

Bond Market Insight

Banks reinvest debt repayments

Comment on government bond placement

Yesterday, the MoF refinanced more than a half of the debt repayments in local currency that were scheduled for this week, borrowing UAH10.2bn. There were a low number of bids, but with large demand, so most likely they were from local banks.

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 (%)	Outstanding (m) ⁴
UA4000209373	0.00	@Mty	24-Feb-21	2,000,000	958.73	1,917.46	2,000.00	7.74	9,521.56
UA4000207989	9.63	SA	21-Jul-21	3,000,991	1,007.50	3,023.50	3,000.99	9.44	4,618.44
UA4000209886	10.57	SA	23-Feb-22	5,049,960	1,051.12	5,308.11	5,049.96	10.54	9,077.52
Total UAH				10,050,951		10,249.07	10,050.95		23,217.53

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

For seven-month bills, the Ministry returned the rate to 7.74%, which had seen a short-lived decrease last week when the five-month bills were sold at 7.1%. But yesterday, the Ministry moved the rate back to the level of six-month bills of two weeks ago. So, rate remained steady for this maturity, and collected UAH1.9bn of proceeds.

Rates for the one-year and 1.5-year bills remained steady also. However, to keep rates unchanged, the Ministry rejected bids with higher rates, but with low amounts.

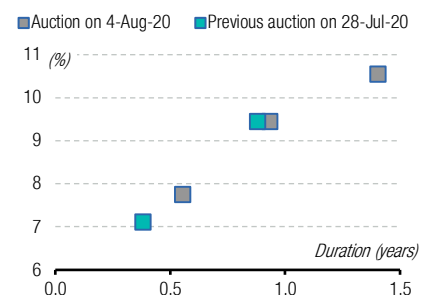
For one-year bills, rates were kept at 9.2%, although there was bid at 12.5%. Total demand exceeded UAH3bn, and the rejected bid was just UAH100m. Therefore, this bid did not have an impact on the proceeds, which were UAH3bn.

For 1.5-year tenor with maturity in February 2022, the cut-off and weighted-average rates remained steady, too, at 10.25%. Just one bid amounting to UAH50m at 11% was rejected. These bids came in from five bidders, and provided the budget with UAH5.3bn of proceeds. This maturity was the only one yesterday that saw non-competitive demand.

Actually, most of bidders in the primary bonds market likely are local banks, as they have enough local-currency liquidity and access to cheaper loans from the NBU. It can be difficult to find a large amount of bills in the secondary market, as foreigners are not in hurry to sell bills from their portfolios.

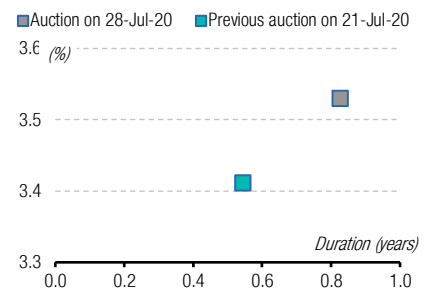
WEDNESDAY, 5 AUGUST 2020

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



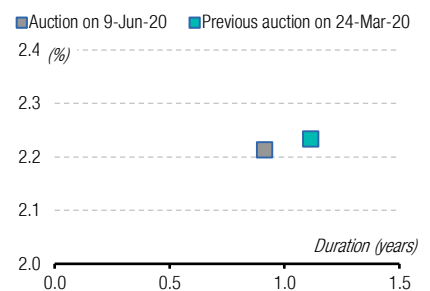
Source: Ministry of Finance of Ukraine, ICU.

