

Bond Market Insight

Higher borrowings, lower rates

Comment on government bond placement

Yesterday, the Ministry of Finance accepted most of the demand for local-currency bills, and all bids for USD-denominated paper, which were offered for the first time since July. In total, the budget will receive UAH16.5bn (US\$660.44m) of proceeds, including US\$546.9m in hard currency.

FX-denominated bills were initially offered with fixed interest rates, which were set lower than at the previous auction. For 1.5-year paper, the interest rate was decreased to 5.25% or by 200bp compared with June the last time it was offered this year. But for the two-year, the interest rate was set at 5.5%, 100bp lower than last time, which was in July when rate was also decreased compared with June.

In total, USD-denominated bills will provide US\$546.9m of proceeds, enough funds for FX-denominated debt repayments scheduled for October, as this month there are no domestic debt repayments denominated in hard currencies.

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
UA4000201727	16.25	SA	19-Feb-20	469,546	1,009.50	474.01	469.55	16.84	571.68
UA4000198873	14.50	SA	19-Aug-20	500,000	999.70	499.85	500.00	16.14	3,887.94
UA4000203236	17.25	SA	5-Jan-22	1,751,976	1,056.99	1,851.82	1,751.98	16.44	2,273.78
Total UAH				2,721,522	2,825.67	2,721.52			6,733.40
UA4000204861	5.25	SA	11-Feb-21	194,222	1,003.99	4,879.56	4,860.17	5.32	4,860.17
UA4000204853	5.50	SA	29-Jul-21	349,699	1,006.28	8,805.75	8,750.80	5.58	8,750.80
Total USD				543,921	13,685.32	13,610.97			13,610.97

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 25.02/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

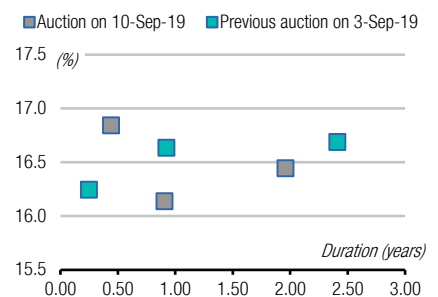
Demand for local-currency bills was accepted differently for each maturity.

For five-month bills, the MoF rejected only the most expensive bid, which would have increased the proceeds they received, but would have resulted in a higher cut-off rate. Bids were within the range of 16.0–16.2%, but the MoF set the cut-off rate at 16.15%, and the weighted-average rate at 16.14%, or 15bp and 16bp lower than two weeks ago. The Ministry sold UAH469.5m (US\$18.8m) of bills at par value with proceeds of UAH474m (US\$19m).

Eleven-month bills received 2.5 times greater demand than the offered amount, and

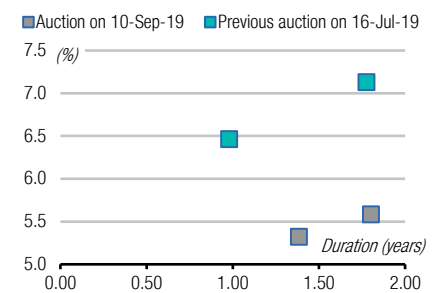
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



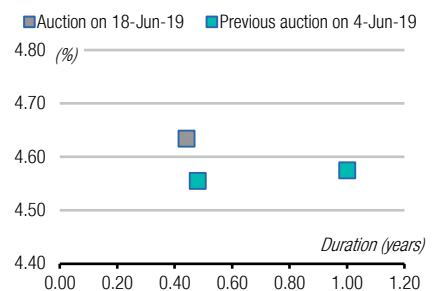
Source: Ministry of Finance of Ukraine, ICU.

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.

the Ministry set the cut-off rate at the highest level of interest rates in accepted bids within the offered amount. Consequently, the cut-off rate was decreased by 43bp to 15.52%, and the weighted-average rate by 46bp to 15.49%.

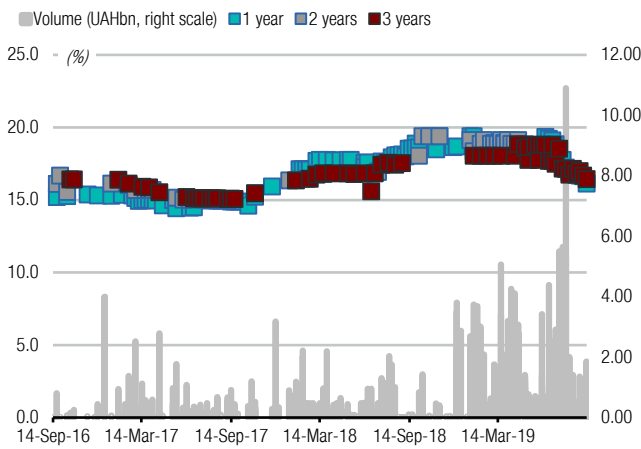
At the same time, for the two-year instrument, demand was quite a bit lower than the offering, but the Ministry also decided to reject some bids and decrease rates. Six bids were rejected, which allowed the Ministry to decrease the cut-off rate by 35bp to 15.95%, and the weighted-average rate by 52bp to 15.77%.

