

Bond Market Insight

Record large borrowings thanks to both foreigners and locals

Comment on government bond placement

Yesterday at the primary auction, the MoF borrowed UAH51.4bn (US\$1.85bn). Only UAH9.3bn (US\$335m) was in hard currencies. However, rates were increased just for some bills.

Demand was concentrated in short-term instruments with maturities next year. This paper received UAH44bn or US\$1.6bn of demand out of which UAH34.6bn (US\$1.25bn) was for UAH-denominated bills and UAH9.3bn (US\$335m) for bills in US dollars and euros. The MoF satisfied most of the demand. Borrowings in local currency with redemption next year amounted to UAH32.4bn (US\$1.2bn) and UAH9.3bn (US\$335m) in hard currencies.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency 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	4,318,356	979.34	4,229.14	4,318.36	10.00	11,743.33
UA4000194468	16.75	SA	16-Jun-21	9,842,318	1,029.69	10,134.54	9,842.32	10.81	14,025.10
UA4000207989	9.63	SA	21-Jul-21	10,992,430	1,032.39	11,348.47	10,992.43	11.07	15,610.87
UA4000213300	0.00	@Mty	27-Oct-21	7,398,773	909.29	6,727.59	7,398.77	11.56	11,241.90
UA4000204002	17.00	SA	11-May-22	3,541,186	1,082.85	3,834.58	3,541.19	12.07	12,917.96
UA4000213227	10.95	SA	1-Nov-23	2,800,280	987.88	2,766.35	2,800.28	12.37	3,051.46
UA4000204150	15.84	SA	26-Feb-25	2,634,023	1,163.05	3,063.49	2,634.02	12.59	38,936.25
Total UAH				41,527,366		42,104.16	41,527.37		107,526.86
UA4000211502	3.50	SA	21-Oct-21	265,323	1,002.89	7,367.05	7,345.81	3.83	18,310.28
Total USD				265,323		7,367.05	7,345.81		18,310.28
UA4000213789	2.45	SA	4-Nov-21	56,533	1,002.40	1,906.42	1,901.86	2.51	7,200.22
Total EUR				56,533		1,906.42	1,901.86		7,200.22

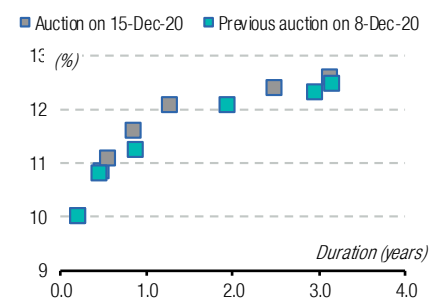
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.69/USD, 33.64/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Cut-off rates remained unchanged for three-month and six-month bills. For seven-month paper, the Ministry set rates just 25bp above the rate for six-month bills. For the 10-month instrument, the cut-off rate was up 10bp to 10.6%.

While the two the shortest bills will increase the debt burden for March and June next year, maturities for the two longer UAH-denominated instruments will stretch until July and October, when the debt burden is low. So, it makes sense that these maturities, which provided UAH18bn (US\$650m) for the budget, were offered.

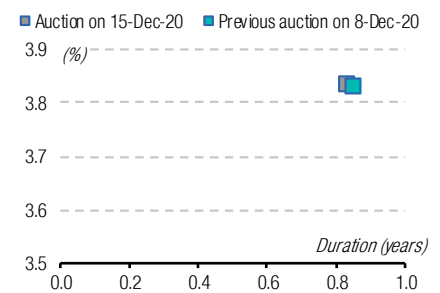
WEDNESDAY, 16 DECEMBER 2020

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



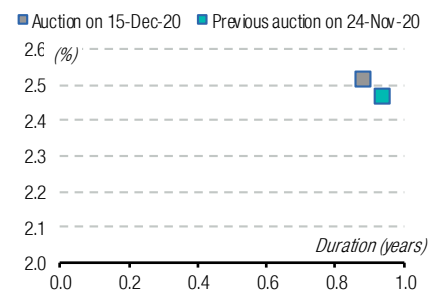
Source: Ministry of Finance of Ukraine, ICU.

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.

Most likely, the longer bills and notes were purchased by foreigners. Demand was lower, and smoothly distributed between bills. For the most part, bids did not require a sizable increase in rates. The largest increase was for 15-month paper, compared with July when similar bills were sold. Other notes moved in line with yield curve, while for the four-year paper the cut-off rate remained unchanged with a slight increase in the weighted-average rate.

There were no material changes in the FX-denominated bills rates.

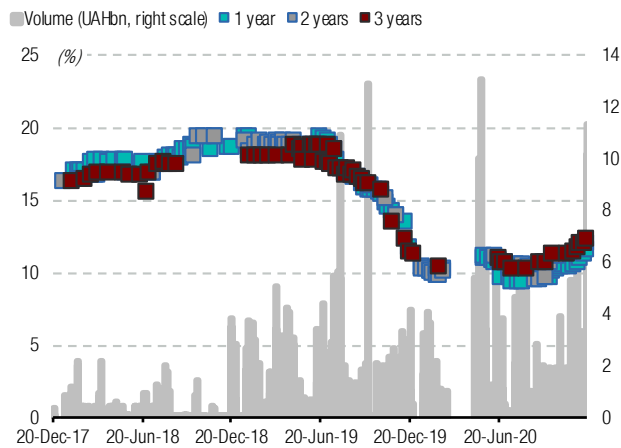
Of note however, the government attracted an historic record large amount of proceeds for one auction in Ukraine's history. Banks likely purchased the short-term (below one year maturity) paper, since they have large debt redemptions today and are operating mostly with short-term liquidity. It makes sense for banks to use early redemption of NBU refinancing loans at bills redemptions. Placement of bills in hard currency has now improved the ability of the MoF to refinance debt repayments.

