

# Bond Market Insight

## Small, but evenly distributed borrowings

### Comment on government bond placement

May's debut primary auction did not provide the budget with a large amount of funds. However, all funds raised were new funds for budget financing, as this week, there are no UAH-denominated redemptions. In total, the budget received UAH1.4bn of proceeds, which were evenly distributed between maturities. However, for six-month bills part of demand was rejected.

**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment frequency	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>
UA4000213300	0.00	@Mty	27-Oct-21	500,000	960.22	480.11	500.00	9.00	11,741.90
UA4000204572	16.06	SA	3-Aug-22	452,223	1,097.16	496.16	452.22	11.55	10,535.98
UA4000207880	9.99	SA	22-May-24	456,364	988.87	451.28	456.36	12.72	12,057.97
<b>Total UAH</b>				<b>1,408,587</b>	<b>1,427.56</b>	<b>1,408.59</b>			<b>34,335.85</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 27.78/USD, 33.68/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Low demand was expected, as the Ministry decided not to offer all maturities from its auction schedule. Likely, demand for the maturities not offered would have been very small.

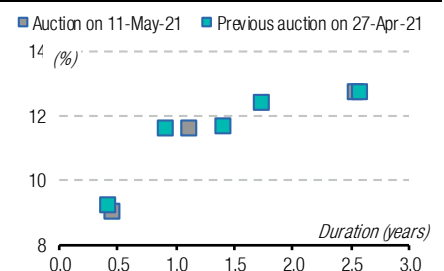
The largest demand was submitted for the six-month bills, but due to the cap, borrowings were just UAH480m (US\$17.4m). A slightly larger amount, UAH496m (US\$18m), came from 15-month paper, and UAH451m (US\$16.3m) from the three-year note. For the last two maturities, the 15-month and the three-year, the MoF accepted all bids in full.

Interest rates for all instruments remained steady. Only a small part of demand was at higher rate, and that was for the six-month bills. For longer instruments, demand was unanimous at the same level as cut-off rates at the previous auction for similar maturities.

Given that the next redemption of UAH-denominated bonds will take place next week, so far there has been no special need for local-currency funds. The Ministry may use the borrowed amount for interest repayments, as well as using funds from other sources. But next week, the amount of demand and borrowings may increase since investors may wish to reinvest money from redemptions in new securities. However, we should not expect higher rates, as by receiving large tax payments in May, the Ministry of Finance can use this source for redemptions and increase borrowing in June or even later.

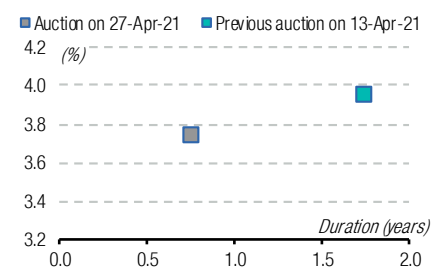
WEDNESDAY, 12 MAY 2021

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



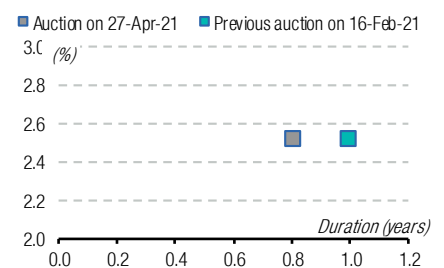
Source: Ministry of Finance of Ukraine, ICU.

