

Bond Market Insight

Maturities longer; cost of borrowing up

Comment on government bond placement

Yesterday, for the first time since February 2020, the Ministry of Finance sold four-year paper collecting a large amount of proceeds, with more than one-quarter of total proceeds in local currency. But once more, rates were up for all offered instruments.

In total, the MoF borrowed almost UAH16bn (US\$566m) where one-third was in hard currency. This week, the MoF sold bills denominated in US dollars with maturity next October for US\$204m (UAH5.7bn). There was increase in rates too, by 30bp for the cut-off rate and 29bp for the weighted-average, to 3.8% and 3.79% respectively.

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
UA4000213219	0.00	@Mty	3-Mar-21	3,416,502	977.50	3,339.63	3,416.50	10.00	7,424.98
UA4000194468	16.75	SA	16-Jun-21	916,471	1,111.30	1,018.47	916.47	10.80	4,182.78
UA4000213300	0.00	@Mty	27-Oct-21	2,048,185	909.94	1,863.73	2,048.19	11.22	3,843.12
UA4000207682	9.84	SA	15-Feb-23	828,183	995.43	824.40	828.18	12.04	3,951.06
UA4000207880	9.99	SA	22-May-24	330,000	951.06	313.85	330.00	12.28	2,662.47
UA4000204150	15.84	SA	26-Feb-25	2,437,068	1,165.25	2,839.79	2,437.07	12.44	36,302.22
Total UAH				9,976,409		10,199.87	9,976.41		58,366.64
UA4000211502	3.50	SA	21-Oct-21	203,616	1,002.21	5,736.12	5,723.46	3.83	11,131.91
Total USD				203,616		5,736.12	5,723.46		11,131.91

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 28.11/USD, 33.92/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

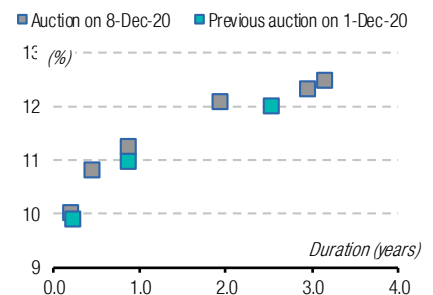
The smallest increase was for the three-month bills, where the cut-off rate remained unchanged at 10% while the weighted-average rate was up 11bp to 10%. This paper was the most in demand from the market with total demand almost UAH5bn (US\$175m), but MoF accepted just part of it.

Other instruments saw an unusual increase in rates by 25–50bp, except for the four-year paper. This note hasn't been offered since February, prior the COVID-19 lockdown, therefore, market conditions have changed materially.

The four-year note saw large demand, UAH2.7bn (US\$95m) in 28 bids, and the Ministry decided to accept most of it. Only two bids amounting to UAH250m (US\$9m), or less than 10% of demand, were rejected. To accept most of demand, the MoF had to sizably increase interest rates compared with February by 216bp for the cut-off and

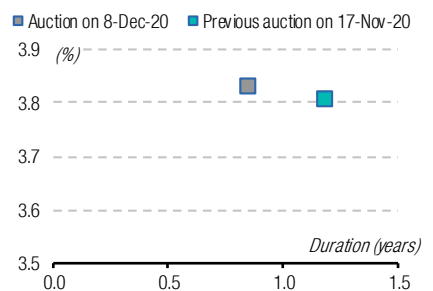
WEDNESDAY, 9 DECEMBER 2020

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



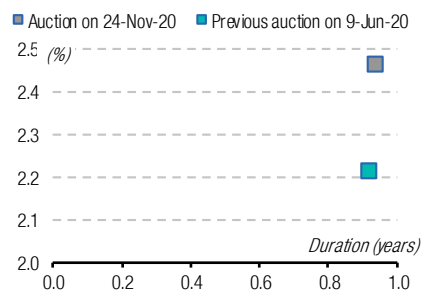
Source: Ministry of Finance of Ukraine, ICU.

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.

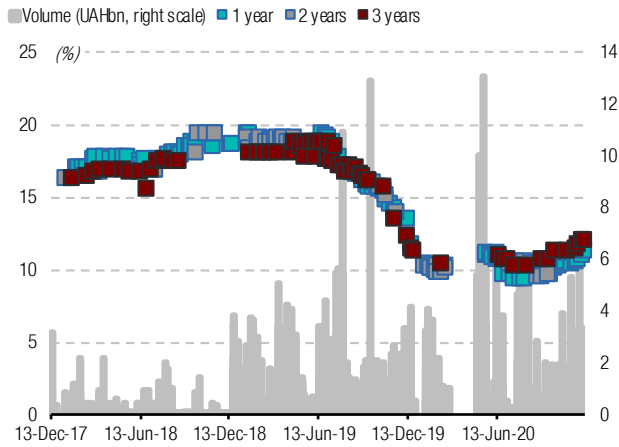
by 205bp for the weighted-average, to 12.25% and 12.04%, respectively. But compared with the three-year paper sold yesterday, this increase was insufficient, as rates were set just 25bp and 15bp higher.

