

# Bond Market Insight

## Lower borrowings, lower rates

### Comment on government bond placement

The Ministry's policy to set limits for the shortest maturities continues to produce results, both positive and negative. On one hand, the Ministry's policy has created a decline in rates for these instruments, but at the same time, demand has declined for short-term bills. The result is less room to decrease the cost of borrowing going forward.

**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 <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000214480	0.00	@Mty	7-Jul-21	500,000	958.32	479.16	500.00	9.92	7,297.72
UA4000214506	11.75	SA	15-Jun-22	3,566,143	1,014.09	3,616.38	3,566.14	12.09	6,058.09
UA4000207682	9.84	SA	15-Feb-23	2,987,034	1,008.37	3,012.02	2,987.03	12.21	12,103.57
UA4000207880	9.99	SA	22-May-24	457,348	959.26	438.72	457.35	12.57	4,440.38
<b>Total UAH</b>				<b>7,510,525</b>		<b>7,546.28</b>	<b>7,510.53</b>		<b>29,899.76</b>

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 28.02USD, 33.88EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Compared with the placement of three-month bills last week, demand for five-month paper was lower by one-third, although with a larger number of bids. Bidders may have submitted multiple bids with different rates to increase their chances of winning the amount they needed with this maturity, despite lower-than-expected rates.

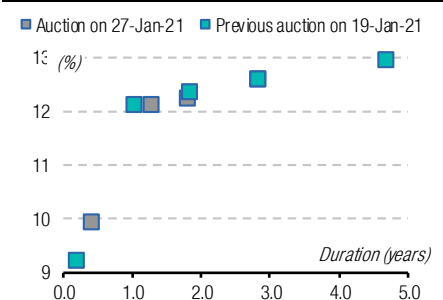
As the result, the cut-off rate for the five-month bills decreased by 35bp—last week for three-month paper the cut-off rate decreased by 55bp. The weighted-average rate fell by 87bp for five-month paper compared with a decline of 82bp for the three-month paper last week. Such a decline in weighted-average rates indicates that most of the accepted demand had rates significantly below the cut-off level.

The MoF attempted to decrease rates for longer maturities, too, but its preference was to collect more proceeds over lowering rates. The 1.5 and two-year bills received the most demand yesterday, UAH7bn (US\$249m) out of UAH8.3bn (US\$296m) of total demand for the auction. Therefore, they provided budget with UAH6.6bn (US\$235m) of proceeds. To achieve this result, the cut-off rate for the 1.5-year paper remained unchanged, while the weighted-average rate slid by 7bp, or 11.75% and 11.68%, respectively.

For the two-year instrument, the cut-off rate decreased by 5bp to 10.9%, partially

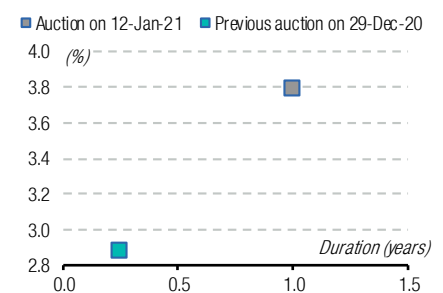
WEDNESDAY, 27 JANUARY 2021

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



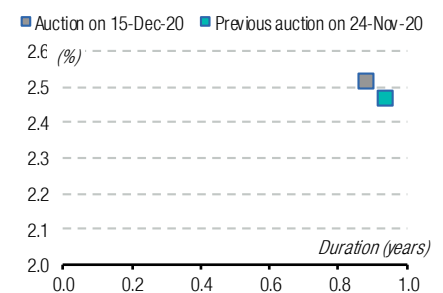
Source: Ministry of Finance of Ukraine, ICU.

### 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.

compensating last week's increase of 10bp, while the weighted-average rate declined by 13bp to 11.81%, the lowest level for this paper seen this year.

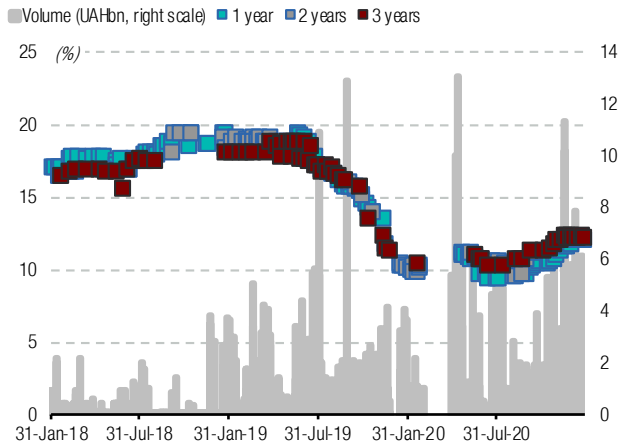
Rates were unchanged only for the three-year note, at 12.15%. Demand for this paper was uniform, so there was no room to change rates.

