

Bond Market Insight

Combination of currencies resulted in higher proceeds

Comment on government bond placement

Yesterday, the MoF borrowed almost UAH14.2bn (US\$516m), which was 10 times more than a week ago. This large amount was raised thanks to offering bonds in different currencies: hryvnia, US dollar, and euro.

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 (%)	Out-standing (m) ⁴
UA4000195176	16.00	SA	11-Aug-21	500,000	1,059.50	529.75	500.00	8.68	11,153.03
UA4000204572	16.06	SA	3-Aug-22	1,846,183	1,099.56	2,029.98	1,846.18	11.54	12,382.16
UA4000216774	11.10	SA	23-Nov-22	236,282	1,050.59	248.24	236.28	11.65	3,028.89
UA4000201255	16.00	SA	24-May-23	1,432,294	1,146.39	1,641.97	1,432.29	12.42	8,350.53
Total UAH				4,014,759		4,449.94	4,014.76		34,914.61
UA4000215891	2.50	SA	17-Feb-22	236,954	1,006.23	6,537.61	6,497.14	2.51	10,259.29
UA4000215909	3.89	SA	2-Feb-23	62,244	1,011.01	1,725.48	1,706.69	3.94	8,659.10
Total USD				299,198		8,263.10	8,203.83		18,918.39

Note: [1] payment frequency abbreviations: M - monthly, Qly - 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 27.42USD, 33.68EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The MoF accepted almost all demand for the auction. Due to the cap, five bids were rejected for the three-month bills, while rest of bids for this issue was partially accepted. However, this did allow the MoF to decrease interest rates by 2bp to 8.48%.

The weighted average rate for one-year paper declined, but by only 1bp to 11.19%, while the cut-off rate remained steady at 11.2%. This paper provided the budget with UAH2bn (US\$74m).

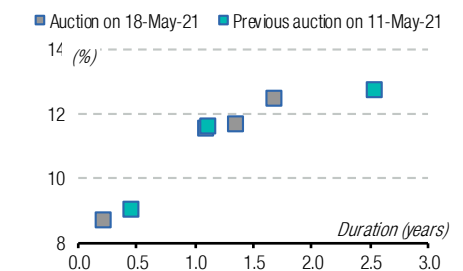
Most of the funds raised were denominated in euro, more than EUR238m (UAH8bn). However, this was just slightly more than a half of last week's redemptions in euro, but with an unchanged interest rate. At the same time, the smallest amount of proceeds came from the 1.5-year paper, just UAH248m (US\$9m).

The only issue that had an increase in the interest rate was the two-year. The cut-off rate was up by 5bp to 12.05%, while the weighted-average rate rose 6bp to 12.02%. This increase allowed the MoF to borrow UAH1.6bn (US\$60m).

Taking into account debt repayments scheduled for this week, new borrowings exceed redemptions. However, taking original currencies into account, this week's redemptions were refinanced only partially. Currently, with quarterly tax payments

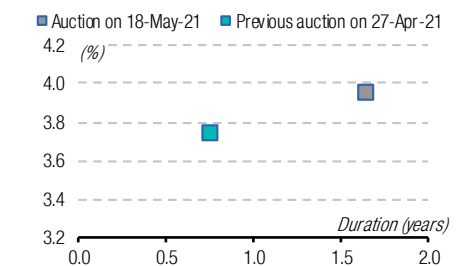
WEDNESDAY, 19 MAY 2021

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



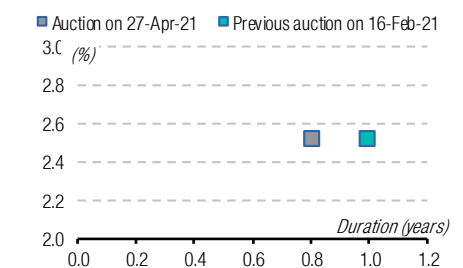
Source: Ministry of Finance of Ukraine, ICU.

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



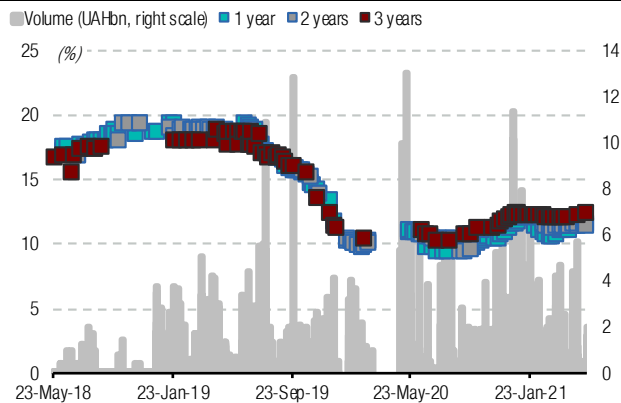
Source: Ministry of Finance of Ukraine, ICU.

and the positive dynamic in budget performance, partial refinancing of repayments will not cause problems. Furthermore, yesterday's proceeds in hard currency compensated part of last week's redemptions and improved the MoF's ability to cover future debt repayments in hard currency.

