

Bond Market Insight

Debut 6-year UAH borrowings

Comment on government bond placement

The structure of this week's auction was entirely different from last week. This week, the total amount of borrowings slightly declined, but most of proceeds were in hryvnia. In addition, the MoF decreased rates for some offered bonds.

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
UA4000202295	0.00	@Mty	4-Sep-19	483,644	960.33	464.46	483.64	17.95	4,129.33
UA4000203632	0.00	@Mty	4-Dec-19	500,000	919.08	459.54	500.00	18.36	2,856.42
UA4000203921	0.00	@Mty	6-May-20	869,650	857.74	745.93	869.65	18.40	5,088.83
UA4000195176	16.00	SA	11-Aug-21	1,362,237	1,017.66	1,386.29	1,362.24	18.81	1,622.89
UA4000204150	15.84	SA	26-Feb-25	3,284,275	1,042.05	3,422.38	3,284.28	16.51	3,284.28
Total UAH				6,499,806		6,478.61	6,499.81		16,981.74
UA4000203764	0.00	@Mty	2-Apr-20	3,960	944.97	99.17	104.94	7.21	2,253.03
UA4000202568	7.50	SA	15-Oct-20	659	1,014.55	17.72	17.46	7.39	1,253.40
Total USD				4,619		116.88	122.40		3,506.43

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 26.5/USD, 30.15/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The MoF offered two short bills in limited amounts, which allowed it to decrease rates for the six-month bills by 11bp, accepting less than a half of demand. The MoF also decreased rates for 11-month bills, but only by 5bp, rejecting a small portion of demand. In total, short-term bills provided only 26% of total proceeds in local currency.

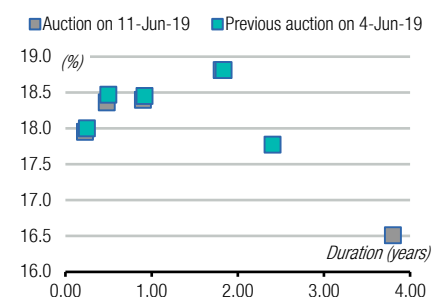
The most interesting offering was for notes maturing in February 2025, which attracted the main portion of demand. Despite just 11 bids, demand amounted to UAH3.5bn. Earlier, the longest maturity the MoF sold was four years, and yesterday bidders had to submit bids with different rates, as they did not know which level would be acceptable to the Ministry. Rates were in the range of 15.7–16.0%, and the cut-off rate was set at 15.85%. The Ministry accepted most of the demand, receiving proceeds of UAH3.4bn.

Since the MoF started the road-show to tap the EUR debt market, it was not interested in borrowing FX funds from domestic market. This looks like to be the reason for offering only two FX-denominated bills, which were not attractive to investors.

However, the Ministry is moving forward to increase maturities for local-currency

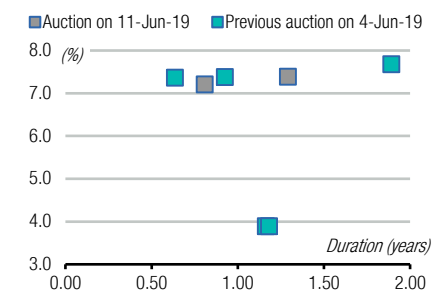
WEDNESDAY, 12 JUNE 2019

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



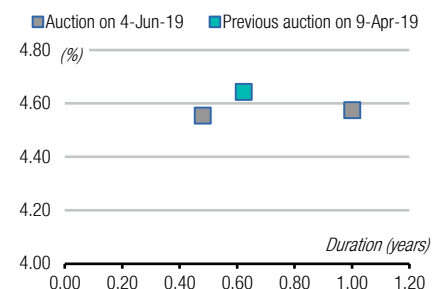
Source: Ministry of Finance of Ukraine, ICU.

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



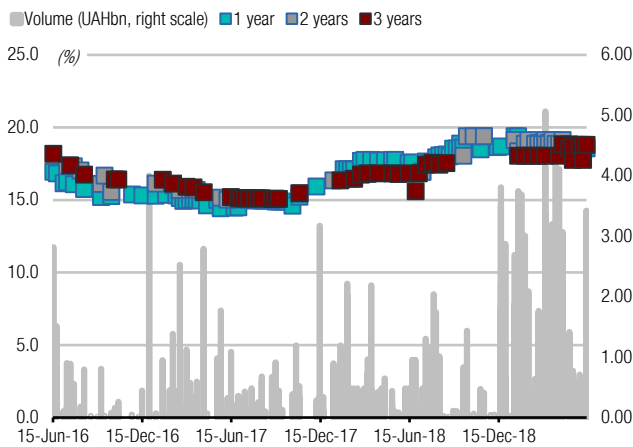
Source: Ministry of Finance of Ukraine, ICU.

notes. Demand from foreign investors supported this move. A large amount of FX was purchased by NBU on Monday, and a large portion of the new bills was purchased by foreign investors. We expect this pattern to continue of collecting funds from foreigners that support the Ministry in refinancing short-term debt with longer maturities.

