

Bond Market Insight

Hard-currency borrowings

Comment on government bond placement

By offering FX-denominated bills yesterday, the Ministry of Finance was able to borrow more than UAH8bn of funds. However, interest rates for UAH-denominated bills declined once more.

The Ministry has not offered USD-denominated bills for two months. Yesterday's offering was probably for investors who received debt repayments last week, and give them an opportunity to reinvest in new bills. This offering received less demand than the Ministry repaid last week, but there were 46 bids, and the MoF rejected just three.

The Ministry decided not to change interest rates compared with the last placement of 10-month bills in March this year. Both the cut-off and weighted-average rates were set at 3.5%, the same as in March, while some demand came in even lower at 3.4%. But this demand was insufficient to have an impact on the weighted-average rate.

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
UA4000202469	17.25	SA	30-Sep-20	2,964	1,070.55	3.17	2.96	7.14	8,216.76
UA4000194567	16.65	SA	30-Jun-21	2,594	1,073.36	2.78	2.59	9.44	112.23
UA4000207682	9.84	SA	15-Feb-23	4,450	1,035.97	4.61	4.45	10.28	1,281.61
Total UAH				10,008		10.57	10.01		9,610.60
UA4000204069	7.53	SA	3-Jun-21	293,545	1,043.44	8,298.35	7,952.87	3.53	18,457.44
Total USD				293,545		8,298.35	7,952.87		18,457.44

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

UAH-denominated bills received low demand, but the Ministry rejected a part of it and decreased interest rates.

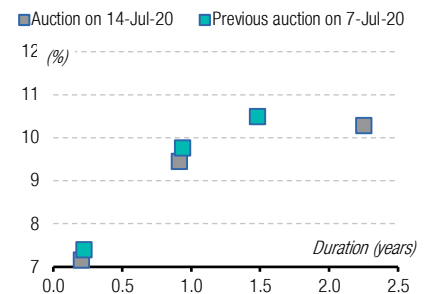
Total demand for local-currency bills was slightly above UAH10m at par value, but the MoF sold a bit less. Just one bid that amounted to UAH372m was rejected. This bid for 12-month bills was at 9.5%, the same as the cut-off rate last week for this paper. Accepting this bid meant the Ministry could decrease only the weighted-average rate, not both of them.

For other maturities, the Ministry accepted all bids in full and decreased rates. This decline in rates was initiated by bidders, and accepted by the Ministry.

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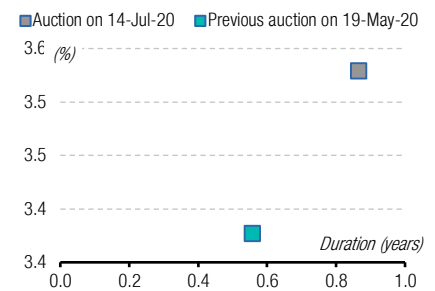
WEDNESDAY, 15 JULY 2020

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



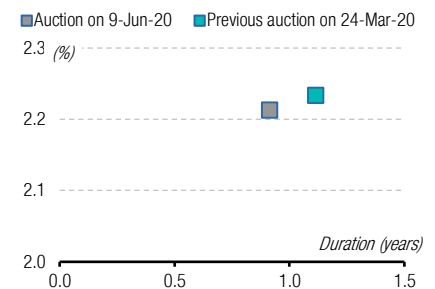
Source: Ministry of Finance of Ukraine, ICU.

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.

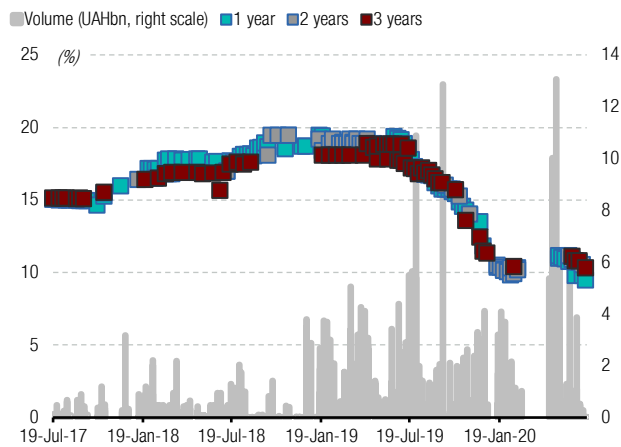
In general from yesterday's auction, only the FX-denominated bills allowed financing of the state budget deficit. These instruments are still attractive, but are not offered often.

Indeed, for UAH-denominated instruments, investors prefer the secondary market, where they can find better conditions than at the primary auctions. Foreigners offer better yields than the Ministry, as they continue to gradually decrease their portfolios of local-currency bills. Therefore, we do not anticipate large demand in primary auctions soon. The Ministry can decide to change its view on interest rates when its reserves in Treasury accounts are close to the end.