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

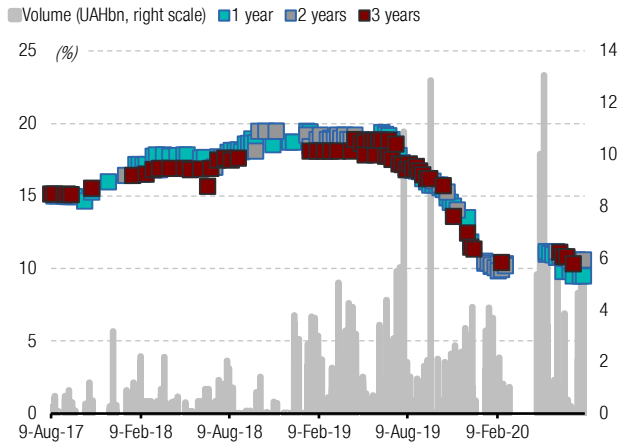


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

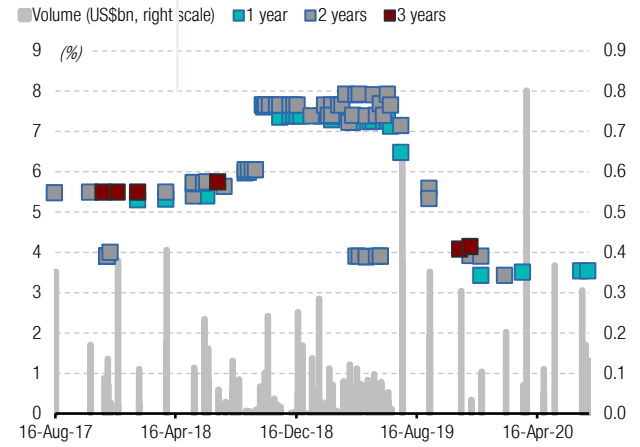
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

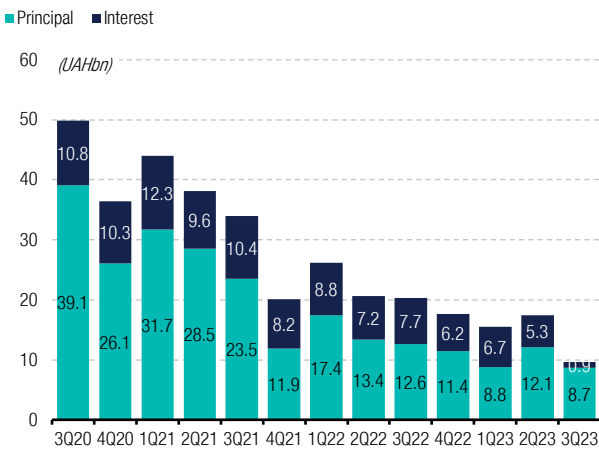
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

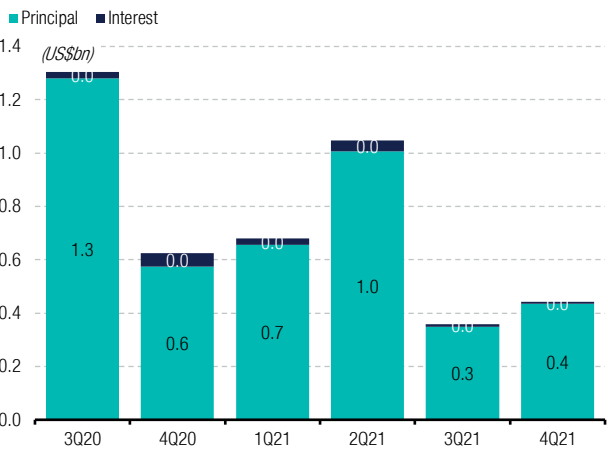
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

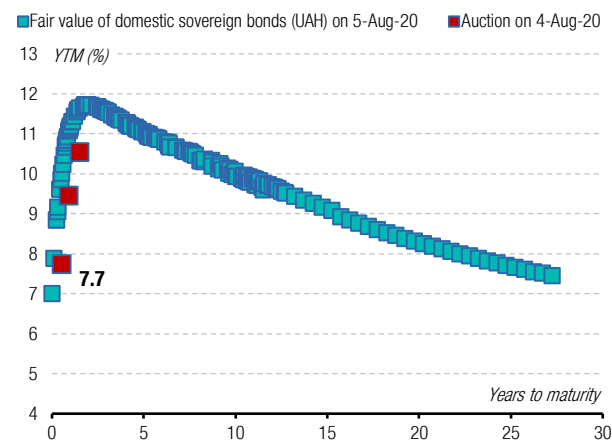
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

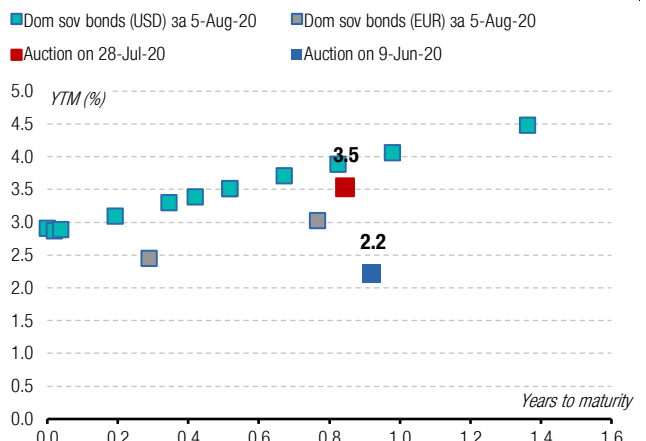
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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