

Bond Market Insight

Bond maturities lengthen

Comment on government bond placement

Yesterday, the Ministry of Finance borrowed nearly UAH5.5bn. Most of the bills had maturities over one year, continuing the trend of recent weeks to longer bills.

For local-currency bills, demand and borrowings were concentrated in medium-term bills at unchanged cut-off rates, which provided the budget with nearly half of yesterday's borrowings. The greatest demand was for two-year bills, and next were the shortest offered bills that had a four-month maturity. The Ministry rejected all bids for the four-year bills, likely due to the 17% interest rate and very small demand, which amounted to only UAH7m.

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

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000203715	0.00	@Mty	17-Jul-19	1,258,228	943.54	1,187.19	1,258.23	19.50	1,258.23
UA4000202295	0.00	@Mty	4-Sep-19	16,126	922.67	14.88	16.13	19.00	1,059.34
UA4000203244	0.00	@Mty	29-Jan-20	4,031	864.97	3.49	4.03	18.50	887.97
UA4000171094	14.30	SA	8-Jul-20	527,172	987.75	520.71	527.17	18.95	3,099.77
UA4000203723	18.00	SA	24-Mar-21	2,076,250	1,000.00	2,076.25	2,076.25	18.87	2,076.25
Total UAH				3,881,807	3,802.52	3,881.81			8,381.56
UA4000201453	0.00	@Mty	19-Jun-19	8,640	985.43	229.71	233.11	6.42	12,419.81
UA4000199491	5.40	SA	12-Feb-20	1,646	990.76	44.00	44.41	7.38	10,483.62
UA4000203392	7.50	SA	11-Feb-21	52,144	1,004.25	1,412.82	1,406.85	7.91	1,844.19
Total USD				62,430	1,686.53	1,684.36			24,747.62

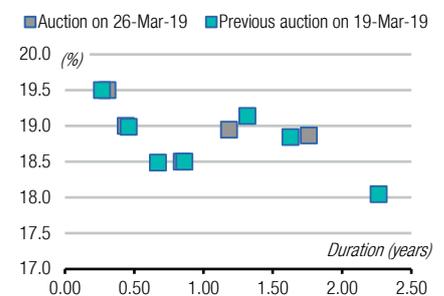
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.98/USD, 30.29/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For USD-denominated bills, demand also moved to longer bills, and unlike previous auctions, demand was mostly for two-year bills, not for the three-month. But to satisfy this demand, the Ministry had to increase the cut-off rate by 25bp compared with last week's auction.

Funds borrowed yesterday have to cover all of today's debt repayments, despite being received in different currencies. Part of debt repayments likely was not reinvested in new local-currency bills, but probably was invested in USD-denominated bills. Nonetheless, the shift to demand for longer maturities is very important, as this has a positive impact on borrowing needs in the near future. Expectations of a NBU key

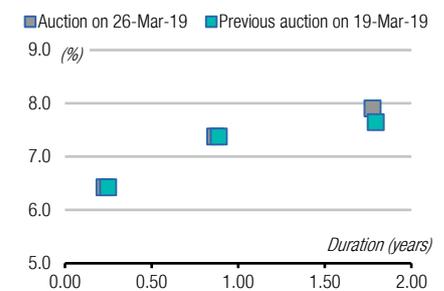
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



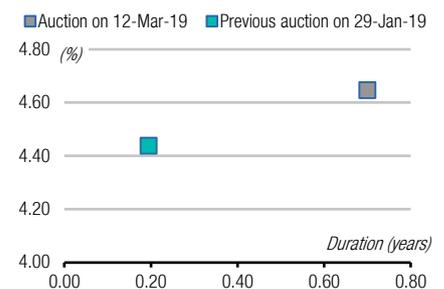
Source: Ministry of Finance of Ukraine, ICU.

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



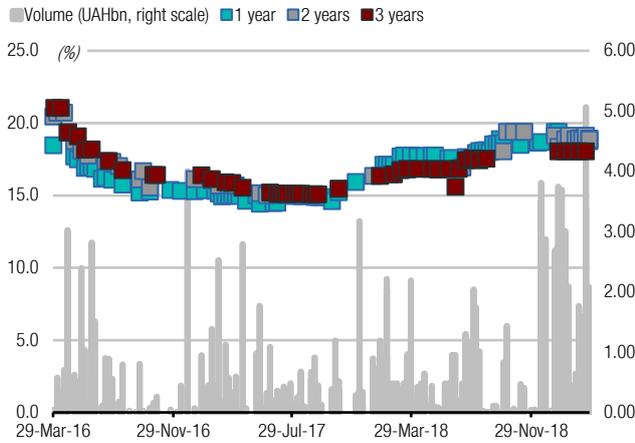
Source: Ministry of Finance of Ukraine, ICU.

policy rate cut should continue to motivate a further move into longer bills, which would allow the MoF to shift the accumulated debt burden from short-term debt to longer tenors, smoothing the debt repayment schedule.

