

Bond Market Insight

New reality in the primary market

Comment on government bond placement

The MoF again capped the offerings, both for 3-month and 12-month bills. Generally, demand for UAH-denominated bonds was high and competition allowed the Ministry to reject expensive bids and control rates.

The Ministry accepted part of demand for the three-month paper, despite the amount being lower than the offering. Out of UAH500m (US\$18m) of bills offered, the Ministry collected 25 bids for just UAH338m (US\$12m). They rejected eight bids, selling just UAH257m (US\$9m) of bills. However, rates were slightly up: the cut-off rate increased by 5bp to 9.5% while the weighted-average rate rose 11bp to 9.29%. The lowest rate in demand was 8.75%, but for a low amount.

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
UA4000209381	0.00	@Mty	19-May-21	257,072	973.98	250.38	257.07	9.29	10,270.98
UA4000215495	0.00	@Mty	2-Feb-22	1,000,000	897.93	897.93	1,000.00	11.40	1,000.00
UA4000200885	15.97	SA	19-Apr-23	1,904,396	1,123.07	2,138.77	1,904.40	12.27	2,550.81
UA4000207880	9.99	SA	22-May-24	2,078,576	961.43	1,998.41	2,078.58	12.56	6,518.95
Total UAH				5,240,044	5,285.49	5,240.04			20,340.74

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

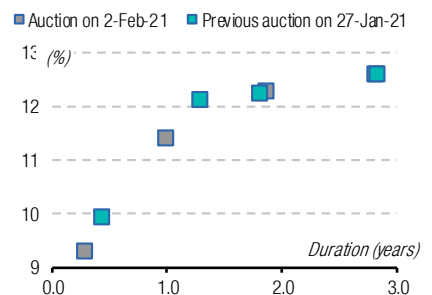
Despite the cap for the 12-month bills, it attracted large demand of UAH3.3bn (US\$117m) with the cap set at UAH1bn (US\$36m). Therefore, 29 out of 60 bids were rejected in their entirety, while some accepted bids were satisfied partially. The decline in rates was sizable: the cut-off rate was down 26bp to 11.49%, while weighted-average rate was down by 33bp to 11.4%.

For two-year paper, demand was more uniform. All 33 bids were in a tight range of 11.8–12%. The Ministry rejected just two bids at UAH60m (US\$2m) and accepted most of almost UAH2bn (US\$70m) of demand with rates up to 11.9%. The impact on final rates was low with the unchanged cut-off rate at 11.9% and the weighted-average rate was up by 7bp to 11.88%.

For the three-year note demand was mixed. The lowest rate was 5bp below the greatest part of demand. Although low, it did not have an impact on final rates, which are unchanged since December 2020, remaining at 12.15%.

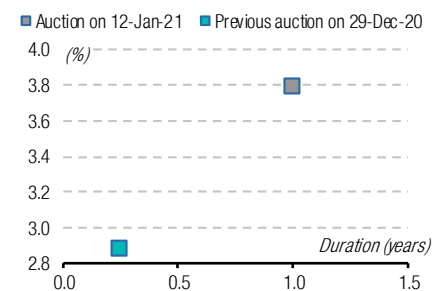
WEDNESDAY, 3 FEBRUARY 2021

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



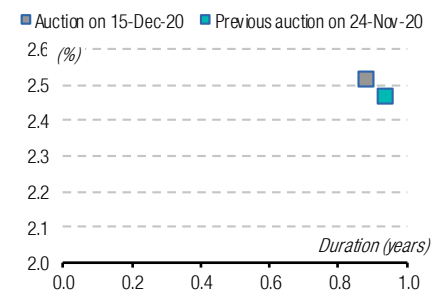
Source: Ministry of Finance of Ukraine, ICU.

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



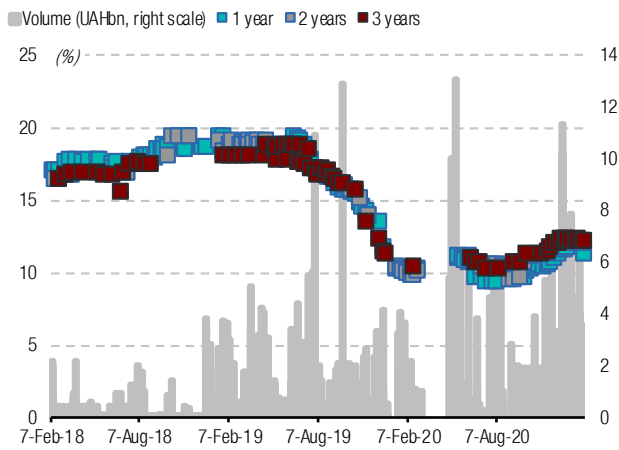
Source: Ministry of Finance of Ukraine, ICU.

Finally, the amount of borrowings declined due to the cap on 12-month bills. However, the amount of proceeds was large enough to refinance a bit less than half of redemptions in local currency scheduled for February. With such activity, borrowings in February will continue the trend from January, and will exceed the amount of redemptions, improving the MoF's ability to meet financing needs for this year's budget. This was largely due to foreigners' participation as they likely purchased more than half the bills sold yesterday.