Today, the government is scheduled to redeem UAH5.5bn (US\$195m) of bills. This repayment was fully refinanced, providing the state budget with more proceeds than redemptions this month. With this positive result, and with low redemptions during most of February, the Ministry will have chance to borrow funds not only for repayments, but for budget needs, too. They should be able to continue to decrease the cost of new borrowings, especially for short-term bills maturing this year, although we expect the decline in rates to be less sizable than it has been during the second half of January.

# Appendix: Yields-to-maturity, repayments

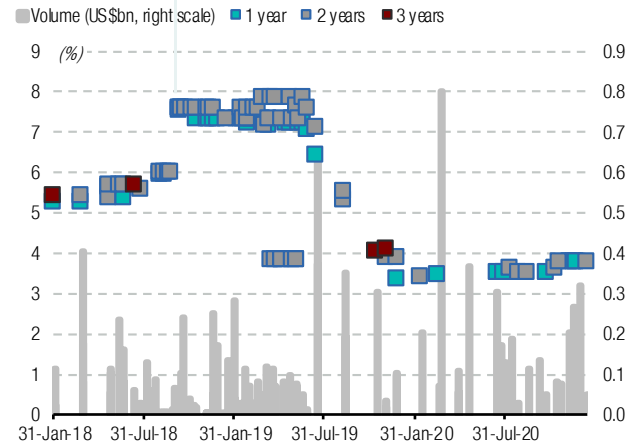
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

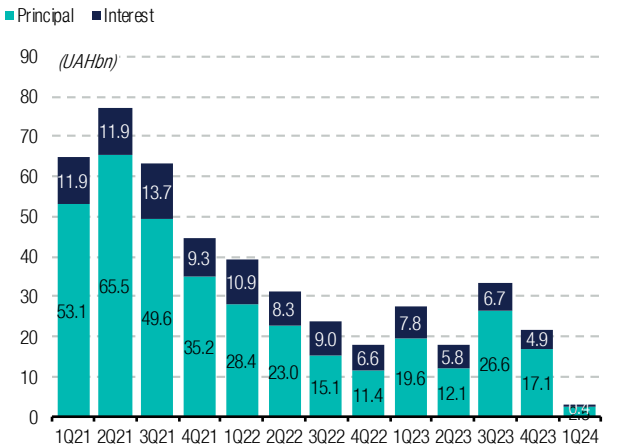
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

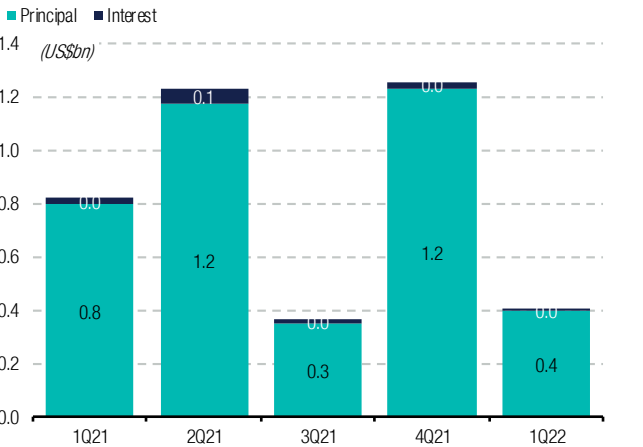
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

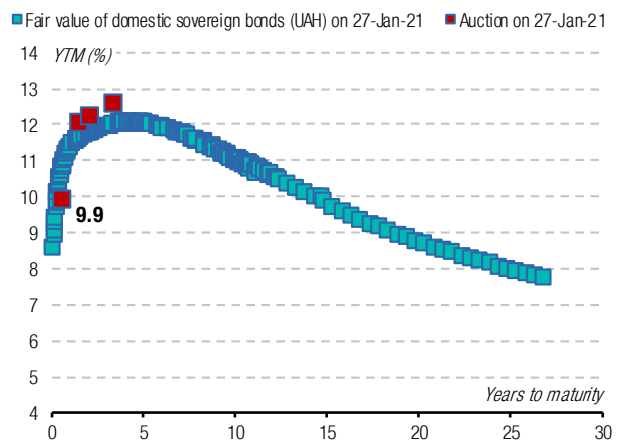
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

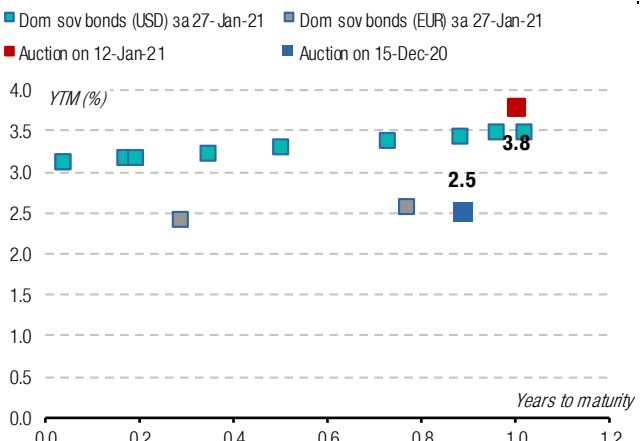
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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