

Bond Market Insight

Another successful auction

Comment on government bond placement

The Ministry of Finance continues with successful domestic borrowings. The debut auction this month provided the budget with UAH10bn of new proceeds. Admittedly, only for three months, but without changes in interest rates.

Yesterday, the Ministry offered only one issue of three-month UAH-denominated bills, the same paper it sold a week ago. A large debt repayment of UAH7.1bn is scheduled for today; UAH6bn of it is debt redemption. Demand could be large, but interest rates were unknown.

Most of yesterday's demand was in the range of last week between 11% and 11.3%. Therefore the MoF rejected just 2% of demand or UAH233.5m of bids at par value. However, the maximum level of rates within demand rose to 16%, while in accepted demand, rates also rose slightly.

Within the accepted bids, a larger part of demand had rates at or close to 11.3%, causing the weighted-average rate to rise 2bp to 11.25%.

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 ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000209001	0.00	@Mty	5-Aug-20	10,298,000	972.70	10,016.89	10,298.00	11.26	15,835.94
Total UAH				10,298,000	10,016.89	10,298.00			15,835.94

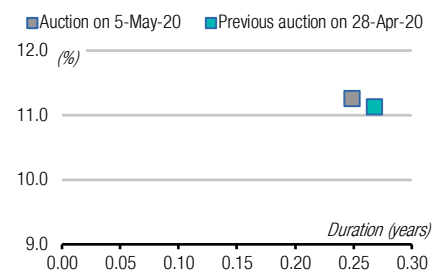
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.94/USD, 30.44/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

This week, the NBU will hold a new liquidity tender for banks offering three-month and five-year loans. Last week's similar tender went well. This Friday, banks can use part of recently purchased bills for this tender. This liquidity is a good source for budget financing and gives the banks an opportunity to improve profitability.

Although the budget successfully refinanced the key debt repayments this month, they were moved to August so only solved immediate liquidity needs, not financing the budget deficit. Therefore, the need for new borrowings this year have not been reduced, and it will require more radical decisions from the MoF as to which maturities it will offer, as well as being open to the possibility of raising interest rates.

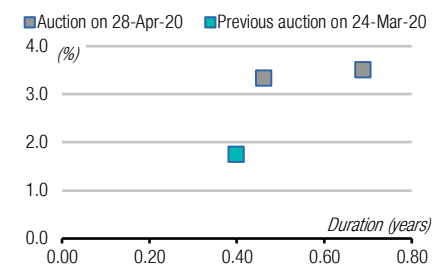
WEDNESDAY, 6 MAY 2020

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



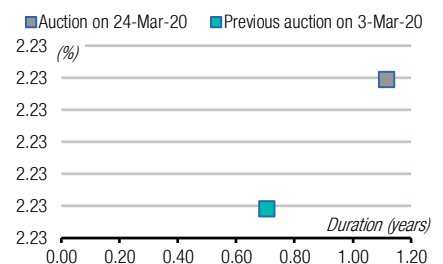
Source: Ministry of Finance of Ukraine, ICU.