Since foreigners were active, the MoF was able to borrow more, although they were not the sole determinant of yesterday's borrowings. Likely notes due to 2023 and 2025 were mostly bought by foreigners, as well as a large part of bills due to 2022. We estimate that foreigners' purchases represented UAH7-8bn or less than one-fifth of proceeds.

Appendix: Yields-to-maturity, repayments

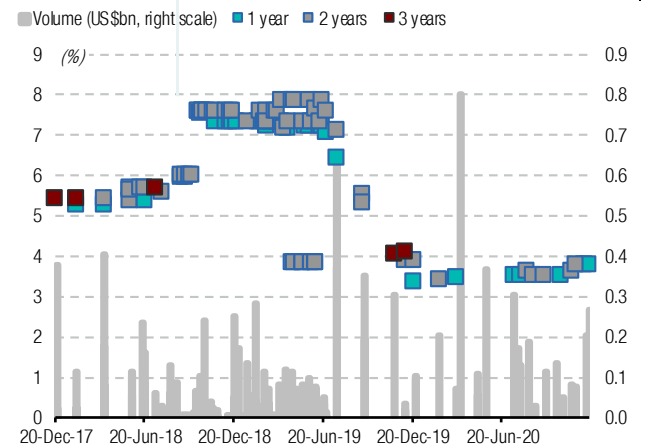
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

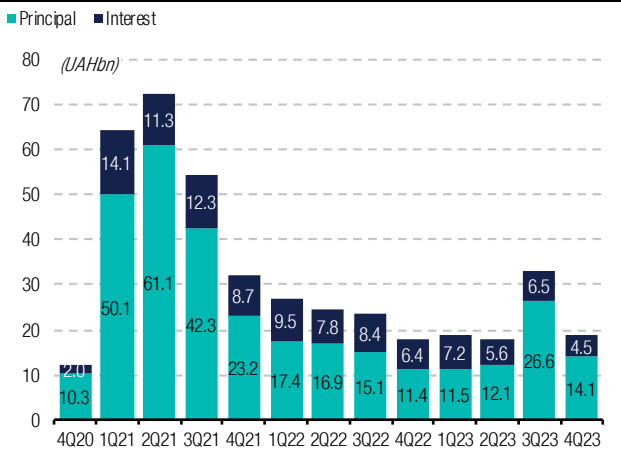
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

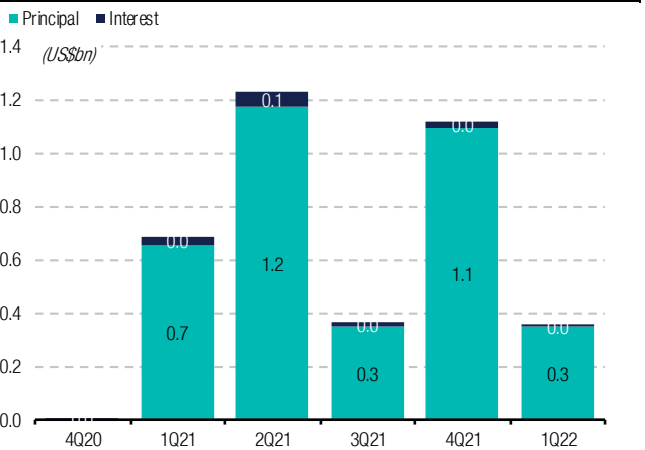
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

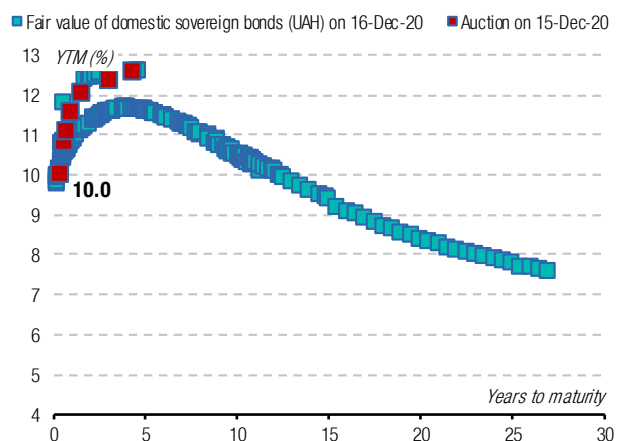
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

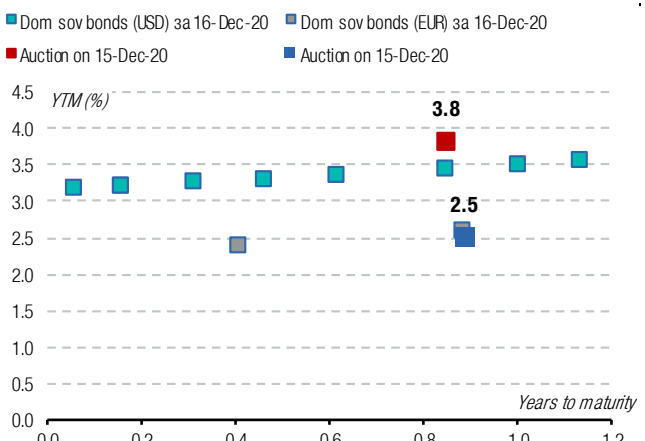
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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