

# Bond Market Insight

## Partial refinancing

### Comment on government bond placement

This week, UAH10.7bn (US\$385m) was borrowed for the budget, mostly in local currency. Nearly half of these funds will be accounted as this year's budget financing and about UAH5bn (US\$180m) for current needs.

Almost half the proceeds, UAH4.9bn (US\$176m), was received from five-month bills with maturity this December. These funds will be for current needs and will require refinancing in December. Such borrowings are necessary now, as today, the budget has to repay UAH14bn (US\$500m) and during August debt repayments in local currency will amount to UAH30bn (US\$1.1bn at the current exchange rate), in addition to repayments in hard currency.

**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> (%)	Outstanding (m) <sup>4</sup>
UA4000210769	0.00	@Mty	16-Dec-20	5,050,000	973.49	4,916.12	5,050.00	7.10	5,050.00
UA4000194567	16.65	SA	30-Jun-21	2,000,461	1,077.08	2,154.66	2,000.46	9.44	2,112.69
<b>Total UAH</b>				<b>7,050,461</b>		<b>7,070.78</b>	<b>7,050.46</b>		<b>7,162.69</b>
UA4000204069	7.53	SA	3-Jun-21	124,911	1,044.83	3,617.77	3,462.55	3.53	22,347.56
<b>Total USD</b>				<b>124,911</b>		<b>3,617.77</b>	<b>3,462.55</b>		<b>22,347.56</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 27.72/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For five-month bills, the Ministry decreased rates about to the level of the three-month bills sold a few weeks ago. Yesterday, rates for five-month bills were decreased by 64bp from last week's auction. There were just two bidders, with competitive and non-competitive bids, where non-competitive demand was insufficient.

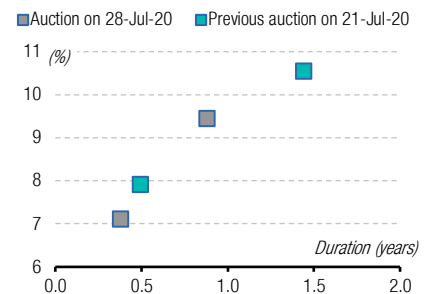
For other instruments, the Ministry did not revise interest rates. For 11-month UAH-denominated bills, it rejected one small bid with UAH2m (US\$72'000) of demand and a 10% rate. So, bills were purchased by three bidders at 9.2%.

A large portion of proceeds was provided by FX-denominated bills, which were offered for the third consecutive week. Yesterday, the same bills were offered as two weeks ago. Two weeks ago, this paper provided the budget with US\$300m of proceeds, but yesterday just US\$130.5m, with the rate unchanged at 3.5%.

Actually, with proceeds in hard currency, the MoF refinanced most of today's debt

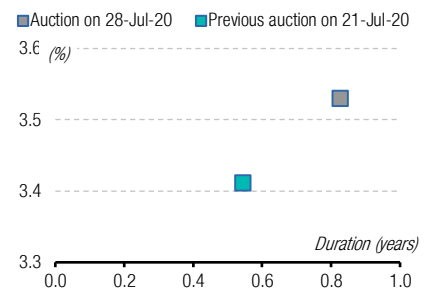
WEDNESDAY, 29 JULY 2020

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



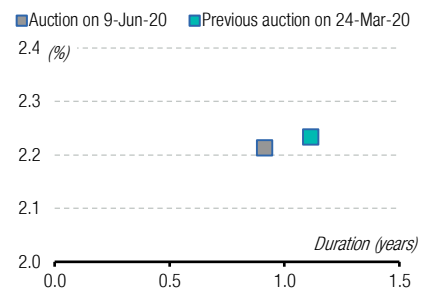
Source: Ministry of Finance of Ukraine, ICU.

### 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



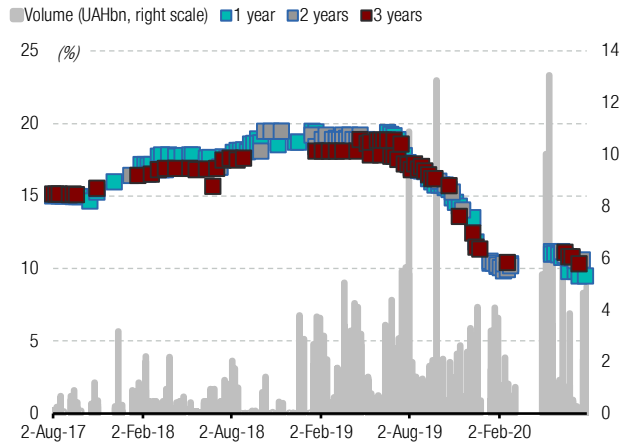
Source: Ministry of Finance of Ukraine, ICU.

repayments with insufficient changes in the cost of borrowing. However, next week, the Ministry will have to increase rates slightly to refinance most of the UAH17bn (US\$610m) of debt repayments in local currency, or they will have to use funds from Treasury accounts and replenish them later with borrowings at lower interest rates.