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

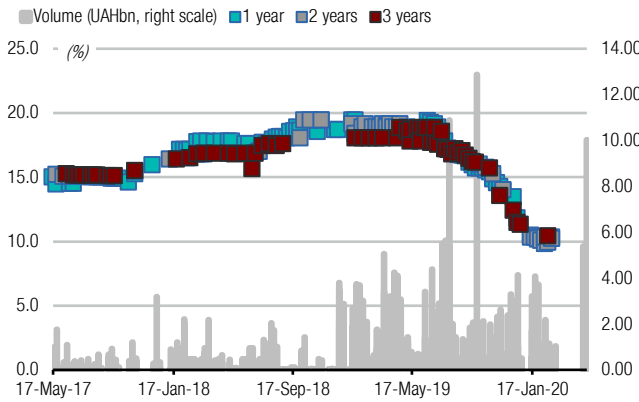


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

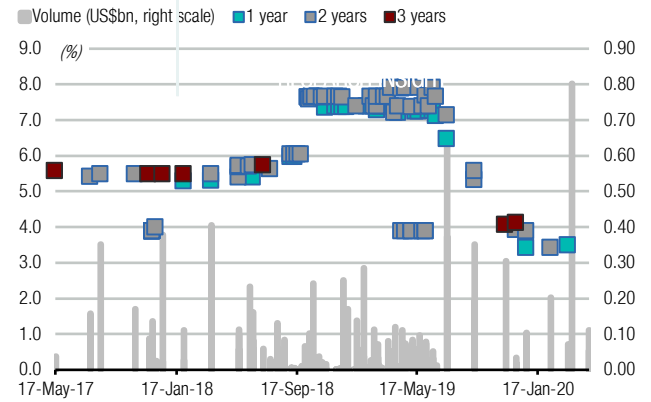
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

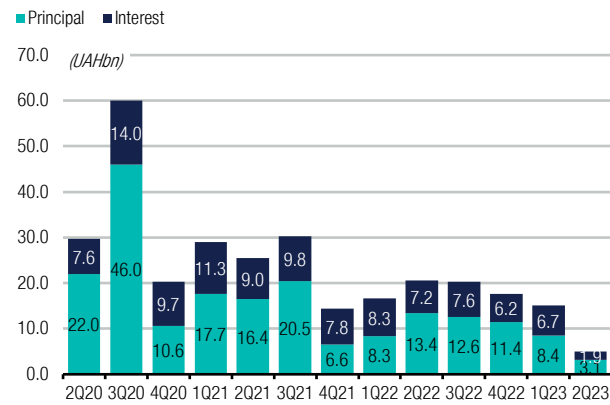
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

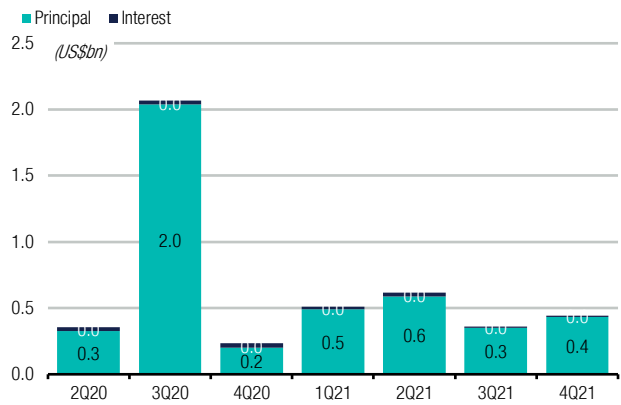
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

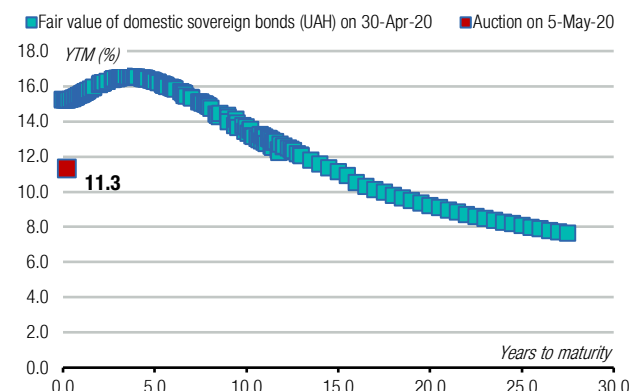
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

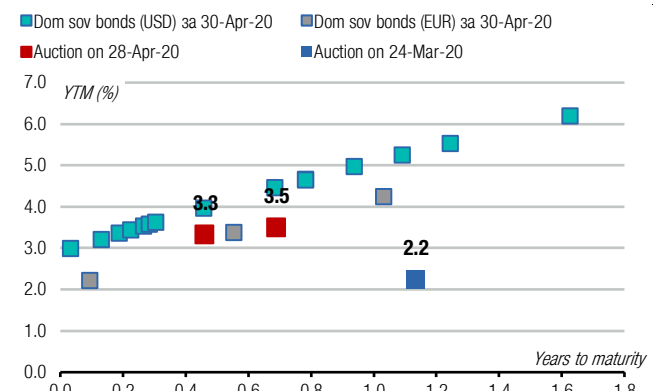
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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