At the last primary auction in 2020, the Ministry of Finance borrowed UAH23.6bn (US$836m) for budget financing with insufficient changes in interest rates.

For this auction, the Ministry offered the same bonds as a week before, excluding the four-month bills and replacing the 10-month USD-denominated with a new bill with a three-month maturity.

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

<table>
<thead>
<tr>
<th>ISIN</th>
<th>Coupon rate (%)</th>
<th>Maturity freq</th>
<th>Maturity</th>
<th>Qtv of bonds sold</th>
<th>Price (UAH)</th>
<th>Proceedings (UAHm)</th>
<th>Volume (UAHm)</th>
<th>YTM (%)</th>
<th>Outstanding (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UA4000214472</td>
<td>0.00 @Mty</td>
<td>17-Mar-21</td>
<td>5,280,729</td>
<td>979.34</td>
<td>5,171.63</td>
<td>5,280.73</td>
<td>10.00</td>
<td>6,897.29</td>
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</tr>
<tr>
<td>UA4000214480</td>
<td>0.00 @Mty</td>
<td>7-Jul-21</td>
<td>906.352</td>
<td>947.27</td>
<td>858.56</td>
<td>906.35</td>
<td>10.75</td>
<td>4,311.81</td>
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</tr>
<tr>
<td>UA4000214498</td>
<td>0.00 @Mty</td>
<td>1-Dec-21</td>
<td>6,393,243</td>
<td>902.79</td>
<td>5,771.75</td>
<td>6,393.24</td>
<td>11.70</td>
<td>12,079.65</td>
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<tr>
<td>UA4000214506</td>
<td>11.75 SA</td>
<td>15-Jun-22</td>
<td>986.539</td>
<td>1,004.40</td>
<td>990.88</td>
<td>986.54</td>
<td>12.13</td>
<td>2,491.95</td>
<td></td>
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<tr>
<td>UA4000207682</td>
<td>9.84 SA</td>
<td>15-Feb-23</td>
<td>653.970</td>
<td>998.72</td>
<td>653.13</td>
<td>653.97</td>
<td>12.24</td>
<td>4,787.79</td>
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<tr>
<td>UA4000213227</td>
<td>10.95 SA</td>
<td>1-Nov-23</td>
<td>616.213</td>
<td>991.81</td>
<td>611.17</td>
<td>616.21</td>
<td>12.40</td>
<td>4,070.10</td>
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<tr>
<td>UA4000207880</td>
<td>9.99 SA</td>
<td>22-May-24</td>
<td>109.076</td>
<td>950.59</td>
<td>103.69</td>
<td>109.08</td>
<td>12.56</td>
<td>3,087.54</td>
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</tr>
<tr>
<td>UA4000204150</td>
<td>15.84 SA</td>
<td>26-Feb-25</td>
<td>278.365</td>
<td>1,165.97</td>
<td>324.57</td>
<td>278.37</td>
<td>12.66</td>
<td>41,080.41</td>
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<tr>
<td>Total UAH</td>
<td></td>
<td></td>
<td>15,224,487</td>
<td>14,485.37</td>
<td>15,224.49</td>
<td>78,806.54</td>
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<tr>
<td>UA4000214597</td>
<td>0.00 @Mty</td>
<td>31-Mar-21</td>
<td>325.185</td>
<td>902.82</td>
<td>9,101.47</td>
<td>9,167.29</td>
<td>2.87</td>
<td>9,167.29</td>
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<tr>
<td>Total USD</td>
<td></td>
<td></td>
<td>325,185</td>
<td>9,101.47</td>
<td>9,167.29</td>
<td>9,167.29</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 28.19/USD, 33.88/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

After months of rate increases, the three-month USD-denominated paper saw a decline in the rate. The last time this paper was offered in March 2020. By comparison, rates slid by 10bp to 2.9%, while the amount raised being almost three times lower.

For UAH-denominated instruments, interest rates were up for only the 11-month bills. This increase was not material, just 5bp for cut-off rate and 8bp for the weighted-average rate, resulting in both being set at 11.7%.

However, to keep rates unchanged, part of demand was rejected. For six-month bills, the Ministry rejected almost 30% of demand while for 1.5- and two-year paper, they rejected almost 10% of demand.

Once again, borrowings were mostly with redemption next year, while longer maturities that are usually attractive to foreigners received low demand. Most likely,
this was due to the year end and holiday season.

Nevertheless, the last auction in 2020 made a definite impression: movements in interest rates were insufficient, amounts raised were generous, and an unusual placement of three-month USD-denominated paper that provided the budget with large amount of funds and low price was well received.

Keeping rates mostly unchanged can be seen as a message that next year, the Ministry is not going to actively increase rates. Of course, that will depend on the balance in Treasury accounts at the beginning of 2021.
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
  - Volume (UAHbn, right scale) 1 year 2 years 3 years

- USD-denominated domestic government bonds
  - Volume (US$bn, right scale) 1 year 2 years 3 years

Source: Ministry of Finance of Ukraine, ICU.

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

- UAH-denominated domestic government bonds
  - Principal Interest

- USD-denominated domestic government bonds
  - Principal Interest

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
  - Fair value of domestic sovereign bonds (UAH) on 30-Dec-20  Auction on 29-Dec-20

- USD- and EUR-denominated domestic government bonds
  - Dom sov bonds (USD) at 30-Dec-20 Dom sov bonds (EUR) at 30-Dec-20
  - Auction on 29-Dec-20 Auction on 15-Dec-20

Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.
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