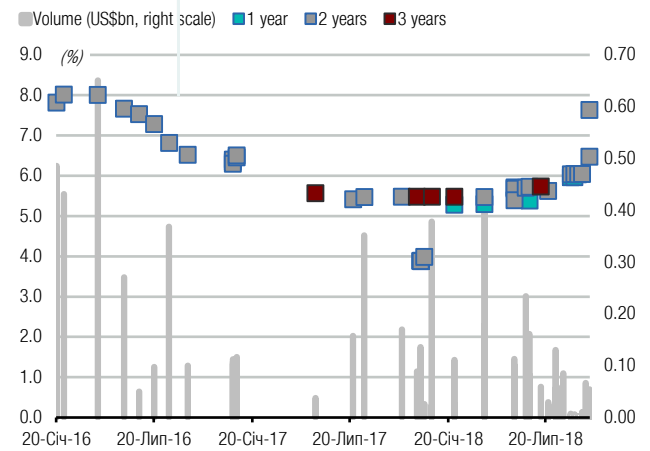
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

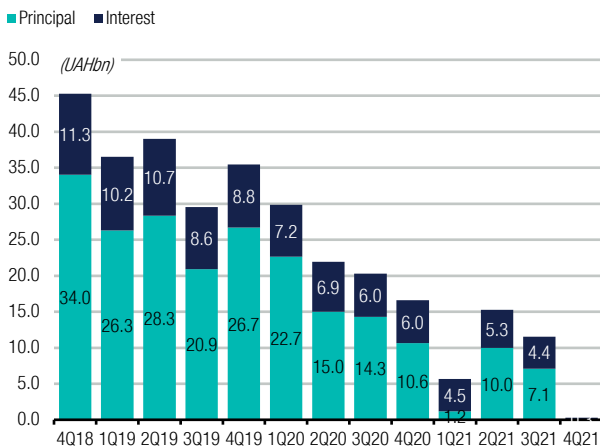
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

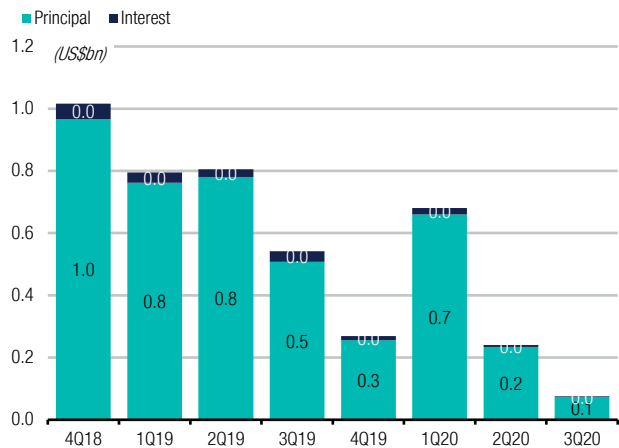
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

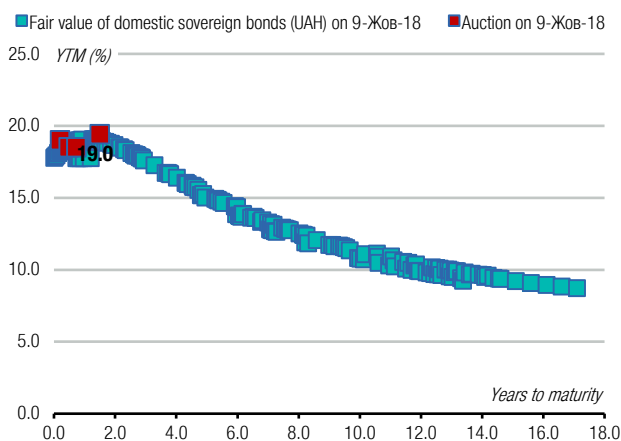
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

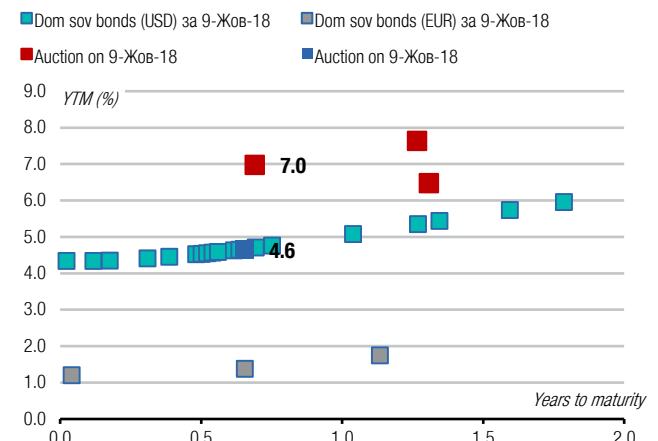
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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