

Bond Market Insight

Partial refinancing

Comment on government bond placement

On Tuesday, the Ministry of Finance refinanced only a part of debt repayments in FX, and borrowed US\$34.4m and EUR24.6m. At the same time, the MoF rejected only a small part of demand for the auction. Actually, only a quarter of yesterday's debt repayments was refinanced, and to make repayments, the MoF most likely exchanged funds borrowed last week in US dollars into euros.

For local-currency bills, only the three-year paper failed to receive demand. There was demand for other bills offered in hryvnia, which amounted to UAH91.9m, and they were fully accepted. Interest rates on bids were at the same level as recent weeks, and budget proceeds amounted to UAH86.8m.

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
UA4000200968	0.00	@Mty	6-Feb-19	70,991	948.18	67.31	70.99	19.00	428.35
UA4000201370	0.00	@Mty	3-Apr-19	6,003	924.55	5.55	6.00	18.50	527.64
UA4000201768	0.00	@Mty	3-Jul-19	4,497	886.74	3.99	4.50	18.50	83.00
UA4000165773	14.30	SA	8-Apr-20	10,450	953.55	9.96	10.45	19.41	1,830.66
Total UAH				91,941		86.81	91.94		2,869.65
UA4000201453	0.00	@Mty	19-Jun-19	34,039	956.52	916.21	957.86	6.97	7,058.30
UA4000202568	7.50	SA	15-Oct-20	1,808	1,001.42	50.95	50.88	7.65	761.64
Total USD				35,847		967.16	1,008.73		7,819.94
UA4000199665	3.95	SA	5-Jun-19	19,010	1,011.38	616.34	609.41	4.64	6,493.71
UA4000200711	4.12	SA	27-Nov-19	5,320	1,017.25	173.49	170.54	4.11	8,816.50
Total EUR				24,330		789.83	779.95		15,310.21

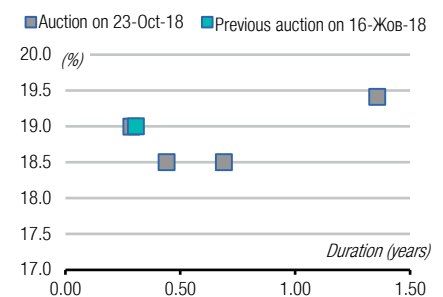
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 28.14/USD, 32.06/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Similar to local-currency bids, the MoF received bids for USD-denominated bills at the same rates as cut-off rates at the previous auction. All bids were accepted for US\$34.4m of proceeds.

At the same time, for euro-denominated instruments, one bidder made an aggressive bid of EUR18m at 5% rate—40bp above the cut-off rate set a few weeks ago—assuming the MoF was in dire need of funds. But the MoF rejected this bid, which lowered the proceeds from this offering by nearly two times. Additionally, the MoF received two non-competitive bids for other bills in euro, and accepted them

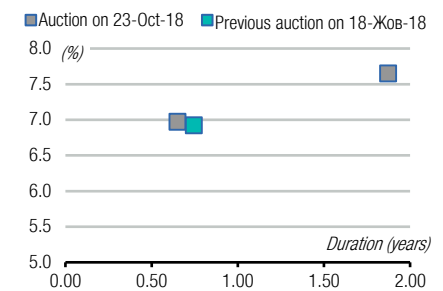
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



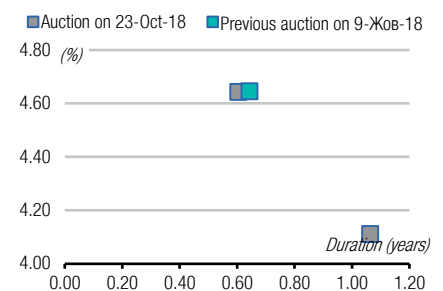
Source: Ministry of Finance of Ukraine, ICU.

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.

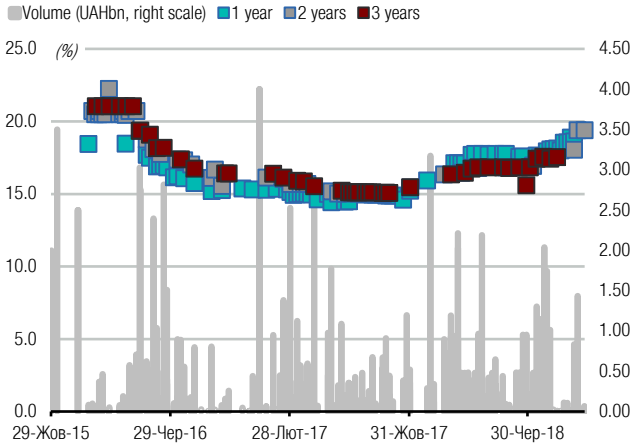
at the cut-off rate MoF determined last month, and received EUR5.4m.