Appendix: Yields-to-maturity, repayments

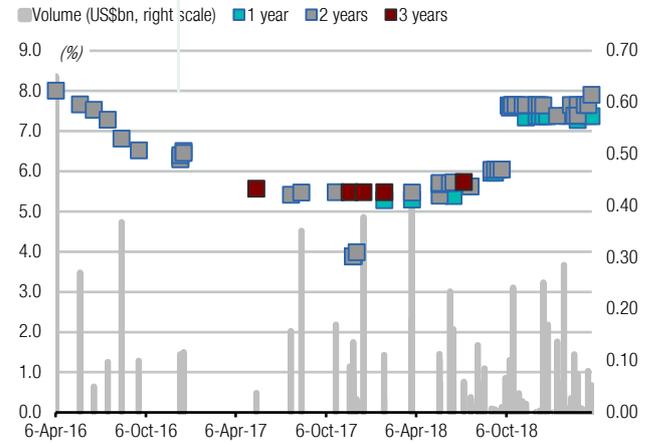
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

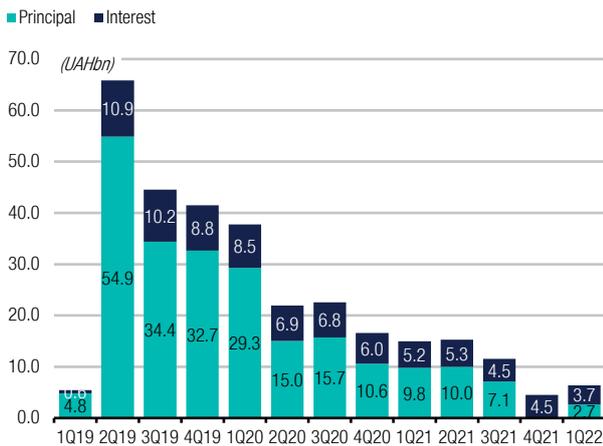
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

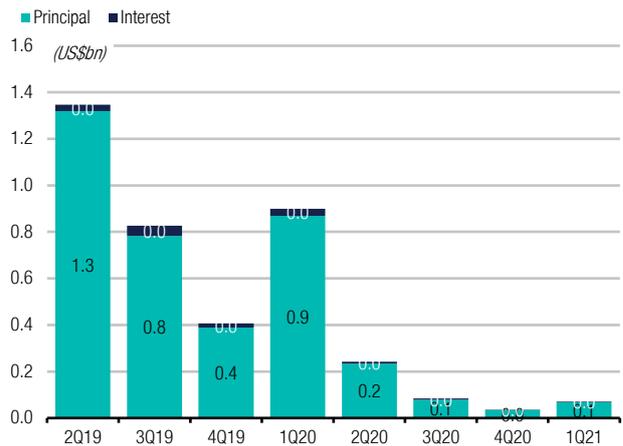
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

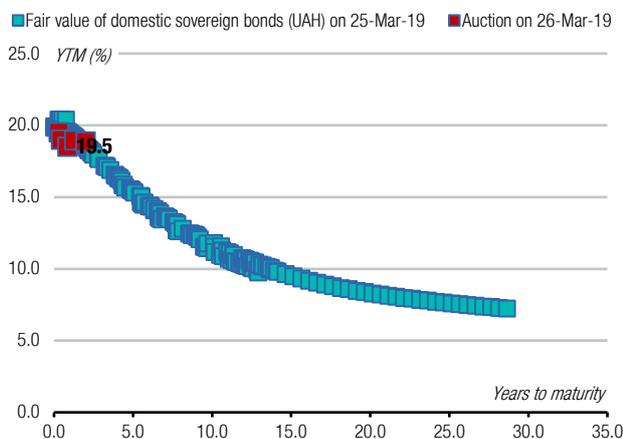
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

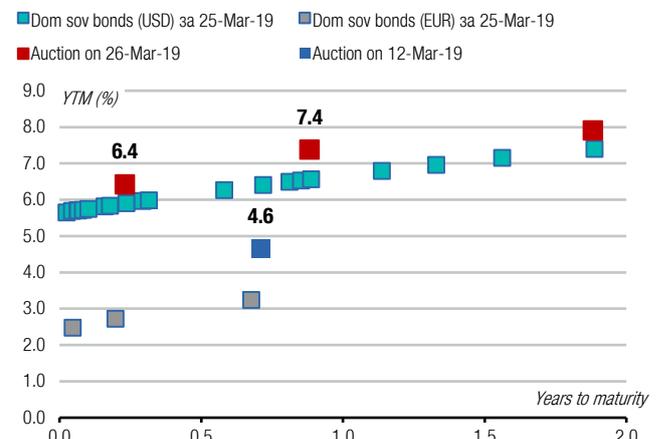
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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