

Bond Market Insight

Active domestic borrowing

Comment on government bond placement

After February's second primary auction, the MoF almost fully refinanced principal repayments in local currency scheduled for this month. In total, borrowings in hryvnia can once more double what's needed for redemptions, as was seen in January.

February redemptions in local currency will come to UAH12.4bn (US\$445m). So far, after only two auctions, the MoF has borrowed UAH12.3bn (US\$444m). With two more auctions this month, the Ministry likely will be able to borrow a similar amount and repeat January's result of redemption coverage. Last month, the MoF borrowed UAH35.5bn (US\$1.3bn) while redemptions were UAH17.4bn (US\$0.6bn).

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
UA4000195176	16.00	SA	11-Aug-21	500,000	1,029.11	514.55	500.00	10.16	10,153.03
UA4000215495	0.00	@Mty	2-Feb-22	1,000,000	901.66	901.66	1,000.00	11.15	2,000.00
UA4000214506	11.75	SA	15-Jun-22	3,975,256	1,017.85	4,046.21	3,975.26	12.12	10,033.35
UA4000200885	15.97	SA	19-Apr-23	353,953	1,125.15	398.25	353.95	12.29	2,904.76
UA4000207880	9.99	SA	22-May-24	558,086	963.62	537.78	558.09	12.56	7,077.04
UA4000207518	9.79	SA	26-May-27	1,068,325	902.59	964.26	1,068.33	12.93	6,225.95
Total UAH				7,455,620	7,362.72	7,455.62			38,394.13
UA4000215727	3.90	SA	14-Apr-22	204,248	1,012.71	5,730.27	5,658.32	3.94	5,658.32
Total USD				204,248	5,730.27	5,658.32			5,658.32

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 27.7USD, 33.88EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

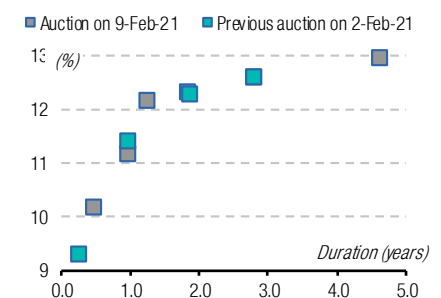
The MoF should achieve this result despite capping the offering for the shortest maturities and decreasing rates. While in January the MoF set caps just for the three-month and six-month bills, in February, a cap was introduced for 12-month paper, too.

Yesterday's demand for six-month bills was more than three times larger than the offering, which allowed the MoF to decrease the cut-off rate by 10bp to 10.3%, although the weighted-average rate was up 3bp to 9.89%. However, for 12-month paper, demand was almost double the cap, but rates were down materially: the cut-off rate slid 14bp to 10.35% and the weighted-average rate was down 25bp to 10.15%.

The rest of the local-currency instruments offered yesterday were sold with unchanged cut-off rates and a very small increase in weighted-average rates, where

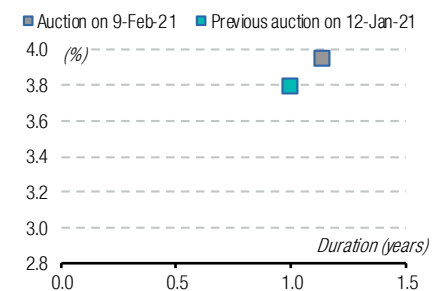
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



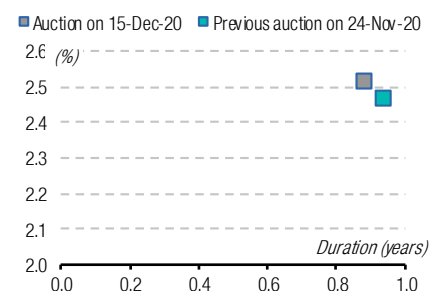
Source: Ministry of Finance of Ukraine, ICU.

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.

the largest increase was 6bp.

In addition to local-currency bonds, yesterday, the MoF sold USD-denominated bills. Their maturity was two months larger than what was sold last month, and demand was mostly at 3.9% or 10bp higher than in January. This demand was accepted in full. The exception was for two bids at a small amount with rates up to 4%.

Very positive was the offering of six-year notes, which received demand larger than the two-year and three-year bills together.

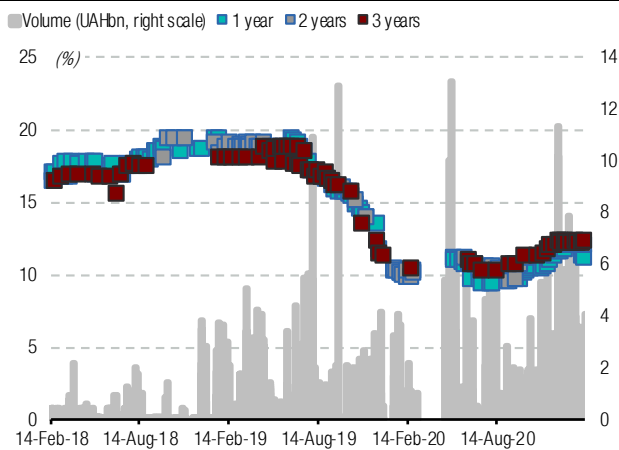
Demand for local-currency bills is still large, which provides the budget with sufficient borrowings, while caps have brought about a decline in interest rates.

