

Bond Market Insight

Partial refinancing of repayments

Comment on government bond placement

The Ministry of Finance sold all three bond issues offered yesterday, increasing borrowings to UAH2bn (US\$72m) from UAH330m (US\$12m) a week before. However, to accomplish this, the Ministry had to slightly increase interest rates.

Largest demand was seen for the seven-month bills at UAH2.1bn (US\$74m). However, one bid for UAH100m (US\$3m) was rejected due to the high interest rate, although this did not prevent an increase in interest rates. The above-mentioned demand for seven-month paper was combined from three bids, where one bid was non-competitive plus two competitive bids with 8% and 9.95% interest rates. Due to large amount in the bid for 8%, the MoF decided to accept it and the non-competitive bid, increasing the cut-off and weighted-average rates for this tenor by 18bp to 8%.

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 (%)	Out-standing (m) ⁴
UA4000211957	0.00	@Mty	28-Apr-21	2,010,450	956.00	1,921.99	2,010.45	8.00	4,105.92
UA4000204986	15.36	SA	29-Sep-21	23,696	1,054.67	24.99	23.70	9.75	5,126.72
UA4000204572	16.06	SA	3-Aug-22	79,290	1,115.43	88.44	79.29	10.81	9,072.93
Total UAH				2,113,436		2,035.42	2,113.44		18,305.57

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 28.05/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Longer maturities saw substantially lower monetary demand, despite a larger number of bids.

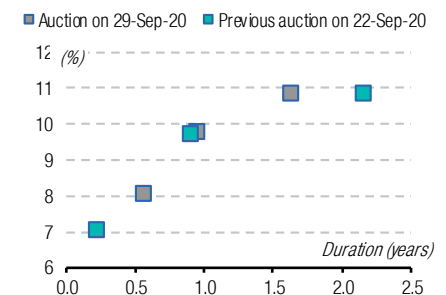
For 12-month paper, demand was UAH628m (US\$22m), but most of it came with high rates, above the level set a week ago. The Ministry accepted three out of six bids, but rejected most of demand. UAH23.7m (US\$0.9m) of bills was sold at par value. Therefore, rates were set at the same level as last week, 9.5%, keeping the cut-off rate unchanged with a slight increase in the weighted-average rate by 4bp to 9.5%.

Similar was the placement of two-year bills. Out of UAH114m (US\$4m) of demand in 11 bids, the Ministry accepted nine at UAH79m (US\$3m) par value, also keeping the cut-off rate unchanged with a slight increase by 7bp in the weighted-average rate to the same level of 10.5%.

The Ministry refinanced about one-fifth of today's local-currency debt repayments.

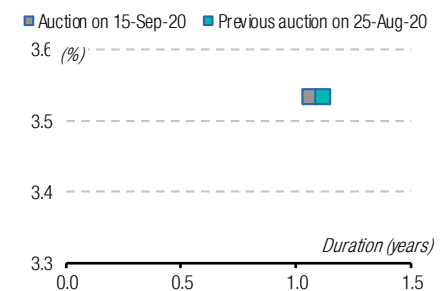
WEDNESDAY, 30 SEPTEMBER 2020

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



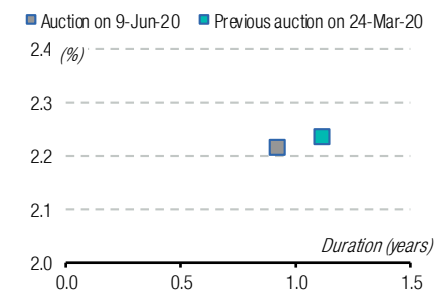
Source: Ministry of Finance of Ukraine, ICU.

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.

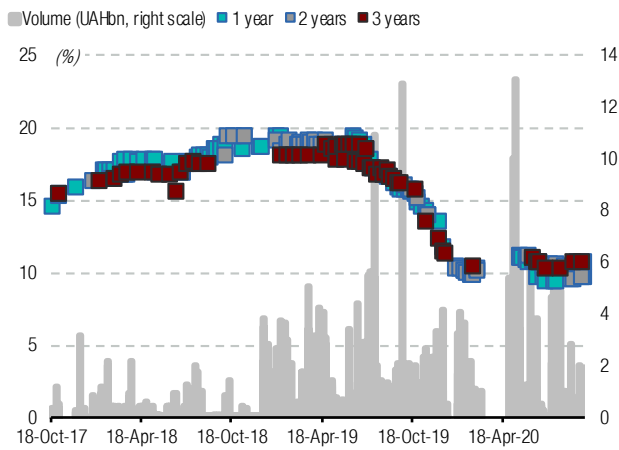
Given the rather high balances in budget accounts, this did not cause difficulties in securing payment. But the general trend continues, and it is not positive. Demand for hryvnia-denominated bonds is quite low due to the slight weakening of the hryvnia, and not all investors are ready to invest again in new bonds in the primary market.

Therefore, it is to be expected that part of the funds will be directed to the secondary market. In next week's primary market, demand may be about the same, although with bidders looking for higher rates.