Appendix: Yields-to-maturity, repayments

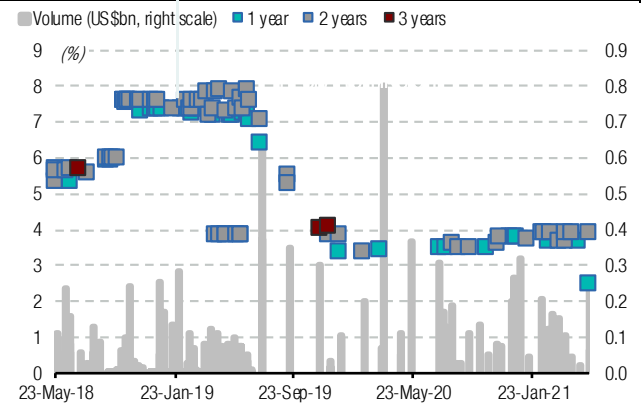
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

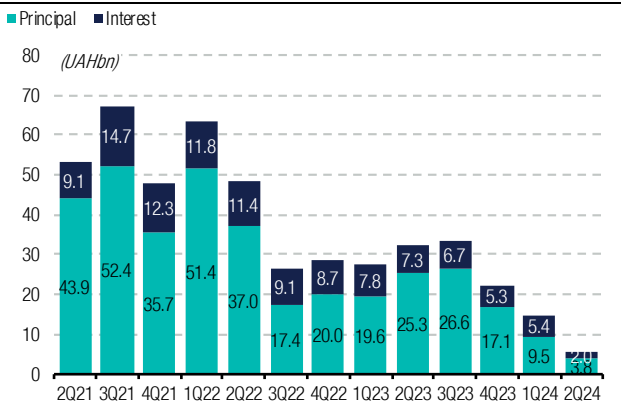
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

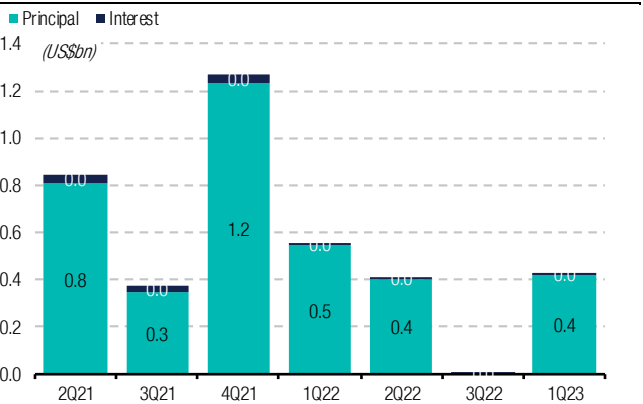
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

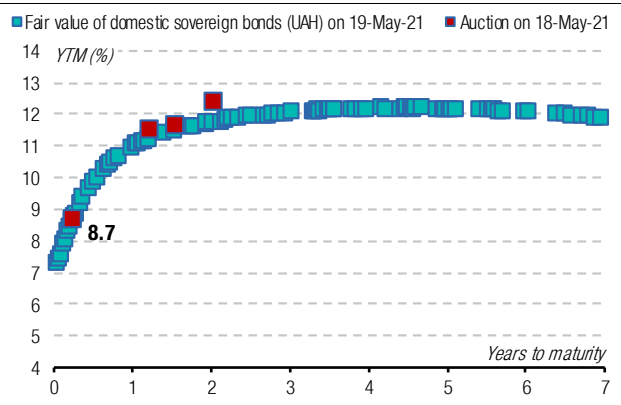
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

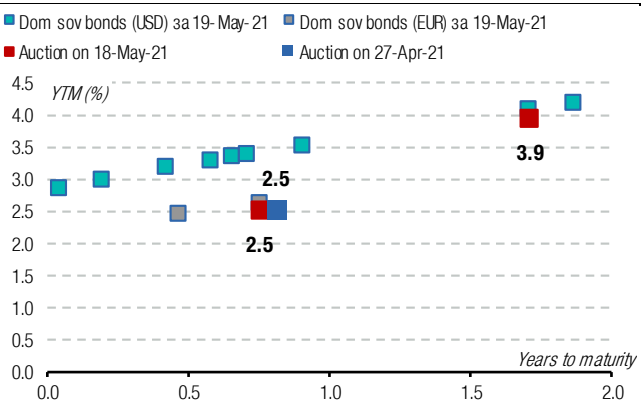
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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