In general, activity in the primary auction provided the budget with large borrowings. So far, the MoF has executed almost 8% of plan for this year's borrowings using just domestic borrowing, and mostly in local currency.

Appendix: Yields-to-maturity, repayments

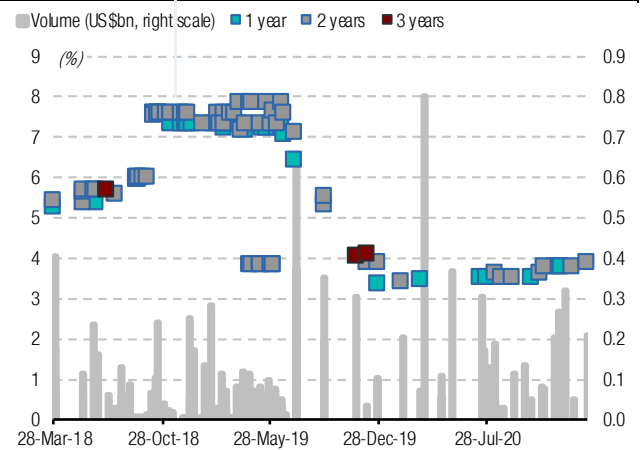
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

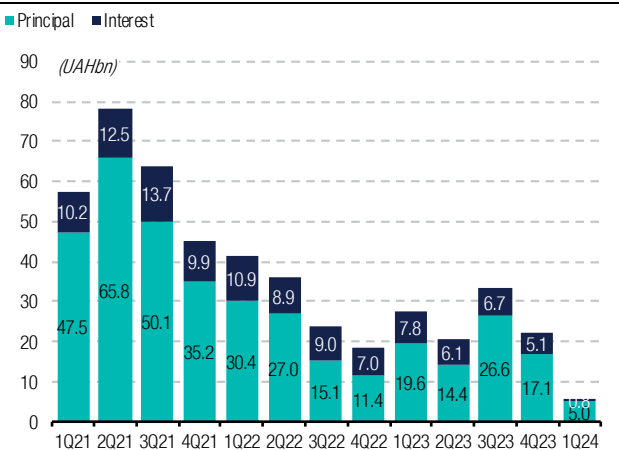
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

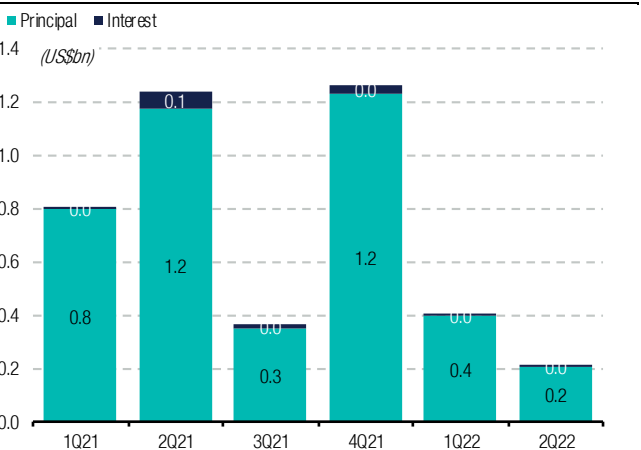
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

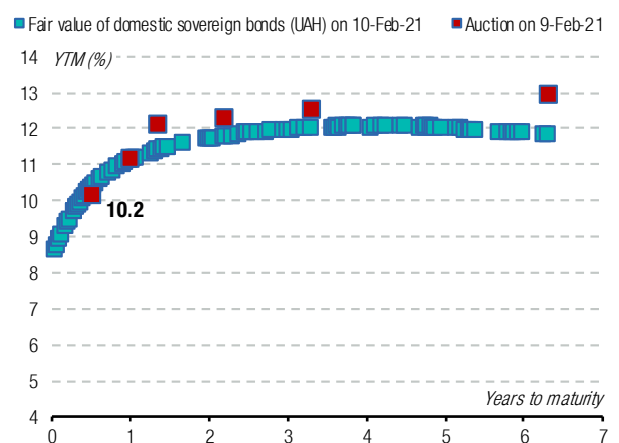
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

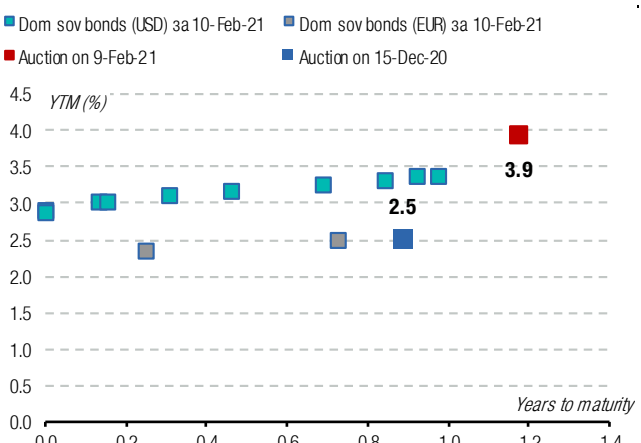
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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