Appendix: Yields-to-maturity, repayments

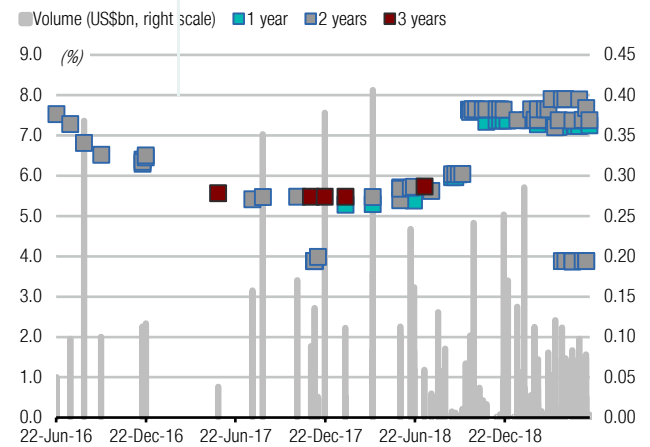
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

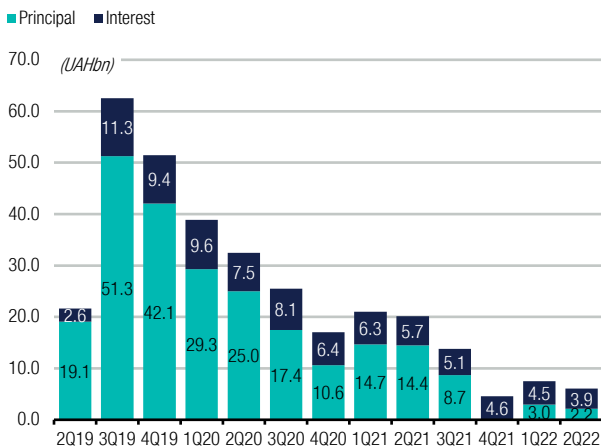
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

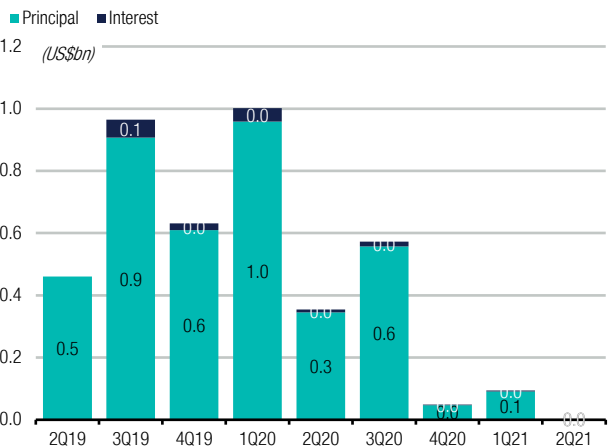
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

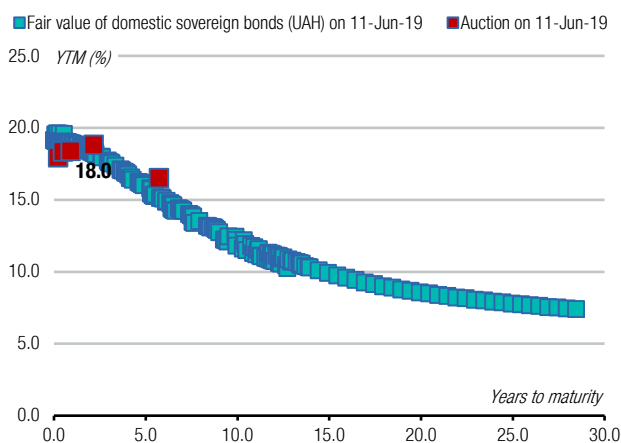
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

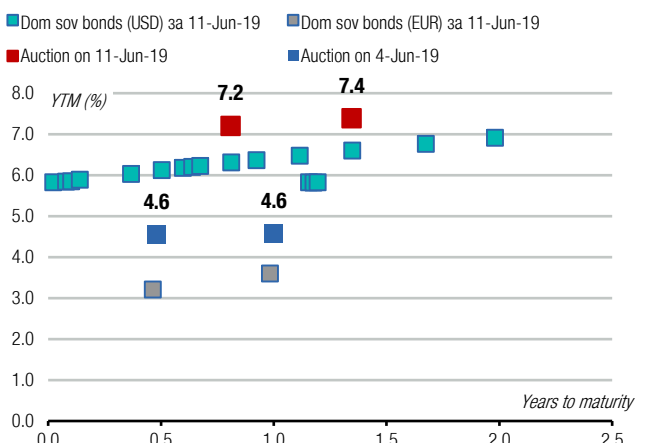
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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