Demand for primary placements remains moderate, but due to enough FX for current repayments, and in expectation of new external borrowing soon that should cover future needs for some months, low demand did not cause any problems for the Ministry, and did not require any additional decisions. So, although the MoF needed the funds from this last auction, it was not critical for refinancing debt repayments. Future auctions this year will depend on the results of the Eurobond issue, which is going on now.

Appendix: Yields-to-maturity, repayments

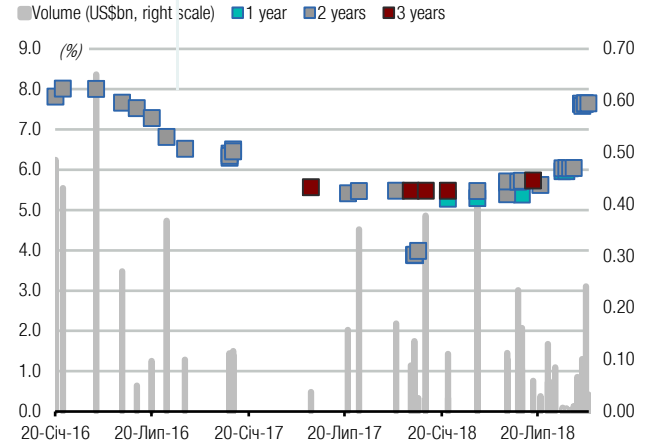
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

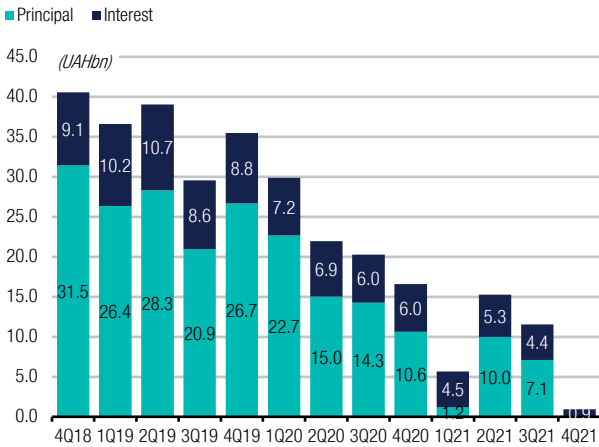
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

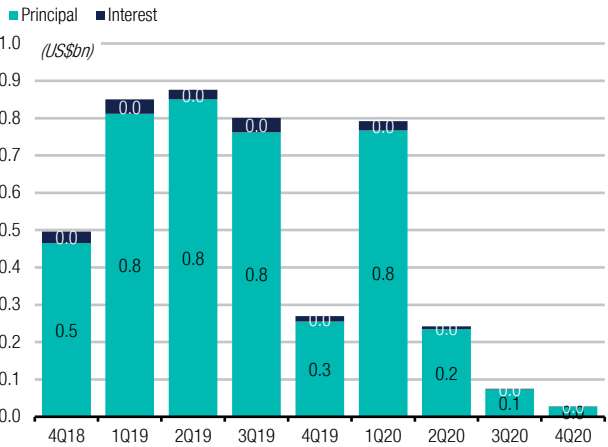
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

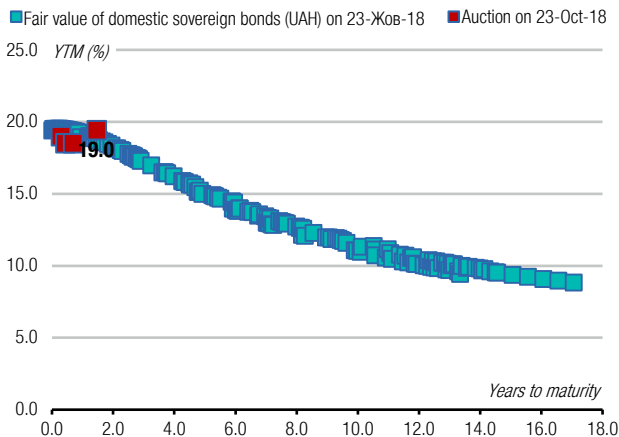
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

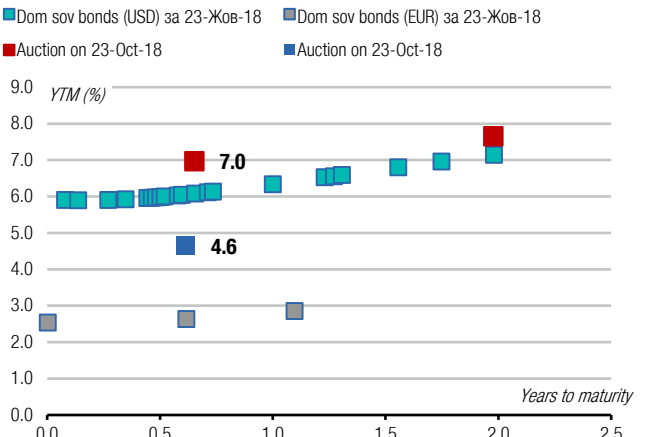
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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