

Bond Market Insight

Budget support short-lived

Comment on government bond placement

As the Treasury started this year with just UAH12bn in local currency, the MoF's held debut auction yesterday and raised UAH8.7bn. These borrowings are mostly for 10 weeks; however, there were no material changes in rates.

The largest demand was for bills due in March, or in just 70 days. The Ministry offered these bills twice at the end of December. Yesterday, all demand was at 10% including just one-quarter in non-competitive demand. These short bills provided the state budget with UAH7.9bn of funds and increased outstanding of this series to almost UAH15bn.

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

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds (UAHm)	Volume (UAHm)	YTM (%)	Outstanding (m) ⁴
UA4000214472	0.00	@Mty	17-Mar-21	8,055,240	981.18	7,903.64	8,055.24	10.00	14,952.53
UA4000203236	17.25	SA	5-Jan-22	664,515	1,051.24	698.56	664.52	12.05	6,455.68
UA4000207682	9.84	SA	15-Feb-23	103,690	1,000.93	103.79	103.69	12.24	4,891.48
UA4000207880	9.99	SA	22-May-24	7,656	952.75	7.29	7.66	12.56	3,095.20
Total UAH				8,831,101		8,713.28	8,831.10		29,394.90

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.

The other three series of bonds did not see material demand, and combined, provided the budget with just UAH0.8bn of proceeds. However, there were rejected bids, too.

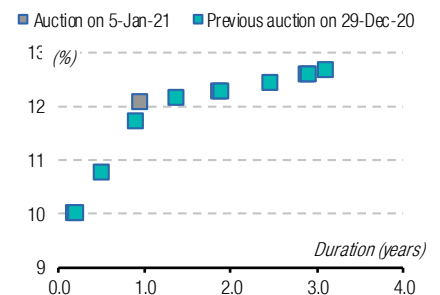
The Ministry decided not to increase rates for 12-month paper by 5bp to 11.75%, which would have allowed it to borrow an additional UAH50m. Instead, they borrowed only UAH699mn, keeping the cut-off rate at 11.7% and decreased the weighted-average rate by 3bp to 11.67%.

There was less demand for longer instruments, only UAH100m for two-year paper in three bids and a mere UAH7m in three bids for the 3.5-year note. But this demand was at simple rates, and was fully accepted.

With these borrowings, the MoF likely increased the balance in Treasury accounts, which started the year with the lowest amount since last April when it had UAH10.5bn. Large borrowings should allow the government to repay local-currency debt principal and interest repayments (above UAH20bn this month), and to make necessary budget expenditures given that at the beginning of January, budget revenues.

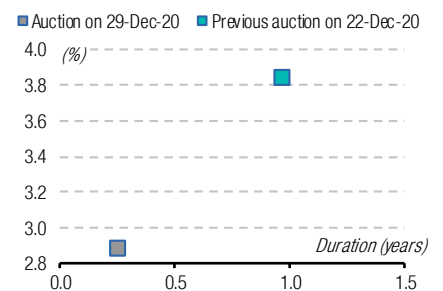
WEDNESDAY, 6 JANUARY 2021

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



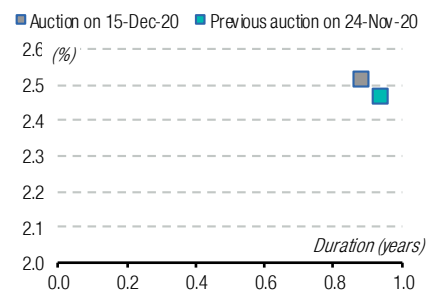
Source: Ministry of Finance of Ukraine, ICU.

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.

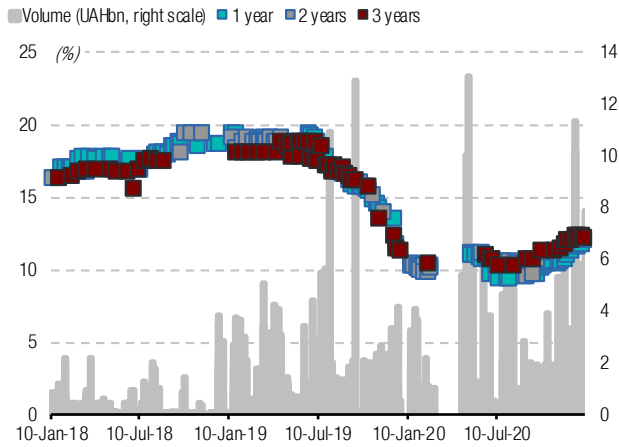
usually are low

Likely with yesterday's borrowings, the MoF will try to avoid hard currency exchange in hryvnia or exchange in lower amounts of hard currency, which, at the end of last year, was US\$2bn in the government's accounts.