The high level of interest in this auction indicates that the MoF can borrow at least UAH30bn (US\$1.1bn) in the local market later this year, where a large portion will be provided by FX-denominated bills. This month, the MoF has to repay about US\$400m in FX-denominated paper redemptions and yesterday, it refinanced just half of this amount. However, for local-currency instruments, demand may be less active and will depend on the interests and opportunities of local banks to use NBU refinancing loans for new purchases, as local currency redemptions this month will amount to just UAH10bn (US\$0.4bn).

Appendix: Yields-to-maturity, repayments

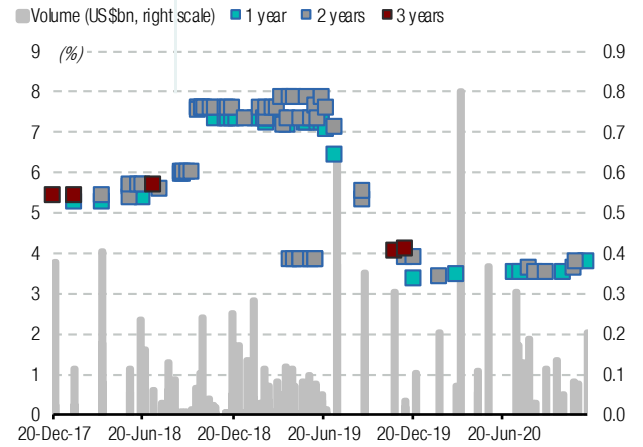
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

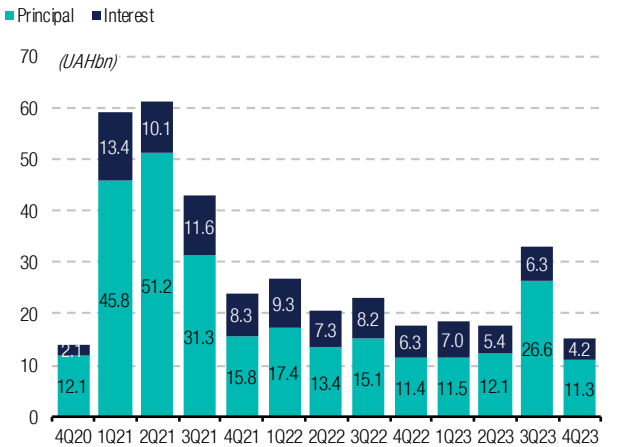
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

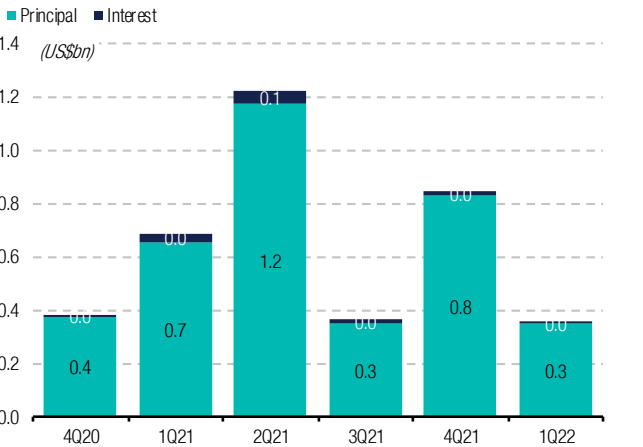
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

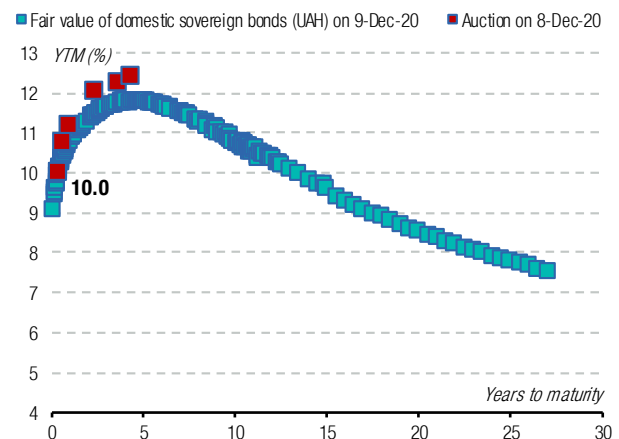
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

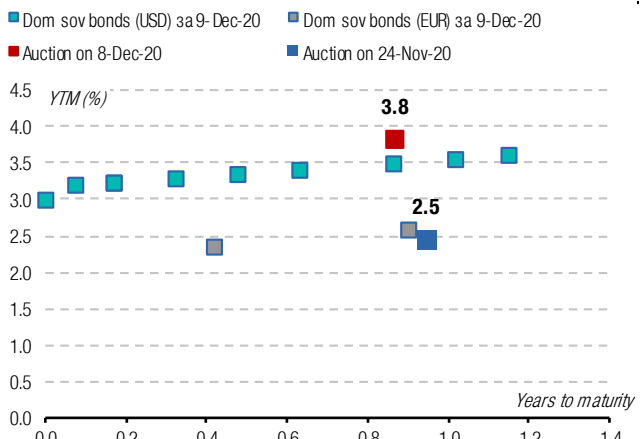
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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