Appendix: Yields-to-maturity, repayments

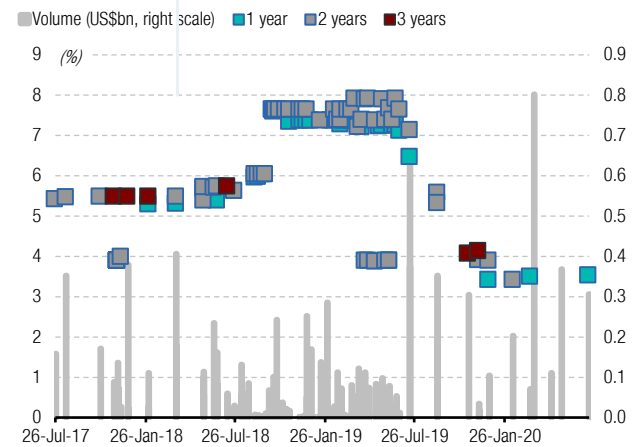
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

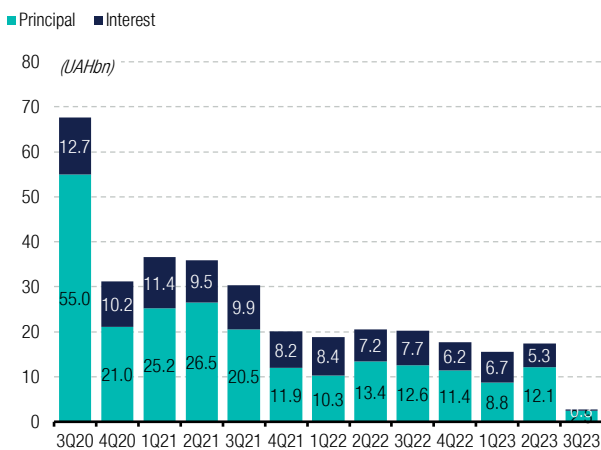
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

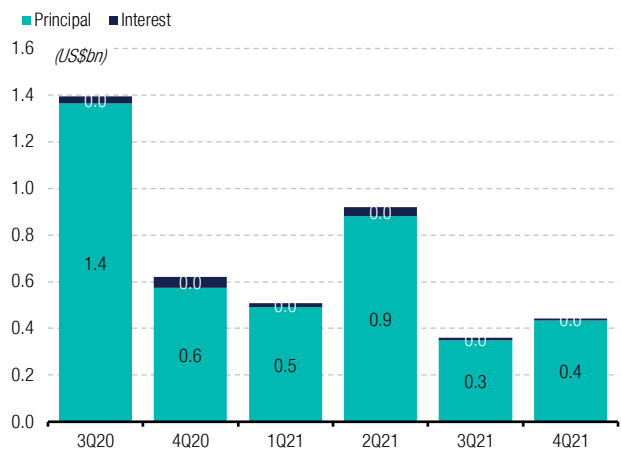
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

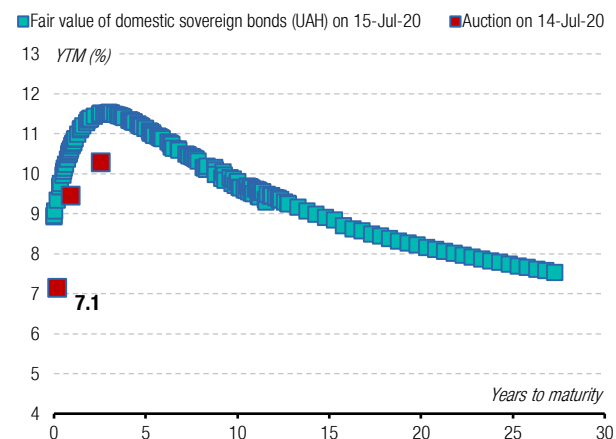
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

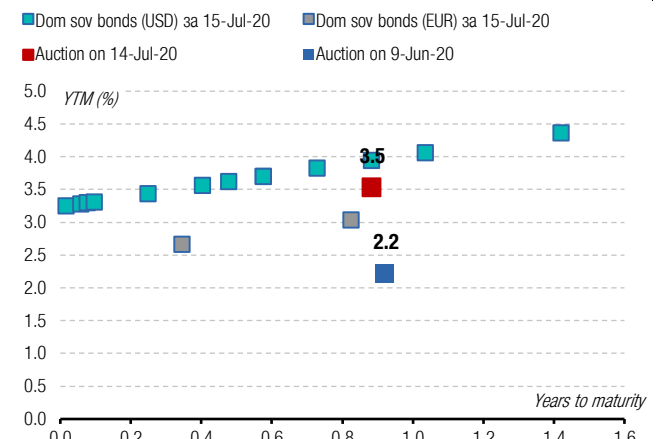
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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