### 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

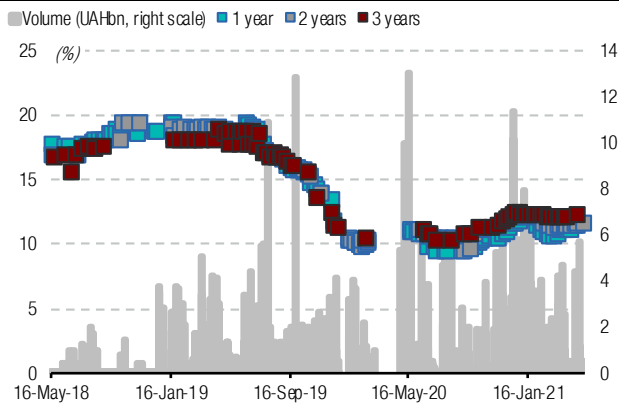


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

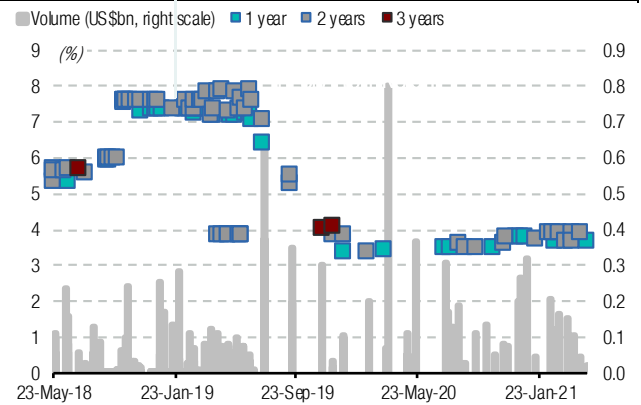
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

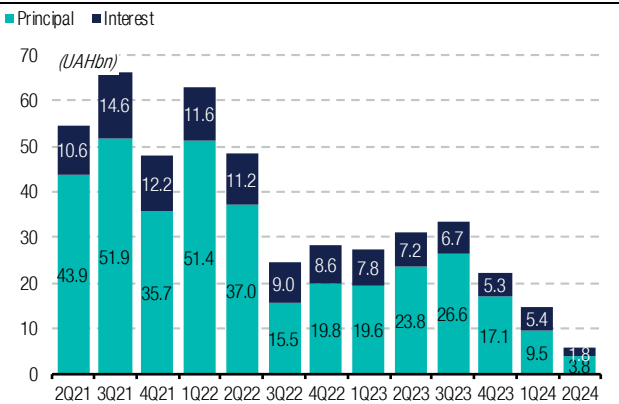
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

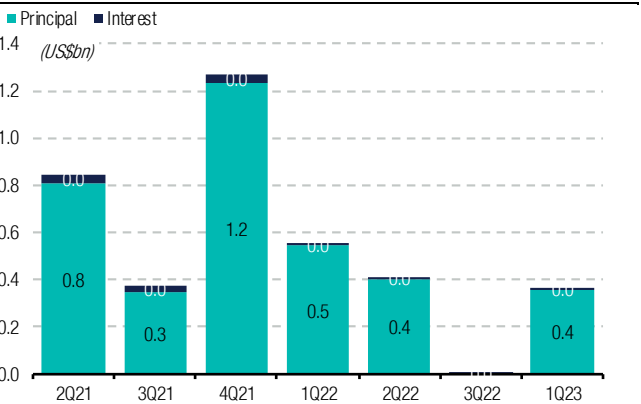
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

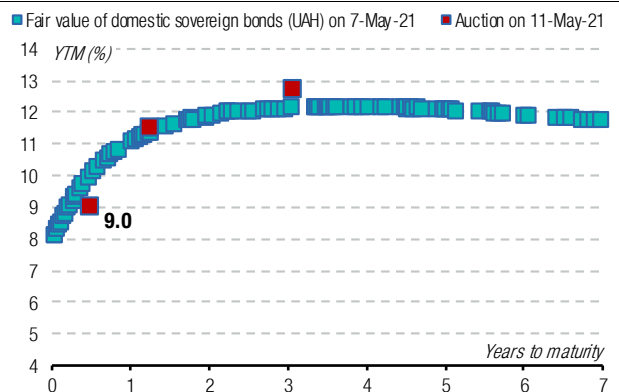
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

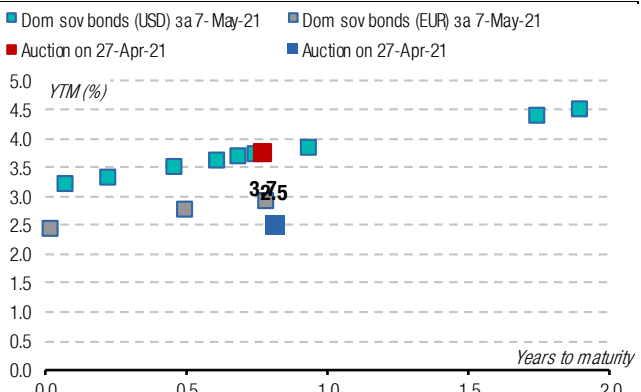
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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