Despite significantly decreasing rates for FX-denominated bills, the Ministry saw large demand, which allowed it to replenish government FX accounts after recently paying external debt principal and interest repayments. Borrowings in hryvnia also rose, probably with foreign investor's participation. Most likely, foreigners were the bidders with low interest rates for local-currency bills, while FX-denominated paper was purchased mostly by local banks and individuals.

Appendix: Yields-to-maturity, repayments

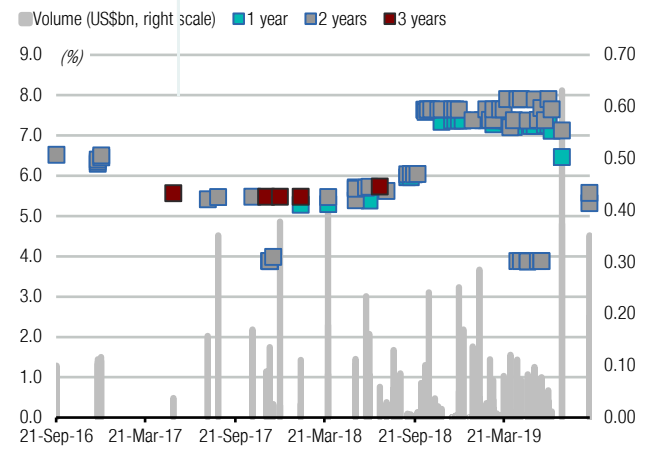
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

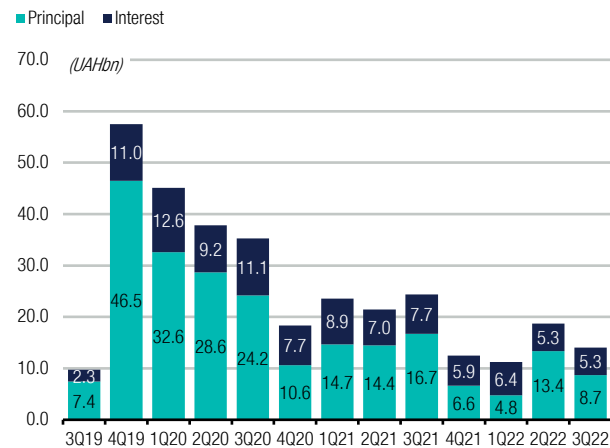
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

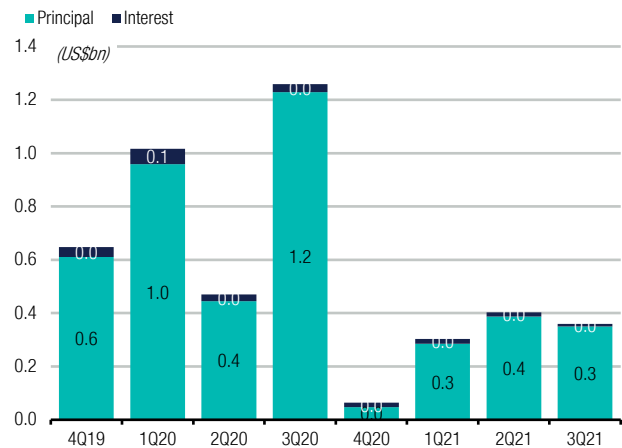
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

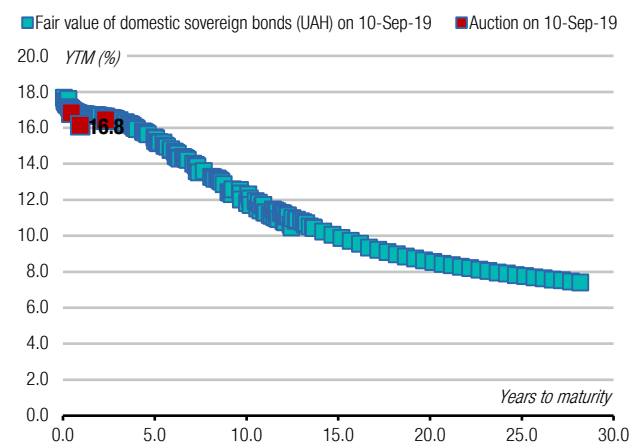
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

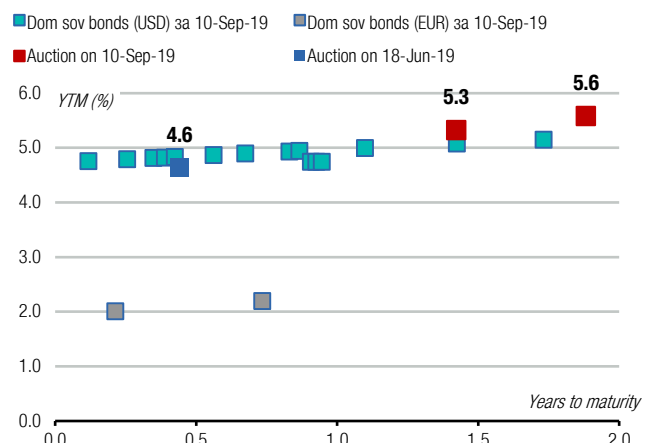
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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