Appendix: Yields-to-maturity, repayments

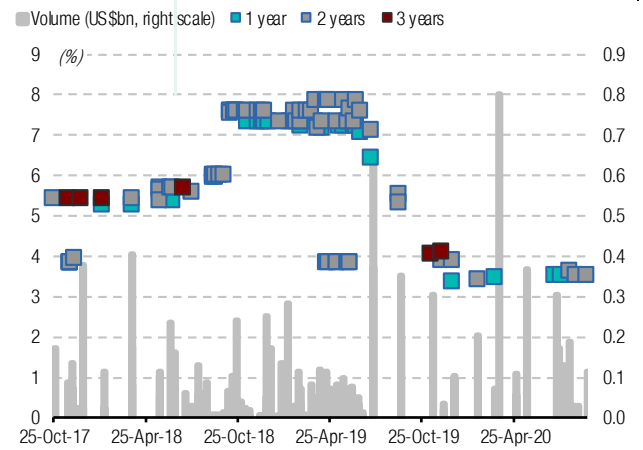
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

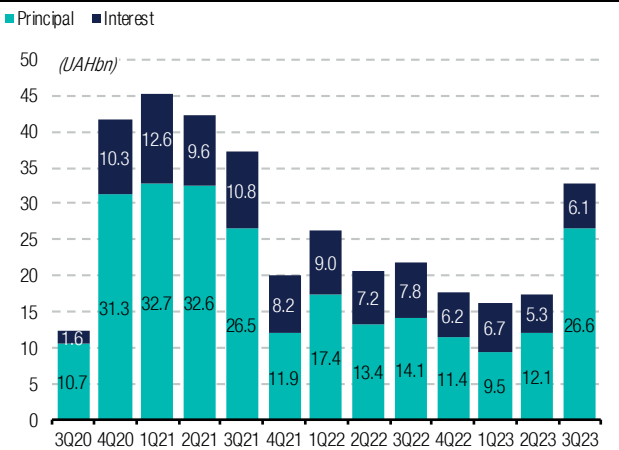
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

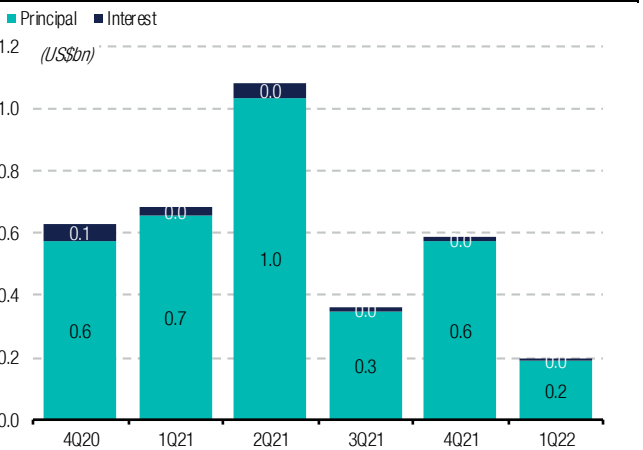
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

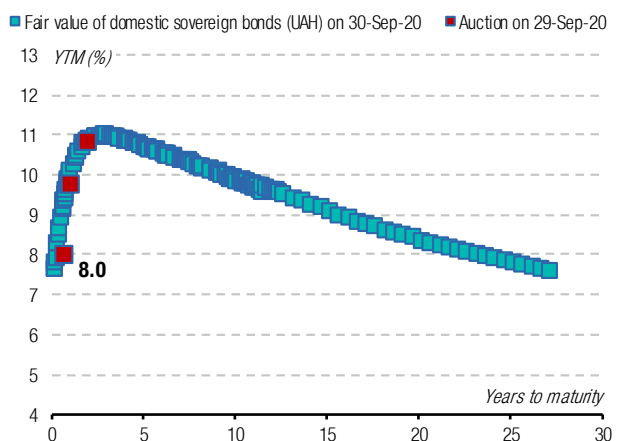
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

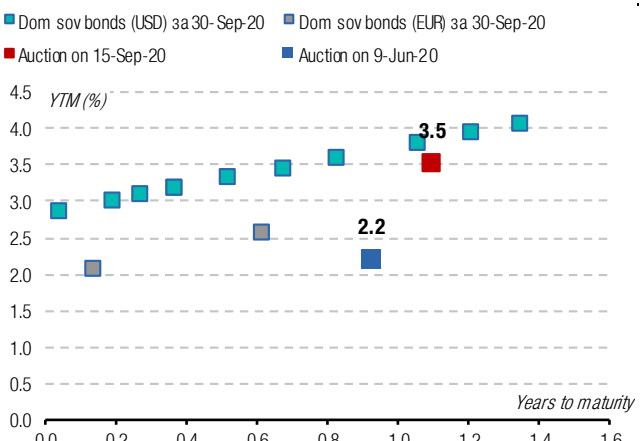
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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