

Bond Market Insight

Refinancing of debt repayments

Comment on government bond placement

The Ministry of Finance continues to borrow large amounts of funds, gradually refinancing debt repayments. As the result of yesterday's primary auction, the budget will receive more than UAH10bn (US\$366m), which is in line with previous weeks when the Ministry borrowed UAH10–11bn.

This week, as expected, most funds came from FX-denominated bills. Repayment of US\$333m was partially refinanced, but not all investors participated in this auction. Likely, they will try to buy new bills later this month.

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 (%)	Out-standing (m) ⁴
UA4000210769	0.00	@Mty	16-Dec-20	5,000,000	976.41	4,882.05	5,000.00	7.00	10,050.00
UA4000207682	9.84	SA	15-Feb-23	2,547	1,043.78	2.66	2.55	10.28	1,284.16
Total UAH				5,002,547	4,884.71	5,002.55			11,334.16
UA4000211114	3.60	SA	3-Feb-22	189,671	1,000.69	5,231.07	5,227.47	3.64	5,227.47
Total USD				189,671	5,231.07	5,227.47			5,227.47

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

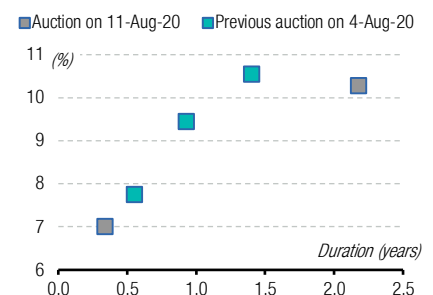
The Ministry of Finance continues to borrow large amounts of funds, gradually refinancing debt repayments. As the result of yesterday's primary auction, the budget will receive more than UAH10bn (US\$366m), which is in line with previous weeks when the Ministry borrowed UAH10–11bn.

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The Ministry has been able to refinance debt repayments despite limited demand, but there is an increasing burden of debt due in December this year. Likely, they will wait for the new wave of foreign demand as the hryvnia is expect to weaken later this year. For now, however, all proceeds must be used for replenishing treasury accounts after large debt repayments.

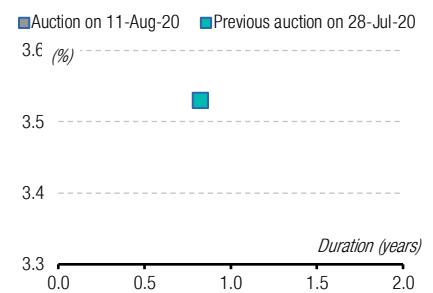
WEDNESDAY, 12 AUGUST 2020

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



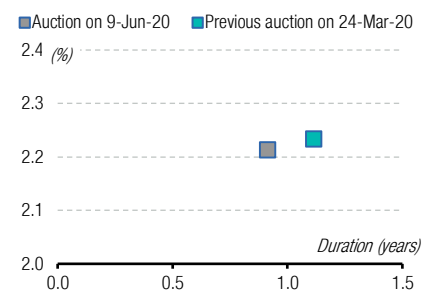
Source: Ministry of Finance of Ukraine, ICU.