Appendix: Yields-to-maturity, repayments

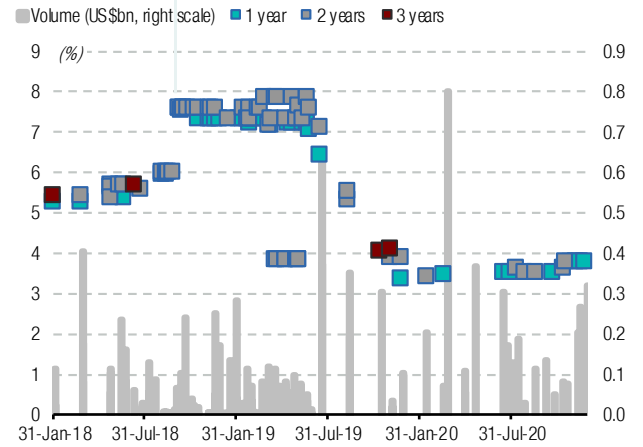
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

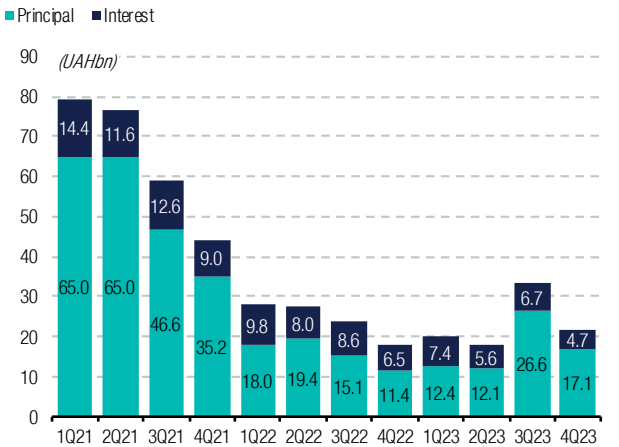
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

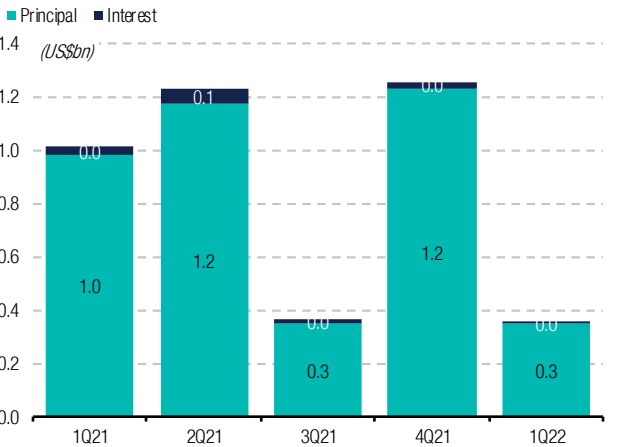
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

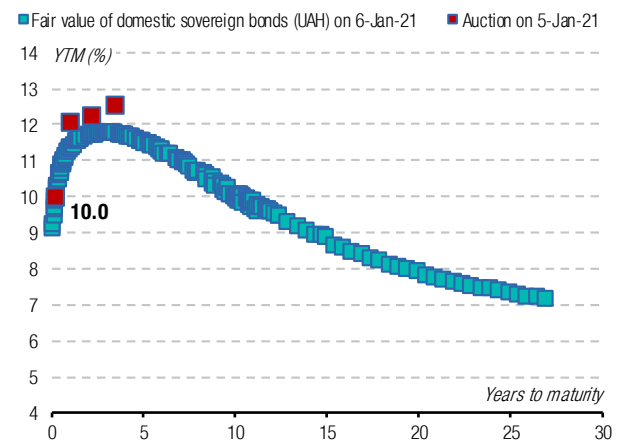
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

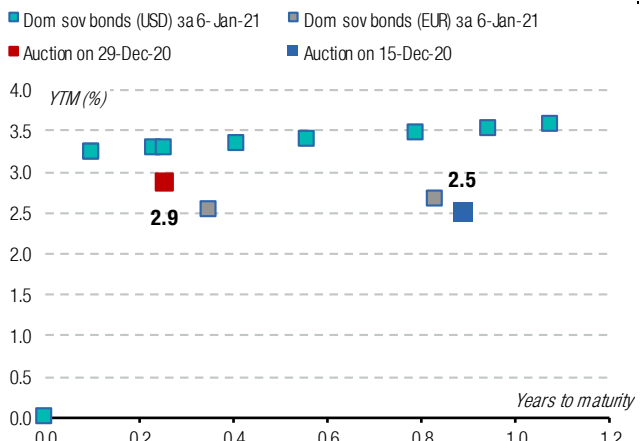
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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