Appendix: Yields-to-maturity, repayments

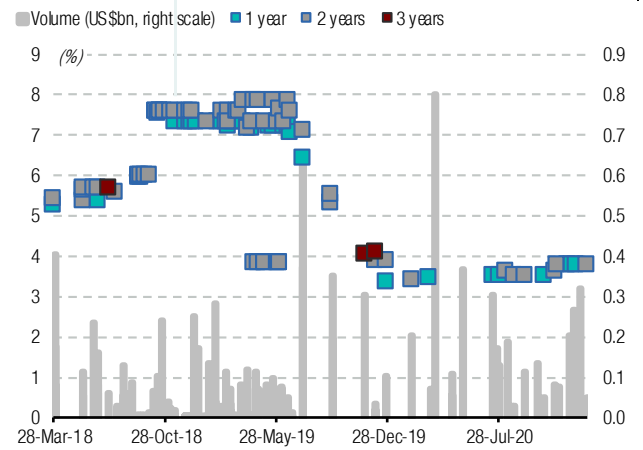
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

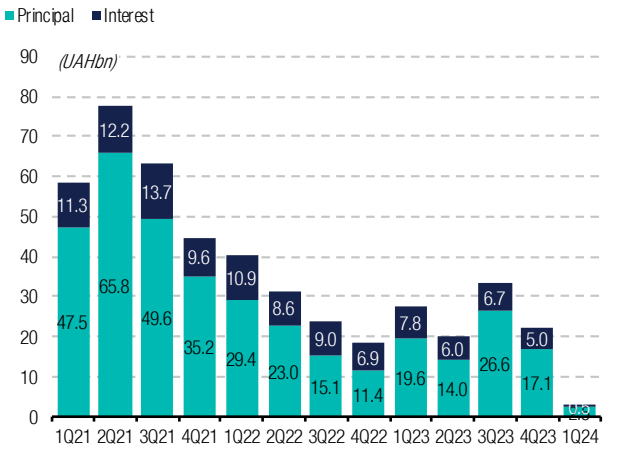
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

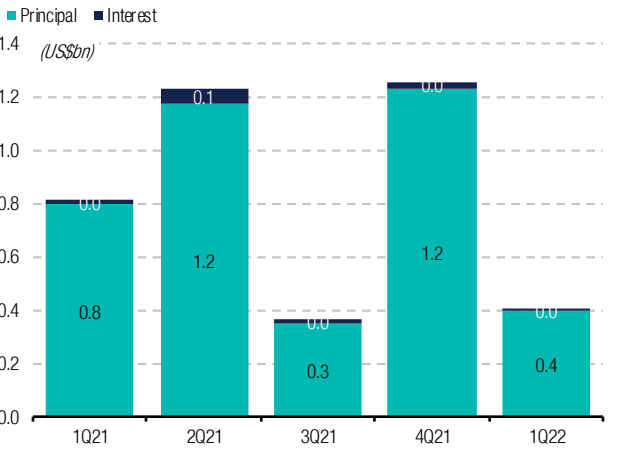
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

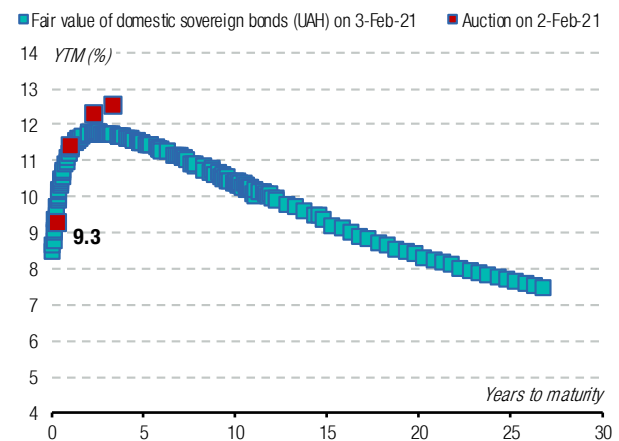
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

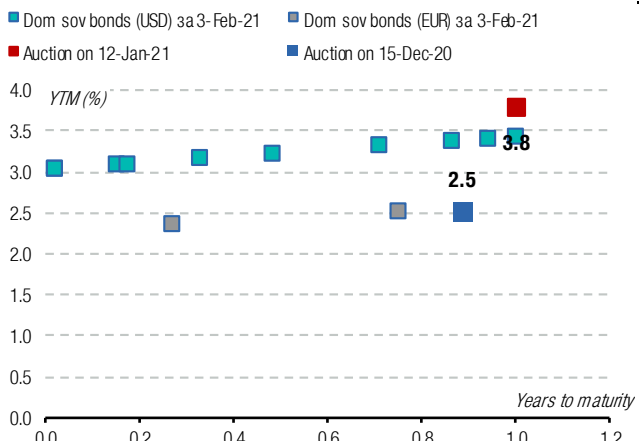
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Sergiy Nikolaychuk

Head of macro research
sergiy.nikolaychuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Junior financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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