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

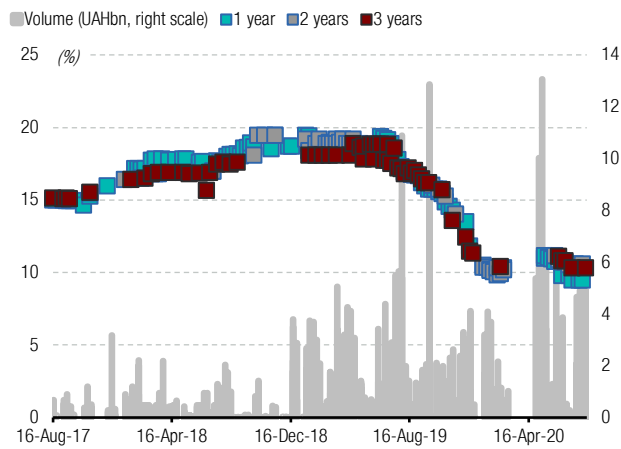


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

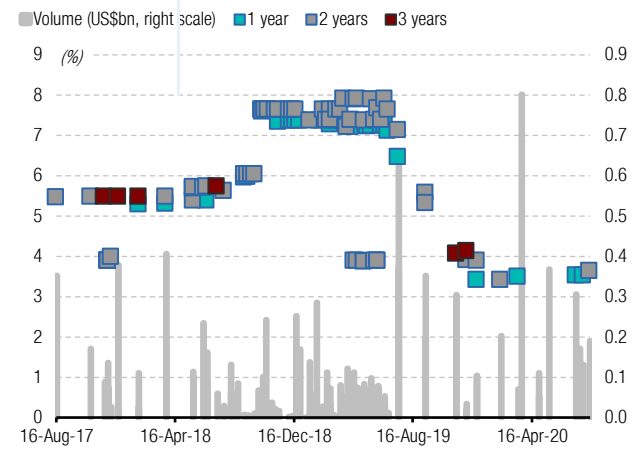
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

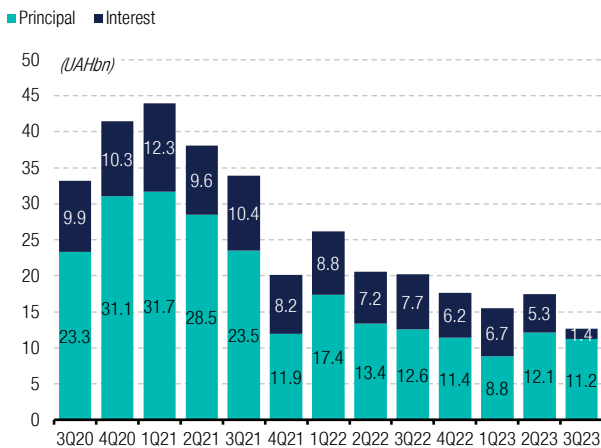
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

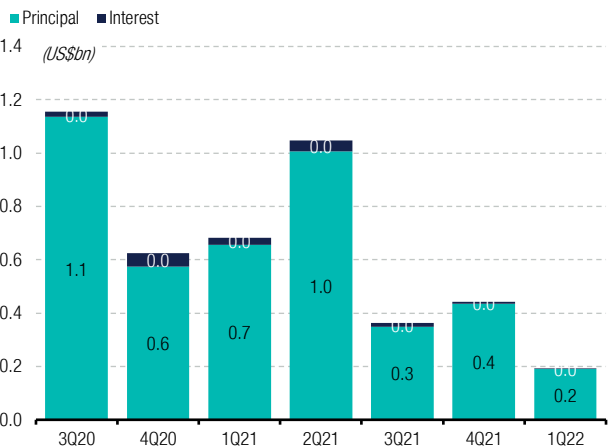
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

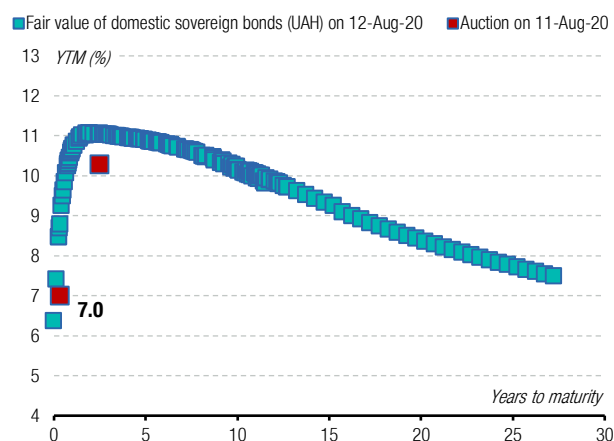
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

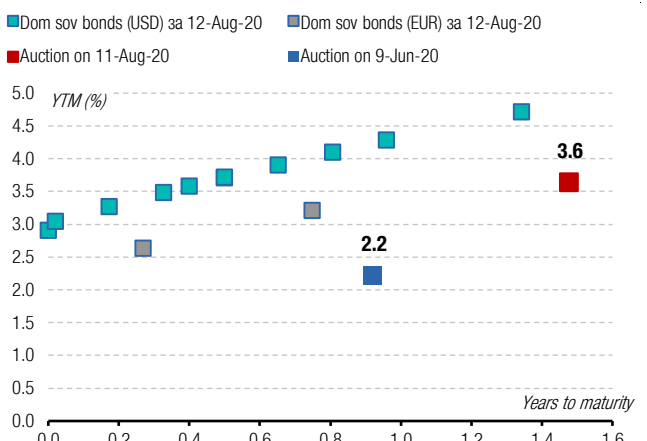
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Sergiy Nikolaychuk

Head of macro research
sergiy.nikolaychuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Junior financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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