# Appendix: Yields-to-maturity, repayments

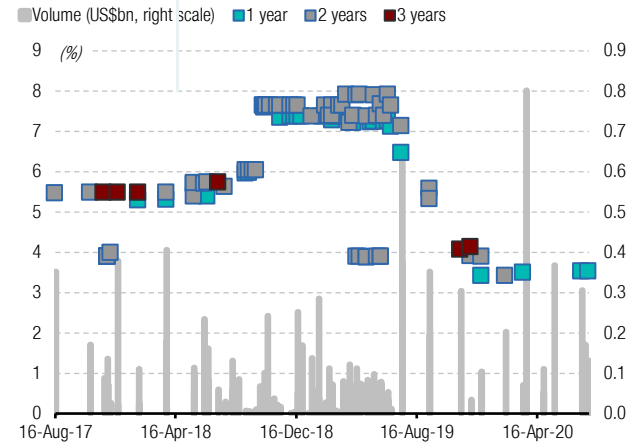
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

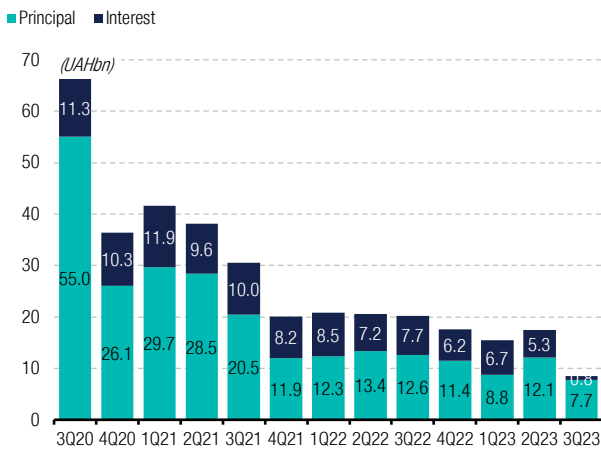
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

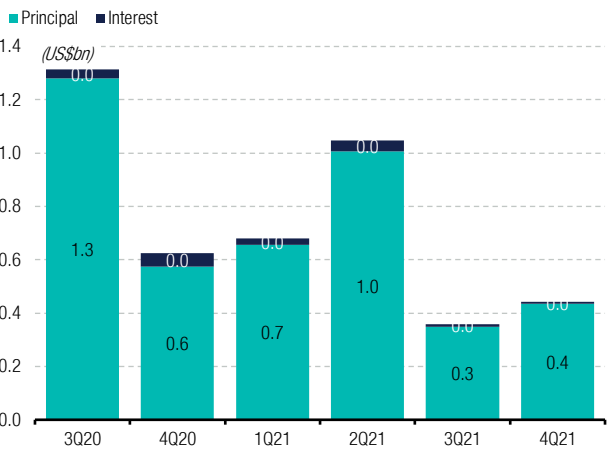
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

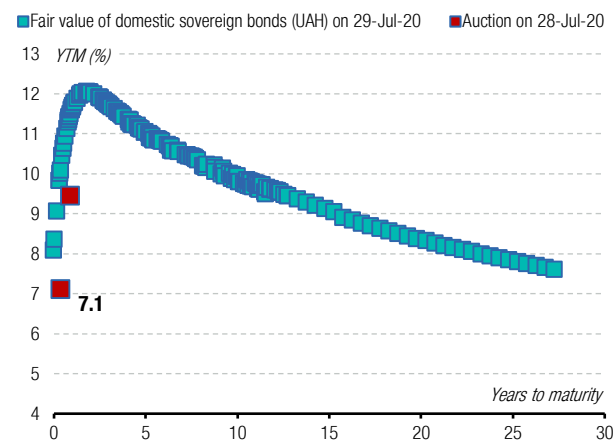
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

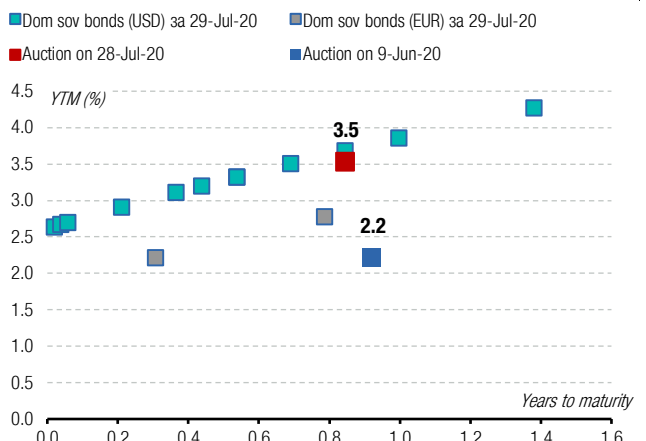
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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